**PENNSYLVANIA**

**PUBLIC UTILITY COMMISSION**

**Harrisburg, PA 17105-3265**

Public Meeting held October 22, 2015

Commissioners Present:

Gladys M. Brown, Chairman

John F. Coleman, Jr., Vice Chairman

Pamela A. Witmer, Statement

Robert F. Powelson

Andrew G. Place

|  |  |
| --- | --- |
| Petition of PECO Energy Company for Approval  of their Electric Long-Term Infrastructure Improvement Plan | P-2015-2471423 |
| Petition by PECO Energy Company for Approval  of their Electric Distribution System Improvement Charge | P-2015-2471423 |
| Office of Consumer Advocate v. PECO Energy Company | C-2015-2476587 |

**OPINION AND ORDER**

**BY THE COMMISSION:**

Before the Commission for consideration is the Petition for approval of the Electric Long-Term Infrastructure Improvement Plan (LTIIP) and Distribution System Improvement Charge (DSIC) of PECO Energy Company (PECO). The Petition was filed on March 27, 2015. Copies of the Petition were served on the statutory advocates.

PECO is a corporation organized and existing under the laws of the Commonwealth of Pennsylvania with its principal office in Philadelphia, Pennsylvania. PECO provides electric service to approximately 1.6 million customers located throughout a 2,100 square-mile area. PECO furnishes electric service within its authorized service territory in Bucks, Chester, Delaware, Montgomery, and York Counties; and the City of Philadelphia. PECO operates and maintains about 1,067 circuit miles of high voltage transmission lines, 15,928 circuit miles of underground distribution cable, 12,971 circuit miles of aerial distribution lines, and 472 substations.

PECO is a “public utility” within the meaning of Section 102 of the Public Utility Code, 66 Pa. C.S. §§ 102, and, with respect to its provision of electric service, an “electric distribution company,” as defined in 66 Pa. C.S. § 2201 and is subject to the regulatory jurisdiction of the Commission.

The Office of Consumer Advocate (OCA) provided comments on PECO’s LTIIP on April 16, 2015. OCA did not request hearings, but suggested PECO provide additional information to the commission to ensure PECO’s LTIIP accelerated infrastructure repair and replacement in a cost effective manner as required by Act 11. Specifically, OCA pointed out that PECO does not provide a historical baseline data to compare against proposed LTIIP. The OCA also suggested the use of biennial Inspection and Maintenance Plans be used by the commission in evaluating PECO’s LTIIP.

On April 10, 2015 OCA filed a Formal Complaint and an Answer to PECO’s DSIC Petition. In its Answer to PECO’s DSIC Petition, OCA states the Commission should deny PECO’s Petition as filed, suspend the proposed DSIC tariff, and refer the matter to the Office of Administrative Law Judge (OALJ).

On April 15, 2015, the Philadelphia Area Industrial Energy Users Group (PAIEUG) filed a Petition to Intervene and Comment. PAIEUG’s objections and comments related only to PECO’s DSIC and not the LTIIP. PAIEUG requested an investigation into whether PECO’s proposed DSIC is just, reasonable, and consistent with Act 11. PAIEUG has concerns regarding the legality of PECO’s intention to apply DSIC charges to transmission voltage customers taking service on rate schedule HT. PAIEUG also reserved the right to investigate PECO’s definition of “distribution revenues” to determine if non-distribution revenues have been appropriately excluded from the DSIC calculation.

On April 16, 2015 the Office of Small Business Advocate (OSBA) filed a Notice of Intervention and an Answer. OSBA requested the Commission suspend and investigate PECO’s proposed DSIC tariff.

**BACKGROUND**

On February 14, 2012,Governor Thomas Wingett Corbett signed into lawAct 11 of 2012 (Act 11),[[1]](#footnote-1) which amends Chapters 3, 13 and 33 of Title 66. Act 11, *inter alia*, provides utilities with the ability to implement a Distribution System Improvement Charge (DSIC) to recover reasonable and prudent costs incurred to repair, improve or replace certain eligible distribution property that is part of the utility’s distribution system. The eligible property for the utilities is defined in 66 Pa. C.S. §1351. Act 11 states that as a precondition to the implementation of a DSIC, a utility must file an LTIIP with the Commission that is consistent with 66 Pa. C.S. §1352. The Commission’s LTIIP Regulations are codified at 52 Pa. Code Chapter 121.

On April 5, 2012, the Commission held a working group meeting for discussion and feedback from stakeholders regarding its implementation of Act 11. On May 10, 2012, the Commission issued a Tentative Implementation Order addressing and incorporating input from the stakeholder meeting. Stakeholders filed comments to the Tentative Implementation Order on June 6, 2012. On August 2, 2012, the Commission issued the Final Implementation Order, at Docket No. M‑2012‑2293611, establishing procedures and guidelines necessary to implement Act 11.

The Final Implementation Order adopts the requirements established in 66 Pa. C.S. § 1352, provides additional standards that each LTIIP must meet, and gives guidance to utilities for meeting the Commission’s standards. The Final Implementation Order of Act 11 requires the inclusion of eight elements in the LTIIP.

**PECO’S LTIIP PETITION**

**PECO’s Petition**

PECO’s LTIIP is a five year plan, spanning the years 2016-2020 that accelerates infrastructure improvements in order to enhance system resiliency and reliability. PECO’s LTIIP consists of three main project areas and a fourth category related to unreimbursed facility relocations: 1) Storm Hardening and Resiliency Measures; 2) Underground Cable Replacement; 3) Building Substation Retirements; and 4) Facility Relocations. During the 5-year LTIIP period, PECO’s increased expenditures will amount to $324.3 million, with $274.3 million for the above reliability projects and $50 million for facility relocation as permitted by 66 Pa. C.S. §1351 (definition of “eligible property”).

