

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

<b>Pennsylvania Public Utility Commission</b>	<b>:</b>	
<b>v.</b>	<b>:</b>	<b>Docket No. R-2018-3000164</b>
<b>PECO Energy Company—Electric Division</b>	<b>:</b>	

**SURREBUTTAL TESTIMONY OF**

**CLARENCE L. JOHNSON**

**ON BEHALF OF**

**OFFICE OF CONSUMER ADVOCATE**

August 8, 2018

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1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Clarence L. Johnson. My business address is 3707 Robinson Ave, Austin,  
4 Texas 78722.

5 **Q. ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS**  
6 **PROCEEDING?**

7 A. I am presenting testimony on behalf of the Pennsylvania Office of Consumer Advocate  
8 (“OCA”).

9 **Q. WHAT IS YOUR CURRENT EMPLOYMENT?**

10 A. I am self-employed as a consultant providing technical analysis, advice, and testimony  
11 regarding energy and utility regulatory issues.

12 **Q. ARE YOU THE SAME CLARENCE JOHNSON WHO PREVIOUSLY**  
13 **PROVIDED TESTIMONY IN THIS PROCEEDING?**

14 A. Yes.

15 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

16 A. My testimony will respond to Rebuttal Testimony presented by other parties on cost  
17 allocation and rate design issues pertaining to PECO’s (“Company”) base rate increase  
18 requested in this docket. In particular, I will rebut PECO witness Ding, PAIEUG witness  
19 Pollock, and Office of Small Business Advocate (OSBA) witness Kalcic.

20 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

- 1 A. This Surrebuttal Testimony encompasses the following recommendations:
- 2 • Secondary lines, poles, and underground facilities should be classified as demand-related.
  - 3 • Salaries associated with large customer account executives should be directly assigned to
  - 4 the GS, PD, HT, and EP classes.
  - 5 • Miscellaneous revenues should be allocated on a customer basis.
  - 6 • Rate R and Rate RH should be treated as a single customer class for cost allocation
  - 7 purposes.
  - 8 • Mr. Pollock’s proposed changes in the allocation of costs to the HT class should be
  - 9 denied.
  - 10 • The Company’s residential customer charge should be maintained at its current level.

11

12 **II. CLASSIFICATION OF SECONDARY SYSTEM**

13 **Q. PLEASE SUMMARIZE YOUR POSITION REGARDING THE COMPANY’S**

14 **CLASSIFICATION OF SECONDARY DISTRIBUTION LINES, POLES, AND**

15 **UNDERGROUND FACILITIES.**

16 A. I disagree with the Company’s classification of secondary distribution facilities (other

17 than transformers) as 100% customer-related. These facilities are designed to meet

18 maximum demand in the localized area, and should be classified as demand-related. As a

19 result of the customer classification, the smallest apartment dweller is allocated the same

20 amount of cost for secondary lines as a secondary voltage large commercial customer

21 who uses large quantities of power.

1 **Q. DO ANY WITNESSES PRESENT REBUTTAL TESTIMONY OPPOSING YOUR**  
2 **DEMAND CLASSIFICATION RECOMMENDATION?**

3 A. Yes. PECO witness, Ms. Ding; OSBA witness, Mr. Kalcic; and PAIEUG witness, Mr.  
4 Pollock, oppose my recommendation and support the Company's 100% customer  
5 classification of secondary voltage delivery facilities.

6 **Q. IS THERE A GENERAL PROBLEM WITH MS. DING'S CRITICISMS OF**  
7 **YOUR RECOMMENDED DEMAND CLASSIFICATION OF SECONDARY**  
8 **FACILITIES?**

9 A. Yes. She assumes that any factor affecting the incurrence of distribution infrastructure  
10 which is not fully demand-related must be customer-related. My Direct Testimony  
11 acknowledges that many factors affect the incurrence of distribution costs which are not  
12 completely caused by demand. The lists of factors can be quite long: geographic  
13 circumstance, topology, soil conditions, location of roads and highways, economies of  
14 scale, customer density, load forecasting uncertainty, safety standards, minimization of  
15 energy losses, corporate standards, etc. But it is incorrect to take the cost impacts of  
16 these factors and dump them in the bin of customer costs solely because they are not  
17 directly linked to demand. Ms. Ding has not demonstrated that the supposed non-demand  
18 costs actually vary in proportion to customer count.

19 Some of these factors, in my opinion, are closer to demand causation than  
20 customer causation. For example, economies of scale motivate a utility to install larger  
21 facilities, which will meet future load growth and reduce energy losses. Future load  
22 growth is related to demand, and reduction of energy losses benefits customers in

1 proportion to their demand and energy consumption. The Company’s argument treats  
2 customer allocation as the default method for any causal relationship that can’t be clearly  
3 defined. That approach is consistent with Dr. Bonbright’s concern that cost study analysts  
4 inappropriately use “the category of customer costs as a dumping ground for costs that he  
5 cannot plausibly impute to any of his other categories.”<sup>1</sup>

6  
7 **Q. PECO’S REBUTTAL TESTIMONY PROVIDES THE HYPOTHETICAL**  
8 **EXAMPLE OF TWO DEVELOPMENTS OF 50 CUSTOMERS AND 20**  
9 **CUSTOMERS, RESPECTIVELY, EACH WITH 100KW DEMAND. PECO**  
10 **WITNESS DING STATES THAT THE FIRST DEVELOPMENT WILL INCUR**  
11 **MORE TOTAL COST DUE TO RUNNING MORE LINES OVER A LARGER**  
12 **AREA WITH MORE CUSTOMERS. IS THIS A USEFUL EXAMPLE?**

