

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DOCKET NO. R-2008-2028394

PECO Energy Company

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

**Presenting PECO's Overall Revenue
Requirement And Supporting Certain
Ratemaking Adjustments**

Date: March 31, 2008

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

INTRODUCTION

1. Q. Please state your full name and business address.

3 Ao My name is Robert L. O'Brien and my business address is 1753 Via
4 Mazatlan, Rio Rico, Arizona 85648.

5 o **Q. By whom are you employed and in what capacity?**

6 A. I am employed by O'Brien Innovative Regulatory Solutions, LLC. I am
7 currently involved in this project through a consulting contract with Black
8 & Veatch Corporation ("B&V") as a Senior Advisor in its Enterprise
9 Management Solutions Division.

10 e **Q. Please summarize your professional experience and educational
11 background.**

12 Ao I have been employed in my current position since January 4, 2008, after
13 my retirement from B&V. Beginning in January 2005, I became
14 employed by B&V as a Principal Consultant when B&V acquired R.J.
15 Rudden Associates ("Rudden"), where I served as Vice President. In
16 these positions, I have assisted clients in the areas of Strategic Planning,
17 State Regulatory Operations, Financial Planning, Cash Working Capital
18 Calculations, Rate Case Preparation and Rate Case Model Design. Prior
19 to joining Rudden in 2000, I was employed by Citizens Communications
20 Company (formally Citizens Utilities Company) ("Citizens") from 1975 to
21 1999; holding the positions of Vice President, Strategic Planning and
22 Regulatory Affairs for Citizens' Public Utilities Sector (1997 to 1999);

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 Vice President, Corporate Regulatory Affairs (1978 to 1997); and
2 Manager of Special Studies (1975 to 1978). From 1967 to 1975, I was
3 employed as controller by a series of companies engaged in the financial,
4 communications, educational and printing industries. Prior to 1967, I was
5 employed by Ernst & Young and attained the status of Senior Auditor
6 after four years, which included two years work experience during a 5-
7 year work-study program at the University of Cincinnati. I graduated
8 from the University of Cincinnati in 1965 with a Bachelor of Business
9 Administration, having majored in Accounting. I am a Certified Public
10 Accountant.

11 e **Q. Have you previously testified before the Pennsylvania Public Utility**
12 **Commission ("Commission") or any other regulatory agencies?**

13 mo Yes. I have testified before this Commission many times on behalf of
14 Citizens' water and telephone operations and also submitted testimony on
15 behalf of Duquesne Light Company in its 2005 application for a general
16 rate increase. In addition, I have presented testimony and or testified in
17 over 200 proceedings before state regulatory commissions in Arizona,
18 California, Colorado, Hawaii, Idaho, Illinois, Indiana, Montana, Nevada,
19 Ohio, Tennessee, Vermont and West Virginia on behalf of electric, natural
20 gas, communications, water and wastewater utility companies. Those
21 proceedings involved company-initiated rate increases, commission-
22 ordered rate reviews, purchased energy pass-through proceedings,
23 acquisitions and sales of utility companies, disaster relief requirements and

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 the recovery of acquisition premiums. I have testified concerning all
2 measures of value elements, including deferred income taxes and cash
3 working capital, as well as revenues, operating expenses, income taxes,
4 rate design and rate of return issues. I have also testified in generic
5 proceedings related to income taxes, purchased energy pass-through
6 clauses and changes in the regulation of the communications and electric
7 industries.

So **Q. What is the purpose of your direct testimony in this proceeding?**

9 mo I have been asked by PECO Energy Company ("PECO" or the
10 "Company") to assist it in preparing and presenting a request for a general
11 rate increase for its natural gas operations. More specifically, I will
12 support PECO's overall revenue requirement, certain pro forma
13 ratemaking adjustments for the future test year ended December 31, 2008
14 ("FTY") and the historic year ended December 31, 2007 ("HY"), and
15 portions of the claimed measures of value, including PECO's cash
16 working capital allowance.

17 o **Before discussing the specific adjustments and schedules you are**
18 **sponsoring, please describe the relationship of your work to that of**
19 **the other Company witnesses.**

20 mo In general, my assignment was to prepare pro forma adjustments to the
21 Company's 2008 budget amounts to develop a pro forma test year
22 presentation by Federal Energy Regulatory Commission ("FERC")

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 account classifications. As a starting point, I used PECO's actual (2007)
2 and budgeted (2008) data. Where those data were not in FERC account
3 format, I distributed the data to FERC accounts based on historic
4 relationships and a review by PECO personnel to validate that the historic
5 relationships were reasonable for the 2008 FTY. I then reviewed those
6 data and, with input from Company personnel, developed certain standard
7 ratemaking adjustments to annualize and normalize PECO's revenue and
8 expense claims. Finally, using the rate of return recommended by Mr.
9 Paul R. Moul (PECO St. No. 5), I calculated the overall revenue increase
10 required to present rates and revenues at proposed rates. The resulting
11 measures of value, pro forma revenues and expenses including the
12 proposed revenue increase were used by Mr. Howard S. Gorman in his
13 cost of service study ("COSS") (PECO St. No. 8) and by Mr. Paul
14 Patterson in his design of customer class rates (PECO St. No. 9).

15 **7. Q. Are you sponsoring all or portions of any exhibits in this proceeding?**

16 ^{no} Yes. Together with other Company witnesses, I am sponsoring portions
17 of Exhibits RLO-1 and RLO-2, which comprise PECO's principal
18 accounting exhibits for the 2008 FTY and the 2007 HY respectively, and
19 Exhibit RLO-3, which includes workpapers for a consolidated tax
20 adjustment reflected in the income tax calculation. As explained by Mr.
21 Phillip S. Barnett (PECO St. No. 2), PECO's Senior Vice President and
22 Chief Financial Officer, the base data for Exhibit RLO- 1 were derived, for
23 the most part, from PECO's 2008 capital and operating budgets; the

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 corresponding data for Exhibit RLO-2 were taken from PECO's books and
2 records for the year ended December 31, 2007. In addition, I am
3 responsible for the responses provided to certain of the Commission's
4 standard data filing requirements.

5 so **Q. Will you be discussing both Exhibit RLO-I and Exhibit RLO-2?**

6 Yes, I will. However, because PECO is basing its proposed rate increase
7 on the adjusted FTY (2008) data, I will focus my comments on Sections A
8 (Summary), C (Measures of Value/Rate Base) and D (Operating
9 Income/Revenues and Expenses) of Exhibit RLO- 1. My testimony
10 regarding Exhibit RLO-2, which is PECO's HY (2007) accounting
11 summary and is organized in essentially the same format as Exhibit RLO-
12 1, will briefly address the pro forma adjustments and any area that requires
13 additional comment or information.

14 o Qo **How is the balance of your testimony structured?**

15 Ao In Section II, I present an overview of PECO's future test year revenue
16 requirement and explain, in summary fashion, how its claimed Measures
17 of Value, pro forma present rate revenues, operating expenses,
18 depreciation and income taxes were determined. Section III of my
19 testimony provides a more detailed description of the individual
20 components comprising PECO's requested measures of value, while
21 Section IV discusses the derivation, including appropriate ratemaking
22 adjustments, of PECO's revenue and expense claims.

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

OVERVIEW OF PECO'S

FUTURE TEST YEAR REVENUE REQUIREMENT

3 10. **Please explain how the Company's FTY 2008 Measures of Value were**
4 **determined.**

5 mo First, to determine FTY-end utility plant in service, the Company began
6 with the closing plant balances at December 31, 2007, including allocated
7 common plant, added the budgeted capital expenditures that will close to
8 plant in service during 2008 and subtracted the appropriate 2008 plant
9 retirements. The accumulated depreciation at December 31, 2008 was
10 determined in a similar fashion, using the year-end 2007 balances plus the
11 budgeted depreciation expense and the 2008 plant retirements and other
12 appropriate elements. Accumulated deferred income taxes ("ADIT")
13 credit includes an amount for the Federal ADIT, net of an offset for the
14 Federal income tax previously paid by the Company on the receipt of
15 contributions-in-aid-of-construction ("CIAC"). The claimed levels of
16 materials and supplies and customer deposits are based on a 13-month
17 historic average and working capital was calculated using lead-lag study
18 procedures. Each of these components and the other elements shown on
19 Exhibit RLO-1, Schedule A-1, lines 1 to 11 of the Measures of Value will
20 be described later in my testimony.

21 11. **How were the revenues at present rates derived?**

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 mo Revenues at present rates were derived by adjusting the budgeted revenues
2 for PECO's gas operations for the year ended December 31, 2008, to
3 reflect the annualization of customers to year-end 2008 levels; to remove
4 revenues that are eliminated for jurisdictional ratemaking purposes; to
5 reflect anticipated changes in revenues attributable to proposed changes in
6 the Company's customer assistance program ("CAP"); and other pro
7 forma revenue adjustments as described in connection with those
8 adjustments included in Exhibit RLO-1, Schedule D-5.

9 12. **Q. How were the claimed operating expenses for the FTY determined?**

10 mo The pro forma FTY expenses were calculated using PECO's 2008 budget
11 as a starting point. The budgeted expenses, which are prepared based on
12 corporate activities and related cost elements such as payroll, employee
13 benefits, etc., were distributed by me to FERC accounts using the
14 distribution actually experienced by the Company during 2007 as adjusted
15 based on a review of the 2008 budget data with Company personnel. The
16 budgeted data, as restated on a FERC account basis, were then annualized
17 or normalized in accordance with established Commission ratemaking
18 practices and other appropriate adjustments as described in connection
19 with the specific schedules included in RLO-1, Section D.

