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September 17, 2018

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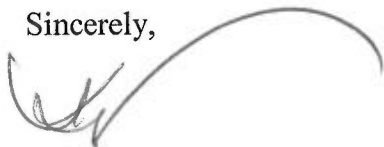
Rosemary Chiavetta, Secretary
PA Public Utility Commission
PO Box 3265
Harrisburg, PA 17105-3265

Re: Pennsylvania Public Utility Commission v. PECO Energy Company,
Docket Nos. R-2018-3000164

Dear Secretary Chiavetta:

Enclosed for electronic filing please find NRG Energy, Inc.'s Reply Brief with regard to the above-referenced matter. Copies to be served in accordance with the attached Certificate of Service.

Sincerely,



Karen O. Moury

KOM/lww
Enclosure

cc: Hon. Christopher P. Pell w/enc.
Hon. F. Joseph Brady w/enc.
Cert. of Service w/enc.

CERTIFICATE OF SERVICE

I hereby certify that this day I served a copy of NRG Energy's Reply Brief upon the persons listed below in the manner indicated in accordance with the requirements of 52 Pa. Code Section 1.54.

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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|--|---|----------------|
| Pennsylvania Public Utility Commission | : | R-2018-3000164 |
| Office of Consumer Advocate | : | C-2018-3001112 |
| Office of Small Business Advocate | : | C-2018-3001043 |
| | : | |
| v. | : | |
| | : | |
| PECO Energy Company | : | |

REPLY BRIEF OF NRG ENERGY, INC.

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I. INTRODUCTION AND PROCEDURAL HISTORY

A. Introduction

Throughout its Main Brief, PECO Energy Company (“PECO”) fails to acknowledge that it has the burden of proving in this base rate proceeding that each and every component of its proposed rate increase is just and reasonable and in the public interest. Ignoring its burden to prove the reasonableness of allocating *all* indirect costs to residential distribution service and *no* indirect costs to residential default service, PECO simply lodges criticisms against the reallocation proposal offered by NRG Energy, Inc. (“NRG”). While reasonable minds can certainly disagree about the proper methods that should be used to allocate indirect costs across different functions or segments of a business, PECO has failed to demonstrate that its approach of allocating *no* indirect costs to residential default service is reasonable or even remotely reflects cost causation principles.

Further, PECO has not shown that it is appropriate for a public utility to ignore fundamental accounting principles and standard business practices regarding the allocation of common/shared costs among different functions or segments of an organization. By their very nature, indirect costs cannot be tied to a particular function or segment of an organization and therefore must be allocated to the different parts of the business through the use of commonly-utilized allocation methods, such as those proposed by NRG. Notably, the Commission itself has developed a method for allocating its indirect costs that are not attributable to a certain industry group to electric generation suppliers (“EGSs”) and natural gas suppliers (“NGSs”) for purposes of imposing annual fees related to regulatory oversight.

As a result of PECO’s failure to allocate any indirect costs to residential default service, its current price to compare (“PTC”) includes zero information technology (“IT”) costs, zero regulatory commission costs and zero consumer education costs. Yet, PECO has made no

attempt to explain how it runs a business that is projected to sell 8.6 billion kilowatt hours (“kWh”) of electricity to over one million residential default service customers and collect over \$637 million in annual default service revenue without incurring any IT, regulatory commission or consumer education costs. Likewise, PECO has made no effort to explain how it incurs only \$118,314 in administrative costs to run a massive default service business for a quarter, particularly when its total administrative and general (“A&G”) costs for the Fully Projected Future Test Year (“FPFTY”) 2019 are over \$136 million. Similarly, PECO has offered no explanation for its current PTC reflecting *negative* A&G expenses related to default service.

As explained by Chris Peterson, a forensic accountant and NRG’s expert witness in this case, no universal approach exists for allocating indirect costs among different functions or segments of a business. Nonetheless, widely accepted accounting principles dictate that such costs be allocated in some reasonable manner to the separate units of a business. Even if the percent of customers and amount of revenues that were relied upon by Mr. Peterson do not produce perfect results, they are commonly-utilized allocators that are used across a variety of industries, and the data that is necessary to use these methods is available in this proceeding. Moreover, it is well-settled that cost allocation is not an exact science but rather seeks to align costs with their causes. Importantly, regardless of what the most ideal allocation approach might be, some reasonable level of indirect costs must be allocated to residential default service. Simply stated, the answer is not zero.

In an attempt to divert the Commission away from these widely accepted accounting principles that warrant the allocation of a reasonable level of indirect costs to residential default service, PECO has concocted an “avoided cost” rationale for allocating all such costs to residential distribution service. In particular, PECO argues that it would incur the same indirect costs for the residential classes even if no customers remained on default service. Aside from

being irrational, this position is not consistent with cost causation principles that are relied upon for ratemaking purposes. By contrast, using commonly utilized allocators to assign some level of indirect costs to residential default service makes an effort at recovering costs from the sources that caused them.

PECO also improperly speculates about a scenario under which a greater percent of customers choose to receive generation service from an EGS in the future than do so today. Under that hypothetical situation that has no basis in the record, PECO suggests that it would not recover some portion of the indirect costs that would be reallocated to default service if NRG's proposal is implemented. This argument ignores the reality that PECO adjusts its PTC on a quarterly basis and could increase it as necessary to recover the reallocated indirect costs. Further, as NRG's witness explained and PECO's witness confirmed, PECO's shopping numbers have been relatively stable for the past five years. In any event, nothing would prevent PECO from later proposing modifications to the allocated amounts if the circumstances would materially change. For instance, PECO would have an opportunity in a future distribution rate proceeding to propose an alternative allocation approach or seek approval for a different recovery mechanism, such as an automatic adjustment clause. In short, the possibility of the current and historical shopping situation changing in the future is not a reason to forego fixing the illogical approach that is being followed by PECO today through its allocation of all indirect costs to residential distribution service.

Clinging to the notion that it is somehow proper to allocate all indirect costs to one function (distribution service) and allocate no indirect costs to another separate and distinct function (default service), PECO inexplicably takes the view that these two functions are the same. Rather than acknowledging the clear distinction between the services that are provided, PECO categorizes its customers into two buckets – distribution customers and distribution

customers who receive default service. Regardless of the semantics that are used, there is no mistaking the fact that PECO performs significant additional services for distribution customers who receive default service than it does for customers who shop for their supply. Without the services that PECO performs for non-shopping customers, no electricity would even be available to deliver to them. Clearly, the Commission treats default service as its own separate function through requiring electric distribution companies (“EDCs”) to submit default service plans and imposing the obligation on EDCs to serve in the default service provider role. PECO’s position that default service is not a separate function from distribution service is simply wrong and must be disregarded.