13 A. No. The hypothetical does not contain enough information to determine whether  
14 secondary facilities for the first development will cost more and, if so, how much more.  
15 More importantly, a comparison of total costs or total mileage of infrastructure is less  
16 relevant to an analysis of the allocation method than the cost per customer or the length  
17 and size of conductor per customer. After all, the customer allocator is assigning costs on  
18 a per customer basis. And, one can easily envisage situations in which the costs per  
19 customer, as spread across a larger number of small usage customers, is lower for the  
20 aggregation of smaller customers than the smaller number of large customers. If the cost  
21 per customer is lower for the aggregation of small customers, then a customer allocation

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<sup>1</sup> Bonbright, James, *Principles of Public Utility Rates*, at 349, Columbia University Press, 1961.

1 factor will over-allocate costs to the small customers and under-allocate costs to the large  
2 customers. For example, if the total cost to the 50 customer development in Ms. Ding's  
3 hypothetical, is \$1,200, and the 20 customer development is assumed to be \$1,000, then  
4 the 50 customer development has a cost per customer of \$24 and the cost per customer of  
5 the 20 customer development is \$50. A customer allocator would allocate an average  
6 cost of approximately \$31 per customer<sup>2</sup> to each development—which, in this example,  
7 means that the customer allocator would over-allocate costs to the aggregation of more  
8 numerous smaller customers and under-allocate costs to the development consisting of  
9 fewer, but higher usage, customers.

10 **Q. PECO'S REBUTTAL TESTIMONY CLAIMS THAT YOU IGNORE COST**  
11 **DRIVERS LIKE LABOR INSTALLATION COSTS WHICH ARE MORE**  
12 **CLOSELY ALIGNED WITH CONDUCTOR CUSTOMER COSTS. DOES THIS**  
13 **ARGUMENT SUPPORT PECO'S SECONDARY CLASSIFICATION?**

14 A. No. Ms. Ding's testimony does not demonstrate that labor installation costs for  
15 secondary conductors justify a *100% customer classification*. During discovery, PECO  
16 stated that it does not have records of labor installation costs for the FERC accounts  
17 associated with secondary facilities.<sup>3</sup> Similarly, PECO could not provide labor  
18 installation costs associated with recently completed distribution delivery facilities.<sup>4</sup>  
19 Based upon my experience in other utility rate cases, I would expect labor installation

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<sup>2</sup> \$2,200 divided by 70 customers.

<sup>3</sup> PECO Response to OCA I-7.

<sup>4</sup> PECO Response to OCA X-1.

1 costs to comprise 20% - 50% of secondary delivery plant.<sup>5</sup> Even if one accepts the  
2 argument that labor installation rates can define the customer component of secondary  
3 plant, that implies that a significant percentage of PECO's lines, poles, and underground  
4 plant should have been classified as demand-related. If PECO had classified 50% of the  
5 secondary delivery system on a demand basis, the allocated revenue requirement for the  
6 combined residential class would be more than \$15 million less.

7 **Q. MS. DING STATES THAT THE COMPANY MUST BUILD FACILITIES TO**  
8 **SERVE CUSTOMERS REGARDLESS OF SPATIAL DISTRIBUTION, AND**  
9 **BECAUSE THE FACILITIES CONNECT SECONDARY CUSTOMERS**  
10 **TOGETHER AND TO THE PRIMARY SYSTEM, THE COSTS ARE**  
11 **CUSTOMER-RELATED. DO YOU AGREE?**

12 A. No. This is an example of the attempts to attribute customer causation to unallocable  
13 factors. Distribution utilities are awarded a monopoly to provide distribution service  
14 within a defined geographic area. The shape, size, and population distribution of the  
15 geographic area obviously influences the design of the system and the costs of installing  
16 facilities. These are circumstances inherent in the monopoly service area, and are not  
17 caused by customers. This is part of the "obligation to serve" which accompanies a  
18 monopoly franchise, not a customer cost. Customers who have no demand for electricity  
19 would have no need to be connected to the system. The presence of a customer creates a

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<sup>5</sup> The FirstEnergy Companies, for instance, reported a labor installation rate of 49% for secondary lines, and Connecticut Light & Power Co. reported a 29% labor installation rate secondary lines. See, First Energy Companies Base Rate Case, Docket Nos. R-2016-2537349, *et al.*, Direct Testimony of Clarence Johnson (July 22, 2016) at 23; Application of Connecticut Light & Power Co. to Amend Rate Schedules, Docket No. 14-05-06, Direct Testimony of Clarence Johnson (August 4, 2014) at 22.



1 demand which must be carried by the distribution system. The obligations of a monopoly  
2 utility do not equate to customer-related costs.