20 13. ^{oo} **Please describe how the taxes-other than income ("TOTI") were**
21 **determined for the FTY.**

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 Ao Those amounts were determined by using the budgeted figures with pro
2 forma adjustments to payroll taxes for the increase to FTY payroll and
3 other adjustments to reflect known and measurable changes as shown on
4 Exhibit RLO- 1, Schedule D- 18.

5 **14. Q. Please describe the calculation of depreciation expense for the future**
6 **test year.**

7 Ao The pro forma depreciation expense for the FTY was determined using the
8 year-end December 31, 2008 plant in service balances by FERC account
9 and the depreciable rates, lives and procedures described by Mr. Matthew
10 Galvanoni in his testimony (PECO St. No. 4). A summary of the
11 depreciation expense for the FTY of \$29.1 million for the gas plant and
12 \$6.0 million for the common plant and software allocated to the gas
13 operations is contained on Exhibit RLO- 1, Schedule D- 19.

14 **15. Qo How were income taxes calculated?**

15 mo Income taxes were calculated using the regulatory procedures normally
16 followed by the Commission, including the use of synchronized interest
17 expense; the normalization of the Federal method difference for
18 accelerated depreciation; the flow-through of other tax/book timing
19 differences; the amortization of the unamortized investment tax credit; and
20 the imputation of a consolidated income tax adjustment. The income tax
21 expense for the FTY at present and proposed rates is shown on Exhibit
22 RLO- 1, Schedule D-20.

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 **16. Q. Please describe how the pro forma revenue increase and revenues at**
2 **proposed rates were established.**

3 mo Schedule A- 1 of Exhibit RLO- 1 shows the calculation of PECO' s claimed
4 revenue requirement and its requested rate increase base on the FTY.
5 Column 3, lines 1 to 21 summarizes the pro forma measures of value; pro
6 forma revenues at present rates; pro forma expenses and taxes at present
7 rates; pro forma net operating income at present rates; and the calculated
8 rate of return at present rates. Lines 22 to 27 in column 3 set forth the
9 calculation of the revenue increase required to provide the Company with
10 the opportunity to earn the overall rate of return of 8.87 percent calculated
11 and supported by Mr. Moul. The resulting required increase in net
12 operating income on line 25 was increased by the Gross Revenue
13 Conversion Factor ("GRCF") to provide for LIURP, uncollectible
14 expenses and income taxes on the increased net operating income
15 requirement. The revenue increase shown on line 27 of column 3 is then
16 reflected on line 12 of column 4, which also contains the calculation of the
17 expenses related to the revenue increase. Measures of value, revenues and
18 expenses at proposed rates are reflected in column 5, with the resulting
19 rate of return of 8.87 percent shown on line 21 of column 5

20 **17. oo What is the overall required increase in revenues?**

21 mo As shown on line 27 of Schedule A-I, the proposed increase in annual
22 operating revenues is approximately \$98.3 million, or 11.2 percent of

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 PECO's total annual revenues from gas operations at present rates as
2 shown on line 28 of Schedule A-1.

3 MEASURES OF VALUE

4 PLANT IN SERVICE

5 **18. Q. Please describe Schedule C-1 of Exhibit RLO-1.**

6 Schedule C- 1 summarizes the Measures of Value for the FTY. Column 2
7 identifies the schedule where the calculation of each of the elements is
8 contained and columns 4 and 6 show the amounts at present and proposed
9 rates, respectively. The Company's claimed rate base for the FTY as
10 shown in column 6 on line 11 is approximately \$1.1 billion.

11 **19. Q. Please describe Schedule C-2 of Exhibit RLO-1.**

12 Schedule C-2 contains 8 pages and presents the Company's claimed FTY
13 gas utility plant in service.

14 **20. Q. How was the gas utility plant in service of \$1.6 billion shown on**
15 **Schedule C-2, page 1, line 34 determined?**

16 ^{mo} That amount reflects the pro forma balance at December 31, 2008, which
17 is based on utility plant in service at December 31, 2007 plus budgeted
18 2008 capital expenditures closed to plant in 2008, and less associated
19 retirements.

20 **21. Q. Please describe what is contained on Schedule C-2, page 2.**

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 A^o Page 2, column 2, presents the budgeted year-end plant balances by
2 functional gas plant category. Since there are no pro forma adjustments in
3 column 3, the budgeted 2008 balance is the same as that used for the FTY
4 amount appearing in column 4.

22. What is shown on pages 3 and 4 of Schedule C-2?

6 A^o Pages 3 and 4 show the gas plant in service balances budgeted as of the
7 end of the FTY by FERC account.

23. Q. How about Schedule C-2, pages 5 and 6?

9 A^o Pages 5 and 6 set forth the Company's budgeted gas plant additions for
10 2008 by FERC account. These data were developed based on a review of
11 the current capital budget and historic data to determine the appropriate
12 FERC accounts for the \$61 million of construction expenditures to be
13 closed to plant in the FTY.

14 **24. Please describe pages 7 and 8 of Schedule C-2.**

15 A^o Pages 7 and 8 of Schedule C-2 present the retirements associated with the
16 plant additions identified on pages 5 and 6. The retirements for 2008 were
17 determined using an average of the three prior years' retirements of \$4.021
18 million. This amount was distributed to the FERC accounts based on the
19 budgeted 2008 gas plant additions and a review of those amounts.

20

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

ACCUMULATED DEPRECIATION

2 25. **Q.** What is the purpose of Schedule C-3 of Exhibit RLO-I?

3 mo This schedule, consisting of 6 pages, presents the accumulated provision
4 for depreciation at December 31, 2008 by FERC account, as developed by
5 Mr. Galvanoni in his Exhibit MRG-2. PECO's claim of approximately
6 \$535 million is summarized on page 1, line 34 of Schedule C-3 and then
7 carried forward to line 2 of Schedule A-1.

8 26. **Q.** What is contained on the remaining five pages of Schedule C-3?

9 mo Page 2 shows the pro forma accumulated depreciation for the FTY by
10 FERC account category. Pages 3 and 4 contain the budgeted 2008
11 accumulated depreciation and pro forma amounts by FERC account, while
12 pages 5 and 6 show the amount of cost of removal net of salvage included
13 in the test year accumulated depreciation calculations.

14 CASH WORKING CAPITAL

15 27. **Q.** What is set forth on Schedule C-4, page 1, of Exhibit RLO-I?

16 This is a summary of the Cash Working Capital ("CWC") calculations,
17 which are detailed on pages 2 to 15 of this schedule. The total of \$12.8
18 million shown on line 6 is included in PECO's claimed Measures of Value
19 in columns 3 and 5, line 4, of Schedule A-1.

20 28. **Q.** Please describe page 2 of Schedule C-4.

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 mo Page 2 summarizes the derivation of PECO' s claimed revenue collection
2 lag and overall operating expense payment lag. The revenue lag days are
3 shown on line 1 and the expense lag days for each of the expense
4 components on lines 3 to 6. The net lag in the collection of revenue of
5 9.00 days shown on line 9 is then multiplied by the average daily
6 operating expense balance on line 10 to arrive at a base CWC amount of
7 \$19,110 million for operating expenses. The average daily operating
8 expense balance, \$2.123 million on line 10, is determined by dividing the
9 total pro forma annual operating expenses, excluding uncollectible
10 accounts expense, of \$775,065 million on line 7 column 2 by the number
11 of days in a year, 365. The other components of CWC are shown on lines
12 12 to 15 and will be described in connection with my discussion of related
13 supporting schedules.

14 29. **Q. Please describe the revenue lag calculation shown on Schedule C-4,**
15 **page 3.**

16 The total revenue lag days shown on line 21 were determined by dividing
17 the average month-end accounts receivable balances for the thirteen
18 months ended December 31 2007 shown in column 2 into the annual
19 revenue billed during the year 2007, as shown in column 3. This results in
20 an accounts receivable turnover rate of 12.40 (column 4), which is
21 equivalent to 29.44 lag days (365 days divided by 12.40 accounts
22 receivable turnover rate), as shown in column 5 on line 17. The payment
23 portion of the revenue lag is added to (1) the 3-day lag between the meter

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 reading day and the day bills are sent out and recorded as revenue and
2 accounts receivable by the Company and (2) the 15.21 day service period
3 lag, which is the time from the mid-point of the service period until the
4 meter reading date, generating a total revenue lag of 47.65 days, as shown
5 on line 21.

30. **Q. How was the mid-point of the service period calculated?**

7 mo The mid-point of the service period is equal to the days in an average
8 month (365 days divided by 12, or 30.42 days) divided by 2, or 15.21
9 days.

10 31. **Qo Please describe page 4 of Schedule C-4.**

11 Schedule C-4, page 4, shows the calculation of the expense lags used in
12 the CWC calculation. Lines 1 to 5 reflect the payroll expense lag. The
13 payroll amounts reflect the budget payroll for the FTY as calculated on
14 Schedule D-7. The lag periods for union and non-union payroll are shown
15 combined because all employees are paid following the same schedule and
16 reflect PECO's actual payment cycles.

17 Lines 6 to 15 show the lag in the payment of pension expense. Based on
18 actuarial studies for 2008 to 2011, the Company plans to make an average
19 annual pension fund contribution for its gas operations in the amount of
20 \$3.048 million beginning in 2008. As shown on lines 6 to 8,

21 approximately 26.26 percent of the annual payment will be capitalized.