Because PECO recognizes no difference between providing distribution service and furnishing default service, it does not agree with NRG’s perspective that its indirect costs should be allocated in a way that resembles how they would look if it operated a functionally separate division. However, this is exactly what the Office of Consumer Advocate (“OCA”) argued in 1997, and the notion with which the Commission agreed, in PECO’s restructuring proceeding. PECO’s claims that those sentiments are not as valid today as they were twenty years ago have no basis, given the separate and distinct nature of the distribution and default service functions. Indeed, the Commission has continued to press for further unbundling of commodity costs from distribution rates through issuance of its Policy Statement in 2007 and during the electric retail markets investigation in 2013.

PECO further contends that NRG should have identified specific indirect costs associated with default service. In making this argument, PECO overlooks the fact that shared or common costs by their nature cannot be directly attributed to a certain function of business unit. Also, PECO’s assertion neglects the reality that it has the burden in this rate case of showing the justness and reasonableness of allocating all indirect costs to residential distribution service. It

was not incumbent upon NRG to determine what costs PECO incurs in each of these areas to provide default service or to propose a perfect allocation method. Rather, it was sufficient for NRG to show that an adjustment is needed to the way in which PECO is allocating indirect costs and to offer a reasonable approach for reallocating such costs. NRG has done exactly that, and it is now up to the Commission to begin to rectify PECO's misallocation of indirect costs, by requiring PECO to reallocate a reasonable level of indirect costs from residential distribution service to residential default service.

Through adoption of NRG's proposed approach for remedying the current situation, the Commission would be ensuring that PECO's residential distribution charges more closely reflect the costs to provide residential distribution service and that PECO's PTC more accurately reflects the costs to provide residential default service. In this manner, the Commission would put an end to shopping customers over paying for distribution charges, thereby subsidizing default service customers. The Commission would also ensure that customers have a more meaningful opportunity to compare prices charged by PECO for default supply service and prices offered by EGSs for competitive supply service. The reallocations proposed by NRG, along with the commensurate reductions to distribution charges and increases to the PTC, would begin to rectify PECO's misallocation of costs to residential distribution service, improve the functioning of the competitive market and be in the public interest.

B. Procedural History

NRG incorporates by reference the Procedural History in its Main Brief ("MB").¹ This Reply Brief is submitted pursuant to the Corrected Briefing Order dated August 28, 2018 to respond to arguments set forth in the Main Briefs of PECO and OCA.²

¹ NRG MB at 4-5.

² Where OCA's arguments mirror those made by PECO, NRG's responses herein are applicable to both regardless of whether attribution is given to OCA.

In PECO's Procedural History, it improperly characterizes NRG's proposal as seeking to "reallocate over \$100 million in distribution system costs to residential distribution customers receiving default service."³ As explained by NRG's witness, these costs are not "distribution system costs" but rather are indirect costs incurred by PECO to run both its distribution and default service businesses. NRG St. No. 1-SR (Rev) at 33-34. As such, they need to be properly allocated between those two distinct segments of PECO's operations. Also, residential distribution customers receiving default service are actually residential default service customers, regardless of the semantics that are used.

II. STATEMENT OF THE CASE

NRG refers to and hereby incorporates Section I, Introduction and Procedural History, of its Main Brief for the Statement of the Case.⁴ With respect to PECO's characterization of NRG's proposal in the Statement of the Case in its Main Brief to allocate over \$100 million in "distribution system costs," NRG references its discussion in the Introduction and Procedural History Section of this Reply Brief.⁵ In short, since these costs also support default service, PECO is mischaracterizing these costs as "distribution system costs." NRG St. No. 1-SR (Rev) at 33.

As to the Joint Petition for Partial Settlement ("Settlement"), the adoption of NRG's proposals here would not undermine the agreement of the signatories of the Settlement. Importantly, PECO would still be permitted to recover the same amount from residential customers as provided for in the Settlement. It would simply recover an appropriate portion of those dollars through the PTC for default service rather than through distribution charges. Therefore, the Commission should not allow the Settlement to dissuade it from taking necessary

³ PECO MB at 2.

⁴ NRG MB at 1-5.

⁵ NRG RB at 6

steps to correct PECO's misallocations of indirect costs, which result in residential distribution charges that are too high and a PTC for residential default service that is too low, thereby depriving consumers of the opportunity to make price comparisons on a uniform basis and interfering with the functioning of the competitive market.

III. SUMMARY OF ARGUMENT

As its Summary of Argument, NRG incorporates by reference the Summary of Argument in its Main Brief⁶ and its Introduction and Procedural History in this Reply Brief.⁷

IV. ARGUMENT

A. OVERVIEW OF NRG PROPOSAL

In this base rate proceeding, NRG proposes an adjustment to PECO's cost allocations so that a reasonable portion of indirect costs incurred to serve residential customers is reallocated from residential distribution service to residential default service. This modification is necessary to begin to rectify the illogical approach used by PECO through which it allocates 100 percent of its indirect costs associated with serving the residential classes to residential distribution service.

By directing PECO to allocate a reasonable portion of indirect costs to residential default service, consistent with widely accepted accounting principles and standard business practices across a variety of industries, the Commission would ensure that PECO's distribution charges more accurately reflect the costs of providing residential distribution service. Further, as required by the Commission's regulations, these costs would instead be recovered through PECO's PTC for default service.⁸ In this manner, consumers would have an opportunity to more meaningfully compare on a uniform basis the prices charged by PECO for default generation service with the prices offered by EGSs for competitive generation service. Through directing

⁶ NRG MB at 5-8.

⁷ NRG RB at 1-6.

⁸ For a more complete description of NRG's proposal, please refer to Section I (Introduction and Procedural History) and Section IV.C. (NRG Proposal to Reallocate Costs) of its Main Brief. NRG MB at 1-3, 20-66.

the implementation of NRG's proposals, the Commission would reduce the subsidization of distribution service by default service customers and improve the overall functioning of the electric retail competitive market.