3 **Q. THE COMPANY’S REBUTTAL TESTIMONY CLAIMS THAT YOU ARE “NIT-**  
4 **PICKING” THE LACK OF CUSTOMER CORRELATION WITH**  
5 **DISTRIBUTION PLANT, BUT THAT YOU DO NOT SHOW THAT A DEMAND**  
6 **CORRELATION EXISTS. IS THIS A VALID BASIS FOR REJECTING YOUR**  
7 **RECOMMENDATION?**

8 A. No. The Company’s planning guidelines for installing secondary distribution facilities  
9 provide a direct causal relationship between customer demand and distribution costs. As  
10 discussed in my Direct Testimony, PECO’s distribution planners rely on forecasts of  
11 localized demand in order “to estimate the peak demand *to size the secondary lines*  
12 *required to serve each customer*” and if load growth causes the need for replacement or  
13 additional secondary facilities, “actual load readings or meter data are used *to determine*  
14 *secondary wire size.*”<sup>6</sup> [See, Schedule CJ-S-1] Ms. Ding’s Rebuttal Testimony can only  
15 point to number of customers as a proxy for secondary conductor lengths. Yet PECO has  
16 previously stated that “the concept of average length of conductors is not used in system  
17 design or planning” because the distribution system is operated as “an interconnected  
18 network.”<sup>7</sup> [Attached as Schedule CJ-S-2]

19 **Q. MR. POLLOCK STATES THAT SECONDARY LINES ARE NECESSARY FOR**  
20 **CUSTOMER ACCESS AND “INVESTMENTS THAT MUST BE MADE SOLELY**  
21 **TO ATTACH A CUSTOMER TO THE SYSTEM ARE CLEARLY CUSTOMER-**

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<sup>6</sup> PECO Response to OCA I-13 (emphasis added). [Attached as Schedule CJ-S-1]

<sup>7</sup> PECO 2010 Electric Base Rate Case, PECO Response to OCA I-16 [Attached as Schedule CJ-S-2]

1           **RELATED.” DOES THIS JUSTIFY A 100% CUSTOMER CLASSIFICATION**  
2           **FOR SECONDARY CONDUCTORS AND POLES?**

3    A.    No. Service lines, which are connected to the customer’s premises, are the only  
4           investment made solely to attach a customer to the system, and my testimony does not  
5           dispute the customer classification of service lines. Mr. Pollock’s claim that the  
6           presence of the customer causes secondary infrastructure investment is essentially the  
7           same “obligation to serve” argument which I responded to previously. Furthermore, I  
8           disagree with Mr. Pollock’s position that voltage support is a customer function. Voltage  
9           support is necessary for reliability and avoiding outages, which are demand-related  
10          functions. The Company’s conductor lengths must account for potential voltage drops in  
11          order to ensure that the lines are sized sufficiently to meet maximum demand.

12   **Q. MR. POLLOCK ATTACHES A SURVEY (EX. JP-1R) WHICH SHOWS**  
13   **CUSTOMER PERCENTAGES FOR UTILITIES THAT CLASSIFY A PORTION**  
14   **OF THE DISTRIBUTION SYSTEM AS CUSTOMER-RELATED. HE CLAIMS**  
15   **THAT PECO’S OVERALL PERCENTAGE IS AT THE LOW END OF THE**  
16   **RANGE. PLEASE COMMENT ON THIS SURVEY AND HIS CONCLUSION.**

17   A.    First, Mr. Pollock has not stated the source of the survey or who conducted the survey. I  
18          do not know if this purports to be a survey of all electric utilities which utilize customer  
19          classification methods or just a sample of those utilities. Second, the PECO customer  
20          percentage appears to be relatively low because the survey excludes electric utilities  
21          which classify all underground facilities, conductors, poles, and transformers as 100%  
22          demand-related. For example, since Mr. Pollock testifies extensively before the Texas

1 PUC, he must be aware that all nine investor-owned electric utilities in that state use a  
2 100% demand classification. Third, the survey does not show how many other electric  
3 utilities classify secondary delivery facilities as 100% customer-related, as PECO has  
4 done. Mr. Pollock's 22% customer percentage for PECO is a composite average for  
5 Primary and Secondary facilities. I concur with PECO's position that its primary  
6 facilities are planned for maximum demand, but disagree with the Company's claim that  
7 secondary facilities are 100% customer-related. By focusing on a composite percentage,  
8 Mr. Pollock ignores the actual issue in dispute.

9 **Q. MR. POLLOCK REFERENCES THE NARUC ELECTRIC UTILITY COST**  
10 **ALLOCATION MANUAL TO SUPPORT HIS POSITION. DID PECO FOLLOW**  
11 **THE NARUC MANUAL IN ITS DEVELOPMENT OF A 100% CUSTOMER**  
12 **CLASSIFICATION FOR SECONDARY FACILITIES?**

13 A. No. The NARUC Manual discusses methodologies for splitting distribution facilities  
14 between customer and demand components. The discussion includes methods such as  
15 the minimum size system and zero intercept regression analyses. PECO has not used a  
16 methodology to quantify demand and customer components of the secondary delivery  
17 system.