22 The remaining 73.74 percent, \$2.248 million on line 8, has been used to

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 establish the lag days to be applied to the expense amount in the FTY in
2 this proceeding. The Company plans to make payments for the 2008
3 pension amount at four separate times during the year. Each of those
4 payment dates are shown in column 1 on lines 9 to 12. As shown on line
5 14, the mid-point of the FTY service period is July 1. These payment
6 dates result in a lead for the first payment on line 9 in column 3 and lags
7 for the other three payments as shown on lines 10 to 12. These separate
8 lag days were multiplied by the payment and the resulting (lead) / lag
9 weighted days are shown in column 4 on lines 9 to 12. The net lag period
10 of 29.75 days was applied to the pro forma pension expense from
11 Schedule D-9, page 1, line 12 and shown on line 4 of Schedule C-4, page
12 2 of 15.

13 32. **Q. How did you develop the lag days associated with the purchased**
14 **energy costs shown on line 16 of Schedule C-4, page 4?**

15 mo The lag in payment of purchased energy costs is based on an analysis of
16 gas purchases during the twelve-month period June 2006 through May
17 2007. The total dollar amount of gas purchased during that period was
18 \$541.9 million and the average payment lag equaled 39.65 days. The
19 latter figure was calculated using the midpoint of the service period for
20 each of the payments and the payment date for each, averaged for the
21 entire year' s worth of data.

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 33. **Q. Please describe how you determined the payment lag associated with**
2 **other operating and maintenance expenses.**

3 Ao The summary of the average payment lag for all remaining expenses, as
4 set forth on lines 17 to 21 of page 4 of Schedule C-4, was derived from
5 data for the four months shown in more detail on page 5 of Schedule C-4.
6 More specifically, I requested that the Company provide a listing of all
7 cash disbursements during each of the four months selected in a format
8 that would show the payee, the date the service was provided or the
9 invoice date, the amount of the disbursement, the date the payment cleared
10 the bank, the account to which the disbursement was charged and other
11 data associated with the disbursements. Each month's listing contained
12 thousands of cash disbursements.

13 34. oo **How did you utilize the data provided by the Company?**

14 mo I added columns to the Company's schedule to show the number of days it
15 took each disbursement to clear the bank and to calculate the dollar days
16 (the amount of the disbursement times the number of days the payment
17 took to clear the bank) and sorted the disbursements by amount. I then
18 eliminated disbursements that are included elsewhere in the CWC
19 calculation, such as gas purchases.

20 35. **What other disbursements, if any, did you eliminate from the balances**
21 **shown on page 5 of Schedule C-4?**

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 mo First, I eliminated all disbursements related to capital charges since those
2 would not be part of the Company's expenses. Second, I eliminated all
3 expenditures under \$1,000 since those amounts, while significant in
4 number, would not have a meaningful impact on the overall lag day
5 calculation. Third, I eliminated all disbursements over \$150,000 because
6 it is not likely that the Company's gas operations would have a monthly
7 expense amount in excess of \$150,000 which was not included in the
8 purchased gas payment lag review. Fourth, I removed all amounts
9 charged to non-expense accounts, plus any gas purchase amounts under
10 the \$150,000 level and any charitable contributions. Fifth, I removed the
11 charges that were electric only. Once these eliminations were completed,
12 the remaining disbursements, totaling \$25 million as shown in column 2
13 on line 9 of page 5 of Schedule C-4, were used to calculate the payment
14 lag for general expenses of 40.26 lag days shown in column 4. This 40.26
15 lag days for Other Disbursements were then brought forward to Schedule
16 C-4, page 2, line 6.

17 **36. Q. Please explain how the average prepayments of \$2.2 million included**
18 **on line 12 of Schedule C-4, page 2 were determined.**

19 mo That amount is calculated on page 15 of Schedule C-4 and represents the
20 thirteen-month average of actual amounts for each month end from
21 December 2006 to December 2007.

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 **37. Q How did you determine the accrued tax component of working capital**
2 **shown on page 6 of Schedule C-4 and brought forward to page 2 on**
3 **line 13?**

4 mo The calculations on page 6 of Schedule C-4 use the pro forma expense at
5 proposed rates shown in column 1 and the 12-month accrual factors shown
6 in column 2. The result of the multiplication of those components is
7 shown in column 3 and used as the working capital related to the taxes
8 paid by the Company. The 12-month accrual factors for the various tax
9 expense items are calculated on pages 9 through 13.

10 **38. oo Please describe the calculation of the interest expense lag shown on**
11 **page 7 and included on page 2 of Schedule C-4.**

12 This calculation measures the lag associated with the semi-annual
13 payment of interest on outstanding debt. The pro forma interest expense is
14 the amount resulting from the synchronized interest calculation using the
15 pro forma measures of value and the weighted cost of debt included in the
16 rate of return. The daily interest expense amount, calculated on line 5, is
17 multiplied by the net payment lag of 43.60 for a reduction to the working
18 capital allowance of \$3.357 million, as shown on line 9 and included on
19 page 2 at line 14.

20 **39. oo Please describe the calculation of the working capital component**
21 **related to preferred stock payments.**

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 mo This calculation, shown on page 8 of Schedule C-4, follows the same
2 procedures as the calculation for interest expense on page 7. The pro
3 forma dividend amount is developed on lines 1 to 4 and the per day
4 amotmt shown on line 5. The lag days are calculated based on the
5 quarterly dividend payment and the result is an addition to working capital
6 requirement of \$5,000, as shown on line 9 and also on line 15 of Schedule
7 C-4, page 2.

40. Q. What is presented on pages 9 to 14 of Schedule C-4?

9 Ao As noted previously, these pages provide the calculations of the 12-month
10 accrual factors used on page 6 to determine the tax component of PECO's
11 CWC allowance. The revenue components of the calculation on lines 1 to
12 4 of pages 9 to 12 are contained on pages 13 and 14. The payment dates
13 and percent due for each of the tax expense items listed on Schedule C-4,
14 page 6 are shown on lines 5 to 8 of pages 9 to 12 and the total percent
15 available for each tax expenditure is shown on line 10. The average
16 percent available for each tax expenditure is shown on line 11 in column 1
17 and brought forward to page 6 of Schedule C-4.

**18 41. Qe Why are separate calculations made for the various categories of tax
19 expense?**

20 mo This is necessary because each of the tax expense items has separate
21 payment dates. For example, as shown on page 9 of Schedule C-4, 25
22 percent of the estimated Federal income tax liability is due on April 15,

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 June 15, September 15 and December 15 of each year. The other tax
2 payment dates and percents are not the same. Using a separate calculation
3 for each tax expense provides a matching of the cash requirement for
4 payment of those expenses with the anticipated cash from revenues.

42. **Q. Is the same true for the other taxes on pages 10 to 12 of Schedule C-4?**

Yes, it is.

43. **Please describe the calculations on pages 13 and 14 of Schedule C-4.**

8 ^{ao} Page 13 shows the percent of billed revenues collected by the Company
9 for the year prior to the test year and for the test year, while page 14 shows
10 an average of monthly billed revenues for the years 2005 to 2007, which
11 determined the average monthly billings used as the starting point.

12 **44. What is shown on Schedule C-4, page 15?**

13 ^{mo} This page shows the calculation of the average prepaid expenses included
14 in the CWC. The Company reviewed its prepaid accounts and selected
15 only those prepaid expenses that were related, in whole or in part, to its
16 gas operations. The resulting prepaid accounts are shown in columns 3 to
17 11 with the monthly totals in column 2. Where the items related entirely
18 to the gas operations, such as the PUC Assessment in column 4, the total
19 and the average monthly amount were charged 100% to gas. In instances
20 where the account related to both electric and gas operations, the total and
21 average were distributed using an appropriate allocation factor. The three-

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 factor formula, described in connection with the Common Plant allocation,
2 was used for most of these accounts and a customer count was used for the
3 Billing Paper in column 7. The thirteen-month average for prepaid
4 expenses for the gas operations of \$2.2 million is shown on line 18 of
5 Schedule C-4, page 15 and on page 1 on line 2.

6 **45. Q. What is the total amount of CWC included in the claimed Measures of**
7 **Value?**

8 ^{AO} That amount is the \$12.8 million shown on Schedule C-4, page 1, line 6
9 and on Schedule A-1, columns 3 and 5, line 4.

10 GAS INVENTORY

11 **46. Q. What is contained on Schedule C-5 of Exhibit RLO-I?**

12 ^{mo} This schedule shows the calculation of the gas inventory included in the
13 Measures of Value on Schedule A-1. The Company is using the thirteen-
14 month average balance for the period ended December 31, 2007 for each
15 of the Stored Underground, LNG and Propane components.

16 **47. Q. What is PECO's rate base claim for gas inventory?**

17 ^{mo} The average monthly gas inventory balance for the test year is \$127.1
18 million, as shown on line 15, column 4 of Schedule C-5 and also on line 5,
19 columns 3 and 5 of Schedule A-1.

20 ACCUMULATED DEFERRED INCOME TAXES

48. **Q. What is the purpose of Schedule C-6?**

2 mo Schedule C-6 shows the December 31, 2008 balance of accumulated
3 deferred income taxes ("ADIT") that is deducted in the determination of
4 the Measures of Value. The ADIT shown on line 11 reflects the Federal
5 income tax attributable to the difference between the accelerated tax
6 depreciation and straight line tax depreciation on test year plant balances.
7 This accelerated tax depreciation amount is used in the determination of
8 taxable income in the calculation of state income tax and Federal income
9 taxes are reflected on Schedule D-20.