PECO contends that NRG's witness simply selected "various distribution expenses" for reallocation.⁹ This assertion overlooks the fact that the specific expenses reviewed for reallocation by Mr. Peterson consisted of the entire pool of indirect costs – not expenses that he arbitrarily selected to review. NRG St. No. 1 at 15-18. Further, following a review of the entire pool of indirect costs, Mr. Peterson explained why he did not propose to reallocate about half of those expenses from residential distribution service to residential default service. NRG St. No. 1 at 19-23.

PECO also points to Mr. Peterson's testimony indicating that he was not aware of any other United States utility that allocates indirect expenses to default service.¹⁰ It is immaterial that Mr. Peterson did not identify another utility that allocates indirect costs to default service. As he noted, Pennsylvania is a national leader for electric choice, so it is not surprising that other states have yet to proceed in this manner. NRG St. No. 1-SR (Rev) at 20-21. What is significant is that various other industries with which Mr. Peterson has extensive experience routinely allocate indirect costs across all different segments or units of their businesses – a fact that was not refuted by PECO's witness. NRG St. No. 1-SR (Rev) at 20. Nothing about being a public utility shields PECO from following this practice, and in fact PECO does allocate indirect costs among different functions and rate classes. It simply stops short of carrying this practice through to distribution service and default service within the residential classes. NRG St. No. 1-SR (Rev) at 24.

⁹ PECO MB at 4.

¹⁰ PECO MB at 5.

PECO further argues that Mr. Peterson did not determine whether the costs he proposed to allocate to default service were actually associated with any default service functions performed by PECO employees.¹¹ However, this argument overlooks the fact that the very nature of indirect costs is that they cannot be attributed to a particular source. As explained by Mr. Peterson, it is illogical to allocate all indirect costs to one segment of a business while allocating none to another separate and distinct side of the business. NRG St. No. 1-SR (Rev) at 20.

PECO and OCA also note that Mr. Peterson did not calculate the costs that PECO would incur if it did not provide default service – or PECO’s avoidable costs.¹² However, it was not up to Mr. Peterson to calculate the costs that PECO would incur if it did not provide default service. Rather, Mr. Peterson highlighted the flaws in PECO’s method of allocating all indirect costs to residential distribution service and described an approach that is commonly used by businesses in allocating shared costs among different segments of its operations. Moreover, for purposes of cost allocation and ratemaking, the Commission does not consider what costs would be avoided if a utility did not perform certain functions. This avoided cost theory is reserved for other specific situations, such as contracts entered into under the Public Utility Regulatory Policies Act of 1978 (“PURPA”).¹³

Further, PECO contends that Mr. Peterson’s study did not consider the effect of a fifteen percent increase in the PTC for default service on shopping.¹⁴ Again, it was not necessary for Mr. Peterson to consider the effect on shopping of a fifteen percent increase in the PTC for default service. Indeed, however, Mr. Peterson did discuss the effect of a fifteen percent increase in the PTC in terms of: (i) enabling customers to make meaningful price comparisons between

¹¹ PECO MB at 5.

¹² PECO MB at 5.

¹³ 16 U.S.C.S. § 796(18)(A). Additional details are provided in Section IV.C.2. of this Reply Brief.

¹⁴ PECO MB at 4-6.

PECO's PTC and offers made by EGSs; (ii) ensuring that shopping customers are not paying more than their fair share for distribution service, effectively subsidizing default service customers; and (iii) promoting the development of the competitive retail electric market. NRG St. No. 1 at 34. Additionally, Mr. Peterson explained that his proposal is appropriate given the number of shopping customers today, but that if that changes in the future, PECO would be free to propose modifications. NRG St. No. 1 at 31. The intent of NRG's proposal is not to deprive PECO of recovering the costs it incurs to serve residential customers, but rather to ensure that PECO is recovering costs through the appropriate recovery mechanisms, as required by the Commission's regulations.

B. PECO'S PROVISION OF DEFAULT SERVICE AND APPLICABLE LAW¹⁵

Since the implementation of the Competition Act by the Commission, customers may receive electric generation supply from an EGS they choose in the competitive retail market. If they do not select an EGS, they receive such supply from the default service provider, which is currently the incumbent EDC in the respective service territory. When customers receive their generation supply from the default service provider, it is called default service. Currently, PECO serves as the default service provider for its customers who do not select EGSs to supply their generation service.¹⁶ Default service providers are required to provide this electric generation supply service under a Commission-approved competitive procurement process.¹⁷ The rate that customers pay the EDC for the default service is called the PTC.

The Commission's regulations establish requirements for the design of default service rates and the recovery of reasonable costs. Specifically, they require the PTC to "be designed to

¹⁵ NRG incorporates by reference its Main Brief addressing PECO's default service obligations. NRG MB at 12-16.

¹⁶ See 52 Pa. Code §§ 54.182.

¹⁷ See 52 Pa. Code §§ 54.184-54.186, 54.188.

recover all default service costs, including generation, transmission and other default service cost elements, incurred in serving the average member of a customer class.”¹⁸ The regulations further prohibit an EDC from recovering default service costs through the distribution rate. The Commission’s rules also provide that when costs are reallocated from the distribution rate to the default service rate, they may not be recovered through the distribution rate. Rather, the regulations mandate that “[t]he distribution rate shall be reduced to reflect costs reallocated to the default service rate.”¹⁹

The Commission clarified this requirement through its Default Service and Retail Electric Markets-Statement of Policy on May 10, 2007 (“Policy Statement”) adopted on May 10, 2007, which addresses various elements of the default service regulatory framework, including default service program terms, electric generation supply procurement and competitive bid solicitation process.²⁰ Specifically, the Policy Statement lists the default service cost elements that should be included in the PTC.²¹ In adopting the Policy Statement, the Commission indicated that while “utility rates were unbundled into transmission, distribution and generation components as part of the restructuring process, there is a significant concern on the part of the Commission and others that some generation costs have been improperly allocated, or ‘embedded’ in EDC distribution rates.”²²

The elements that the Commission expects to see recovered through the PTC entail the costs for providing generation service, such as wholesale energy, capacity, ancillary, transmission and congestion costs, as well as applicable taxes and costs for alternative energy portfolio standard compliance. They also include supply management costs (i.e., bidding,

¹⁸ 52 Pa. Code § 54.187(e)(emphasis supplied).

¹⁹ 52 Pa. Code § 54.187(e).

²⁰ 52 Pa. Code §§ 69.1801-69.1817.

²¹ 52 Pa. Code § 69.1808.