Over the past ten years PECO’s service territory has experienced 10 major storm events, including Hurricanes Irene (2011) and Sandy (2012), and Winter Storm Nika (2014). These storm events caused significant damage to the electrical system from falling trees and branches, high winds, and flooding. The two largest storm events (Sandy and Nika) occurred in the last three years. PECO’s LTIIP will accelerate spending for Storm Hardening and Resiliency projects by $123.9 million (45%). The balance of the LTIIP investment will be spent on the other reliability improvement initiatives. This includes approximately $137.4 million that will be invested in accelerated replacement of underground cable, which will improve reliability by mitigating outages caused by underground cable failures. An additional $13 million will be used to up-rate selected voltage distribution system circuits and facilities to enhance circuit performance.

PECO avers they will primarily use Customers Experiencing Multiple Interruptions (CEMI) index data to determine the circuits and areas that were significantly affected by storm events and to focus Storm Hardening and Resiliency projects in those areas.[[2]](#footnote-2) Part of PECO’s plans to storm harden those areas include rebuilding as necessary with CEMI/Spacer Cable. Spacer Cable will replace bare open wire lines with spacer cable which consists of shielded conductors that have a compact profile and are more resilient to tree and branch contact during storm events. PECO will also replace or upgrade associated infrastructure as part of the CEMI/Spacer Cable program. This includes poles, cross arms, lighting arrestors, and other infrastructure that may not withstand severe storms.

The Circuit Rebuild and Unit Substation Retirements program is the other aspect of PECO’s Storm Hardening and Resiliency project. PECO avers this program will increase reliability by eliminating aging Unit Substations that are more susceptible to failure and contain obsolete equipment that is difficult and costly to repair/replace.[[3]](#footnote-3) This program will also upgrade existing low voltage circuits to a higher voltage, thus eliminating unit substations. In some areas in need of increased resiliency and storm hardening, this program will work in synergy with the CEMI/Spacer Cable program. Additionally, PECO plans to install automatic recloser devices to isolate storm faults and restore service to more customers within 5 minutes.

PECO’s Underground Cable Replacement project consists of Main Stem and URD cable replacement programs.[[4]](#footnote-4) PECO notes the beginning of a rising trend in faults and interruptions in its Main Stem and URD cable. The proposed LTIIP will increase investment in Main Stem cable replacement by $72.2 million and URD cable replacement by $65.2 million. PECO will prioritize Main Stem replacement using historical failure rates and high priority dual service customers (e.g. hospitals). PECO avers the accelerated replacement will equal approximately 68 miles of main stem replacement and 123 miles of URD cable.

PECO’s Building Substation Retirement project is focused on the retirement and removal of Building Substations and the upgrade of the associated distribution facilities supplied by those substations.[[5]](#footnote-5) PECO notes that their Building Substations are aging and contain obsolete equipment. PECO avers that the substations are becoming more difficult to maintain and component manufactured replacement parts are not commonly in stock and this requires repair parts to be custom fabricated. PECO also notes that the substations have limited telemetry compared with available technology that allows more monitoring and control of the facilities. The $13 million accelerated upgrade will begin in 2019.

PECO’s LTIIP also includes projected funding of $10 million each year ($50 million total) for facility relocation resulting from PennDOT, Pennsylvania Turnpike Commission, and local municipalities’ construction projects. This is net of any reimbursements. The LTIIP projection was based on an average of the annual expenditures of the previous five years’ facility relocation costs.

Finally, PECO’s LTIIP also included a section on a possible future LTIIP program involving microgrids and distributed generation. PECO noted that it may select one or more projects for development at an expected cost of $50 million to $100 million to be spent in the 2017-2020 timeframe. As this section is speculative and the LTIIP does not contain any proposed plans or expenditures in this regard, this Order does not address this provision of PECO’s LTIIP. If PECO desires to implement any of these speculative programs in their LTIIP in the future, they may file a Petition for a Major Modification or an amended LTIIP per our regulations. 52 Pa. Code § 121.5(a).

PECO addressed the eight LTIIP elements required in the Final Implementation Order of Act 11 as discussed below:

**(1) TYPES AND AGE OF ELIGIBLE PROPERTY**

**PECO Position**

PECO’s Petition notes that PECO operates approximately 15,928 miles of underground distribution cable, 12,971 miles of aerial distribution lines, 780 unit substations, and 23 building substations. The LTIIP encompasses projects addressing these facilities as well as the associated supporting infrastructure, such as poles, cross arms, transformers, etc. The types and ages of those facilities are described, below, by the four LTIIP project areas.

* **Storm Hardening and Resiliency Measures:** This project category consists of the Spacer Cable and Circuit Rebuild/Unit Substation Retirement programs. The Spacer Cable program will target the replacement of overhead conductors with spacer cable. PECO notes that associated obsolete or degraded infrastructure (poles, cross arms, lightning arrestors, line hardware, etc.) will be replaced in conjunction with the spacer cable installment. PECO avers that as the target areas are based on the CEMI index, the age of the equipment is not as important a factor and difficult if not impossible to quantify in some cases. PECO notes that the determination to replace the infrastructure is based on CEMI data, obsolete and degraded equipment, and suitability to withstand frequent severe storms. The Circuit Rebuild/Unit Substation program will target the unit substations (they will be removed) and upgrade downstream low-voltage supply conductors and facilities to operate at higher voltages. This program will accelerate the retirement of 23 unit substations. Figure 1, below, was provided by PECO and details the ages of the remaining unit substations.

**Figure 1 – Unit Substation Ages**



* **Underground Cable replacement:** PECO states that this project category targets the replacement of Main Stem and URD cable. PECO notes that the main driver for the target of the replacements is increasing failure rates, but Figure 2, below, details the ages of Main Stem cable. PECO notes that their URD cable installations were completed mainly in the 1960s, but that the URD replacements will be focused on those that were installed before 1984.