10 **49. oo Have you made an adjustment for the Federal income tax on**
11 **contributions-in-aid-of-construction ("CIAC")?**

12 mo No. PECO pays the Federal income tax due on CIAC in the year the
13 CIAC is received and includes that payment as a debit to the ADIT
14 account. Under this procedure, the advanced income tax is included in the
15 determination of the Measures of Value.

16 **50. oo What is the amount of ADIT used in the Measures of Value?**

17 The amount is \$187.8 million as shown on line 11 of Schedule C-6 and on
18 line 6 of Schedule A-1 in columns 3 and 5.

19 **CUSTOMER DEPOSITS**

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 Ao Schedule C-8 calculates the amount of common plant and related
2 accumulated depreciation that is properly allocated to PECO's gas
3 operations. Lines 1 to 9 reflect the common plant at December 31, 2008
4 and lines 10 to 17 reflect the associated accumulated depreciation on such
5 plant as of that date. Total common plant and accumulated depreciation
6 are presented in column 1 and the percent allocated to gas operations is in
7 column 2. The net plant amount on line 20 of column 3 of \$61.7 million is
8 included in the Company's Measures of Value on Schedule A-1, line 8,
9 columns 3 and 5. The total common plant amount reflects the original
10 cost of plant used to provide both electric and gas services and recorded
11 on the Company's accounting records. The accumulated depreciation and
12 amortization reflects the use of the Company's depreciation and
13 amortization procedures and appropriate rates. As discussed in Mr.
14 Galvanoni's testimony, the allocation between gas and electric operations
15 is based on recorded data for three factors --- Plant in Service, Total
16 Revenue and Total Customers that are frequently used to distribute
17 common costs between utility services.

18 CUSTOMER ADVANCES FOR CONSTRUCTION

19 55. **Q.** What is contained on Schedule C-9?

20 mo This schedule shows the average monthly balance of customer advances
21 million which is deducted in calculating the Measures of Value on
22 Schedule A-1, line 9 in columns 3 and 5.

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

56. **Q. How were the monthly balances determined?**

2 mo The Company was able to identify the specific amounts attributed to its gas
3 operations based on a review of its accounting records.

MATERIALS & SUPPLIES

57. **Q. Please describe Schedule C-10 of Exhibit RLO-1.**

6 mo Schedule C-10 shows the derivation of PECO's test year claim for
7 materials and supplies and undistributed stores expense. The claimed
8 amount of \$152,000 is based on the thirteen-month average for the period
9 ending December 31, 2007 and is shown on line 10, columns 3 and 5 of
10 the Measures of Value on Schedule A- 1.

11 REVENUES AND EXPENSES

12 **58. Q. What is shown on Schedule D-1 of Exhibit RLO-I?**

13 mo Schedule D-1 is a summary income statement that depicts PECO's
14 claimed gas revenues, expenses and taxes at present and proposed rate
15 levels. I will explain the derivation of most of the individual line items in
16 my discussion of the remaining schedules in Section D. Schedule D-1
17 also shows the revenue increase required of \$98.3 million on line 5 in
18 column 2.

19 **59. Q. What is the indicated net operating income at proposed rates?**

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 mo As shown on line 26, column 3 of Schedule D-I, and also on Schedule A-
2 1, line 20, column 5, that amount is \$97.95 million.

60. Q. Please describe Schedule D-2.

4 mo Schedule D-2 shows the derivation of the various line items on Schedule
5 D-1. It begins with the Company's budgeted revenues and expenses for
6 2008 in column 1, and then annualizes and/or normalizes those figures
7 through adjustments summarized in column 2. The pro forma data in
8 column 3 are brought forward to Schedule D-1 and used in the
9 determination of the required revenue increase. The various revenue
10 adjustments in column 2 are summarized on Schedule D-3 and listed by
11 adjustment on Schedule D-5, and the expense adjustments are summarized
12 on Schedule D-3 and described in more detail on the separate adjustment
13 schedules beginning with Schedule D-6. In addition, there is an
14 adjustment to revenue on Schedule D-16 based on the Company's
15 proposed energy efficiency program.

61. Qo. Please describe Schedule D-3.

17 mo Schedule D-3 summarizes the various adjustments that were made to the
18 budgeted revenue and expense data to derive the pro forma present rate
19 revenues that appear in column 3 of Schedule D-2 and are included in the
20 adjusted amounts that are carried forward to column 1 of Schedule D-1.
21 The budgeted amounts are shown in column 1 on page 1 and the revenue
22 adjustment totals are shown in column 2 on page 1 and also in column 7

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

2 on page 2, while the gas cost adjustment is in column 3 and the various
3 expense adjustments are reflected in columns 4 to 11 of page 1 and in
4 columns 2 to 11 of page 2 of Schedule D-3. Each of the pro forma
5 adjustments will be described in connection with the specific schedule
supporting the adjustment.

62. Q. Please describe Schedule D-4.

7 ^{Ao} Schedule D-4 presents a summary of the pro forma adjustments to
8 revenues and operating expenses shown on Schedule D-3 by FERC
9 account.

10 REVENUE ADJUSTMENTS

11 **63. Q. Please describe Schedule D-5.**

12 ^{Ao} Schedule D-5 presents a summary of the separate pro forma adjustments
13 to revenue for the FTY, exclusive of the energy efficiency adjustment
14 included in Schedule D-16. Each of these adjustments will be described in
15 detail in connection with the separate calculation of the adjustment shown
16 on Schedules D-5A to D-5G. Schedule D-5 also includes revenues related
17 to the cost of gas adjustment described in connection with Schedule D-6 as
18 shown in column 9 of Schedule D-5.

19 **64. Q. Please describe the adjustment calculated on Schedule D-5A, which is**
20 **shown on Schedule D-5 in column 3.**

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 no This adjustment reflects the elimination of the Company portion of off-
2 system sales revenues and the related cost of gas. The \$17,571,000
3 reflects the total revenue for these off-system sales which is being
4 eliminated along with the related gas costs and customer-sharing portion
5 amounting to \$17,071,000. Removing the total amounts eliminates these
6 sales and related costs from the calculation of revenue requirements in this
7 proceeding. Customers receive their share, approximately \$1,500,000,
8 through the operation of the purchased gas cost adjustment and the
9 Company appropriately retains its portion of the off-system margin below
10 the line for ratemaking purposes with the removal of the remaining 25%,
11 or \$500,000.

12 **65. Q. How did you calculate the revenue adjustment shown on Schedule D-**
13 **5B?**

14 no This adjustment annualizes revenues for the projected number of
15 customers at the end of the FTY. As shown on lines 1 to 3 for all
16 customer classifications, this calculation determines the pro forma test
17 year non-gas cost revenues at present rates for the FTY. The average non-
18 gas cost revenues on line 3 were divided by the average number of
19 customers for the test year included in the 2008 budget on line 4 to
20 determine the average revenue per customer to compute the annualized
21 revenue adjustment by customer as shown on line 5. The average revenue
22 per customer for the FTY was then multiplied by the difference between
23 the average number of customers on line 4 and the number of customers at

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 the end of the FTY on line 6, yielding additional revenue of approximately
2 \$1.157 million for the residential customer class and approximately
3 \$443,000 for the Small C&I class.

4

66. Q. Please describe the adjustment on Schedule D-5C.

6 mo This adjustment captures the impact on revenues of proposed changes to
7 PECO's CAP and includes several components. The recommended
8 programmatic changes are explained by Mr. Manus J. McHugh (PECO St.
9 No. 6).

10 **67. Qo Please explain the first component titled "Change In CAP."**

11 Ao The Company's proposed revisions to the CAP procedures, if adopted,
12 will reduce the dollars recovered from CAP customers and decrease
13 PECO's annual present rate gas revenues by approximately \$5.233
14 million. The calculation begins with the budgeted amount of revenue
15 credit provided by the existing CAP program of \$4.251 million (Line 3).
16 That figure will rise to \$10.265 million (Line 4) if the proposed changes to
17 CAP are adopted, an increase in the CAP revenue credit of \$6.014 million
18 as shown on line 5. This adjustment amount is reduced by a factor of 13
19 percent which is what the Company estimates as the savings in
20 uncollectible expense amounts that will be realized with the shift of this
21 revenue responsibility from CAP customers to the general residential class

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 of customers. The net result is an increase in the CAP revenue credit of
2 \$5.233 million as shown on line 7.

68. Please describe the calculations on lines 8 to 12 of Schedule D-5C.

4 mo These calculations present an additional CAP revenue credit amount,
5 which is related to an update to the test year, budgeted number of
6 customers. Line 8 shows the number of CAP customers projected at the
7 end of the FTY while line 9 shows the increase in CAP customers of 916
8 over the number of customers that was used in the calculation of the
9 revenue credit included in the budget as shown on line 3. The increase in
10 the revenue credits to annualize for customers at the end of the FTY is the
11 \$414,000 shown on line 10 less the 13 percent associated with reduced
12 uncollectibles or a net amount of \$360,000 as shown on line 12.

13 **69. Q. What is the CAP adjustment reflected on lines 13 to 16 of Schedule D-**
14 **5C?**

15 mo This portion of the CAP adjustment reflects a change in the cost of gas
16 used to establish the base for the CAP revenue credit adjustment. Based
17 on the March 1, 2008 quarterly purchased gas cost rate adjustment filed by
18 the Company, the current cost of gas is \$11.10 per mcf, while the 2008
19 budget assumed an average cost of \$10.12 per mcf. The results of this
20 calculation, as shown on line 16, increase the CAP revenue credit
21 adjustment by \$1.578 million.