²² *Default Service and Retail Electric Markets, Docket No. M-00072009 (Final Policy Statement entered May 10, 2007), 37 Pa. B. 5019, at 8-9.*

contracting, hedging, scheduling and forecasting services), and A&G expenses related to those activities. In addition, the Policy Statement identifies several administrative costs for inclusion in the PTC, including billing, collection, education, regulatory, litigation, tariff filings, working capital, information system, and associated A&G expenses related to default service.²³

PECO argues that it recovers default service administrative costs through the PTC, along with working capital, IT costs, and regulatory and litigation costs associated with its default service plans.²⁴ However, as shown by NRG during this proceeding, the entire administrative costs recovered through the PTC during the current quarter is \$118,314, or less than 1 percent of the forecasted annual A&G costs of over \$136 million for the residential rate class. NRG St. No. 1-SR (Rev) at 8. Astonishingly, although the Policy Statement identifies A&G expenses related to default service as needing to be included in the PTC, PECO's current PTC reflects *negative* A&G expenses related to default service. NRG Exhibit CP-20 (Rev). Moreover, PECO's current PTC includes no IT costs,²⁵ no regulatory costs and includes only litigation costs associated with its default service plans. NRG Exhibit CP-20 (Rev). However, PECO filed comments opposing NRG's Petition to Implement Supplier Consolidated Billing and participated in the Commission's *en banc* proceeding that is examining SCB.²⁶ As SCB is being proposed by EGSs as a retail market enhancement, PECO's opposition is designed to prevent further growth of the competitive market so that it continues to serve two-thirds of its default service customers. This is just one example of resources devoted by PECO to issues "related to default service" that

²³ 52 Pa. Code § 69.1808(a).

²⁴ PECO MB at 8.

²⁵ PECO claims that the cost of the information technology necessary to generate wholesale supplier invoices was included in the PTC and recovered from default service customers. PECO MB at 9, fn 34. Mr. Cohn's testimony was that the functionality for this process was recovered through the PTC. Tr. 440. The fact remains, however, that the current PTC includes no IT costs. Tr. 446.

²⁶ *Petition of NRG Energy, Inc. for Implementation of Electric Generation Supplier Consolidated Billing*, Docket No. P-2016-2579249 (PECO Comments and Answer filed January 23, 2017); *Notice of En Banc Hearing on Implementation of Supplier Consolidated Billing*; Docket No. M-2018-2645254 (PECO Comments filed on May 4, 2018; PECO Reply Comments filed on August 24, 2018; Transcript of July 12, 2018 hearing at 145-153).

are not reflected in the PTC because PECO allocates all indirect expenses to distribution service. Clearly, PECO's PTC fails to include many indirect costs identified in the Commission's 2007 Policy Statement, given that several PTC components are either zero or negligible amounts.

As to the reference to the annual audit of its PTC, PECO relies on Section 54.187(e) and (f) and implies that this audit ensures that PECO is not recovering costs of default service in distribution rates.²⁷ However, nothing in those provisions even mentions an audit of the PTC. Rather, Section 54.187(e) sets forth the requirement for the PTC to be designed to recover all default service costs, including generation, transmission and "other default service cost elements" and prohibits an EDC from recovering default service costs through the distribution rate.²⁸ And, Section 54.187(f) mandates the use of an automatic adjustment clause, which is subject to audit and annual review, for the recovery of reasonable costs incurred through compliance with the Alternative Energy Portfolio Standards Act, 73 P.S. §§ 1648.1-1648.8.²⁹ Moreover, the annual audit that is conducted pursuant to Section 1307(d) of the Public Utility Code is limited to enabling the Commission to "determine the propriety and correctness of amounts billed and collected," meaning that the auditors are only verifying that PECO has billed and collected the amount authorized by the Commission.³⁰ Nothing about that audit ensures that PECO is recovering default service costs through the PTC.³¹ Indeed, the Commission has stressed the need to examine EDC rates during distribution rate proceedings to ensure that

²⁷ PECO MB at 8.

²⁸ 52 Pa. Code § 54.187(e).

²⁹ 52 Pa. Code § 54.187(f).

³⁰ 66 Pa.C.S. § 1307(d).

³¹ *See, e.g., A Report on the Statements of Price to Compare Default Service Rate and Hourly Pricing Default Service Rate, (Over)/Under Collections for the Twelve Month Periods Ended May 31, 2013 and May 31, 2012, Docket No. D-2013-2380684 (Report Date: November 10, 2014).*

default service costs are not embedded in those rates,³² and the regulations require EDCs to reallocate such costs to the PTC while reducing the distribution rate.³³

With respect to PECO's discussion about the Energy Acquisition ("EA") team, which interacts with wholesale electric markets, electric and gas choice coordination responsibilities, payments and associated accounting for PECO natural gas supply, transportation, and storage contracts, and wholesale default supply purchase agreements, it supports NRG's position that insufficient costs are allocated to the PTC. Specifically, despite acknowledging that the largest group within the EA team supports electric and gas customer choice, PECO notes that all of the costs for this team are included in distribution rates.³⁴ Clearly, to the extent that the EA team is supporting electric and gas customer choice and engaging in activities related to the procurement of supply for default service customers, some level of the costs should be recovered through the PTC. Since the EA team is indeed performing these functions and these direct costs are not included in the PTC, PECO's PTC is artificially lower than shown by NRG in this proceeding.

C. NRG Proposal to Reallocate Costs

1. Qualifications of Mr. Peterson³⁵

As a court-appointed expert witness in forensic accounting, Mr. Peterson is fully qualified to opine on PECO's allocation of indirect costs wholly to residential distribution service when it operates an entirely different business of providing default service to residential customers, and to propose a method for allocating such costs to residential default service. Mr.

³² The 2007 Policy Statement expressly states that "EDC rates should be scrutinized for any generation related costs that remain embedded in distribution rates." 52 Pa. Code § 69.1808. *See also Investigation of Pennsylvania's Retail Electricity Market: End State of Default Service*, Docket No. I-2011-2237952 (Order entered February 15, 2013) ("*RMI End State Order*") at 21 (the Commission noted its agreement with the concept of further unbundling of commodity costs from distribution rates and that it has strived to address these issues as they have arisen in distribution rate cases).

³³ 52 Pa. Code § 54.187(e).

³⁴ PECO MB at 9.

³⁵ NRG incorporates by reference its Main Brief addressing the qualifications of Mr. Peterson, in Section C.1. NRG MB at 20-27.