18 **Q. WHAT IS THE BASIS FOR MR. KALCIC'S OBJECTION TO YOUR**  
19 **RECOMMENDATION?**

20 A. Mr. Kalcic cites the 2012 Pennsylvania Power & Light Co. (PPL) rate case as the basis  
21 for his opinion. He states that he is advised that the PPL decision rejected 100% demand  
22 classification for Accounts 364-367. I cannot comment on the legal weight that should

1 be accorded the PPL decision as applied to the facts in this case. However, in my  
2 opinion, the facts and evidence in this proceeding support a demand classification of  
3 PECO's secondary delivery facilities. It is also noteworthy that two dissenting opinions  
4 (Commissioners Gardner and Cawley) in the PPL case found that evidence in that case  
5 supported the classification of Accounts 364-367 as 100% demand-related.  
6 Commissioner Cawley's dissenting statement refers to the 1999 NARUC Report which  
7 found that 30 states use the "basic customer method," classifying lines, poles, and  
8 transformers as demand-related and services and meters as customer-related. This is the  
9 same method that my testimony applies to PECO. Moreover, in this case, the Company  
10 has not attempted to quantify *any* demand percentage for the secondary Accounts 364-  
11 367, and Mr. Kalcic does not indicate why he believes the PPL decision justifies  
12 classifying secondary Accounts 354-367 as 100% customer-related.

13 **Q. AFTER REVIEWING THE REBUTTAL CRITICISM OF YOUR SECONDARY**  
14 **DISTRIBUTION CLASSIFICATION RECOMMENDATION, HAVE YOU**  
15 **CHANGED YOUR POSITION?**

16 A. No. I have responded to the rebuttal criticism of Ms. Ding, Mr. Kalcic, and Mr.  
17 Pollock. Classifying secondary Accounts 354-367 as 100% demand-related is reasonable  
18 and supported by the Company's distribution planning practices.

19  
20 **III. ALLOCATION OF LARGE CUSTOMER ACCOUNT MANAGERS**

1 **Q. HOW DOES YOUR CCROSS TREAT EXPENSES ASSOCIATED WITH**  
2 **ACCOUNT MANAGERS AND REPRESENTATIVES WHO SERVICE**  
3 **INDUSTRIAL AND LARGE COMMERCIAL ACCOUNTS?**

4 A. Because these account executives are dedicated to serving those customers, my  
5 recommendation is to directly assign the expenses to the GS, Primary, HT, and EP  
6 classes. Therefore, my analysis increased the allocation to capture the \$4.1 million  
7 expense (net of Pensions & Benefits) for GS, Primary, HT, ad EP classes, with a  
8 concomitant reduction in the allocation to the other classes.

9 **Q. DO ANY REBUTTAL WITNESSES DISAGREE WITH YOUR**  
10 **RECOMMENDATION?**

11 A. Yes. PECO witness Ms. Ding and PAIEUG witness Mr. Pollock object to my  
12 recommendation. Ms. Ding states that my recommendation incorrectly assumes that  
13 Accounts 903, 905, and 908 are allocated on a customer basis. Mr. Pollock does not  
14 appear to oppose my adjustment for large customer account executives, but contends that  
15 it should be accompanied by an adjustment to call center costs. According to his  
16 calculations, the two allocation changes would more or less offset each other.

17 **Q. MS. DING'S TESTIMONY STATES THAT YOUR CALCULATION**  
18 **ERRONEOUSLY USES THE CUSTOMER ALLOCATOR, INSTEAD OF**  
19 **WEIGHTED CUSTOMER ALLOCATORS, AS THE BASIS FOR THE**  
20 **CURRENT ALLOCATION OF THESE PERSONNEL COSTS. IS THIS**  
21 **CORRECT?**

1 A. No. I utilized the Customer Records & Collection allocator from the Company's CCOSS  
2 to reflect the existing allocation. This is a weighted customer allocation factor which the  
3 Company uses to allocate Account 903, as shown on her Ex. JD-17, page 184, line 17.  
4 The allocation factors shown there are identical to the percentages which can be  
5 calculated from the line "Customer Allocation" in my workpaper provided to the  
6 Company.<sup>8</sup> The allocation factors for Account 905 are almost the same as the factors  
7 applied to Account 903, as shown on Ex. JD-17, page 184, line 78. Because the  
8 difference in Account 903 and 905 allocators is minimal, using the Account 905 factors  
9 would not materially affect my adjustment.<sup>9</sup> Account 908 primarily relates to Low  
10 Income Usage Reduction Program and Act 129 Energy Efficiency programs, according to  
11 the Company's response to OCA 1-21.

12 **Q. MS. DING POINTS TO EX. JD-7, PAGE 9, LINE 6, WHICH SHOWS AN**  
13 **ASSIGNMENT OF CERTAIN ESO-RELATED COSTS TO THE PD AND HT**  
14 **CLASSES. DOES THIS CHANGE YOUR RECOMMENDATION?**

15 A. No. The referenced exhibit from her Direct Testimony shows the calculated customer  
16 weighting which produced the Customer Records & Collection allocation factor used for  
17 Account 903. Line 6 of that exhibit denotes that \$1.9 million of ESO expense is assigned  
18 to the two classes, but there is no indication that it is for the salaries of major account  
19 executives or sales representatives, nor does her Rebuttal Testimony claim that it is the  
20 same expense which my testimony addresses. Furthermore, the Company's response to

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<sup>8</sup> *Workpaper-Calculations Used For CCOS Adjustments.xlsx* The spreadsheet section is entitled "C&I Customer Support Personnel."

<sup>9</sup> PECO Response to OCA I-22 states that the CCOS amounts for this expense are not available by FERC account because the Company does not budget on the basis of FERC account.