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

70. **Q. Please describe the calculation on lines 17 to 19 of Schedule D-5C.**

2 Ao This adjustment is designed to recover the increased CAP revenue credits
3 that PECO will incur as a consequence of the requested rate increase if, as
4 proposed, the customer payment level is frozen at its proposed amount
5 The Company's CAP proposal establishes a revenue level for payment,
6 determined at the Company's present rates before any rate increase, by the
7 customers participating in the CAP. In order for the Company to maintain
8 that revenue level for its CAP customers and also receive its full revenue
9 increase authorized in this proceeding, the Company would have to
10 increase the CAP revenue credit. However, if the Company increased the
11 CAP customers' revenue requirement for the revenue increase, CAP
12 customers would have a bill that exceeded the CAP revenue threshold
13 established by the proposed CAP program. The Company has therefore
14 proposed to treat the additional amount of the revenue increase that would
15 have been charged to CAP customers, estimated at \$2.671 million, like the
16 other revenue credits.

17 71. Qo **What is the total adjustment for the CAP changes and related**
18 **elements?**

19 Ao As shown on line 20 of Schedule D-5C, the total adjustment to the CAP
20 revenue credit is \$9.842 million.

21 72. Qo **What is the purpose of the adjustment on Schedule D-5D?**

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 The adjustment on Schedule D-5D removes the Gas Rate IS (Intermittible
2 Service) revenues and expenses from the calculation of present rate
3 revenues and gas costs. For this margin removal, 75 percent would be
4 provided to customers through the Purchased Gas Cost Rate and the other
5 25 percent would be appropriately retained by the Company.

6 73. **Q. Please describe the adjustment on Schedule D-5E.**

7 mo The adjustment detailed on Schedule D-5E corrects the budgeted revenues
8 to reflect the appropriate amount of State Tax Adjustment Surcharge
9 ("STAS") revenue offsets for the FTY and reduces present rate revenues
10 by \$3.607 million as shown on line 10.

11 74. **Was an estimate for this STAS revenue offset included in the**
12 **Company's 2008 budget?**

13 mo Yes, it was. The Company estimated that the additional amount of STAS
14 revenue credits approximated \$2.6 million, but the Company included that
15 amount as an increase to purchased gas costs in the budget instead of a
16 reduction to revenues. The adjustment on Schedule D-5E, based on later
17 data, corrects for the amount of the STAS revenue in total and the
18 adjustment on Schedule D-6B removes the \$2.6 million from the
19 purchased gas costs.

20 75. **Qo What is the adjustment shown on Schedule D-5F?**

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 mo This adjustment is a revenue neutral adjustment to transfer the STAS
2 revenue into specific customer classifications for the FTY. The STAS will
3 be reset to zero when new rates are established in this proceeding.

4 **76. Q. Please describe the adjustment shown on Schedule D-5G.**

5 mo This adjustment is necessary to remove the leap-year impact included in
6 the Company's 2008 budget. Since the Company included revenues for
7 the twenty-nine days in February, which occurs only once in every four
8 years, the Company has reduced the budgeted revenues and gas costs by
9 three-quarters of a day. This results in a decrease in revenue of \$4.433
10 million (Line 19) and a related decrease in gas costs of \$3.459 million
11 (Line 20) for a net revenue reduction of \$974,000 as shown on line 21.
12 That amount is then reduced by twenty-five percent to recognize that one-
13 quarter of the deleted day would be included in the FTY yielding a net
14 revenue decrease of \$731,000. In addition, the Company has reduced its
15 budgeted non-gas operating expenses by \$227,000. The net amount for
16 the leap-year adjustment is a net reduction in revenue of \$504,000 as
17 shown on line 29 and also on line 19 in column 9 on Schedule D-5.

18 **77. Qo Please describe the adjustments to purchased gas costs shown on**
19 **Schedule D-6.**

20 Ao These adjustments show the appropriate changes in gas costs related to the
21 revenue adjustments made by the Company on Schedule D-5.

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

78. Please describe the adjustment on Schedule D-6A.

2 Ao The Company has increased its budgeted revenue and gas cost expense by
3 \$58.1 million to reflect its latest estimate of gas costs. This adjustment
4 has no effect on the calculation of PECO's base rate revenue requirement
5 in this proceeding.

79. Q. Please describe the adjustment included on Schedule D-6B.

7 Ao This adjustment removes an estimated amount for additional STAS
8 revenue credits that was included in the 2008 budget, but included as an
9 adjustment to gas costs. As described in connection with the STAS
10 revenue credit adjustment on Schedule D-5E, this estimate has been
11 removed because the correct adjustment was included in the associated
12 revenue adjustment.

13 **80. Qo Please describe the other adjustments on Schedule D-6.**

14 Ao Those adjustments, for the removal of Off-System Sales and Rate IS
15 related elements, are shown on Schedules D-5A and D-5D and described
16 in connection with those schedules.

17 OPERATING EXPENSE ADJUSTMENTS

18 **81. Q. Does the Company budget its operating expenses by FERC account?**

19 No, as mentioned previously, it does not. Rather, the Company budgets its
20 operating expenses by cost element or corporate activity, such as payroll,

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 employee benefits, rent, etc. There are several accotmts, such as Account
2 928, Regulatory Commission Expense, and Account 909, Informational
3 Advertising, where the cost element budget is equal to the budget for a
4 specific FERC account. In those instances, those accounts were removed
5 from the restatement process and the specific FERC account budget
6 amount was used in the FERC budget restatement process.

7 **82. How then were the 2008 budget data restated by FERC account for**
8 **purposes of preparing this rate application?**

9 ^{Ao} The recorded 2007 FERC balances were analyzed to develop a chart
10 showing each cost element within each FERC account. After this process
11 was completed, I then distributed the budgeted 2008 cost elements (with
12 the exception of several accounts, like Account No. 928, where a direct
13 budget amount was used) to the FERC accounts using the ratios actually
14 experienced in 2007. For example, I determined how much of the \$28.6
15 million in payroll expensed for 2007 was charged to each FERC account
16 in 2007 and then distributed the 2008 budgeted payroll to FERC accounts
17 based on those ratios. This process was used for each cost category to
18 transform the 2008 expense category budget to a FERC-based budget.

19 **83. Q. Why was it necessary to transform the 2008 cost category budget to a**
20 **FERC-based budget?**

21 Essentially for two reasons. First, the Company's annual reports are
22 presented on a FERC account basis and having the test year budget

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 presented in the same format facilitates a comparison of the budget data to
2 prior years' experience. Second, it was necessary to have the budgeted
3 data available by FERC account for use by Mr. Gorman in his Cost of
4 Service Study.

5 **84. Q Did Company personnel review your proposed distribution of the**
6 **budgeted expense data across the FERC accounts?**

7 ^{Ao} Yes, and they confirmed the reasonableness of the process and the results.

8 **85. Qe In your opinion, does this process result in a fair presentation of the**
9 **Company's 2008 budgeted expenses by FERC account?**

10 ^{mo} Yes, it does.

11 **86. Qo Were each of the pro forma adjustments reflected on Schedule D-3**
12 **also charged to the appropriate FERC accounts?**

13 Yes, they were. Like the salary & wages adjustment, each pro forma
14 adjustment was calculated based on the cost element and then distributed
15 to the appropriate FERC.

16 **87. Qo Are the various pro forma expense adjustments presented on**
17 **Schedule D-3?**

18 Yes, they are. The cost elements are identified in the headers of the
19 columns on pages 1 and 2 of Schedule D-3 and each adjustment is
20 described in connection with a separate schedule showing its derivation.

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 These adjustments which were calculated by cost category and are shown
2 by FERC expense category on the Section D summary schedules.

88. **Q. Please describe Schedule D-7.**

4 Ao Schedule D-7 consists of two pages and shows the calculation of the FTY
5 annualization adjustment for salaries and wages ("S&W"). Column 2
6 contains the 2008 budget data showing a total to be expensed (\$31.920
7 million) (line 16) and to be capitalized (\$12.0 million) (line 18). Column
8 .5 shows the annualization adjustment of \$1.8 million distributed to the
9 FERC expense categories, while column 6 lists the pro forma amounts
10 claimed, totaling \$33.7 million as shown on line 16.

11 89. Qg **How was the annualization adjustment derived?**

12 No The calculation is shown on page 2 of Schedule D-7. In short, the
13 adjustment annualizes budgeted S&W expense to reflect (1) the number of
14 employees at the end of 2008 and (2) certain pay rate increases to become
15 effective during or shortly after the FTY. More specifically, I have
16 captured a full twelve months of the 3.5 percent pay rate increase, as
17 required to annualize the pay rates effective on March 1, 2008. In
18 addition, I have included an annualization of the projected 3.5 percent pay
19 raise for employees who receive their normal annual pay increase on
20 January 1, 2009. I have also included an increase for those employees
21 who receive their annual pay increase on March 1, 2009. This will better
22 match the expenses with the period the rates from this proceeding will be

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 effective. For example, rates from this proceeding should be effective
2 around January 1, 2009 and it is common practice to include changes to
3 expenses projected to occur shortly after the end of the FTY.

