

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF SMALL BUSINESS ADVOCATE
Suite 1102, Commerce Building
300 North Second Street
Harrisburg, Pennsylvania 17101

William R. Lloyd, Jr.
Small Business Advocate

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February 7, 2011

HAND DELIVERED

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

Re: Petition of PECO Energy Company for Approval of Its Smart Meter Technology Procurement and Installation Plan

**Petition of PECO Energy Company for Approval of its Initial Dynamic Pricing and Customer Acceptance Plan
Docket No. M-2009-2123944**

Dear Secretary Chiavetta:

Enclosed for filing into the evidentiary record is the following testimony on behalf of the Office of Small Business Advocate, in the above-captioned proceeding.

Rebuttal Testimony and Exhibits of Robert D. Knecht, OSBA Statement No. 1.

This statement was admitted into the record by Order Dated February 4, 2011, by the Honorable Judge Marlane R. Chestnut.

Copies have been served as indicated on the enclosed Certificate of Service.

Respectfully submitted,

Sharon E. Webb

Assistant Small Business Advocate
Attorney ID No. 73995

SECRETARY'S BUREAU
PA PUC

Enclosure

2011 FEB - 7 PM 3:13

cc: Parties of Record

RECEIVED

Robert D. Knecht

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

	:	
Petition of PECO Energy Company for	:	
Approval of its Smart Meter Technology	:	
Procurement and Installation Plan -- Petition	:	
For Approval of PECO Energy Company's	:	Docket No. M-2009-2123944
Initial Dynamic Pricing and Customer	:	
Acceptance Plan	:	
	:	

Rebuttal Testimony and Exhibits of
ROBERT D. KNECHT

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FEB - 7 2011

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

On Behalf of the
Pennsylvania Office of Small Business Advocate

Topics:

Cost Allocation
Rate Design

Date Served: January 11, 2011

Date Submitted for the Record: _____

REBUTTAL TESTIMONY OF ROBERT D. KNECHT

1 **1. Witness Identification and Summary of Conclusions**

2 **Q. Mr. Knecht, please state your name and briefly describe your qualifications.**

3 A. My name is Robert D. Knecht. I am a Principal of Industrial Economics, Incorporated
4 ("IEc"), a consulting firm located at 2067 Massachusetts Avenue, Cambridge, MA 02140.

5 I specialize in the economic analysis of basic industries. As part of my consulting
6 practice, I have prepared analyses and expert testimony in the field of regulatory
7 economics on a variety of topics. I obtained a B.S. degree in Economics from the
8 Massachusetts Institute of Technology in 1978, and a M.S. degree in Management from
9 the Sloan School of Management at M.I.T. in 1982, with concentrations in applied
10 economics and finance. I am appearing in this proceeding on behalf of the Pennsylvania
11 Office of Small Business Advocate ("OSBA"). My résumé and a listing of the expert
12 testimony that I have filed in utility regulatory proceedings during the past five years are
13 attached in Exhibit IEC-1.

14 **Q. Please describe your assignment in this matter.**

15 A. OSBA requested that I review the cost allocation and rate design proposals presented by
16 Pennsylvania Office of Consumer Advocate ("OCA") witness Mr. J. Richard Hornby,
17 with respect to the recovery of program administrative costs associated with the PECO
18 Energy Company ("PECO" or "the Company") proposed Initial Dynamic Pricing and
19 Customer Acceptance Plan ("DP Plan").

20 **Q. Before turning to Mr. Hornby's testimony, please describe the Company's proposal
21 for assigning and recovering DP Plan program costs from customers.**

22 A. PECO proposes to recover program costs from only those customers that are eligible to
23 participate in the proposed DP Plan, namely default service customers in default service
24 rate class groups 1 (residential), 2 (small commercial and industrial) and 3 (medium
25 commercial and industrial). No costs are assigned to default service rate class group 4

1 (large industrial) because no dynamic pricing options are available to that rate class
2 group. Those costs which can be directly assigned to rate class groups will be directly
3 assigned; those costs which are common to multiple rate class groups will be allocated
4 among those groups in proportion to default service kWh sales. Total assigned and
5 allocated costs will be recovered in the default service per-kWh charge for each rate class
6 group.

7 **Q. Did you contest either the cost allocation or cost recovery mechanism as originally**
8 **filed?**

9 A. No, I did not. While I disagree with the cost allocation principle implicit in the
10 Company's allocation, I accepted the Company's arguments that (a) the Commission has
11 generally required electric distribution companies ("EDCs") to recover costs for time-of-
12 use rate programs in their default service rate mechanisms, and (b) that common
13 administrative costs for default service programs are generally allocated in proportion to
14 energy consumption.¹

15 **Q. How does Mr. Hornby propose to allocate and recover the program administration**
16 **costs?**

17 A. Mr. Hornby accepts the Company's proposal for the direct assignment of costs which are
18 specifically related to individual rate class groups, but he proposes to allocate common
19 costs among the rate class groups based on *total* kWh consumption rather than *default*
20 *service* kWh consumption. Mr. Hornby declines to make a recommendation as to how
21 the allocated costs should be recovered in rate design.²

22 **Q. What is the impact of Mr. Hornby's proposal on allocated costs?**

23 A. Mr. Hornby's proposal will shift an estimated \$231,000 from residential to non-
24 residential customers.³ I also assume that Mr. Hornby's proposal will shift costs from

¹ See PECO Statement No. 4 at pages 9-10, and OSBA-I-1.

² OSBA-OCA-I-4(c).

³ OSBA-OCA-I-4(b) attachment.

1 default service to shopping customers within the rate class groups that are eligible for the
2 dynamic pricing options.

3 **Q. What is Mr. Hornby's rationale for this proposal?**

4 A. Mr. Hornby bases this recommendation on his assessment of the principles of cost
5 causation. His arguments appear to be (a) that the program is a pilot program to test new
6 rates rather than a new rate offering, and (b) that the costs are caused not by customers
7 but by the need for PECO to comply with Act 129. Mr. Hornby also argues that these
8 programs will provide information to all customers which will assist in their ability to
9 evaluate competitive offers.