1 OCA I-22 (e) [attached as Schedule CJ-S-3] states that the budgeted amount of personnel  
2 salaries devoted to large customers is \$5.2 million. This is the source amount for my  
3 adjustment, and it is much larger than the \$1.9 million ESO assignment shown in JD-7.  
4 Moreover, PECO witness Innocenzo states in his response to OCA I-22 that the General  
5 Service class includes large customers served by these personnel, and the ESO cost  
6 assignment on page 9 of JD-7 does not assign any cost to the GS class.

7 **Q. PLEASE EXPLAIN MR. POLLOCK’S POSITION REGARDING YOUR**  
8 **PROPOSED CHANGE TO THE ALLOCATION OF THESE SALARIES.**

9 A. Mr. Pollock’s criticism of my recommendation centers on what he alleges is a  
10 “piecemeal” change to the allocation of Account 903. He points out that large  
11 commercial and industrial customers do not use the PECO call center, and contends that a  
12 review of the Account 903 allocation should include the call center, as well as large  
13 customer account executives. Mr. Pollock develops a reallocation for call center costs,  
14 and opines that my recommendation should not be adopted unless the call center  
15 reallocation is also included.

16 **Q. DO YOU AGREE WITH MR. POLLOCK’S PROPOSAL TO PAIR HIS**  
17 **ADJUSTED ALLOCATION OF CALL CENTER COSTS WITH YOUR**  
18 **PROPOSED ASSIGNMENT OF LARGE CUSTOMER ACCOUNT EXECUTIVE**  
19 **SALARIES?**

20 A. No. First, the call center has no relationship to the salaries of large customer account  
21 executive salaries. There is no reason to tie my recommendation to his concerns  
22 regarding the allocation of call center costs. The assignment of the large customer

1 account executives salaries is independent of any proposals regarding allocation of  
2 PECO's call center. Second, any reassessment of the call center allocation should also  
3 consider the nature of the call center activities. A substantial portion of the calls pertain  
4 to emergencies, outage detection, and referrals to the energy efficiency program, which  
5 are reasonably allocated on a demand or energy basis. Third, Mr. Pollock's proposal for  
6 shifting call center costs to the residential and RH classes produces an illogical result.

7 **Q. PLEASE EXPLAIN WHY MR. POLLOCK'S REALLOCATION OF CALL**  
8 **CENTER COSTS IS ILLOGICAL.**

9 A. Mr. Pollock's Rebuttal Testimony does not explain the method he used to shift call center  
10 costs from the PD, HT, and EP classes to other customer classes. But the effect of his  
11 adjustment is to allocate 99.2% of call center costs to the residential classes. This  
12 compares to an 85% allocation based on the Customer Records & Collection factors used  
13 by the Company. It appears that this is due to Mr. Pollock's elimination of any call  
14 center allocation to the General Service class—even though many customers in this class  
15 utilize the call center. PECO identifies call center frequency by residential and  
16 commercial types of calls.<sup>10</sup> Gas and electric emergency calls are not identified as  
17 residential or commercial. Excluding these emergency calls, 89.6% of calls are identified  
18 as residential and 10.4% of calls are identified as commercial. Presumably, the  
19 commercial calls are produced by the General Service class. Thus, Mr. Pollock's  
20 reallocation assigns no call center expense to General Service, even though more than

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<sup>10</sup> The attachment to PECO response to OCA I-19(a) sets out the number of calls to the PECO call center by identified type.



1 10% of the calls are from those customers. His proposed adjustment to the call center  
2 allocation produces an unreasonable and illogical result, and should be rejected.

3 **Q. WHAT IS YOUR RECOMMENDATION?**

4 A. My recommended adjustment to the allocation of large customer account personnel costs  
5 should be adopted.

6  
7 **IV. ALLOCATION OF MISCELLANEOUS REVENUES**

8  
9 **Q. WHAT ARE THE REBUTTAL WITNESSES' POSITIONS ON YOUR**  
10 **PROPOSED CHANGE TO THE ALLOCATION OF MISCELLANEOUS**  
11 **REVENUES?**

12 A. After reviewing my testimony, PECO witness Ding agreed to change the  
13 Company CCOSS to allocate miscellaneous revenues based on customers, as  
14 recommended in my direct testimony. Ms. Ding states that the impact of this change is  
15 to reduce residential and RH revenue requirement by \$1.1 million. Mr. Pollock states  
16 that he opposes this revision, but in the "interest of brevity" he does not address the issue  
17 in his Rebuttal Testimony.

18 **Q. WHAT IS YOUR RECOMMENDATION?**

19 A. I continue to recommend the allocation of miscellaneous revenues based on customers  
20 because residential customers pay for almost all of the charges in this revenue category.

1 **V. COMBINING RATES R AND RH IN THE CCOSS**

2 **Q. DID ANY REBUTTAL WITNESSES OPPOSE YOUR RECOMMENDATION TO**  
3 **COMBINE THE RESIDENTIAL AND RESIDENTIAL HEATING CLASSES FOR**  
4 **PURPOSES OF THE CLASS COST OF SERVICE STUDY?**

5 A. Yes. PECO witness Ding filed Rebuttal Testimony opposing the recommendation.  
6 PAIEUG witness Pollock states that he opposes the recommendation, but does not  
7 address the issue for the same reason as the miscellaneous revenues issue above. Ms.  
8 Ding contends that combining Rate R and Rate RH produces a cross-subsidy between  
9 Rate R and Rate RH and between Rate RH and other customer classes.