4

5 **90. Q. How did you determine the 50 percent split for the employees**
6 **receiving raises on January 1 and March 1 as shown on line 3 of page**
7 **2 of Schedule D-7?**

8 mo I reviewed the types of employees included in each group and determined
9 that, because we were looking to annualize the expenses only and since
10 the senior management group was included in the March 1 increase
11 section, the ratio for the March 1 group needed to be increased. Because
12 the senior management group would have a higher per employee S&W
13 amount, the percentage of S&W for this group would have to increase
14 from the employee count shown on line 2. In addition, a smaller percent
15 of the S&W for the senior management group would be capitalized
16 resulting in an additional increase in the ratio of S&W expensed. I have
17 estimated that these adjustments would result in a ratio approximately
18 50% / 50% instead of the ratio shown on line 2 of 56.4% / 43.7%.

19 **91. Please describe Schedule D-8 of Exhibit RLO-1.**

20 mo Schedule D-8 shows the adjustment to normalize rate case expense. The
21 Company expended approximately \$0.3 million during 2007 and has

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

budgeted an additional \$1.7 million for 2008. This adjustment, which
2 normalizes the total estimated cost of this case over a three-year period,
3 yields a normalized annual expense of \$656,000.

4 92. **Q. Please describe Schedule D-9 of Exhibit RLO-1.**

5 mo The top half of Schedule D-9 shows the calculation for the annualization
6 of the non-pension employee benefits in the amount of \$261,000 on line 8
7 to reflect a full year's level of costs associated with employees to be added
8 during the FrY and for changes in the level of expense. The details of this
9 adjustment are set forth on page 1, lines 1 to 5, and on page 2, lines 10 to
10 17 of Schedule D-9. The annualization for the number of employees
11 shown on lines 1 to 5 reflects an addition of 9 full-time equivalents
12 ("FTE") for the FrY as calculated on page 2, lines 1 to 9. The Company
13 had an employee complement of 520 gas employees at December 31, 2007
14 and has budgeted an additional 18 employees being added in the FTY.
15 This, as shown in column 2, was assumed to occur equally throughout the
16 year and would result in 529 FTEs in the budget. The addition of the 9
17 FTEs is required to show the employee complement at the end of the FTY
18 so benefits for them can be annualized. In addition the calculations on
19 lines 10 to 17 show an additional annualization adjustment to recognize
20 the increase in employee benefits costs per employee. The calculation
21 reflects an additional cost for the FTY of \$100,000 as shown on line 17
22 and brought forward to page 1.

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 93. **Q. How was the \$3.0 million annual pension contribution amount**
2 **derived?**

3 Ao The \$3.048 million figure represents the estimated annual amount to be
4 contributed to PECO' s pension funds on behalf of its gas operations over
5 the 4-year period, 2008-2011, as determined by the Company's outside
6 actuary, Towers Perrin. The Company believes that the \$3.048 million
7 four-year average is representative of the costs it will incur on a
8 normalized ongoing basis and should be used for the FTY.

9 94. **Qo What is presented on Schedule D-10 of Exhibit RLO-I?**

10 Ao Schedule D-10 calculates an adjustment to the Company's budgeted
11 uncollectible expenses. Lines 1 to 6 develop a five-year average rate of
12 uncollectible accounts charged off to total tariff revenue for the 2003-2007
13 period, which is then used in determining the level of uncollectibles
14 expense at pro forma proposed rates, as shown in column 2 of Schedule D-
15 1. It is also used to adjust the amount of uncollectible expense in the
16 budget to conform to the five-year average for the charge offs. The
17 resulting 1.0441 percent shown on line 6 in column 5 is used on line 14
18 with the pro forma revenues at present rates for the FTY to calculate the
19 pro forma uncollectibles of \$9.137 million shown in column 4 on line 14.
20 This results in an increase in the uncollectibles for the FTY over the
21 budget of \$984,000 as shown on line 15. This adjustment, based on the
22 five-year average for the charge-off amounts, is then added to the five-

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

year average of pre-program arrearages ("PPA") associated with the CAP which are not included in other accounts. This PPA average is calculated in column 2 on lines 7 to 11 and shown as \$1.826 million on line 12 in columns 2 and 5. The total adjustment for uncollectibles at present rates for the FTY is \$2.810 million as shown on line 16 and brought forward to Schedule D-3 in column 8 on page 1. In addition, the 1.0441 percent rate is used to provide for uncollectible expenses associated with the required revenue increase as shown on Schedule D-1.

95. Q. Please describe Schedule D-11.

10 mo Schedule D-11 shows the additional expenses the Company will incur in
11 connection with the revisions proposed for the CAP. These expenses
12 include training for Company employees and customer education
13 materials relative to the new aspects of the program and are discussed by
14 Mr. McHugh in his direct testimony (PECO St. No. 6).

96. Qo Please describe the adjustment shown on Schedule D-12.

16 mo This adjustment removes certain budgeted expenses that reflect expenses
17 not normally allowed in setting utility rates in Pennsylvania. As shown on
18 Schedule D-12, these include advertising related to corporate image and
19 other activities not related to customer related instructional or
20 informational activities. In addition, charitable contributions and lobbying
21 expense are removed. The total reduction in budget expenses is \$1.594

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 million and includes both costs directly incurred by PECO and the portion
2 of service company billings attributable to these activities.

97. **Q Please describe Schedule D-13.**

4 ^{Ao} This adjustment is presented in two parts. First, Adjustment D-13A
5 removes the budgeted amount of costs associated with clean-up of the
6 manufactured gas plant ("MGP") sites. The negative budgeted expense of
7 \$765,000 reflects the Company's recovery of insurance claims, which
8 were amortized over a five-year period. As explained by Mr. Alden
9 (PECO St. No. 1), the Company does not anticipate receiving any further
10 insurance proceeds.

11 Second, the Company proposes to normalize the total estimated remaining
12 costs for its MGP program over the estimated remaining remediation
13 period netted against the balance at December 31, 2008. The Company
14 estimates that it will have a balance of MGP clean-up funds at December
15 31, 2008 of \$180,000. PECO also projects that it will be required to spend
16 \$27.936 million over the 2009-2013 period, or \$5.551 million (net of the
17 \$180,000 FTY-end balance) on a normalized basis.

18 **98. ^{Qe} Please describe the adjustment on Schedule D-14.**

19 ^{mo} The adjustment on Schedule D-14 reflects the interest expense that the
20 Company must pay on customer deposits. Since the average balance of
21 customer deposits is used as a reduction to rate base, the interest expense

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 is included as a pro forma expense for the FTY. The interest for
2 residential customers was calculated using an annual rate of 6 percent
3 while the amount for commercial and industrial was calculated using an
4 annual rate of approximately 2 percent. The total pro forma expense of
5 \$489,000 is shown on Schedule D-14, line 27 and brought forward to
6 Schedule D-3, page 2.

99. Q. Please describe the pro forma adjustment on Schedule D-15.

8 mo This adjustment reflects an increase in the budgeted amount for research
9 and development expenses in the amount of \$500,000. Support for this
10 increase is provided by Mr. Alden (PECO St. No. 1). The adjustment is
11 shown on line 7 and also on Schedule D-3, page 2.

12 100. oo **Please describe the components of the test year adjustments shown on**
13 **Schedule D-16.**

14 mo Schedule D-16 contains three adjustments related to the proposed
15 expansion of the Company's energy efficiency program ("EEP") described
16 by Ms Lentini (PECO St. No. 7). These adjustments include the cost of
17 the expansion of the existing program, the amortization over the years of
18 the start-up costs for the expansion and the lost revenue associated with
19 the EEP. As detailed by Ms. Lentini, the total annual cost of the
20 expansion of the EEP is \$2.477 million, as shown on line 1 of Schedule D-
21 16. This amount is brought forward to Schedule D-3, page 2.

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 101. Q. Please describe the pro forma adjustment for LIURP.

2 This adjustment reflects the costs for the FTY for the program expansion
3 as described by Mr. McHugh (PECO St. No. 6). The Company has
4 determined its pro forma test year amount using a 0.2 percent factor times
5 the overall revenue level. Because this is an expense element that is based
6 on revenue, I have included the 0.2 percent in my calculation of the gross
7 revenue conversion factor ("GRCF") shown on Schedule D-20, page 2 and
8 also as an expense associated with the increase in revenues as shown on
9 Schedules D-2 and D-1 in the revenue increase column on each schedule.

10 **TAXES - OTHER THAN INCOME TAXES**

11 **102. Please describe Schedule D-18.**

12 ^{no} Schedule D-18 presents an adjustment to increase payroll taxes that is
13 related to the adjustment to payroll described in connection with Schedule
14 7, and an adjustment to the Capital Stock Tax related to the decrease in the
15 rate from 2008 to 2009. The calculation for the payroll change is made on
16 Schedule D-18, page 2 while the reduction in the Capital Stock Tax
17 expense for the reduction in the rate is shown on page 1 on lines 11 to 16.
18 The calculations for the increase in payroll taxes, as shown on page 2,
19 lines 1 to 4 for FICA expense, use the ratio of tax expense to payroll
20 expense included in the 2008 budget times the payroll adjustment for 2008
21 to produce an adjustment to FICA expense for the FTY of \$145,000 as
22 shown on line 4. The same procedures were followed for the other related

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

payroll tax items. The total pro forma increase of \$159,000, shown on
page 1 on lines 4 to 9, is offset against the reduction for the Capital Stock
Tax on line 2 of \$391,000 and the net amount is brought forward to
Schedule D-3, page 2, column 10, line 63 for a net reduction in FTY
expense of \$232,000.