**Figure 2 – Main Stem Cable Ages**



* **Building Substation Retirements:** PECO states that this project category will target removal of building substations, which consists of retiring facilities such as transformers (5 to 15 MVA), and any degraded or obsolete associated equipment (conductors, insulators, etc.) PECO notes that downstream facilities will be upgraded to accommodate the required increased voltage. This may require replacement or upgrade of downstream transformers and the conductors. To the extent possible, PECO notes they will target building substation retirements in conjunction with the Storm Hardening and Resiliency Measures. Figure 3, below, provided by PECO, details the ages of the building substations.

**Figure 3 – Age of Building Substations as of 2014**

* **Facility Relocation: PECO notes that** the type and age of eligible property for these projects are dependent on the construction plans of PennDOT, Pennsylvania Turnpike Commission, and local municipalities.

**Comments**

No comments were received regarding the types and ages of eligible property.

**Resolution**

Upon review of PECO’s LTIIP and all supplemental information filed, the Commission finds the types and ages of eligible property requirements of element one of the Final Implementation Order have been fulfilled. The Commission acknowledges the level of detail contained within the LTIIP for item one conforms to Commission requirements and is presented in a manner that allows for complete and efficient review of, and reference to, these materials.

**(2) SCHEDULE FOR PLANNED REPAIR AND REPLACEMENT OF ELIGIBLE PROPERTY**

**PECO Position**

The tables below detail the schedule for historical (2011-2015), baseline (2016-2020), and accelerated repair and replacement (2016-2020) of eligible property based on the three main LTIIP Project categories. The schedule for facility relocations will depend on the construction plans of PennDOT, Pennsylvania Turnpike Commission, and local municipalities. The information in the tables is based on the LTIIP and data supplied to the Commission’s Bureau of Technical Utility Services (TUS).[[6]](#footnote-6)

**Table 1 – Storm Hardening and Resiliency Measures**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Actual Projects Completed 2011-2015** | | | | | | |
| **Program Description** | **2011** | **2012** | **2013** | **2014** | **2015** | **Total** |
| **Storm Hardening Program** | | | | | | |
| Customers Experiencing Multiple Interruptions (CEMI) | **2** | **4** | **2** | **6** | **4** | **18** |
| Circuit Rebuild Enabling Unit Substation Retirement | **2** | **0** | **1** | **1** | **8** | **12** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Forecasted Projects without LTIIP 2016-2020** | | | | | | |
| **Program Description** | **2016** | **2017** | **2018** | **2019** | **2020** | **Total** |
| **Storm Hardening Program** | | | | | | |
| Customers Experiencing Multiple Interruptions (CEMI) | **3** | **3** | **3** | **3** | **3** | **15** |
| Circuit Rebuild Enabling Unit Substation Retirement | **0** | **0** | **2** | **0** | **0** | **2** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Additional Forecasted Projects in the LTIIP 2016-2020** | | | | | | |
| **Program Description** | **2016** | **2017** | **2018** | **2019** | **2020** | **Total** |
| **Storm Hardening Program** | | | | | | |
| Customers Experiencing Multiple Interruptions (CEMI) | **5-8** | **6-9** | **8-13** | **8-13** | **8-13** | **35-56** |
| Circuit Rebuild Enabling Unit Substation Retirement | **0** | **5** | **6** | **6** | **6** | **23** |

**Table 2 – Underground Cable Replacements**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Actual Miles of Cable Replaced 2011-2015** | | | | | | |
| **Program Description** | **2011** | **2012** | **2013** | **2014** | **2015** | **Total** |
| **Cable replacement Program** | | | | | | |
| Main Stem Cable | **0.7** | **0.0** | **1.0** | **4.6** | **0.7** | **7.1** |
| Underground Residential Development (URD) | **4.0** | **0.1** | **0.6** | **1.4** | **1.0** | **7.2** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Forecasted Miles of Cable Replaced without a LTIIP 2016-2020** | | | | | | |
| **Program Description** | **2016** | **2017** | **2018** | **2019** | **2020** | **Total** |
| **Cable replacement Program** | | | | | | |
| Main Stem Cable | **1.4** | **0.0** | **0.9** | **4.2** | **4.2** | **10.8** |
| Underground Residential Development (URD) | **1.1** | **1.1** | **1.2** | **1.2** | **1.2** | **5.8** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Additional Forecasted Miles of Cable Replaced in the LTIIP 2016-2020** | | | | | | |
| **Program Description** | **2016** | **2017** | **2018** | **2019** | **2020** | **Total** |
| **Cable replacement Program** | | | | | | |
| Main Stem Cable | **8** | **17** | **17** | **14** | **12** | **68** |
| Underground Residential Development (URD) | **8** | **19** | **32** | **32** | **32** | **123** |

**Table 3 – Building Substation Retirements**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Actual Retirements Completed 2011-2015** | | | | | | |
| **Program Description** | **2011** | **2012** | **2013** | **2014** | **2015** | **Total** |
| **Building Substation Retirement Program** | **0** | **0** | **0** | **0** | **1** | **1** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Forecasted Retirements without a LTIIP 2016-2020** | | | | | | |
| **Program Description** | **2016** | **2017** | **2018** | **2019** | **2020** | **Total** |
| **Building Substation Retirement Program** | **1** | **0** | **1** | **2** | **0** | **4** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Additional Forecasted Replacements in the LTIIP 2016-2020** | | | | | | |
| **Program Description** | **2016** | **2017** | **2018** | **2019** | **2020** | **Total** |
| **Building Substation Retirement Program** | **0** | **0** | **0** | **0** | **1** | **1** |

**Comments**

The OCA specifically commented that PECO did not provide any baseline data regarding the historic rate of replacement and retirement for the categories of eligible property outlined in the LTIIP (OCA Comments at 5). .