10 **Q. Do you agree with Mr. Hornby's proposal?**

11 A. No, I do not. First, I note that Mr. Hornby's proposal is likely to be anti-competitive.
12 Although Mr. Hornby declines to make a rate design proposal, it would make little sense
13 to allocate common costs on the basis of both default service and shopping kWh and then
14 recover the costs from only default service customers. Mr. Hornby therefore implicitly
15 concludes that a separate tariff charge mechanism will be needed to recover DP Plan
16 costs from shopping customers. In effect, Mr. Hornby will therefore require shopping
17 customers to pay for a program in which they cannot participate. To the extent that those
18 shopping customers are already paying for the administrative costs incurred by their own
19 electric generation suppliers ("EGSs") related to dynamic pricing or other innovative
20 rates, the shopping customers will end up paying twice. While I recognize that PECO's
21 consultants appear to believe that these pilot programs will have value for EGSs, I am not
22 aware of any evidence from the EGS community volunteering that either EGSs or their
23 customers pay for the administrative costs associated with PECO's proposed dynamic
24 pricing options.

25 Second, Mr. Hornby's argument that costs are caused by Act 129 is unhelpful for
26 determining how costs should be allocated. If the costs are caused by Act 129, it would
27 be just as sensible to allocate them based on number of customers than to allocate them
28 based on total kWh deliveries. In fact, Act 129 mandated that EDCs incur many different
29 kinds of costs, including energy efficiency program costs and smart meter costs. The

1 Commission has developed cost allocation and cost recovery mechanisms for these
2 programs based on reasonable cost causation principles, and can do so with respect to DP
3 Plan costs.

4 Third, in developing his proposal for cost allocation, Mr. Hornby appears to have
5 overlooked the fact that non-residential customers are not eligible for the time-of-use rate
6 ("TOU") option within the DP Plan, and may participate only in the critical peak pricing
7 ("CPP") program.⁴ Mr. Hornby proposes to exclude large commercial and industrial
8 customers from contributing to the recovery of DP Plan costs because they are not
9 eligible for either rate option. However, he makes no similar accommodation for small
10 and medium commercial and industrial customers even though they are eligible to
11 participate only in the TOU rate option.

12 **Q. Suppose the Commission decides that it is willing to consider a method for**
13 **allocating DP Plan common costs which is different from the method it uses for**
14 **other default service administrative costs. If the Commission agrees with Mr.**
15 **Hornby that cost causation should be the appropriate principle for such an**
16 **allocation, what recommendations do you have?**

17 **A.** First, I recommend that the Commission limit the assignment of DP Plan costs to default
18 service customers who are eligible to participate in these rate options. This approach is
19 consistent with cost causation and competitively neutral. I agree with both PECO and
20 Mr. Hornby that large industrial customers should be exempt from cost assignment
21 because they are not eligible to participate in either rate option.

22 Second, I recommend that those program costs which can be directly assigned to specific
23 rate classes be directly assigned. In that regard, I am somewhat surprised at the relatively
24 low level of attributable costs. PECO indicates that only some \$4.4 million of \$11.6
25 million in total costs (before the offsetting stimulus grants) can be directly assigned.

⁴ When he prepared his direct testimony, Mr. Hornby may not have been aware that non-residential customers are ineligible for the TOU program as proposed by PECO. For example, at page 6, he states incorrectly, "*The Company proposes to offer two new rate options under its Plan: CPP and TOU Pricing. It proposes to offer these two new rate options to small and medium commercial and industrial customers as well as residential customers who are not in the Customer Assistance Program ('CAP').*"

1 Because the TOU program applies only to the residential rate class group, all TOU
2 program costs should be directly assigned to that class. For that reason, I would expect
3 that a greater percentage of costs can be directly attributed. I recommend that the
4 Commission clarify that direct assignment of costs should include assignment of all TOU
5 program costs to the residential rate class group, and direct PECO to make a diligent
6 effort to segregate costs between the TOU and the CPP programs.

7 Third, as a conceptual matter, the common program administration costs for the
8 Company's DP Plan are similar to the common costs for the rest of the Company's Smart
9 Meter Technology and Implementation Plan ("SMIP"). For example, network and
10 information technology ("IT") costs are common to both the SMIP and the DP Plan. In
11 its order entered May 6, 2010 earlier in this proceeding, the Commission determined that
12 SMIP common costs should be allocated based on number of customers.⁵ A similar
13 conclusion can readily apply to DP Plan common costs. I therefore recommend that all
14 DP Plan common costs be allocated among the various rate class groups based on number
15 of customers, rather than kWh sales.

16 Fourth, I agree with PECO's recommendation that the program costs be recovered in the
17 default service charge, rather than Mr. Hornby's implicit proposal to develop a charge
18 which applies to both shopping and default service customers.

19 **Q. Does this conclude your rebuttal testimony?**

20 **A.** Yes, it does.

⁵ Opinion and Order, Pennsylvania Public Utility Commission, Docket No. M-2009-2123944, Order entered May 6, 2010, page 25.

EXHIBIT IEc-1

RÉSUMÉ AND EXPERT TESTIMONY LIST

FOR

ROBERT D. KNECHT



INDUSTRIAL ECONOMICS, INCORPORATED

ROBERT D. KNECHT

Robert D. Knecht specializes in the practical application of economics, finance and management theory to issues facing public and private sector clients. Mr. Knecht has more than thirty years of consulting experience, focusing primarily on the energy, metals, and mining industries. He has consulted to industry, law firms, and government clients, both in the U.S. and internationally. He has participated in strategic and business planning studies, project evaluations, litigation and regulatory proceedings and policy analyses. His practice currently focuses primarily on utility regulation, and he has provided analysis and expert testimony in numerous U.S. and Canadian jurisdictions. Mr. Knecht also served as Treasurer of IEc from 1996 through 2010, and was responsible for the firm's accounting, finance and tax planning, as well as administration of the firm's retirement plans, during that period. Mr. Knecht's consulting assignments include the following projects:

- For the Pennsylvania Office of Small Business Advocate, Mr. Knecht provides analysis and expert testimony in industry restructuring, base rates and purchased energy cost proceedings involving electric, steam and natural gas distribution utilities. Mr. Knecht has analyzed the economics and financial issues of electric industry restructuring, stranded cost determination, fair rate of return, claimed utility expenses, cost allocation methods and rate design issues.
- For independent power producers and industrial customers in Alberta, Mr. Knecht has provided analysis and expert testimony in a variety of electric industry proceedings, including industry restructuring, cost unbundling, stranded cost recovery, transmission rate design, cost allocation and rate design.
- For industrial customers in Québec, Mr. Knecht has prepared economic analysis and expert testimony in regulatory proceedings regarding cost allocation, compliance with legislative requirements for cross-subsidization, and rate design.
- As a participant on various international teams of experts, Mr. Knecht has prepared the economic and financial analysis for industry restructuring studies involving the steel and iron ore industries in Venezuela, Poland, and Nigeria.
- For the U.S. Department of Justice and for several private sector clients, Mr. Knecht has prepared analyses of economic damages in a variety of litigation matters, including ERISA discrimination, breach of contract, fraudulent conveyance, natural resource damages and anti-trust cases.
- Mr. Knecht participates in numerous projects with colleagues at IEc preparing economic and environmental analyses associated with energy and utility industries for the U.S. Environmental Protection Agency.

Mr. Knecht holds a M.S. in Management from the Sloan School of Management at M.I.T., with concentrations in applied economics and finance. He also holds a B.S. in Economics from M.I.T. Prior to joining Industrial Economics as a principal in 1989, Mr. Knecht worked for seven years as an economic and management consultant at Marshall Bartlett, Incorporated. He also worked for two years as an economist in the Energy Group of Data Resources, Incorporated.

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EXPERT TESTIMONY SUBMITTED IN REGULATORY PROCEEDINGS: 2005 TO 2010

DOCKET #	REGULATOR	UTILITY	DATE	CLIENT	TOPICS
NBEUB 2009-017	New Brunswick Energy & Utilities Board	Enbridge Gas New Brunswick	March 2010	New Brunswick Public Intervenor	Cost allocation, rate design
R-2009-2145441	Pennsylvania Public Utility Commission	T.W. Phillips Gas & Oil	March 2010	Pennsylvania Office of Small Business Advocate	Unaccounted-for gas and retainage rates
R-2010-2150861	Pennsylvania Public Utility Commission	National Fuel Gas Distribution	March 2010	Pennsylvania Office of Small Business Advocate	Gas costs
P-2009-2099333	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania	February 2010	Pennsylvania Office of Small Business Advocate	Purchase of receivables program
R-3708-2009	Régie de l'Énergie, Québec	Hydro Québec Distribution	November 2009	AQCIE/CIFQ	Post-patrimonial generation cost allocation, revenue allocation
M-2009-2123944, 2123945, 2123948, 2123950, 2123951	Pennsylvania Public Utility Commission	PECO, Duquesne Light, Metropolitan Edison, Pennsylvania Electric, Penn Power, West Penn Power	October, November 2009	Pennsylvania Office of Small Business Advocate	Smart Meter Cost Allocation and Rate Design
NBEUB 2009-006	New Brunswick Energy & Utilities Board	Enbridge Gas New Brunswick	September 2009	New Brunswick Public Intervenor	Development Period Criteria
M-2009-2092222, 2121952, 2112956, 2093218, 2093217, 2093215	Pennsylvania Public Utility Commission	Metropolitan Edison, Pennsylvania Electric, Penn Power, West Penn Power, Duquesne Light, PPL Electric	August 2009	Pennsylvania Office of Small Business Advocate	Energy efficiency and conservation programs, cost allocation, rate design
1604944; ID# 184	Alberta Utilities Commission	ATCO Gas	July 2009	Rate 13 Group	Cost allocation, rate design
R-2009-2105904, 909, 911	Pennsylvania Public Utility Commission	UGI Penn Natural Gas, UGI Central Penn Gas, UGI Utilities Inc. Gas Division	July 2009	Pennsylvania Office of Small Business Advocate	Gas supply procurement hedging, unaccounted-for gas, revenue sharing mechanisms
R-2009-2093219	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania	May 2009	Pennsylvania Office of Small Business Advocate	Revenue sharing mechanisms, retainage rate, gas procurement

EXPERT TESTIMONY SUBMITTED IN REGULATORY PROCEEDINGS: 2005 TO 2010

DOCKET #	REGULATOR	UTILITY	DATE	CLIENT	TOPICS
R-2008-2079660	Pennsylvania Public Utility Commission	UGI Penn Natural Gas	May 2009	Pennsylvania Office of Small Business Advocate	Equity cost of capital, cost allocation, rate design
R-2008-2079675	Pennsylvania Public Utility Commission	UGI Central Penn Gas	May 2009	Pennsylvania Office of Small Business Advocate	Equity cost of capital, cost allocation, rate design
R-2008-2075250	Pennsylvania Public Utility Commission	T.W. Phillips Gas & Oil	April 2009	Pennsylvania Office of Small Business Advocate	Retainage rates
R-2009-2088076	Pennsylvania Public Utility Commission	Philadelphia Gas Works	April 2009	Pennsylvania Office of Small Business Advocate	Gas procurement
R-2009-2083181	Pennsylvania Public Utility Commission	National Fuel Gas Distribution	March 2009	Pennsylvania Office of Small Business Advocate	Retainage rates, gas procurement
P-2008-2060309	Pennsylvania Public Utility Commission	PPL Electric Utilities	December 2008	Pennsylvania Office of Small Business Advocate	Default electric supply procurement
R-2008-2073938	Pennsylvania Public Utility Commission	Philadelphia Gas Works	December 2008	Pennsylvania Office of Small Business Advocate	Revenue requirement, financial cash flows, cost allocation, rate design.
P-2008-2044561	Pennsylvania Public Utility Commission	Pike County Light & Power	October 2008	Pennsylvania Office of Small Business Advocate	Electric default service procurement
R-3669-2008	Régie de l'Énergie, Québec	Hydro Québec TransÉnergie	October 2008	AQCIE/CIFQ	Transmission cost allocation.
R-3677-2008	Régie de l'Énergie, Québec	Hydro Québec Distribution	October 2008	AQCIE/CIFQ	Post-patrimonial supply cost allocation, revenue allocation, rate design.
R-3673-2008	Régie de l'Énergie, Québec	Hydro Québec Distribution	August 2008	AQCIE/CIFQ	Electric supply contract modifications.
1550487	Alberta Utilities Commission	ENMAX Power Corporation	July 2008	D410 Group	Formula-based (performance-based) ratemaking; ratepayer-supplied equity contributions.