**103. Please describe the adjustment for the Taxes-Other Than Income
shown on Schedule D-18, page 1 of 2, lines 11 to 16 for the Capital
Stock Tax.**

^{AO} This adjustment uses the 2009 Capital Stock Tax rate to match the period
the new rates from this proceeding will be effective. As shown on line 11,
the rate is scheduled to decrease from the 2008 rate of 0.00289 on line 12
to the 0.00189 rate on line 11. As such, the Company is decreasing the
2008 budgeted amount of \$1.13 million shown on line 2 of page 1 to 65.40
percent for the FTY. The pro forma amount of \$739,000 requires a
reduction in the FTY expense of \$391,000, as shown on line 16 and also
on line 2 of page 1 of Schedule D-18 in column 3. The net adjustment to
Taxes Other Than Income of \$232,000 is brought forward to Schedule D-
3, page 2.

DEPRECIATION EXPENSE

**104. Q. Please describe the adjustment to depreciation expense on Schedule
D-19, pages I and 2.**

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 mo The Company's claimed depreciation expense allowance was developed
2 and is presented by Mr. Galvanoni (PECO St. No. 4). The adjustment set
3 forth on Schedule D-19 annualizes budgeted 2008 depreciation expense
4 levels to reflect a full year's depreciation on plant in service at December
5 31, 2008. The total depreciation expense for the gas plant for the FTY is
6 \$29.1 million for the gas utility plant as shown on Schedule D-19, page 2,
7 line 61, column 6. The FTY amount for the depreciation of common plant
8 is \$6.0 million as shown in column 6 on line 64 of Schedule D-19. The
9 adjustments for the gas plant depreciation and the common plant
10 depreciation are shown on Schedule D-3, page 2, column 11 on lines 60
11 and 61.

12 INCOME TAXES

13 105. **Please describe the income tax calculation shown on Schedule D-20,**
14 **page 1.**

15 A° This schedule calculates the pro forma income tax expense for the FTY at
16 present and proposed rates, as set forth in columns 3 and 5, respectively.
17 Line 1 shows the revenue at present and proposed rates, while line 2
18 shows the total operating expenses at present and proposed rates from
19 Schedule D-1. Line 3 shows the operating income before income taxes
20 ("OIBIT"). Synchronized interest expense is calculated on lines 4 to 6
21 using the total measures of value for the FTY on line 4 and the weighted
22 cost of debt recommended by Mr. Moul (PECO St. No. 5) on line 5. The

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 resulting interest expense on line 6 is used to reduce the taxable income on
2 line 7.

3 In compliance with Commission practice, the total difference between
4 accelerated tax depreciation as shown on line 8 and the pro forma book
5 depreciation shown on line 9 is used to reduce the state taxable income as
6 shown on line 10. In addition, the repair allowance deduction is also used
7 to reduce the state taxable income, also shown on line 12. The Company
8 then used the statutory state income tax rate of 9.99 percent to determine
9 the pro forma state income tax expenses as shown on line 13. Federal
10 income tax expense is calculated on lines 14 to 19. Lines 21 to 25 to
11 reflect the deferral of Federal income taxes on the difference between the
12 accelerated tax depreciation and the straight line tax depreciation as
13 required by Federal income tax regulations.

14 The deferred Federal income tax is used to reduce the pro forma income
15 tax expense at present and proposed rates with the total calculated amount
16 for income taxes before other adjustments shown on line 26. This
17 deferred Federal income tax amount is also used to increase the ADIT,
18 which is used to reduce the measures of value included in this proceeding.
19 The other adjustments include the amortization of the investment tax
20 credit ("ITC") for the gas plant and for the gas portion of the common
21 plant as shown on lines 27 and 28, respectively, as well as the adjustment
22 for the consolidated income tax offset which is shown on line 29.

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

106. Please explain the nature and calculation of the ITC amortization.

2 The ITC represents tax credits used by the Company in years prior to
3 1987, the amortization of which will not have been completed by the end
4 of the FTY. While the availability of the tax credits ended in 1987, they
5 were amortized over the useful life of the assets used to generate the ITC.
6 The amount of the test year amortization reflects the amortization for 2008
7 which is provided as a reduction to the income tax expense at both present
8 and proposed rates, as shown on Schedule D-20, page 4, line 8, and
9 brought forward to Schedule D-20, page 1, lines 27 and 28.

10 **107. Does PECO participate in the filing of a consolidated Federal income**
11 **tax return?**

12 Yes it does. PECO participates in a consolidated federal income tax return
13 as part of the Exelon Corporation (Exelon) consolidated group (the
14 "Consolidated Group").

15 **108. Has PECO reflected a consolidated income tax adjustment ("CTA")**
16 **in calculating its claim for Federal income tax expense in this**
17 **proceeding?**

18 ^{no} Yes, it has. PECO has made a CTA of \$325,000, as shown on Schedule
19 D-20. While PECO disagrees that any CTA should be made, it recognizes
20 that Pennsylvania appellate court precedent controls this issue.

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 Accordingly, the Company has calculated a CTA using the same basic
2 approach the Commission has employed in other rate cases.

109. Why does PECO disagree with the use of a CTA in setting rates?

4 mo It is PECO's position that it is inappropriate to impute to it any tax
5 consequence that arises from either income or costs that are not included
6 in the computation of the rates the Company charges for regulated service.
7 This would include that income and those costs incurred by entities within
8 the Consolidated Group other than PECO.

**9 110. What is your understanding of the CTA approach generally employed
10 by this Commission?**

11 It is my understanding that the Commission uses a three-year average of
the "modified effective tax rate" method to compute the CTA.

13 111. Is that the approach used in PECO's computation?

14 mo Yes, it is. Under the modified effective tax rate method, tax losses for
15 existing unregulated companies in the consolidated group are aggregated
16 and allocated to the companies (both regulated and unregulated) with
17 taxable income in proportion to their taxable income.

18 112. Please explain further how the calculation was made.

19 PECO used a three-year average of consolidated taxable income that
20 encompasses 2005, 2006 and 2007. In computing the tax results of the

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

various members of the Consolidated Group, PECO eliminated tax credits
2 and deductions attributable to subsidiaries of Exelon engaged in synthetic
3 fuel production because, by law, these tax benefits expired as of December
4 31, 2007 and the Exelon entity is no longer in the synfuel business. In
5 addition, the tax data were realigned to reflect a corporate reorganization
6 in 2007 that converted several entities to limited liability companies under
7 Exelon Generation. For each of the tax years 2005, 2006 and 2007, the
8 adjusted tax losses of unregulated corporations in the Consolidated Group
9 were summed, and a portion of that total was allocated to PECO based on
10 the proportion of PECO's taxable income to the taxable income of all
11 corporations (regulated and unregulated) with taxable income in the
12 Consolidated Group. The tax losses allocated to PECO were further
13 allocated between gas and electric operations based on the taxable income
14 derived from each.

15 113. **Q. Has a schedule been prepared showing the results of the CTA**
16 **computation you described above?**

17 mo Yes. Schedules showing the computation are set forth in Exhibit RLO-3.

18 114. **Qo What is the total income tax expense for the test year?**

19 As The income taxes are shown on Schedule 20, page 1 of 4, line 30 for pro
20 forma expense at present rates in column 3 of \$3.1 million, the increment
21 of income tax expense on the revenue increase shown in column 4 of

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 \$40.3 million and the pro forma income tax expense of \$43.4 million at
2 proposed rates shown in column 5.

3 115. Q. **Please describe Schedule D-20, page 2.**

4 Ao This schedule shows the calculation of the GRCF used on Schedule A-1 to
5 determine the revenues required to achieve the net operating income
6 required. These additional revenues are required to recognize the
7 uncollectibles and LIURP expenses associated with normal billings and to
8 pay the Federal and State income taxes attributable to the proposed rate
9 increase.

10 116. Q. **Please describe page 3 of Schedule D-20.**

11 This schedule provides a summary of the accelerated tax depreciation, the
12 straight line tax depreciation and book depreciation as used in the
13 calculation of income taxes on page 1 of Schedule D-20.

14 HISTORIC YEAR

15 117. Qo **Please describe the process used to prepare the pro forma 2007 HY**
16 **presentation contained in Exhibit RLO-2.**

17 Ao The basic process was the same as described in connection with Exhibit
18 RLO- 1 for each of the respective areas except that I used the actual
19 recorded data for the historic year 2007 (HY) as the starting point for
20 Exhibit RLO-2, while Exhibit RLO-1 used the budget data for the FTY

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 2008. As with the FTY, I reviewed the recorded data and, where
2 appropriate, made pro forma adjustments to the recorded data. In addition,
3 as will be described, I used data from Exhibit RLO-1 as the basis for
4 several of the pro forma amounts used in Exhibit RLO-2.

5 **118. Please describe Exhibit RLO-2, Schedule A-1.**

6 ^{As} Schedule A-1 shows a summary of the measures of value on lines 1 to 11,
7 operating revenue and expenses and calculated rates of return at present
8 and proposed rates on lines 12 to 21 and the revenue increase required on
9 lines 22 to 28. As shown on line 27, based on pro forma adjustments to
10 the 2007 recorded data, a revenue increase of \$92.9 million would have
11 been required.