**Resolution**

Upon review of PECO’s LTIIP and all supplemental information filed, the Commission finds the schedule for planned repair and replacement of eligible property requirements of element two of the Final Implementation Order has been fulfilled and the concerns expressed by the OCA have been addressed. The Commission acknowledges the level of detail contained within the LTIIP for item two conforms to Commission requirements and is presented in a manner that allows for complete and efficient review of, and reference to, these materials.

**(3) LOCATION OF THE ELIGIBLE PROPERTY**

**PECO Position**

PECO avers that total eligible property as outlined in the LTIIP is located throughout PECO’s territory as described, below, by the three main LTIIP project areas. Facility relocation areas will be based on the construction plans of PennDOT, Pennsylvania Turnpike Commission, and local municipalities.

* **Storm Hardening and Resiliency Measures:** PECO notes that it will utilize CEMI data to identify pockets of its distribution system that will be targeted for improvement projects located throughout all 6 counties in its service territory (Bucks, Chester, Delaware, Montgomery, Philadelphia, and York).
* **Underground Cable replacement:** Most of the Main Stem underground cable is located in the City of Philadelphia. Underground Residential Development (URD) cable was installed principally in residential developments and PECO estimates most work will be evenly split between the service areas in Bucks/Montgomery and Delaware/Chester Counties.
* **Building Substation Retirements:** PECO will largely be replacing substations at various sites in the City of Philadelphia

**Comments**

No comments were received regarding the location of eligible property.

**Resolution**

Upon review of PECO’s LTIIP and all supplemental information filed, the Commission finds the location of eligible property requirements of element three of the Final Implementation Order has been fulfilled. The Commission acknowledges the level of detail contained within the LTIIP for item three conforms to Commission requirements and is presented in a manner that allows for complete and efficient review of, and reference to, these materials.

**(4) REASONABLE ESTIMATES OF THE QUANTITY OF PROPERTY TO BE IMPROVED**

**And,**

**(5) PROJECTED ANNUAL EXPENDITURES AND MEASURES TO ENSURE THE PLAN IS COST EFFECTIVE**

**PECO Position**

PECO’s projected LTIIP projects and expenditures are detailed in Tables 4 and 5, below.

**Table 4 – Projected LTIIP Projects**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Summary of LTIIP Projects** | | | | | | |
| **Program Description** | **2016** | **2017** | **2018** | **2019** | **2020** | **Total** |
| **Storm Hardening Program** | | | | | | |
| Customers Experiencing Multiple Interruptions (CEMI) (projects) | **5-8** | **6-9** | **8-13** | **8-13** | **8-13** | **35-56** |
| Circuit Rebuild Enabling Unit Substation Retirement (number of unit subs to be retired) |  | **5** | **6** | **6** | **6** | **23** |
|  | | | | | | |
| **Cable Replacement Program** | | | | | | |
| Mainstream Cable (in miles) | **8** | **17** | **17** | **14** | **12** | **68** |
| Underground Residential Development (URD) (in miles) | **8** | **19** | **32** | **32** | **32** | **123** |
|  | | | | | | |
| **Building Substation Retirement Program** (number of substations) |  |  |  |  | **1** | **1** |

**Table 5 – Projected LTIIP Expenditures**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Yearly Summary of LTIIP Expenditures ($ millions)** | | | | | | |
| **Program Description** | **2016** | **2017** | **2018** | **2019** | **2020** | **Total** |
| **Storm Hardening Program** | | | | | | |
| Customers Experiencing Multiple Interruptions (CEMI) | **7.7** | **10.0** | **15.0** | **15.0** | **15.0** | **62.7** |
| Circuit Rebuild Enabling Unit Substation Retirement | **1.7** | **14.5** | **15.0** | **15.0** | **15.0** | **61.2** |
|  | | | | | | |
| **Cable Replacement Program** | | | | | | |
| Mainstream Cable | **8.2** | **18.0** | **18.0** | **15.0** | **13.0** | **72.2** |
| Underground Residential Development (URD) | **4.2** | **10.0** | **17.0** | **17.0** | **17.0** | **65.2** |
|  | | | | | | |
| **Building Substation Retirement Program** |  |  |  | **1.0** | **12.0** | **13.0** |
| **Totals** | **21.8** | **52.5** | **65.0** | **63.0** | **72.0** | **274.3** |

PECO has provided information through their LTIIP and supplemental information on how they propose to ensure cost effectiveness. PECO notes that the LTIIP expenditures will be cost effective in general because the infrastructure that will be replaced and/or upgraded will have a direct impact on customer service and increase reliability.

PECO’s specific cost controls include utilizing its materials and services procurement procedures. These procedures include controls for material and supply procurement as well as methods to evaluate vendors. Additionally, PECO anticipates utilizing outside contractors to perform a substantial portion of the LTIIP project work. PECO provided detailed information in regards to the selection of contractors and the evaluation process, including a sample Request for Proposal (RFP). PECO anticipates utilizing their approved Contractors of Choice (COCs) for the outsourced work. PECO avers they ensure cost effectiveness of their COCs by performing a RFP for contracts for their approved COCs every three years. PECO notes that this process allows for the most qualified, best priced contractors.

PECO avers their processes further ensure cost effectiveness by also competitively bidding to the COCs all projects estimated to cost at least $250,000. PECO anticipates that over 90% of the outsourced LTIIP work will be competitively bid to COCs. PECO notes that the COC competitive bid process allows them to also have cost certainty by competitively biding unitized work for a period of time, typically for three year contracts. At the end of the contract period, the expected remaining workload will be rebid, which requires the incumbent COC to submit a new bid. PECO notes they further ensure cost effectiveness by monitoring their costs for tasks and projects and comparing them to both historical levels and a benchmark of area labor rates.

**Comments**

The OCA commented that PECO’s LTIIP did not provide any information that detailed how their plan was cost effective, including items such as avoided costs (OCA Comments at 5).