10 **Q. DO YOU AGREE THAT THE RH CLASS IS SUBSIDIZED?**

11 A. This depends on one's definition of subsidy. I agree that Rate RH revenues are below  
12 cost, according to the class cost of service study—which probably is the basis for  
13 Ms.Ding's statement that residential heating customers are cross subsidized. However,  
14 this will continue to be the case with or without my proposed combining of the classes,  
15 because rate moderation is applied to class revenue increases. No party, including the  
16 Company, proposes to increase RH revenues to equal allocated costs. My proposal will  
17 treat the rate moderation determination for Rate RH as an intra-class matter, which means  
18 that the rate moderation for heating customers can be developed without affecting other  
19 classes. The impact of the combined class is analogous to the discount for higher voltage  
20 HT customers, which is also contained within the HT class and treated as an intra-class  
21 issue. Based on my CCOSS, Rate R produces revenues substantially above cost, and can

1 receive a below system average revenue increase while also permitting a moderation of  
2 the Rate RH revenue increase. In addition, by combining the R and RH classes, the  
3 demand allocator can reflect the reduction in demand costs associated with a larger class,  
4 which in turn reduces revenue requirements for both R and RH customers.

5 **Q. IS IT REASONABLE THAT COMBINING THE R AND RH CLASSES**  
6 **REDUCES THE TOTAL RESIDENTIAL DEMAND USED TO ALLOCATE**  
7 **COST?**

8 A. Yes. Maximum demand for the single class is less than the total maximum demand for  
9 two classes. As the number of customers in the class increase, the probability that the  
10 customers will all peak in the same hour decreases. For the R and RH customers, this  
11 characteristic is confirmed by the maximum diversified demand (MDD) data provided by  
12 the Company. Although Ms. Ding seemingly argues that the diversity of heating loads  
13 should not be reflected in the combined residential class maximum demand, this is  
14 exactly how the MDD allocation method is supposed to work. General Service and  
15 Primary classes already receive the allocation benefit of diversity from space heating  
16 loads within their classes. A combined residential class should receive the same diversity  
17 benefit.

18 **Q. WHAT IS YOUR RECOMMENDATION?**

19 A. Rate R and RH customers should be combined into a single residential class for purposes  
20 of cost allocation.

1 **VI. ALLOCATION TO HT CLASS**

2 **Q. DO ANY REBUTTAL WITNESSES ADDRESS MR. POLLOCK'S PROPOSED**  
3 **ALLOCATION CHANGES TO THE HT CLASS?**

4 A. Yes. PAIEUG witness Pollock's Direct Testimony proposes to separate the allocation of  
5 distribution costs refunctionalized from transmission and also reduces distribution  
6 substation costs allocated to the HT class. Mr. Pollock's Rebuttal Testimony sets out a  
7 revised CCOSS based on interrogatory responses provided by the Company since his  
8 direct testimony was filed, as well as a revised recommendation for revenue distribution.  
9 PECO witness Ding's Rebuttal Testimony opposes the HT allocation changes proposed  
10 by Mr. Pollock.

11 **Q. WHAT IS YOUR POSITION?**

12 A. I agree with Ms. Ding that the proposed allocation changes should be rejected.

13 **Q. CAN YOU DETERMINE HOW MUCH REVENUE REQUIREMENT IS**  
14 **SHIFTED FROM THE HT CLASS TO OTHER CUSTOMER CLASSES IF MR.**  
15 **POLLOCK'S DISTRIBUTION ALLOCATION TO THE HT CLASS IS**  
16 **ADOPTED?**

17 A. No. The testimony and exhibits show the subsidies at current rates based on Mr.  
18 Pollock's revised CCOSS, but the class revenue requirement at equalized rate of return is  
19 not shown. However, the impact on other classes appears to be substantial.

20 **Q. IS MR. POLLOCK'S PROPOSAL CONCEPTUALLY CONSISTENT?**

21 A. No. The transmission plant refunctionalized to distribution is mostly comprised of radial  
22 lines. As pointed out by Ms. Ding, the Company's high voltage customers are primarily

1 served by these radial lines. Mr. Pollock states that the refunctionalized radial lines  
2 should be allocated to all classes because “radial lines can serve a wide array of  
3 customers, not just customers taking service at transmission voltage.”<sup>11</sup> However, he  
4 does not apply the same rationale to substation costs, asserting that the high voltage  
5 customers are not served by distribution substations and, consequently, their demands  
6 should not be included in the allocation of substation costs to the HT class. Yet, as  
7 pointed out by Ms. Ding, the high voltage customers use radial lines which are  
8 functionalized as distribution plant, and therefore should pay an allocated share of  
9 substation land and structures. These substations can also serve a “wide array of  
10 customers” and should be allocated to all distribution customers, including those served  
11 by radial lines. If high voltage customers’ demands are excluded from the allocation of  
12 substation costs, as Mr. Pollock proposes, then the attendant treatment of radial line costs  
13 would assign radial line costs only to the high voltage customers who are served by them.  
14 Mr. Pollock, in fact, has proposed direct assignment of radial lines in Texas, stating:  
15 “radial line costs should be directly assigned to the customers or customer classes that  
16 receive service from these lines. It would be inappropriate to spread the costs of radial  
17 line to customer classes that are not connected to them.”<sup>12</sup>

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<sup>11</sup> PAIEUG Response to OCA-PAIEUG No. 1-5.