EXPERT TESTIMONY SUBMITTED IN REGULATORY PROCEEDINGS: 2005 TO 2010

DOCKET #	REGULATOR	UTILITY	DATE	CLIENT	TOPICS
R-2008-2039417 et al.	Pennsylvania Public Utility Commission	UGI Utilities (Gas Division)	July 2008	Pennsylvania Office of Small Business Advocate	Design day demand forecast.
R-2008-2039284	Pennsylvania Public Utility Commission	UGI Penn Natural Gas	July 2008	Pennsylvania Office of Small Business Advocate	Revenue sharing, gas supply costs.
R-2008-2039634	Pennsylvania Public Utility Commission	PPL Gas Utilities	July 2008	Pennsylvania Office of Small Business Advocate	Lost and unaccounted-for gas, gas supply costs.
A-2008-2034045	Pennsylvania Public Utility Commission	UGI Utilities, PPL Gas Utilities	June 2008	Pennsylvania Office of Small Business Advocate	Public benefits of proposed sale.
R-2008-2011621	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania	May 2008	Pennsylvania Office of Small Business Advocate	Cost allocation, revenue allocation, rate design.
R-2008-2028039	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania	May 2008	Pennsylvania Office of Small Business Advocate	Gas supply cost functionalization; cost reconciliation method, sharing mechanisms.
R-3648-2007	Régie de l'Énergie, Québec	Hydro Québec Distribution	April 2008	AQCIE/CIFQ	Electric supply contract modifications.
R-2008-2021348	Pennsylvania Public Utility Commission	Philadelphia Gas Works	April 2008	Pennsylvania Office of Small Business Advocate	Sharing mechanisms, gas supply contracts.
R-2008-2012502	Pennsylvania Public Utility Commission	National Fuel Gas Distribution	March 2008	Pennsylvania Office of Small Business Advocate	Transportation and sales customer rate design, design day forecasts.
R-2008-2013026	Pennsylvania Public Utility Commission	T.W. Phillips Gas and Oil	March 2008	Pennsylvania Office of Small Business Advocate	Rate design treatment of capacity release revenues.
P-00072342	Pennsylvania Public Utility Commission	West Penn Power d/b/a Allegheny Power	February 2008	Pennsylvania Office of Small Business Advocate	Default service electricity procurement, rate design, reconciliation.
2007-004	New Brunswick Board of Commissioners of Public Utilities	New Brunswick Power Distribution and Customer Service Corporation	November 2007	New Brunswick Public Intervenor	Cost allocation, revenue allocation, rate design.

EXPERT TESTIMONY SUBMITTED IN REGULATORY PROCEEDINGS: 2005 TO 2010

DOCKET #	REGULATOR	UTILITY	DATE	CLIENT	TOPICS
R-3644-2007	Régie de l'Énergie, Québec	Hydro Québec Distribution	October 2007	AQCIE/CIFQ	Cost allocation, revenue allocation, rate design.
P-00072305	Pennsylvania Public Utility Commission	Pennsylvania Power Corporation	July 2007	Pennsylvania Office of Small Business Advocate	Default electric service procurement.
R-00072334	Pennsylvania Public Utility Commission	UGI Penn Natural Gas, Inc.	July 2007	Pennsylvania Office of Small Business Advocate	Asset management arrangement, gas procurement.
R-00072333	Pennsylvania Public Utility Commission	PPL Gas Utilities Corporation	July 2007	Pennsylvania Office of Small Business Advocate	Design day forecasting, gas procurement.
R-00072155	Pennsylvania Public Utility Commission	PPL Electric Utilities Corporation	July 2007	Pennsylvania Office of Small Business Advocate	Cost allocation, revenue allocation, rate design, energy efficiency.
R-00049255 (Remand)	Pennsylvania Public Utility Commission	PPL Electric Utilities Corporation	May 2007	Pennsylvania Office of Small Business Advocate	Revenue allocation.
R-00072175	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania, Inc.	May 2007	Pennsylvania Office of Small Business Advocate	Gas procurement.
R-00072110	Pennsylvania Public Utility Commission	Philadelphia Gas Works	April 2007	Pennsylvania Office of Small Business Advocate	Gas procurement, margin sharing mechanisms.
R-00061931	Pennsylvania Public Utility Commission	Philadelphia Gas Works	April 2007	Pennsylvania Office of Small Business Advocate	Cost allocation, revenue allocation, retail gas competition.
P-00072245	Pennsylvania Public Utility Commission	Pike County Light & Power Company	March 2007	Pennsylvania Office of Small Business Advocate	Default service procurement, rate design.
R-00072043	Pennsylvania Public Utility Commission	National Fuel Gas Distribution Company	March 2007	Pennsylvania Office of Small Business Advocate	Design day requirements.
C-20065942	Pennsylvania Public Utility Commission	Pike County Light & Power Company	November 2006	Pennsylvania Office of Small Business Advocate	Wholesale power procurement by provider of last resort.
R-3610-2006	Régie de l'Énergie, Québec	Hydro Québec Distribution	November 2006	AQCIE/CIFQ	Post-patrimonial generation cost allocation; cross-subsidization; rate design.