**Resolution**

Upon review of PECO’s LTIIP and all supplemental information filed, the Commission finds the reasonable estimates of the quantity of property to be improved and the projected annual expenditures and measures to ensure that the plan is cost effective, requirements of elements four and five of the Final Implementation Order of Act 11 have been fulfilled. The Commission acknowledges the level of detail contained within the LTIIP, and the supplemental information filed, for items four and five conform to Commission requirements and are presented in a manner that allows for complete and efficient review of, and reference to, these materials. The concerns of the OCA have been addressed by PECO’s LTIIP and supplemental information filed, including PECO’s detailed explanation of the COC and procurement processes.

**(6) ACCELERATED REPLACEMENT AND MAINTAINING SAFE AND RELIABLE SERVICE**

**PECO Position**

PECO avers they will modernize and improve infrastructure that is obsolete, aging, prone to multiple outages, and prone to failure during severe weather events. The LTIIP will upgrade the infrastructure to ensure safe and reliable service is maintained thru resiliency and storm hardening programs, Cable replacement programs, and the substation retirement program. Tables 1 through 3 in element one, above, clearly demonstrated that PECO’s LTIIP projects are an acceleration of past and current projects.

**Comments**

No comments were received regarding theaccelerated replacement and maintaining safe and reliable service.

**Resolution**

Upon review of the LTIIP and supplemental information, the Commission finds the manner in which replacement of aging infrastructure will be accelerated and how repair, improvement or replacement will maintain safe and reliable service requirements of the Final Implementation Order, for the manner in which replacement of aging infrastructure will be accelerated and how repair, improvement or replacement will maintain safe and reliable service, have been fulfilled. PECO is clearly planning to accelerate its infrastructure replacement over the timeframe of the LTIIP and has demonstrated that completion of the planned projects of the LTIIP will maintain safe and reliable service.

**(7) WORKFORCE MANAGEMENT AND TRAINING PROGRAM**

**PECO Position**

The Final Implementation Order requires utilities to include within its LTIIP a workforce management and training plan designed to ensure the utility will have access to a qualified workforce to perform work in a cost-effective, safe and reliable manner.

PECO stated they will only use outside contractors for the LTIIP projects that are fully qualified in accordance with standards set forth in Section 1359. PECO administers a standard process for soliciting independent contractors and most Independent Contractors are employed through the building trades, which include union apprenticeship programs. Non-union independent contractors are stringently reviewed to assess adequate training and certifications.

PECO’s Methods & Training Department is responsible to provide any PECO specific training for a specific project task. In addition, Project and Contract Management is responsible for initial contractor orientation training and maintaining the contractor information website that consists of technical and safety information.

Additionally, PECO’s Methods and Training Department is responsible to ensure contractor training programs comply with PECO’s requirements and may call for further testing of contractors before they are eligible to work on PECO facilities. PECO’s Methods and Training Department monitors industry developments for more efficient and effective procedures to assure the long-term effectiveness of PECO’s training program.

**Comments**

No comments were received regarding the workforce management and training program.

**Resolution**

Upon review of PECO’s LTIIP, the Commission finds the workforce management and training program requirements of the Final Implementation Order have been fulfilled.

1. **A description of a utility’s outreach and coordination activities with other utilities, PennDOT and local governments on planned maintenance/construction projects**

**PECO Position**

PECO notes that most of the LTIIP project work will not require opening streets and highways. However, PECO will communicate and coordinate with PennDOT, local municipalities, and other utilities and entities, such as SEPTA and Amtrak regarding work to be performed and work schedules that may affect the day-to-day operations of those entities.

**Comments**

No comments were received regarding the coordination activities.

**Resolution**

Upon review of the LTIIP, the Commission finds the coordination activities requirements of the Final Implementation Order have been fulfilled.

**LTIIP SUMMARY**

The Commission reviewed each of the eight required elements of PECO’s Petition for Approval of the LTIIP and any resulting Petition comments. PECO’s proposed LTIIP appears to demonstrate its associated expenditures are reasonable, cost effective, and designed to ensure and maintain efficient, safe, adequate, reliable, and reasonable service to the customers.

**PECO’S DISTRIBUTION SYSTEM IMPROVEMENT CHARGE PETITON**

Section 1353 requires utilities to file a petition seeking approval of a DSIC that includes the following:

1. An initial tariff that complies with the Model Tariff adopted by the Commission, which includes:
   1. A description of eligible property;
   2. The effective date of the DSIC;
   3. Computation of the DSIC;
   4. The method for quarterly updates of the DSIC; and
   5. A description of consumer protections.
2. Testimony, affidavits, exhibits, and other supporting evidence demonstrating that the DSIC is in the public interest;
3. A Long Term Infrastructure Improvement Plan (LTIIP) as described in Section 1352, 66 Pa. C.S. § 1352;
4. Certification that a base rate case has been filed within five years prior to the filing of the DSIC petition; and
5. Other information required by the Commission.

PECO’s petition addresses each of the elements listed in the statute, as detailed below.

**(1) Tariff Filing**

Section 1353 requires utilities to file an initial tariff that complies with the Model Tariff adopted by the Commission. PECO’s proposed Supplement No. XX to Tariff Gas – Pa. P.U.C. No. 4 (DSIC Tariff) closely reflects the language of the Model Tariff. We shall review each item in turn.

**(a) Eligible Property**

**PECO’s Petition**

PECO designates the same property as DSIC-eligible as it included in its LTIIP, including poles and towers, overhead and underground conductors, transformers and distribution substation equipment, fixtures and devices related to the eligible property such as insulators, circuit breakers, fuses, reclosers, grounding wires, crossarms and brackets, relays, capacitors, converters and condensers, unreimbursed costs related to highway relocation projects, and other related capitalized costs. Eligible property for EDCs is defined in Section 1352, 66 Pa. C.S. § 1351(2).

**Comments**

No comments were filed regarding this aspect.