Peterson has extensive experience and background on issues relating to the proper allocation of indirect costs to different segments of a business. His testimony as an expert witness in several proceedings covered reports on fraud and forensic accounting examinations, internal audit investigations, and opinions on various accounting and auditing principles, standards and practices. NRG St. No. 1 at 3; NRG Exhibit CP-2. Further, Mr. Peterson has done many cost allocations for many different companies across a wide variety of industries. As he explained, “[c]ost allocation studies are for an accountant the equivalent of a carpenter using a saw.” Tr. 510.

PECO does not challenge Mr. Peterson’s expert witness status as a forensic account. Rather, PECO refers to his limited experience with public utility ratemaking.³⁶ Since Mr. Peterson’s testimony was offered to demonstrate the way that businesses allocate common or shared costs, on the basis of widely accepted accounting principles and using commonly utilized allocators, it is not necessary for him to have prior experience with public utility ratemaking. Importantly, nothing about being a public utility shields PECO from following widely accepted accounting practices in the allocation of indirect costs to different functions of its business. It is immaterial whether Mr. Peterson is aware of the standard practice of utilities in allocating indirect costs since he relied on his expertise with a wide variety of industries that routinely allocate common or shared costs across multiple functions or segments of their businesses.

As to Mr. Peterson’s reliance on counsel to provide background on the default service regulatory framework, the Commission’s statements on unbundling and the Commission’s order in PECO’s restructuring proceeding,³⁷ it is customary in Commission practice for expert witnesses to gain knowledge about the underlying legal principles from counsel. While it is not

³⁶ PECO MB at 10-11.

³⁷ *Application of PECO Energy Company for Approval of its Restructuring Plan Under Section 2806 of the Public Utility Code*, Docket No. R-00973953 (Order entered December 23, 1997) (“1997 Restructuring Order”).

even necessary to rely on Mr. Peterson's testimony for those principles, they were included in his testimony to provide a backdrop for the reader so that his recommendations regarding proper cost allocation would not be set forth in a vacuum. It is insignificant that Mr. Peterson could not, sitting on the stand, recall the details of the Standard Offer Program or PECO's proposals relating to microgrids and prepaid electric service. Rather, Mr. Peterson appropriately referred to those items in his testimony to explain why PECO's inclusion in the PTC of no regulatory and limited litigation costs (i.e. only related to the default service plan) was inadequate. NRG St. No. 1-SR (Rev) at 9-10.

With respect to experience regarding advertising and branding, it does not require an expert witness on those topics to identify messages that are intended by PECO to strengthen its relationship with its distribution customers so that they also remain as or return to PECO as default service customers. The advertisements for PECO's EE&C program do just that. In any event, Mr. Peterson's testimony on these topics was limited to trying to understand why PECO might be motivated to include more costs in distribution rates. NRG St. No. 1-SR at 11-12.

It is noteworthy that Mr. Peterson did not hold himself out as an expert witness on all issues related to the base rate proceeding. Indeed, with the many nuances that are involved in utility ratemaking, no witness in this proceeding was presented in such a manner. Rather, each witness – each of whom testified at one point for the first time in a utility rate proceeding – focused on his or her area of expertise as it fits into the larger picture of the base rate case.

In summary, based on Mr. Peterson's education, as well as his professional and practical experiences, Mr. Peterson has a reasonable pretension to specialized knowledge related to cost allocation. Specifically, as a court-appointed expert witness in forensic accounting, Mr. Peterson is fully qualified to opine on PECO's allocation of indirect costs wholly to residential distribution service when it operates an entirely different business of providing default service to

residential customers. He has extensive experience performing cost allocation analysis for a variety of types of businesses, which fully qualifies him as an expert witness to address the proper allocation of indirect costs by PECO to different segments of its business.

2. NRG's Alternative Cost Allocation³⁸

a. PECO's Allocation Method is Flawed

It is well-settled that for ratemaking and cost allocation purposes, the Commission is primarily required to follow cost causation principles. Specifically, referring to the cost of providing service as the "polestar," the Commonwealth Court has made it clear that while other factors may be considered, they cannot be allowed to justify subsidization of one group of customers by another group.³⁹

Notwithstanding the emphasis on cost causation principles and the importance of avoiding cross-subsidization, PECO allocates all indirect costs assigned to the residential customer classes to residential distribution service, rather than using a reasonable allocation method to allocate these costs to both residential distribution service and residential default service. As a result, PECO's cost allocation analysis has fallen short of industry standards by terminating the process at the customer class level without considering the need to allocate indirect costs within the residential classes as they relate to the provision of distribution service and default service. PECO's approach is also a departure from the way that other businesses and organizations routinely allocate indirect costs to the entity's various segments or functions. NRG St. No. 1 at 18. Yet, nowhere in PECO's Main Brief does it explain why it is appropriate for it to ignore widely accepted accounting principles routinely followed by other entities.

³⁸ NRG incorporates by reference Section C.2. of its Main Brief. NRG MB at 27-62.

³⁹ See *Lloyd v. Pa. P.U.C.*, 904 A.2d 1010, 1020 (Pa. Cmwlth. 2006) ("*Lloyd*").

Notably, consistent with Section 510(b)(2), the Commission itself allocates indirect costs to the entities it regulates for purposes of recovering its regulatory expenses, on the basis of percent of revenues.⁴⁰ In fact, recently, when the Commission was authorized by the General Assembly to impose annual fees on EGSs and natural gas suppliers (“NGSs”), it determined to use a different allocation method than revenues and instead found that “a reasonable approach to allocating indirect costs to NGSs and EGSs is to base this allocation on the ratio of NGS/ESG costs to total Commission direct costs.”⁴¹ In arriving at this decision, the Commission recognized the need to allocate indirect costs related to the oversight of NGSs and EGSs in a manner that reflects the fact that staff spends time on supplier activities.⁴²

b. NRG’s Allocation Method Is Consistent with Cost Causation Principles

In contrast to PECO’s approach of ignoring indirect costs associated with providing default service, NRG’s proposed approach for allocating indirect costs is designed to more closely track the way that costs are incurred to run each portion of the business. NRG St. No. 1-SR at 17. Using PECO’s actual indirect expenses for specified cost categories that any business would need to incur and widely-accepted allocators to reallocate these shared or common costs across PECO’s two business lines, Mr. Peterson allocated these costs between distribution and default service.⁴³ As Mr. Peterson testified, “[t]o determine if costs should be allocated to certain business units, one only has to consider whether the business could sustain itself with its current cost structure if it were operated on a stand-alone basis. Clearly, PECO’s default service business could not operate for even a single day under its current cost structure if it were operated on a stand-alone basis.” NRG St. No. 1-SR (Rev) at 17.