EXPERT TESTIMONY SUBMITTED IN REGULATORY PROCEEDINGS: 2005 TO 2010

DOCKET #	REGULATOR	UTILITY	DATE	CLIENT	TOPICS
P-00052188	Pennsylvania Public Utility Commission	Pennsylvania Power Company	September 2006	Pennsylvania Office of Small Business Advocate	Affidavit: POLR rates, wholesale to retail.
R-00061493	Pennsylvania Public Utility Commission	National Fuel Gas Distribution Corporation	September 2006	Pennsylvania Office of Small Business Advocate	Rate of return, load forecasting, cost allocation, revenue allocation, rate design, revenue decoupling.
R-00061398	Pennsylvania Public Utility Commission	PPL Gas Utilities Corporation	August 2006	Pennsylvania Office of Small Business Advocate	Cost allocation, revenue allocation, rate design.
R-00061365	Pennsylvania Public Utility Commission	PG Energy/Southern Union Company	July 2006	Pennsylvania Office of Small Business Advocate	Merger savings, cost allocation, revenue allocation, rate design.
R-00061519	Pennsylvania Public Utility Commission	PPL Gas Utilities Corporation	July 2006	Pennsylvania Office of Small Business Advocate	Design day weather and throughput forecasts; gas supply hedging.
R-00061518	Pennsylvania Public Utility Commission	PG Energy/Southern Union Company	July 2006	Pennsylvania Office of Small Business Advocate	Design day weather and throughput forecasts; gas supply hedging.
A-125146	Pennsylvania Public Utility Commission	UGI Utilities, Inc., Southern Union Company	June 2006	Pennsylvania Office of Small Business Advocate	Public benefits of proposed sale of PG Energy to UGI; asset management agreement.
R-00061355	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania	May 2006	Pennsylvania Office of Small Business Advocate	Gas supply and hedging plan; procedural issues
R-00061296	Pennsylvania Public Utility Commission	Philadelphia Gas Works	April 2006	Pennsylvania Office of Small Business Advocate	Gas procurement and procedural issues.
R-00061246	Pennsylvania Public Utility Commission	National Fuel Gas Distribution	March 2006	Pennsylvania Office of Small Business Advocate	Gas procurement; unaccounted for gas retention rates.
2005-002 Refiling	New Brunswick Board of Commissioners of Public Utilities	New Brunswick Power Distribution and Customer Service Company	February 2006	New Brunswick Public Intervenor	Cost allocation, rate design.
P-00052188	Pennsylvania Public Utility Commission	Pennsylvania Power Company	December 2005	Pennsylvania Office of Small Business Advocate	Cost allocation and rate design for POLR supplies.
R-3579-2005	Régie de l'Énergie, Québec	Hydro Québec Distribution	November 2005	AQCIE/CIFQ	Generation cost allocation; cross-subsidization; revenue allocation.
2005-002	New Brunswick Board of Commissioners of Public Utilities	New Brunswick Power Distribution and Customer Service Company	August 2005	New Brunswick Public Intervenor	Cost allocation, rate design.

EXPERT TESTIMONY SUBMITTED IN REGULATORY PROCEEDINGS: 2005 TO 2010

DOCKET #	REGULATOR	UTILITY	DATE	CLIENT	TOPICS
R-00050538	Pennsylvania Public Utility Commission	PG Energy	July 2005	Pennsylvania Office of Small Business Advocate	Gas procurement diversification.
R-00050540	Pennsylvania Public Utility Commission	PPL Gas Utilities Corporation	July 2005	Pennsylvania Office of Small Business Advocate	Gas procurement, hedging, retention rates, sharing mechanism.
R-00050340	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania	May 2005	Pennsylvania Office of Small Business Advocate	Gas procurement, hedging and diversification.
R-3563-2005	Régie de l'Énergie, Québec	Hydro Québec Distribution	April 2005	AQCIE/CIFQ	Generation cost allocation; industrial demand response.
R-00050264	Pennsylvania Public Utility Commission	Philadelphia Gas Works	April 2005	Pennsylvania Office of Small Business Advocate	Gas procurement, risk hedging, financing costs in the gas cost rate.
R-00050216	Pennsylvania Public Utility Commission	National Fuel Gas Distribution	March 2005	Pennsylvania Office of Small Business Advocate	Gas supply procurement and forward pricing policies.
EB-2004-0542	Ontario Energy Board	Union Gas Limited	March 2005	Tribute Resources Inc.	Cost allocation and rate design for service to embedded storage pools.
R-00049884	Pennsylvania Public Utility Commission	Pike County Light and Power (Gas Service)	January 2005	Pennsylvania Office of Small Business Advocate	Fair rate of return, cost allocation, class revenue assignment.

March 2010

EXHIBIT IEc-2

REFERENCED INTERROGATORY RESPONSES

OSBA-I-1

OSBA-OCA-I-4 (with attachments)

**Petition of PECO Energy Company for Approval of its
Smart Meter Technology Procurement and Installation Plan**

**Petition for Approval of PECO Energy Company's
Initial Dynamic Pricing and Customer Acceptance Plan
Docket No. M-2009-2123944**

**Responses of PECO Energy Company
to the Interrogatories of the Office of Small Business Advocate, Set I**

OSBA-I-1:

Reference Petition at paragraph 17, PECO Statement No. 1 at page 10, lines 7-9; PECO Statement No. 4 at page 10 line 13 to page 11 line 3 and page 8 lines 3 to 10; allocation of common costs:

- a. Please explain why PECO proposes to allocate all common costs on a kWh sales basis, when customers in Default Service Procurement Classes 2 and 3 are not eligible for the proposed TOU rates, and participation by non-residential customers is anticipated to be low.
- b. Please confirm that if these costs had been included in the SMIP, the costs would be allocated based on number of customers.
- c. Please identify the nature and magnitude of all administrative costs associated default service procurement, and show how these costs are allocated among the Default Service Procurement Classes. Please include the supporting costs and allocation factors.

Response:

- a. PECO proposes to allocate all dynamic pricing common costs on a kWh sales basis to be consistent with how all of the other Generation Supply Adjustment (GSA) administrative costs are allocated in the GSA filing. The amount of common costs is limited to those costs that cannot be directly assigned to a specific procurement class. The residual common costs are not directly dependent on participation levels or the number of offerings per class. Thus, PECO's proposed allocation is appropriate for such costs because they more closely resemble energy-related costs than customer-related costs.
- b. If the common costs were recovered under the SMIP, the costs would be allocated based on number of customers.