**Resolution**

PECO’s proposed DSIC Tariff is consistent with the Model Tariff and complies with eligible property for EDCs as defined in Section 1352, 66 Pa. C.S. § 1351(2).

**(b) Effective Date**

**PECO’s Petition**

PECO’s proposed DSIC Tariff has no issued date and an effective date of January 1, 2016. The DSIC will be updated on a quarterly basis to reflect eligible plant additions placed in service during the three-month periods ending one month prior to the effective date of each DSIC update. Thus the effective date of DSIC changes to the DSIC rate will occur on January 1, April 1, July 1, and September 1.

**Comments**

No comments were filed regarding this aspect.

**Resolution**

PECO’s proposed DSIC Tariff is consistent with the Model Tariff.

**(c) Computation of the DSIC**

**PECO’s Petition**

PECO estimates its initial DSIC charge will be set to zero. In the Company’s DSIC Tariff, the formula for calculation of the DSIC is as follows:

DSIC = (DSI \* PTRR)+Dep+e

PQR

Where:

DSI = Original cost of eligible distribution system improvement projects net of accrued depreciation.

PTRR = Pre-tax return rate applicable to DSIC-eligible property.

Dep = Depreciation expense related to DSIC-eligible property.

e = Amount calculated under the annual reconciliation feature or Commission audit.

PQR = Projected quarterly revenues for distribution service (including all applicable clauses and riders) from existing customers plus revenue from any customers which will be acquired by the beginning of the applicable service period.

PECO has elected to use one-fourth of its projected annual distribution revenues to calculate projected quarterly revenues.

**Comments**

The OCA claims PECO’s DSIC calculation is incorrect because the DSIC computation does not reflect the impact of accumulated deferred income taxes (ADIT) associated with DSIC investments made by the Company, which in turn permits PECO to earn a return on an investment balance that exceeds PECO’s actual investment, and because the calculation of the state income tax component of the DSIC revenue requirement determination requires further examination to ascertain whether it is consistent with the actual taxes paid doctrine.

OCA states the DSIC surcharge proposed by PECO is contrary to the established principles of sound ratemaking and would contribute to bad regulatory policy. The OCA requests the Commission reject the proposed surcharge, and the matter be referred to the OALJ for the development of an evidentiary record.

**Resolution**

The Model Tariff makes available to utilities two options for calculating projected quarterly revenues: 1) The summation of projected revenues for the applicable three-month period; or 2) One-fourth of projected annual revenues. The Model Tariff permits the use of one-fourth of annual revenues and the Final Implementation Order recognized the seasonality of revenue issues. Therefore, PECO’s use of one-fourth of its projected annual distribution revenues as its projected quarterly revenues is appropriate.

OCA declares PECO’s DSIC calculation should be adjusted to reflect the impact of ADIT associated with DSIC investments made by the Company; otherwise PECO will earn a return on an investment balance that exceeds PECO’s actual investment. That is, ADIT can be viewed as a source of zero cost capital. The Commission, in its Implementation Order, has determined the “adjustment, which was not previously used in the DSIC by the water industry, would add unnecessary complexities to the DSIC and, accordingly, will not be included in the model tariff.” Final Implementation Order, p. 39.

Additionally, OCA is reviewing the calculation of the state income tax component of the DSIC revenue requirement determination to ensure ratepayers receive the full benefit of the tax deductions consistent with the actual taxes paid doctrine.

The Commission notes it has previously addressed the issues regarding ADIT and the calculation of the state income tax in the Columbia Gas DSIC proceeding. *See Petition of Columbia Gas of Pennsylvania, Inc. for Approval of a Distribution System Improvement Charge*, Docket No. P-2012-2338282 (Order entered May 22, 2014) (*May 22nd Order*).  We further note the OCA has a pending appeal in Commonwealth Court against the May 22nd Order. Specifically, this appeal involves the OCA’s issues related to the impact of ADIT associated with DSIC investments and the calculation of the state income tax component of the DSIC revenue requirement.[[7]](#footnote-7)[1] Hence, we note that the OCA has preserved the issue. Accordingly, the ADIT issue is now a legal issue, pending at the Commonwealth Court in the OCA’s appeal of the May 22nd Order. However, since there are no additional and non-tax fact issues raised in the OCA’s current protest against the PECO DSIC filing, we will abide by previous determinations set forth in the May 22nd Order and, thus, will not refer the ADIT issue or the calculation of the state tax component of the DSIC revenue requirement to the OALJ for disposition.

**(d) Quarterly Updates**

**PECO’s Petition**

A utility’s DSIC is subject to quarterly updates to reflect eligible plant additions placed in service during the three-month period ending one month prior to the effective date of any DSIC update. The proposed DSIC Tariff includes a chart of the effective dates of PECO’s proposed DSIC updates, and the corresponding period for eligible plant additions that will be reflected in each update. The Company states once its DSIC is implemented, customers will receive notice of quarterly changes in the DSIC through bill messages, consistent with Act 11 and the Final Implementation Order.

**Comments**

No comments were filed regarding this aspect.

**Resolution**

In accordance with 66 Pa. C.S. § 1358(e)(2), the revenue received under the DSIC for the reconciliation period shall be compared to the utility's eligible costs for that period. The difference between revenue and costs shall be recouped or refunded, as appropriate, in accordance with section 1307(e), over a one-year period or quarterly period commencing April 1 of each year. Based on the statute mandating over/under collections be refunded commencing April 1 of each year, the Commission directs any utility filing for a DSIC to schedule the effective dates of their proposed DSIC updates, and the corresponding period for eligible plant additions that will be reflected in each update, to align quarterly with the months of April, July, October, and January. PECO has suggested such a schedule in the filing of their proposed DSIC Tariff, and hence, the Commission deems PECO’s tariff to be compliant with Section 1353 as it pertains to the issue of quarterly updates. The Commission directs PECO to file supporting data for each quarterly update with the Commission’s Bureau of Audits in addition to those already listed in the tariff.