12 **119. Please describe Schedule C-1.**

13 Schedule C-1 lists the measure of value components and shows that there
14 are no pro forma adjustments to the components listed in column 4. As
15 shown in column 3, several of the amount used are the same as those used
16 in Exhibit RLO-1. These amounts reflect 13-month averages for the
17 period ending December 31, 2007. Since those reflect actual data, they
18 were used for the HY calculations as noted and are described in
19 connection with Exhibit RLO-1 and the appropriate schedule. The total
20 measure of value for the HY is \$1.08 billion as shown on line 11 in
21 column 6.

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

120. Q. **What is contained in Schedule C-2?**

2 No Schedule C-2 contains 8 pages and presents gas plant in service at
3 December 31, 2007. Page 1 shows the pro forma plant by FERC account.
4 Page 2 shows a summary by plant grouping showing that there were no
5 adjustments to the recorded balances, which is also shown on pages 3 and
6 4 by FERC account. Pages 5 and 6 show the additions to plant in 2007.
7 Pages 7 and 8 show the plant retirements for 2007 by FERC account.

121. **Please describe Schedule C-3.**

9 Schedule C-3 contains 4 pages that provide the accumulated depreciation
10 by FERC account for the recorded historic year 2007. Pages 2 to 4 show
11 that there were no pro forma adjustments made to the recorded amounts.

12 122. **Please describe what is contained in Schedule C-4.**

13 No Schedule C-4 contains 6 pages that show the calculation of the cash
14 working capital ("CWC") for the HY of \$11.1 million as shown on line 6.
15 The data for the average prepayments on line 2, because it is based on the
16 thirteen-months average for the period ended December 31, 2007 which is
17 still appropriate for the HY calculations. In addition to the prepayments,
18 the data from Exhibit RLO-1 for most of the lag periods such as revenue,
19 payroll, pension, gas purchases and other disbursements was used in the
20 HY calculation. This is appropriate because most of the data used is the

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 actual data for 2007 and I am not aware of any changes that would make
2 those calculations inappropriate for the 2007 HY.

3 123. Q. **Please describe page 2 of 6 of Schedule C-4.**

4 mo Page 2 of 6 provides a summary of the calculations for each of the
5 elements of the CWC for the HY. The lag days shown on line 1 for
6 revenue and those in column 3 for the expenses are calculated in the CWC
7 presentation in Exhibit RLO-1 and are appropriate for use here since the
8 data used in the calculation is mostly from 2007 and therefore relative to
9 the 2007 lead-lag calculations. The expenses in column 2 and those
10 included in the determination of the lead-lag amounts for the accrued
11 taxes, interest and preferred dividends are the pro forma amounts for the
12 2007 HY. The resulting \$11.3 million of CWC is shown on line 16 and
13 brought forward to Schedule A-1 in the calculation of the measures of
14 value.

15 124. **Please describe pages 3 to 6 of Schedule C-4.**

16 mo These pages show the calculations for the 2007 HY following the same
17 procedures used for the FTY as described in connection with Exhibit
18 RLO-1, Schedule C-4. They include the lead-lag for the operating
19 expenses, taxes, interest and preferred dividend amounts.

20 125. **Please describe the calculations on Schedule C-6.**

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 These calculations present the ADIT for December 31, 2007. The
2 procedures followed are the same as those used for the ADIT calculation
3 at the end of 2008, except that year end 2007 balances were used. The
4 resulting ADIT for the gas utility plant and for the gas portion of the
5 common plant is \$178.9 million as shown on line 11 of Schedule C-6.

6 **126. Q. Please describe the calculation of the common plant shown on**
7 **Schedule C-8.**

8 This schedule shows the gas portion of the common plant at December 31,
9 2007. The gross common plant at December 31, 2007 is \$468.9 million
10 shown on line 6 in column 1. This amount is allocated to gas using the
11 21.06 percent allocation factor resulting in a gas amount for common plant
12 of \$98.7 million as shown in column 3. This gross plant amount is
13 reduced by the accumulated depreciation shown on lines 10 to 13 and then
14 net amount distributed to gas at December 31, 2007 is \$63.9 million as
15 shown on lines 18 to 20.

16 **127. What is presented on Schedule D-1?**

17 mo Schedule D-1 shows the net operating income at present rates and the
18 results with the revenue increase requirement of \$92.9 million calculated
19 on Schedule A-1. The pro forma results at present rates are shown in
20 column 1, the revenue increase in column 2 and the pro forma at the
21 increased revenue level is in column 3.

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

128. **Please describe Schedule D-2.**

2 ^{AO} Schedule D-2 shows revenue and expenses recorded for 2007, pro forma
3 adjustments and the pro forma revenue and expenses at present rates. This
4 schedule summarizes the adjustments in column 2 that are detailed on
5 Schedules D-3 and D-5 and explained in connection with other supporting
6 schedules to be described later in my testimony.

7 **129. Q. Please describe Schedule D-3.**

8 ^{MO} Schedule D-3 contains two pages which present a summary of each of the
9 pro forma adjustments made to revenue and operating expenses including
10 depreciation and taxes-other than income taxes. Each of the adjustments
11 will be described in connection with the specific schedule containing the
12 calculation of the adjustment.

13 **130. Please describe Schedule D-5.**

14 ^{MO} Schedule D-5 shows the pro forma adjustments to the 2007 recorded
15 revenue. Each of the listed adjustments will be discussed in connection
16 with Schedules D-5A to D-5D. Some of the adjustments made in Exhibit
17 RLO-1, such as the STAS adjustments and the leap-year adjustment were
18 not made in 2007 because they are not appropriate.

19 **131. Please describe the adjustment on Schedule D-5A.**

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 mo This adjustment removes the revenue and gas costs related to the off-
2 system sales including sales for resale and Company share for capacity
3 release credits for the HY 2007 for reasons described in connection with
4 Exhibit RLO-1, Schedule D-5A, which removed the comparable amounts
5 from the FTY.

6 **132. Q. What adjustment is contained on Schedule D-5B?**

7 mo This adjustment annualizes revenues for the customer growth during 2007.
8 The process is the same as described in connection with the same
9 adjustment for the FTY on Exhibit RLO-1, Schedule D-5B.

10 **133. Please describe the adjustment on Schedule D-5C.**

11 mo Schedule D-5C shows the calculation of the pro forma increase in revenue
12 credits that are associated with the Company's proposed CAP changes as
13 described by Mr. McHugh (PECO St. No. 6). Lines 1 to 7 show the
14 additional revenue credits resulting from those proposed changes to the
15 calculation of the proposed CAP levels and use the uncollectible
16 adjustment described in connection with Exhibit RLO-1, Schedule D-5C
17 to reduce the revenue credit adjustment to the \$5.6 million shown in
18 column 4 on line 7. The adjustment on lines 8 to 13 reflects the
19 annualization for the increase in CAP customers during 2007.

20 **134. Qg Please describe the adjustment on Schedule D-5D.**

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 mo This adjustment removes the IS revenues and costs from the pro forma HY
2 calculations as described in connection with Exhibit RLO-1, Schedule D-
3 5D.

135. What is contained on Schedule D-6.

5 mo That schedule contains the adjustments to gas costs that are shown on
6 Schedules D-5A and D-5D related to the removal of the Off-System
7 revenue and the IS revenue.

136. Please describe Schedule D-7.

9 mo Schedule D-7 contains two pages showing the annualization adjustment
10 for salaries & wages for the 2007 HY. Page 1 shows the recorded
11 amounts in column 2 and the pro forma adjustment in column 5 by FERC
12 expense category. Page 2 shows the calculation of the adjustment, which
13 follows the same procedures described in connection with the FTY using
14 the data from 2007 for the number of employees and the average pay
15 increases.

16 137. **Q. What is contained on Schedule D-8?**

17 mo Schedule D-8 contains the adjustment for the normalization of the rate
18 case expenses using the same recorded and estimated amount used in the
19 FTY calculation on Exhibit RLO-1, Schedule D-8.

20 138. **Please describe the adjustments on Schedule D-9.**

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 These adjustments calculate the annualization of employee benefits and
2 pension expense following the same procedures used in the FTY and
3 described in connection with Exhibit RLO-1, Schedule D-9. The full-time
4 equivalents and recorded amounts reflect the 2007 HY data with the
5 exception of the estimated pension payment amount on line 9 of page 1
6 which is the same amount used in the FTY pro forma calculation.

7 139. **Are the adjustments on Schedules D-10 to D-18 similar to the**
8 **adjustments included in Exhibit RLO-1 and described in connection**
9 **with the schedules presented in that exhibit?**

10 ^{AO} Yes, they are. In some instances, such as interest on customer deposits,
11 the amounts are the same. With regard to the other schedules the amounts
12 reflect the data related to 2007.

13 140. **Please describe Schedule D-19.**

14 Schedule D-19 presents the depreciation and amortization expense for
15 2007 and an adjustment to annualize the depreciation expense for the gas
16 plant as shown in column 5. There was no adjustment for the
17 annualization of the depreciation and amortization for the common plant
18 and software, since it is believed the amount of the adjustment would be
19 minor and the data was not readily available at the time of the preparation
20 of this exhibit.

21 141. **Please describe the income tax calculations on Schedule D-20.**

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1 mo This schedule shows the calculation of the pro forma income tax expense
2 for the 2007 HY reflecting the revenue, expenses and measures of value
3 included in the pro forma present rate data. In addition, accelerated and
4 straight-line tax depreciation was calculated for the gas plant as shown on
5 page 2 and used in the calculations on page 1. The calculated income tax
6 expense amounts totaled on line 30 were used in the calculation of the
7 overall revenue increase requirement shown on Schedule A-1.

8 142. Q. **Does this complete your direct testimony?**

9 mo Yes, it does.