PECO's Response to OSBA-I-1 (cont.)

c. Below is a summary of administrative costs associated with PECO's Default Service Procurement (recovered through the GSA). These costs have been incurred or are estimated to be incurred prior to the end of 2010. They include costs associated with the Requests for Proposal (RFPs), consultants providing guidance on the development of the procurement plan, legal fees, Information Technology (IT) and any other costs associated with designing and implementing the procurement plan:

1. Cost of DSP Proceeding (includes consulting and legal) - \$3.4M
 2. Cost of Implementation (includes independent evaluator and other) - \$3.4M
 3. IT Capital - \$8.7M
 4. Dynamic Pricing - \$0.3M
- Total – \$15.8M

Costs will be recovered over a period of time as defined in Exhibit F from the *Joint Petition for Settlement* in PECO's Default Service Plan proceeding. (Docket No. P-2008-2062739) See Attachment OSBA-I-1(a) on the enclosed CD.

As shown in Exhibit F, the recovery period for the administrative cost components varies and can range from between one and five years. PECO will be recovering the costs incurred and/or estimated to be incurred through the end of 2010 in accordance with this approved timeline.

The administrative costs to be recovered by month in the first quarter 2011 GSA calculations are reflected in Attachment OSBA-I-1(b). The monthly common costs are allocated based on default service kilowatt hour sales to the GSA Procurement Classes. Costs identified as specific to a Procurement Class will be directly assigned where applicable.

Dynamic Pricing administrative costs have been allocated to Procurement Classes 1, 2 and 3 based on projected default service kilowatt hour sales. All other administrative costs for this calculation period have been allocated to Procurement Classes 1, 2, 3, and 4 Hourly and Fixed based on projected default service kilowatt hour sales. This allocation process is reflected in Attachment OSBA-I-1(b), which is provided on the enclosed CD.

Responsible Witness: William J. Patterer

Exhibit F

Summary Of The Recovery Of Costs Associated With Default Service And Mitigation

Costs Included In The PTC

1. Generation Supply Adjustment

- a. Administrative costs (other costs associated with implementing the plan)
 1. Information technology (IT) costs incurred to implement the procurement plan and the price to compare (PTC); includes billing and wholesale supply contract/energy procurement and scheduling system changes
 2. Cost of approval of the plan, which reflects the cost of outside consultants and outside lawyers, expenditures on IT or software to develop data necessary for developing procurement class PTCs, and customer notification costs
 3. Cost of Independent Evaluator and AEPS RFP monitor (to the extent not included in the AEPS Charge) for the full requirements, block energy, and AEPS alternative energy procurements
 4. All other incremental costs necessary to implement the plan such as the cost of the "pricing agent" required under the Supply Master Agreement, additional non-IT billing system cost and supplemental care center support during the transition
- b. Energy Supply-related costs
 1. Cost of supply from full requirements contracts
 2. Cost of complying with AEPS not included in the full requirements contracts and not included in the AEPS charge
 3. Block energy and spot market energy purchases net of any sales of excess energy that become available; includes energy, capacity, ancillary services and any other charges assessed by PJM related to the purchases, excluding network transmission and PJM Regional Transmission Expansion Plan (RTEP) related costs. Specifically, cost of supply from block energy supply contracts and for the 25% of residential load served by PECO at PJM bill charges and credits identified as "Seller Responsibility" on full requirements service Supply Master Agreement Exhibit D, "Sample PJM Invoice."
 4. PJM related charges assessed on load serving entities
 5. Cost of collateral, if any is required, for PJM associated with load serving entity PJM bill responsibility.
- c. Frequency of update and reconciliation
 1. Generation Supply Adjustment changes shall be calculated and reconciled quarterly for Residential, Small C&I, and Medium C&I

Exhibit F

2. Reconciliation is calculated monthly for Large C&I (>500kW)

2. PECO's Retail Electric Transmission Rates

3. Alternative Energy Portfolio Standard Charge

4. There Shall Be Four Procurement Classes

- a. Residential
- b. Small C&I (0-100kW)
- c. Medium C&I (100-500kW)
- d. Large C&I (>500kW)

Note: Estimates of the administrative costs identified in Section 1.a., above, are provided in the attached schedule.

Costs Not Included in the PTC

1. Consumer Education and Mitigation

a. Consumer Education cost – to be included in a non-bypassable surcharge consistent with the Commission's order at Docket Nos. M-2008-2032274 and M-2008-2062739 and the terms of the Joint Petition for Settlement at Docket No. P-2008-2062741. Consumer Education cost includes the cost of promoting mitigation programs such as the Market Rate Transition Phase-in Program ("Early Phase-in") and the Market Rate Transition Deferral Program (Deferral Program").

b. Cost of the Deferral Program (if required)

- 1. IT implementation cost, incremental call center and enrollment cost, and other costs of the program are to be recovered in a non-bypassable surcharge with the allocation of costs consistent with the terms of this Settlement. Costs are expected to be similar to the Early Phase-in cost estimate.
- 2. To be included in a non-bypassable surcharge.

2. Early Phase-in Cost

- a. To be deferred and recovered in the next base rate case per the terms of the Joint Petition for Settlement at Docket No. P-2008-2062741.
- b. The cost estimates set forth in the Joint Petition for Settlement at Docket No. P-2008-2062741 are \$0.46M for O&M and \$0.75M for capital. The O&M portion consists of \$0.1M for IT, \$0.2M for call center support, and \$0.16 for bill presentment and customer notifications.

Exhibit F

Estimated Administrative Costs

Cost Element	Capital	O&M Expense	Est. Annual Cost(d)
IT/Billing System	TBD	TBD	TBD
IT/Energy Acquisition Systems	TBD	TBD	TBD
Rate Mitigation IT*(a)	\$1.5M	\$0.2M	Portions deferred
Rate Mitigation - Other*(a)		\$0.7M	Portions Deferred
Independent Evaluator(a)		\$0.5M/yr	\$0.5M
Cost of Proceeding (a)(b)		\$4.0M	\$1.7M
Other Implementation Cost (c)		TBD	TBD
Total	TBD	TBD	TBD

NOTE: The Parties agree with the general categories above, however, the costs shown above are PECO's estimates. PECO's actual expenditures shall be subject to review and approval by the Commission at the time those costs are claimed for recovery. Only expenditures that are found to be reasonable will be recoverable from customers.