**(e) Consumer Protections**

**PECO’s Petition**

In accordance with the Model Tariff and consistent with Section 1358, PECO’s proposed DSIC Tariff also includes the following customer safeguards:

1. A 5.0% cap on the total amount of distribution revenue that can be collected through the DSIC by PECO as determined on an annualized basis;
2. Annual reconciliations performed by PECO;
3. Audits conducted by the Commission;
4. Customer notice of any changes in the DSIC;
5. A reset of the DSIC to zero as of the effective date of new base rates that include the DSIC-eligible plant; and
6. Provisions for the charge to be set at zero if, in any quarter, PECO’s most recent earnings report shows that PECO is earning a rate of return that exceeds the allowable rate of return used to calculate its fixed costs under the DSIC.

As a customer safeguard, the Model Tariff states the DSIC shall be applied equally to all customer classes.

**Comments**

PAIEUG notes PECO proposes to apply the DSIC to all rate schedules, including Rate Schedule HT. PAIEUG opposes the Company’s proposal to apply the DSIC to transmission voltage customers taking service on Rate Schedule HT.

PAIEUG is also concerned with the Company’s calculation of the 5% cap on costs recovered through the DSIC. PECO’s Petition avers the Company included applicable riders, but does not include a detailed account of the riders included as distribution revenue. PAIEUG questions whether revenues associated with all of the riders in PECO’s tariff are properly included as distribution revenues.

**Resolution**

PECO’s proposed DSIC Tariff is consistent with the Model Tariff and complies with the customer safeguards required by 66 Pa. C.S. § 1358. However, in the Implementation Order the Commission stated “[w]ith regard to the issue of applying a DSIC surcharge to EDC customers receiving service at transmission voltage, we are in general agreement with EAP and other commenters that a DSIC surcharge should not be applied to such customers.” Implementation Order, p.46. The Commission acknowledges customers taking service at transmission voltage rates should be included under the DSIC charge only if facilities serving such customers are considered distribution plant for ratemaking purposes. Implementation Order, p.46.

The Commission notes it has previously addressed the issues regarding whether riders are properly included as distribution revenue and if transmission voltage rates should be included under the DSIC charge, in the PPL DSIC proceeding. *See Petition of PPL Electric Utilities Corporation for Approval of a Distribution System Improvement Charge*, Docket No. P-2012-2325034 (Order entered April 9, 2015) (April 9th Order).

Whether customers taking service at transmission voltage rates should be included under the DSIC charge and if revenues associated with the riders in PECO’s tariff are properly included as distribution revenues should be further investigated. We shall refer these issues to OALJ for hearing and recommended decision.

**(2) Public Interest Considerations**

**PECO’s Petition**

According to the Company, implementing the proposed DSIC and allowing the proposed DSIC Tariff to go into effect is in the public interest because the DSIC will ensure customers continue to receive safe and reliable service in the future as required by Section 1501, 66 Pa. C.S. § 1501.

Company witness John E. McDonald states PECO, as demonstrated in its LTIIP, plans to accelerate its investment in storm hardening and resiliency measures as well as measures to enhance general distribution system reliability. The replacement of aging infrastructure will improve customer safety and the reliability of service for customers in continuation of the public interest and consistent with the requirements of Section 1501, 66 Pa. C.S. § 1501 related to the provision and maintenance of adequate, efficient, safe, reliable and reasonable service. PECO's DSIC creates a rate mechanism to recover capitalized costs of eligible property between base rate proceedings and, thus, will facilitate PECO's compliance with the foregoing regulatory requirements consistent with the purposes of Act 11. PECO also believes the approval of its DSIC will allow the Company to attract lower cost of capital which ultimately will be reflected in rates paid by customers.

**Comments**

No comments were received regarding the supporting evidence that PECO’s DSIC is in the public interest.

**Resolution**

Section 1353 requires testimony, affidavits, exhibits, and other supporting evidence to be submitted demonstrating that the DSIC is in the public interest. Based on PECO’s submitted direct testimonies by the Company’s Manager of Regulatory Strategy, Alan B. Cohn, as well as exhibits demonstrating how the proposed DSIC supports accelerated infrastructure improvement, the Commission concludes the DSIC filing is in the public interest and the Company has met its obligation under Section 1353.

**(3) Long Term Infrastructure Improvement Plan**

Section 1353 requires that the utility have an approved Long Term Infrastructure Improvement Plan (LTIIP). PECO filed a LTIIP with the Commission on March 27, 2015, which is recommended for approval concurrently with the DSIC.

**(4) Base Rate Case**

Section 1353(b)(4) requires a utility to certify that it has filed a base rate case within the five years prior to the date of its DSIC petition. PECO filed a base rate case on March 27, 2015, at Docket No. R-2015-2468981.

**(5) Other Information Required by the Commission**

**Section 1354 - Customer Notice**

Pursuant to Section 1354, a utility is required to provide customer notice of: 1) Submission of the DSIC petition; 2) Commission’s disposition of the DSIC petition; 3) Any quarterly changes to the DSIC rate; and 4) Any other information required by the Commission. PECO has verified it will provide customer notice of the proposed DSIC, Commission action thereon, and quarterly updates through bill inserts, consistent with Act 11 and the Final Implementation Order.

PECO commenced notifying its customers of the Petition and the proposed DSIC through separate bill inserts, beginning at the time of this filing and continuing for the entire billing cycle. The bill insert informs customers of PECO's DSIC filing, provides an estimate of the proposed average rate impact by customer class, and discusses customer rights and remedies related to the disposition of the Company's filing. PECO provided a draft form of the customer notification language to the Office of Customer Advocate, the Commission's Communication Office, and the Bureau of Consumer Services for their respective input prior to the filing of this Petition.