⁴⁰ 66 Pa.C.S. § 510(b)(2).

⁴¹ *Implementation of Act 155 of 2014*, Docket No. M-2014-2448825 (Order entered April 24, 2015), at 5.

⁴² *Id.* at 5-6.

⁴³ OCA argues that Mr. Peterson allocates hypothetical costs and cites precedent prohibiting the Commission from including hypothetical expenses in the ratemaking process. OCA MB at 18. All of the costs reallocated by Mr. Peterson are actual indirect expenses included in PECO’s Class Cost of Service Study. NRG St. No. 1 at 15-30.

PECO contends that nothing in Mr. Peterson’s testimony demonstrates that his proposed allocators better reflect the actual causation of PECO’s costs of service described by Ms. Ding.⁴⁴ As Mr. Peterson discussed, however, Ms. Ding’s testimony explains only how expenses were functionalized, classified and allocated among rate classes. PECO Statement No. 6 at 14-25. Her testimony provides no explanation for why all indirect costs were assigned to distribution service within the residential rate class. Rather, Ms. Ding’s testimony is silent as to the rationale for ignoring the default side of the business during this functionalization, classification and allocation process. NRG St. No. 1-SR at 23.

PECO further maintains that Mr. Peterson’s allocation “reflected no assessment of the actual costs of PECO’s provision of default service.”⁴⁵ As Mr. Peterson explained, however, indirect costs are costs which cannot be identified with a particular service or product, including overhead costs, such as administrative and general expenses. NRG St. No. 1-SR (Rev) at 23-24. “While indirect costs cannot, by their nature, be attributed directly to certain aspects of PECO’s operation,” Mr. Peterson emphasized that “a reasonable level of administrative expenses are necessary to support any business’ operations.” NRG St. No. 1-SR (Rev) at 39.

PECO also criticizes Mr. Peterson for not seeking to determine whether the indirect costs he proposed to allocate were actually caused by any default service function.⁴⁶ Again, indirect costs – because they cannot be linked to a particular function – cannot be evaluated in that manner.⁴⁷ As Mr. Peterson testified, allocation of shared costs to different businesses or business units is not a novel concept. Companies consistently allocate indirect expenses across business units and cost centers. NRG St. No. 1-SR (Rev) at 23. Nonetheless, Mr. Peterson considered the

⁴⁴ PECO MB at 15.

⁴⁵ PECO MB at 13-14.

⁴⁶ PECO MB at 14.

⁴⁷ See *In re Actiq Sales & Mktg. Practices Litig.*, 2014 U.S. Dist. LEXIS 98441 (2014) (indirect costs are those that cannot be traced to a product in an economically feasible way but which are required to produce and sell a product.).

types of expenses he was reallocating from the perspective of whether they would be incurred to provide default service. Through that process, Mr. Peterson engaged in an in-depth analysis to confirm that these are exactly the types of costs that PECO would incur in providing default service. NRG St. No. 1 at 19-23.

Additionally, both PECO and OCA contend that Mr. Peterson has not calculated the costs that PECO would avoid if it stopped providing default service entirely.⁴⁸ However, the “avoided cost” theory is not used in Pennsylvania for ratemaking and cost allocation, which rely on cost causation principles.⁴⁹ Rather, the avoided costs approach has been used in Pennsylvania in directing public utilities to enter into agreements to purchase electrical power from their respective qualifying facilities under PURPA. Specifically, Congress required rates to be based upon what taxpayers would have paid if the utility produced power instead of a qualifying facility.⁵⁰ Under that law, the Commission had to determine whether contract costs were at or below full avoided cost.⁵¹ In short, the avoided cost theory is not applicable here.

Other arguments advanced by PECO focus on the specific allocators used by Mr. Peterson. For instance, PECO questions why nearly half of PECO’s employee salaries and pension expense and why two-thirds of its call center costs should be allocated to residential default service.⁵² These assertions overlook the important point that Mr. Peterson’s proposal is based upon, which is the need for PECO, under widely accepted principles of accounting, to allocate some level of indirect costs to residential default service. While reasonable minds can certainly disagree on the specific allocators that should be used, the fact remains that NRG’s witness proposed commonly utilized allocators and that this approach is far superior to PECO’s

⁴⁸ PECO MB at 5; OCA MB at 7.

⁴⁹ *See Lloyd*.

⁵⁰ *Pa. Elec. Co. v. Pa. P.U.C.*, 166 Pa. Commw. 413, 648 A.2d 63 (1994).

⁵¹ *GPU Indus. Intervenor v. Pa. P.U.C.*, 156 Pa. Commw. 626, 628 A.2d 1187 (1993).

⁵² PECO MB at 14-15.

method of simply ignoring the need to allocate indirect costs to residential default service. NRG St. No. 1-SR (Rev) at 28.

In discussing proper allocators, it is important to note that the construction of a cost of service study is not an exact science and there are no precisely right or wrong cost allocation methodologies. Cost allocation is a tool that is used in determining an appropriate rate design. Although cost of service is always an important and normally the primary basis of pricing, judgment and some assumptions must be made; cost of service studies are not perfect or precise.⁵³ In reviewing postal rates that are required to be based on cost-of-service principles, the United States Supreme Court observed that “[a]llocation of costs is not a matter for the slide-rule. It involves judgment on a myriad of facts. It has no claim to an exact science.”⁵⁴ Here, NRG’s witness exercised his judgment, based on extensive experience allocating costs, in an attempt to reasonably allocate the indirect costs to the separate distribution and default service functions in a way that is aligned with cost causation principles. By contrast, PECO’s allocation of all indirect costs to one segment of its business reflects no attempt to follow such principles.

Further, PECO speculates that if more customers shop, it would not fully recover its indirect costs, and claims that Mr. Peterson did not consider what might happen under his proposal at different levels of shopping.⁵⁵ It is true that Mr. Peterson did not consider the impact on shopping if NRG’s proposal is implemented. Tr. 499. He did, however, consider the positive effects of his proposal on the market through more accuracy in accounting for the costs of providing distribution and default service and in the ability of consumers to make meaningful comparisons on a uniform basis between PECO’s PTC and EGS offers. NRG St. No. 1 at 31-33. He also recognized that PECO may need to later adjust its PTC to reflect shifts in the number of

⁵³ *Nat’l Ass’n of Greeting Card Publr. v. USPS*, 462 U.S. 810 (1983).