<sup>12</sup> Application of Southwestern Public Service Company for Authority To Change in Rates, Texas PUC Docket No. 43695. Direct Testimony of Jeffry Pollock on behalf of Texas Industrial Energy Consumers at page 29 (May 15, 2015).

1 **Q. WHAT IS YOUR RECOMMENDATION?**

2 A. Mr. Pollock's recommendation to allocate refunctionalized radial lines separate from  
3 other distribution plant and exclude high voltage customers from the allocation of  
4 substation costs should be denied.

5 **VII. RESIDENTIAL CUSTOMER CHARGE**

6 **Q. DO ANY REBUTTAL WITNESSES OBJECT TO YOUR CUSTOMER CHARGE**  
7 **RECOMMENDATION?**

8 A. Yes. PECO witness Ding disagrees with my recommendation to use only costs which  
9 directly vary with the number of customers as a benchmark for evaluating the residential  
10 customer charge.

11 **Q. HAVE YOU REVISED YOUR CALCULATION OF DIRECT CUSTOMER**  
12 **COSTS?**

13 A. Yes. Schedule CJ-3 of my Direct Testimony showed a direct customer charge cost of  
14 \$7.84. Subsequently I corrected an error in the calculation (omission of a prorated  
15 portion of pension and benefits), which resulted in direct customers costs of \$8.11. The  
16 corrected calculation is displayed on Schedule CJ-S-4. Since \$8.11 is less than the  
17 current \$8.45 customer charge, this revision does not alter my recommendation to  
18 maintain the current customer charge.

19 **Q. DID MS. DING SET OUT ANY SPECIFIC CRITICISMS OF YOUR**  
20 **CALCULATION?**

1 A. Yes. She objected to the removal of a portion of call center costs related to outages and  
2 emergency calls and the exclusion of uncollectible expense and customer service and  
3 sales expense.

4 **Q. PLEASE RESPOND TO THE SPECIFIC CRITICISMS OF YOUR DIRECT**  
5 **CUSTOMER COST CALCULATION.**

6 A. With respect to outages and emergency calls, these calls are related to the safety and  
7 reliability of the system. These costs are more appropriately viewed as demand-related  
8 instead of customer-related. Reliability ensures that the delivery system is capable of  
9 meeting current demand, and therefore is associated with the demand classification.  
10 Moreover, timely identification of outages and safety problems provides a system benefit  
11 that extends beyond the customer who reports the issue. Ms. Ding states that  
12 uncollectible expense is related to the number of customers without providing any  
13 evidence of such a correlation. The amount of uncollectible expense is a function of the  
14 size of bills which are unpaid, and the amount of such bills is connected to the customer's  
15 kWhs of electricity usage. To the extent that high bills lead to non-payment, the energy  
16 charge is a more significant contributor to high bills than the fixed \$8.45 customer  
17 charge. The primary components of Account 908 – 915 relate to the Low Income Usage  
18 Reduction Program (LIURP) and marketing/information dissemination related to Act 129  
19 Energy Efficiency programs.<sup>13</sup> LIURP and energy efficiency advertising are energy  
20 related activities rather than customer costs properly includable in the customer charge.  
21 These usage related activities are more appropriately recovered in the residential energy  
22 charge.

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<sup>13</sup> See, PECO Response to OCA I-21, and Ex. JD-7, page 10.

1 **Q. WHAT IS YOUR RECOMMENDATION?**

2 A. The Company's residential customer charge should be maintained at its current level of  
3 \$8.45.

4 **Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

5 A. Yes.

6

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**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
v.	:	Docket No. R-2018-3000164
PECO Energy Company—Electric Division	:	

**SCHEDULES OF**

**CLARENCE L. JOHNSON**

**ON BEHALF OF**

**OFFICE OF CONSUMER ADVOCATE**

August 8, 2018

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
v.	:	Docket No. R-2018-3000164
PECO Energy Company—Electric Division	:	

**SCHEDULE CJ-S-1**

**PECO RESPONSE TO**

**OCA SET I-13**

August 8, 2018

Pennsylvania Public Utility Commission  
v.  
PECO Energy Company - Electric Division  
Docket No. R-2018-3000164  
Responses of PECO Energy Company  
To Interrogatories of the Office Of Consumer Advocate  
OCA Set I  
Response Date:05-03-2018

OCA-I-13

Provide details regarding the methodologies used to estimate demand requirements before installing new secondary lines or replacing existing secondary lines.

RESPONSE:

When forecasting demand for a new customer (or group of customers), a number of items are considered in the engineering analysis performed to estimate the peak demand to size the secondary lines required to serve each customer. These items include:

- Intended use of customer's facility, such as, residence or commercial space and, if the latter, the use of the commercial space (store, warehouse, office, fast food restaurant, etc.).
- HVAC requirements including air conditioning and type heating (electric or non-electric) and similar factors.
- The customer's connected load
- Building size (square footage, number of floors, etc.)

Voltage drop, both steady state and instantaneous, from large loads with high starting currents, such as central air conditioners, are considered in determining secondary line sizes. Voltage drop frequently limits the length of secondary lines or requires the installation of larger secondary conductors.

Existing secondary lines may be replaced due to load growth from new or existing customers, material condition, or voltage issues. If the replacement is due to load-related issues, actual load readings or meter data are used to determine secondary wire size.