* Not included in PTC; portions associated with the Early Phase-in are deferred until the next base rate case. Includes both the Early Phase-in and the Deferral Program.

(a) Preliminary Estimate

(b) Cost of the proceeding consists of the following:

1. Outside legal cost \$1.000M
2. Consultants \$2.600M
3. Customer notice \$0.031M
4. Proof of revenue \$0.260M
5. Load study \$0.125M
6. Other expenses \$0.008M

(c) Cost elements such as incremental non-IT billing system costs and supplemental customer care center staff for transition.

Exhibit F

- (d) Recovery period
 - IT - 5 years with a 6% return on unamortized capital
 - Cost of proceeding - 29 months
 - Other implementation costs - 29 months
 - Independent Evaluator - current (1 year)
 - Rate Mitigation (Deferral Program) - IT cost amortized over the deferral program period with 6% return on capital; other O&M current recovery

Dynamic Pricing Administrative (DPA) Costs								
Month	Total DPA Costs for GSA 1, 2 & 3 (1)	Default Projected kwh Sales			Total (5)=(2)+(3)+(4)	Allocated Administrative Costs		
		GSA 1 (2)	GSA 2 (3)	GSA 3 (4)		GSA 1 (6)=(2)/(5)x(1)	GSA 2 (7)=(3)/(5)x(1)	GSA 3 (8)=(4)/(5)x(1)
Jan-11	\$ 9,164	1,296,005,757	332,865,630	302,030,559	1,930,901,946	\$ 6,151	\$ 1,580	\$ 1,433
Feb-11	\$ 8,164	1,109,676,808	288,648,766	250,971,477	1,649,297,051	\$ 6,165	\$ 1,604	\$ 1,394
Mar-11	\$ 9,164	1,016,311,342	273,151,681	242,745,212	1,532,208,236	\$ 6,078	\$ 1,634	\$ 1,452

All other Administrative Costs (Common)												
Month	Default Projected kwh Sales					Total kwh (14)=(9)+(10)+(11)+(12)+(13)	Total Cost (15)	Allocated Administrative Costs				
	GSA 1 (9)	GSA 2 (10)	GSA 3 (11)	GSA 4 (Hourly) (12)	Fixed Price Option (13)			GSA 1 (16)=(9)/(14) x (15)	GSA 2 (17)=(10)/(14) x (15)	GSA 3 (18)=(11)/(14) x (15)	GSA 4 (Hourly) (19)=(12)/(14) x (15)	Fixed Price Option (20)=(13)/(13) x (15)
Jan-11	1,296,005,757	332,865,630	302,030,559	436,448,373	342,923,722	2,710,274,041	\$ 524,982	\$ 251,037	\$ 64,476	\$ 58,503	\$ 84,540	\$ 66,425
Feb-11	1,109,676,808	288,648,766	250,971,477	345,468,871	271,439,827	2,266,205,750	\$ 524,260	\$ 256,711	\$ 66,776	\$ 58,059	\$ 79,920	\$ 62,794
Mar-11	1,016,311,342	273,151,681	242,745,212	330,421,147	259,616,615	2,122,245,998	\$ 523,539	\$ 250,715	\$ 67,384	\$ 59,883	\$ 81,512	\$ 64,045

Total Administrative Costs						
Month	GSA 1 (21)=(6)+(16)	GSA 2 (22)=(7)+(17)	GSA 3 (23)=(8)+(18)	GSA 4 (Hourly) (24)=(19)	Fixed Price Option (25)=(20)	Sum Total Administrative Cost (26)=(21)+(22)+(23)+(24)+(25)
Jan-11	\$ 257,188	\$ 66,056	\$ 59,936	\$ 84,540	\$ 66,425	\$ 534,145
Feb-11	\$ 262,876	\$ 68,380	\$ 59,453	\$ 79,920	\$ 62,794	\$ 533,423
Mar-11	\$ 256,793	\$ 69,018	\$ 61,335	\$ 81,512	\$ 64,045	\$ 532,703

Petition of PECO Energy Company for Approval of its
Smart Meter Technology Procurement and Installation Plan-
Petition for Approval of PECO Energy Company's Initial
Dynamic Pricing and Customer Acceptance Program
Docket No. M-2009-2123944

Responses of the Office of Consumer Advocate
to the Office of Small Business Advocate
Interrogatories Set I

4. Reference OCA Statement No. 1, page 19, line 14 to page 20 line 18:
- a. Please define "all customers" as that term is used at page 20 line 8. As part of your response, please indicate whether "all customers" includes any non-PECO customers, PECO large industrial customers who take service from an EGS, PECO large industrial customers who take default service, PECO lighting customers, and PECO residential/small commercial customers who take TOU service from an electric generation supplier ("EGS").
 - b. Please provide a specific numerical example of Mr. Hornby's proposed allocation of program costs. Please identify the allocation factor that would be used, and the specific customer classes (or default service procurement classes) to which costs would be assigned. Please also provide the bases for your proposal.
 - c. Please detail the specific cost recovery mechanism proposed by Mr. Hornby for recovery of the allocated program costs.

RESPONSE:

- a. The reference to "all customers" at page 20, line 8 is to all customers in each of the PECO rate classes covered by the pilot, regardless of their source of generation supply. Specifically these are customers in rate classes R, RH, OP, GS, PD and HT.
- b. Attachment OSBA-I-4(b) provides comparisons of the allocation of absolute program costs proposed by PECO and by Mr. Hornby, as well as the calculation of rates to recover those costs. The basic difference between the two approaches is that PECO bases its calculations on Default Sales kWh by rate class and Mr. Hornby bases his calculations on total delivered kWh by rate class.

Note that the GSA2 default sales kWh that PECO has in its calculations incorrectly include 7,937,758 kWh of lighting rate class sales. To avoid confusion Mr. Hornby has presented a comparison using PECO's as-filed numbers. He will update this response if and when PECO files revised exhibits and data responses.