⁵⁴ *Id.*, quoting *Colorado Interstate Co. v. FPC*, 324 U.S. 581, 589 (1945).

⁵⁵ PECO MB at 15.

shopping customers or propose modifications to the allocators in the future if changes occur in the level of shopping customers. NRG St. No. 1-SR (Rev) at 31. Importantly, NRG's proposal in this proceeding is not intended to deprive PECO of the opportunity to recover certain costs but is offered to ensure that PECO is recovering the costs through the appropriate mechanisms.⁵⁶

c. PECO's Allocations Should Resemble Costs That Would Be Incurred to Operate a Separate Default Service Division

Consistent with the approach taken by the Commission in PECO's 1997 restructuring proceeding, NRG proposes to reallocate indirect expenses in a way that more accurately reflects the costs that PECO incurs to support all of PECO's residential operations, including both default service and distribution service. As the Office of Consumer Advocate ("OCA") argued in 1997, and the Commission agreed, PECO's unbundling should produce results that resemble the way its costs would look if it operated a functionally separate default service division.⁵⁷ Similarly, here, Mr. Peterson opined that "PECO's expenses should be allocated in a way that resembles the costs that PECO would incur if it operated a separate default service division. PECO's expenses to operate such a division would necessarily include indirect costs of the type I am identifying in this testimony." NRG St. No. 1 at 18.

Observing that independent functions must be performed for each of these services, which are separate and distinct, Mr. Peterson explained that "both lines of the business necessarily must rely on shared or common services, such as information technology, regulatory costs and litigation costs. In order to ensure that each business line supports the costs that are

⁵⁶ It is noteworthy that the whole concept of using future test years and fully projected future test years for ratemaking purposes necessarily involves the use of projections, at least in part based on historical indicators. *See Implementation of Act 11 of 2012*, Docket No. M-2012-2293611 (Final Implementation Order entered August 2, 2012). Moreover, no guarantees occur during the ratemaking process; rather, the emphasis is on giving the utility an opportunity to earn a fair rate of return. *See Bluefield Waterworks & Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923).

⁵⁷ *1997 Restructuring Order* at 57-58.

incurred for these shared or common services, it is necessary to allocate these costs to both lines of the business.” NRG St. No. 1-SR (Rev) at 19-20.

Mr. Peterson further explained that a functionally separate default service division would necessarily incur costs associated with administrative salaries, office supplies, property insurance, regulatory commission fees and other A&G expenses. NRG St. No. 1 at 20. Similarly, the expenses that fall under the category of outside services employed within A&G expenses, including executive, financial, human resources, legal, real estate, etc., are all “common business expenses that are critical to day-to-day operations.” NRG St. No. 1 at 20-21. Mr. Peterson unequivocally concluded that “[i]f PECO had a separate division providing default service, it would necessarily incur costs in all of these areas.” NRG St. No. 1 at 21.

PECO takes issue with NRG’s position that its costs should be allocated in a way that resembles how they would be allocated if PECO operated a separate default service division. In opposing NRG’s views, PECO engages in semantics by explaining that PECO “is an EDC in the business of distributing electricity to its customers, and default service is for all distribution customers who have not chosen an EGS or whose EGS ceases to provide generation service to such customers.”⁵⁸

As noted by Mr. Peterson, however, the provision of distribution service and default service are wholly separate functions that should be treated as such for purposes of allocating common or shared costs. Distribution service involves the delivery of electricity to retail customers, while default service entails the provision of electric generation service to customers who have not chosen an EGS. NRG St. No. 1-SR (Rev) at 19. The Commission has similarly explained the differences in these functions as follows:⁵⁹

⁵⁸ PECO MB at 16.

⁵⁹ *Implementation of Act 129 of October 15, 2008; Default Service And Retail Electric Markets*, Docket No. L-2009-2095604, Final Rulemaking Order at 2 (Oct. 4, 2011) (emphasis added).

The Competition Act deregulated electricity generation and provided all customers in Pennsylvania with the opportunity to choose their electricity generation supplier (EGS). 66 Pa. C.S. 2806 (a). The EDC is responsible for delivering the electricity to those customers who choose to buy from an EGS. Additionally, the EDC is responsible for both acquiring and delivering electricity for those customers who do not shop or buy their electricity from an EGS or where an EGS fails to provide the promised electricity.

When an EDC acquires electricity for customers not served by an EGS, the EDC is functioning as the “default service provider” (DSP).

In addition, an EDC’s distribution rates are established in a general rate case proceeding, whereas its default service rates are established in a separate default service proceeding.⁶⁰

PECO also claims that reliance on the *1997 Restructuring Order* is misplaced because the business operations are very different now.⁶¹ While PECO generated and sold electricity at that time and now procures and sells electricity, that difference does not alter the fundamental concept endorsed by the Commission in 1997 that the generation side of the business would necessarily incur A&G expenses to operate and that PECO needs to at least consider whether any of these costs support its default service business. NRG St. No. 1-SR (Rev) at 19-20. It is also noteworthy that the Commission has continued since 1997 to express the need for further unbundling of commodity costs from distribution rates.⁶²

As to PECO’s claim that Mr. Peterson implicitly suggested that the Commission has neglected its policy of ensuring that default service costs are not included in distribution rates,⁶³ he implied nothing of the sort. Mr. Peterson’s testimony only indicated that PECO has not previously fully unbundled its rates. While the Commission approved prior distribution rates, it did so without the benefit of any party in the case highlighting the flaws in PECO’s approach that Mr. Peterson has exposed during this proceeding. NRG St. No. 1-SR (Rev) at 12-13.

⁶⁰ See 66 Pa.C.S. §§ 1308, 2807.

⁶¹ PECO MB at 17.

⁶² *Default Service and Retail Electric Markets*, Docket No. M-00072009 (Final Policy Statement entered May 10, 2007) at 8-9; 37 Pa. B. 5019; *Investigation of Pennsylvania’s Retail Electricity Market: End State of Default Service*, Docket No. I-2011-2237952 (Order entered February 15, 2013) at 21.

⁶³ PECO MB at 17.