Responsible Witness: Jiang Ding

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
v.	:	Docket No. R-2018-3000164
PECO Energy Company—Electric Division	:	

**SCHEDULE CJ-S-2**

**PECO RESPONSE TO**

**OCA SET I-16**

August 8, 2018

Pennsylvania Public Utility Commission  
v.  
PECO Energy Company - Electric Division  
Docket No. R-2018-3000164  
Responses of PECO Energy Company  
To Interrogatories of the Office Of Consumer Advocate  
OCA Set I  
Response Date:05-03-2018

OCA-I-16

Provide the plant costs by FERC account for capacitors, voltage regulators, reactors, and similar devices on the distribution system. Provide the percentage of each FERC plant account (separately shown for primary and secondary) comprised of such equipment.

RESPONSE:

PECO does not maintain Property, Plant & Equipment records at an individual asset level nor by primary or secondary function. Capacitors, voltage regulators, reactors and similar devices are included within FERC Account 362 – Substation Equipment. The plant costs by FERC Account can be referenced in PECO Exhibits SAB-1, SAB-2 and SAB-3 for 2017, 2018, and 2019, respectively, accompanying the direct testimony of Scott A. Bailey (PECO Statement No. 4).

Responsible Witness: Scott A. Bailey

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
v.	:	Docket No. R-2018-3000164
PECO Energy Company—Electric Division	:	

**SCHEDULE CJ-S-3**

**PECO RESPONSE TO**

**OCA SET I-22(e)**

August 8, 2018

Pennsylvania Public Utility Commission  
v.  
PECO Energy Company - Electric Division  
Docket No. R-2018-3000164  
Responses of PECO Energy Company  
To Interrogatories of the Office Of Consumer Advocate  
OCA Set I  
Response Date:05-03-2018

OCA-I-22

- (a) Identify the number of executives, marketing personnel, and customer assistance staff, including Key account managers and representatives, who are involved primarily in contacts with current or prospective large commercial or industrial customers.
- (b) Indicate whether the individuals are employed by an affiliated service company or the utility operating company.
- (c) Identify the particular rate classes supported by the personnel.
- (d) Describe the types of services performed by the staff listed in 'a.'
- (e) Provide the annual costs for the personnel identified in (a), including associated overheads, by FERC account.

RESPONSE:

- a) The number of employees primarily in contact with current or prospective large commercial or industrial customers is 44. This number includes customer assistance staff, account management staff and economic development staff.
- b) The individuals are employed by the utility operating company.
- c) Rates GS, HT, PD are supported in part and Rate EP is supported in total by these personnel. PECO divides the large customer support work by customer size and not by rate class, and customers who meet the criteria (nominally load greater

than 350 kW) are supported regardless of rate. The group also supports all transportation customers, utilities, federal and state government accounts, commercial and retail customers with more than 10 locations in the PECO service territory with over \$500,000 in combined annual revenue and a primary corporate contact, and all street lighting, traffic lighting and private outdoor lighting customers.

- d) The account managers at PECO act as the single point of contact for large commercial and industrial customers and provide the necessary expertise or enlist other Company resources to address customer needs. The primary areas where assistance is provided include: electric service (new service requests, changes in service requests (including transfers), and reliability concerns), billing questions and other billing-related issues, and advice on applicable rates and riders. Account managers proactively visit customers, help customers resolve service issues, and provide up-to-date information on service offerings.

PECO does not budget by FERC Account. The 2019 budgeted amount for labor for the large commercial and industrial support staff is \$5.2 million.

Responsible Witness: Michael A. Innocenzo



**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission :  
v. : Docket No. R-2018-3000164  
PECO Energy Company—Electric Division :

**SCHEDULE CJ-S-4**

**PECO CUSTOMER**

**CHARGE ANALYSIS**

August 8, 2018

## PECO Customer Charge Analysis

(Revised)

### Rate Base/Return

Meters & Services	495,737
A389-399, Customer	33,489
Accum. Depreciation	199,591
Deferred Income Taxes	26,009
Cust. Deposits & Advances	17,320

Requested Rate Base	\$ 4,820,415
Requested Return	375,309
Requested Income Taxes	74,034
Return and Taxes Ratio	9.32%

Sub Total Rate Base	286,306
<b>Return and Taxes</b>	<b>26,688</b>

#### Expenses

Meter & Service O&M	13,298
A932 & 926 Expense	5,204
Customer Accounts	<u><b>83,820</b></u>
Exclude Uncollect.	(26,801)
Call Center Adjustment	(6,155)
Depreciation & Amort.	30,524

<b>Total Expenses</b>	<b>99,890</b>
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<b>Total Cost</b>	<b>126,579</b>
Billing Units	15,606,895
<b>customer charge</b>	<b>\$ 8.11</b>


BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :  
v. : Docket No. R-2018-3000164  
PECO Energy Company :

VERIFICATION

I, Clarence L. Johnson, hereby state that the facts above set forth in my Surrebuttal Testimony, OCA Statement No. 3S, are true and correct and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

Signature:

  
Clarence L. Johnson  
CJEnergy Consulting  
3707 Robinson Avenue  
Austin, TX 78722  
E-Mail: [cjenergyconsult@att.net](mailto:cjenergyconsult@att.net)

DATED: August 8, 2018  
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