Page 1 of Attachment OSBA-I-4(b) compares the allocation of total program costs by rate class. Mr. Hornby accepts PECO's characterization of program costs as either common to all relevant rate classes or directly assignable to specific rate classes. The only difference between the two approaches is the allocation of

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common costs (\$3,723,000 in this example) between rate classes. PECO has allocated common costs on the basis of Default Sales kWh by rate class; Mr. Hornby has allocated them on the basis of total delivered kWh by rate class.

Page 2 of Attachment OSBA-I-4(b) compares the calculation of rates to recover those costs.

- i. Portion A of the table compares the rates for recovery of common costs of \$9,164 per month. Again, PECO has developed rates using Default Sales kWh by rate class; Mr. Hornby has developed them using delivered kWh by rate class.
- ii. Portion B of the table compares the rates for recovery of directly assigned costs that total \$9,164 per month. This is illustrative and assumes the assignment is 59% to GSA1 and 41% to GSA 2 & 3 consistent with the split of directly assigned costs on Page 1 of Attachment OSBA-I-4(b). PECO did not provide an example of how it would develop rates for directly assigned costs. Mr. Hornby has developed rates using total delivered kWh by rate class.

Page 3 of Attachment OSBA-I-4(b) provides the estimated 2011 calendar year kWh by rate class within each GSA class for Default Service Sales, Third Party Sales and Total Delivered Sales.

The rationale for Mr. Hornby's proposed allocation factors is presented on pages 19 and 20 of his Direct Testimony.

- c. Mr. Hornby has not proposed a specific cost recovery mechanism for recovery of the allocated program costs.

Proposed Allocation of PECO Total Dynamic Pricing Program Costs (\$ 000)

Cost Category	PECO (as-filed)	SYNAPSE	Comment
Total Directly Assignable Costs	4,400	4,400	
Total Common Costs to be Allocated	7,160	7,160	
Total Program Costs (1)	\$ 11,560	\$ 11,560	no change
Directly Assignable Costs (net of stimulus grant)	\$ 2,288	\$ 2,288	
Common Costs (net of stimulus grant)	\$ 3,723	\$ 3,723	
Total Program Costs (net of stimulus grant) to be allocated (1)	\$ 6,011	\$ 6,011	no change
Allocation of Directly Assignable Costs (1):			
GSA1	\$ 1,342	\$ 1,342	
GSA2 and 3	946	946	
Total GSA	\$ 2,288	\$ 2,288	no change
Allocation of Common Costs (2, 3):			
GSA1	\$ 2,495	\$ 2,263	allocation per total delivered sales
GSA2 and 3	1,229	1,460	
Total GSA	\$ 3,723	\$ 3,723	
Allocation of Total Program Costs (1):			
GSA1	\$ 3,837	\$ 3,605	\$ (231)
GSA2 and 3	2,175	2,406	\$ 231
Total GSA	\$ 6,011	\$ 6,011	\$ -

Note - PECO's as-filed results reflect 7,937,758 kWh of lighting service incorrectly included in GSA2 sales

Sources

1. PECO response OCA-I-40-(b); Reflects DOE Stimulus Grant funding assumed at approximately 48% of total.
2. PECO Allocation based on estimated default sales by GSA class (67% for GSA1, 17% for GSA 2 and 16% for GSA 3) per OSBA I 4 (b) page 2.
3. SYNAPSE Allocation based on estimated total delivered sales by GSA class (61% for GSA1, 20% for GSA 2 and 19% for GSA 3) per OSBA I 4 (b) page 2.

Proposed Recovery of PECO Dynamic Pricing Program Costs (\$ 000)

	PECO (as - filed)	SYNAPSE	Comment
A. Common Costs (\$ 000), 1, 2	\$9,164	\$9,164	no change
Sales (MWh)	1,930,902	2,139,357	allocation per total delivered sales
Rate (cents / kWh)	0.000475	0.000428	
Allocation			
GSA 1	\$ 6,151	\$ 5,570	allocation per total delivered sales
GSA 2	\$ 1,580	\$ 1,812	
GSA 3	\$ 1,433	\$ 1,782	
Total	\$ 9,164	\$ 9,164	
B. Directly Assigned Costs (\$ 000) - illustrative Amounts			
GSA 1		\$5,375	Illustrative Assigned costs
GSA 2 & 3		\$3,789	
Total		\$9,164	
Sales (MWh)			Delivered sales volumes
GSA 1		1,300,350	
GSA 2 + 3		839,007	
Total		2,139,357	
Rates (cents / kWh)			
GSA 1		0.000413	
GSA 2 & 3		0.000452	

Note - PECO's as-filed results reflect 7,937,758 kWh of lighting service incorrectly included in GSA2 sales

Sources

1. Exhibit WJP-1A
2. PECO response OCA-I-40 c

Estimated January 2011 Calendar Delivery Sales and alternative Allocation Factors

Sales by GSA Classes	kWh (1)	Allocation Factors per	
		Default Sales	Total Delivered Sales
GSA 1			
Default Sales	1,296,005,757	67%	
Third Party	4,344,254		
Total Delivered Sales	1,300,350,011		61%
GSA 2			
Default Sales as filed (A)	332,865,630	17%	
Third Party (A)	90,104,793		
Total Delivered Sales	422,970,423		20%
GSA 3			
Default Sales	302,030,559	16%	
Third Party	114,005,872		
Total Delivered Sales	416,036,431		19%
Total			
Default Sales	1,930,901,946	100%	
Third Party	208,454,919		
Total Delivered Sales	2,139,356,865		100%

Note A - PECO's as-filed results reflect 7,937,758 kWh of lighting service incorrectly included in GSA2 sales

Sources

1

PECO response OCA-1-40 (d)

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of PECO Energy Company for Approval :
of its Smart Meter Technology Procurement :
and Installation Plan :
: **Docket No. M-2009-2123944**
Petition of PECO Energy Company for Approval :
of its Initial Dynamic Pricing and Customer :
Acceptance Plan :

CERTIFICATE OF SERVICE

I certify that I am serving one copy of the foregoing document, on behalf of the Office of Small Business Advocate, by e-mail (unless otherwise noted) upon the persons addressed below:

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