PECO again argues that no other utility allocates indirect costs in the way proposed by Mr. Peterson and questions whether mandating the allocation of a reasonable level of indirect costs to residential default service would be responsible leadership by the Commission. PECO goes on to contend that “[a]llocating costs to default service that artificially inflate the PTC is fundamentally inconsistent with principles that properly should guide the development of a competitive retail electricity market.”⁶⁴ However, PECO does not identify what principles guiding the development of a competitive market would support a cost allocation approach that ignores widely accepted accounting practices for allocating indirect costs across different segments of a business’ operations. Rather than advocating for the Commission to “put a ‘thumb on the scale’ to drive the PTC” to an artificially high level, NRG is urging the Commission to demonstrate its leadership and commitment to the competitive market by adopting NRG’s proposals that seek to give consumers an opportunity to compare PECO’s PTC for default service to EGS offers for competitive generation service on a uniform basis.

D. Effects of NRG’s Proposal

As NRG explained in its Main Brief, reallocating expenses to default service would reduce the distribution charges paid by customers on their monthly bills. Using the FPPTY 2019, the average reduction to residential distribution charges would be .76 cents per kWh. This would result in an estimated reduction, on average, of \$5.41 per monthly bill or \$64.89 on an annual basis. NRG St. No. 1 at 39; NRG Exhibit CP-18.⁶⁵ This reduction would result in a fairer allocation between distribution service and default service. By lowering the distribution charges that are paid by both shopping and default service customers, shopping customers would no longer be subsidizing non-shopping customers through the payment of indirect expenses that are incurred by PECO in providing default service to those non-shopping customers.

⁶⁴ PECO MB at 18.

⁶⁵ NRG fully incorporates by reference Section IV.C.3. of its Main Brief, at 62-65.

Importantly, NRG is not proposing that PECO be denied recovery of the amount of \$101 million that Mr. Peterson has identified as being misallocated to distribution service. Rather, as he explained, “similar to the way that the riders were developed during the 2010 distribution rate case to capture the transmission service charges and the cash working capital requirements,” he proposed that PECO recover this amount through the PTC for default service. NRG St. No. 1 at 31. Specifically, Mr. Peterson recommended that PECO be directed to adjust its PTC at the next quarterly adjustment following the issuance of an order in this proceeding to reflect the reallocation of these costs from distribution service to default service.

The effect of this recommendation is to reallocate approximately \$101 million from residential distribution services to residential default service and increase PECO’s PTC for residential default service by 1.25 cents per kWh. This proposal is consistent with the Commission’s regulations requiring an EDC’s PTC to recover all default service costs that are incurred to serve customers.⁶⁶ Further, in prohibiting EDCs from recovering default service costs through the distribution rate, the Commission’s regulations require that costs recovered through the distribution rate be reallocated to the default service rate, with the distribution rate reduced accordingly.⁶⁷ Accordingly, Mr. Peterson opined that the 1.25 cent per kWh increase is also applicable to PECO’s current residential default service rate of 7.15 cents per kWh, which would rise by 14.9 percent to 8.40 cents per kWh. NRG St. No. 1 at 33-34.

The outcome of implementing these recommendations is that the information received by residential customers will allow for more meaningful comparisons between PECO’s PTC and the prices offered by EGSs. While the result will still not be a perfect apples-to-apples comparison, these adjustments would permit customers to compare prices and services on a more uniform

⁶⁶ 52 Pa. Code § 54.187(e) (emphasis supplied).

⁶⁷ 52 Pa. Code § 54.187(e).

basis and enhance their ability to make informed choices regarding the purchase of electricity services. NRG St. No. 1 at 7.

PECO argues if all customers decided to shop for electric generation service, it would not recover any of the expenses reallocated by default service if all customers decided to shop for electric generation service. Further, PECO criticizes Mr. Peterson for not considering the effects on shopping resulting from his cost allocation proposal.⁶⁸

As a threshold matter, it was not incumbent upon Mr. Peterson or NRG to figure out how PECO can ensure the recovery of costs that it incurs to provide distribution service. Importantly, it was up to PECO in the first instance to present cost allocation proposals and prove that they are just and reasonable. PECO has failed during this proceeding to carry its burden of proof to show that it is just and reasonable to allocate all indirect costs to residential distribution service while allocating no indirect costs to residential default service. NRG's burden, through Mr. Peterson, was to only present evidence tending to demonstrate the reasonableness of the adjustment. Given the widely accepted accounting principles and common business standards across a variety of industries, which were relied upon by Mr. Peterson, it is clear that PECO is departing from these practices through its decision to allocate all indirect costs to one segment of its business. Having demonstrated the shortcomings of PECO's proposal, Mr. Peterson used commonly utilized allocators to develop a reasonable approach for allocating a portion of its indirect costs to both segments of PECO's business. It is now up to PECO, if the Commission approves the reallocations proposed by NRG, to determine how to ensure that it recovers the indirect costs that have been reallocated.

In any event, the Commission should disregard PECO's speculation regarding the possibility in the future of a greater percent of customers choosing to receive generation service

⁶⁸ PECO MB at 19.

from an EGS than do so today. Under that hypothetical situation that has no basis in the record, PECO's suggestion that it would not recover some portion of the indirect costs that would be reallocated to default service ignores several realities. Initially, PECO is overlooking the fact that it adjusts its PTC on a quarterly basis and could increase it as necessary to recover the reallocated indirect costs. Further, as NRG's witness explained and PECO's witness confirmed, PECO's shopping numbers have been relatively stable for the past five years. NRG St. No. 1-SR (Rev) at 31; Tr. 457.

Moreover, nothing would prevent PECO from later proposing modifications to the allocated amounts if the circumstances would materially change. NRG St. No. 1-SR (Rev) at 31. For instance, PECO would have an opportunity in a future distribution rate proceeding to propose an alternative allocation approach or seek approval for a different recovery mechanism, such as an automatic adjustment clause. In short, the possibility of the current and historical shopping situation changing in the future is not a reason to forego fixing the illogical approach that is being followed by PECO today through its allocation of all indirect costs to residential distribution service.

E. Additional Issues

By way of response to PECO's assertions in this section of its Main Brief regarding its motivations to include all indirect expenses in distribution costs and its portrayal of itself as the dominant provider of generation service, NRG incorporates by reference its Main Brief, Section IV, C.1. at pages 26, footnote 5, and Section IV.C.2. at pages 34-35.

V. CONCLUSION

WHEREFORE, NRG Energy, Inc. respectfully requests that the Commission direct PECO Energy Company to reallocate its indirect expenses, to reflect the level of rate relief that is awarded in this proceeding, in the manner recommended by NRG in this proceeding.

Respectfully submitted,



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