The Commission agrees that this is consistent with the notice requirements set forth in the Model Tariff, Act 11, and the Final Implementation Order.

**Bills Rendered or Service Rendered**

The Final Implementation Order directed utilities to bill customers for the DSIC on a bills rendered basis versus a service rendered basis[[8]](#footnote-8), based on current practice and procedure for water companies. (*See* 66 Pa. C. S. § 1358). PECO’s proposed tariff did not specify whether billing for the DSIC would be on a bills rendered or a service rendered basis. Therefore, in accordance with the Final Implementation Order, we direct PECO to modify the language in the proposed tariff to specify that customers will be billed for the DSIC on a bills rendered basis.

**Section 1355 – Commission Review**

Section 1355 provides that the Commission shall, after notice and opportunity to be heard, approve, modify or reject a utility’s proposed DSIC and initial tariff. The Bureau of Technical Utility Services has reviewed PECO’s proposed DSIC and proposed DSIC Tariff and has determined the filing contains all necessary items identified in Section 1353.

**DSIC SUMMARY**

We will approve the proposed DSIC calculation and tariff subject to the modifications consistent with this Order, including the following:

1. PECO modify the language in the proposed tariff to specify that customers will be billed for the DSIC on a bills rendered basis.

Section 1355 also states that the Commission shall hold evidentiary and public input hearings as necessary to review the petition. As noted above, OCA, OSBA, and PAIEUG have petitioned to intervene in PECO’s DSIC proceeding, and there were requests to hold evidentiary hearing on several aspects of the DSIC.

Accordingly, we will refer the matter of PECO proposing to apply the DSIC to all rate schedules, including transmission voltage rates, to the OALJ for hearing and recommended decision. We shall also refer the issue of whether revenues associated with riders in PECO’s tariff are properly included as distribution revenues. To the extent PECO elects to implement a DSIC mechanism prior to resolution of these matters, any recovery will be subject to refund or recoupment consistent with final determinations on these matters referred to OALJ.

We note the filings of OCA, OSBA, and PAIEUG. We conclude they have not articulated a basis for denying PECO the opportunity to implement a DSIC mechanism, consistent with our discussion above.

**CONCLUSION**

The Commission finds that the PECO Long-Term Infrastructure Improvement Plan and manner in which it was filed conforms to the requirements of Act 11 and our Final Implementation Order. The plan, as approved herein, is designed to maintain safe, adequate and reliable service and, as such, PECO shall be required to comply with the infrastructure replacement schedule and elements of that plan.

Furthermore, the Commission finds the Petition of PECO for a Distribution System Improvement Charge complies with the requirements of Act 11 and our Final Implementation Order. Moreover, the Commission has reviewed the filing and does not find it to be inconsistent with the applicable law or Commission policy. Subject to recoupment and/or refund pending final resolution of the matters referred herein to the OALJ, PECO may elect to implement a DSIC mechanism consistent with this order on ten days’ notice; **THEREFORE,**

**IT IS ORDERED:**

1. The Petition for Approval of Long-Term Infrastructure Improvement Plan (LTIIP) filed by PECO Energy Company is approved, consistent with this Order.

2. That the Petition for approval of a Distribution System Improvement Charge (DSIC) filed by PECO Energy Company is approved, consistent with this Order.

3. That PECO Energy Company shall file a tariff, consistent with this Order, on ten days’ notice to be effective January 1, 2016. Revenues collected pursuant to said tariff will be subject to refund and recoupment based on the Commission’s final resolution of the matters referred herein to the Office of Administrative Law Judge for hearing and recommended decision.

4. That the following issues be assigned to the Office of Administrative Law Judge for hearing and preparation of a recommended decision:

* 1. Whether customers taking service at transmission voltage rates should be included under the DSIC charge;
  2. If revenues associated with the riders in PECO’s tariff are properly included as distribution revenues;



**BY THE COMMISSION,**

Rosemary Chiavetta

Secretary

(SEAL)

ORDER ADOPTED: October 22, 2015

ORDER ENTERED: October 22, 2015

1. <http://www.legis.state.pa.us/WU01/LI/LI/US/HTM/2012/0/0011..HTM> [↑](#footnote-ref-1)
2. The CEMI index tracks the number of customers that have experienced more than a specified number of interruptions in a given period. PECO uses a CEMI index benchmark of four or more interruptions in a given year. [↑](#footnote-ref-2)
3. Unit Substations are small, single transformer, substations [↑](#footnote-ref-3)
4. Main Stem cable supplies power at medium voltage through conduits to underground distribution transformers and secondary wires as well as providing supply from some substations to aerial distribution circuits. URD cable is lower voltage distribution cable that is direct-buried primarily in suburban residential developments. [↑](#footnote-ref-4)
5. Building Substations are structures that typically contain multiple transformers that supply power to down-stream distribution facilities that serve large numbers of customers. Building Substations feed multiple overhead and underground distribution lines. [↑](#footnote-ref-5)
6. PECO’s Data Request Response Docket No P-2015-2471423 filed June 17, 2015 [↑](#footnote-ref-6)
7. [1] The Office of Consumer Advocate also has a pending appeal in Commonwealth Court against Little Washington Wastewater Company’s (LWWC) DSIC mechanism based on the Commission’s resolution of LWWC’s ADIT and calculation of the state income tax.  *See Petition of Little Washington Wastewater Company for Approval of a Distribution System Improvement Charge*, Docket No. P-2013-2366873 (Order entered July 24, 2014).  The Commission approved LWWC’s ADIT and state income tax calculation based upon its prior determination in the Columbia Gas DSIC proceeding.  *See* McCloskey v. Pa. PUC, 358 C.D. 2014. [↑](#footnote-ref-7)
8. “Bills rendered” bills are computed based on the effective tariff rate at the time of the bill. “Service-rendered” bills are prorated based on service rendered before and after a tariff rate change. [↑](#footnote-ref-8)