

DIRECT TESTIMONY
OF
STEPHEN R. XANDER

DOCKET NO. R-2008-2028394

Describing Proposed Changes To PECO's
Gas Universal Service Fund Charge And
Other Tariff Revisions

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1 **DIRECT TESTIMONY**
2 **OF**
3 **STEPHEN R. XANDER**

4 **I. INTRODUCTION**

5 1. Q. **Please state your name and business address.**

6 My name is Stephen R. Xander. My business address is 2301 Market Street,
7 Philadelphia, Pennsylvania 19101.

8 2. Q. **By whom are you employed, Mr. Xander, and in what capacity?**

9 mo I am employed by PECO Energy Company ("PECO" or the "Company") as Manager,
10 Retail Rates, in the Regulatory and External Affairs Department.

11 3. Q. **What is your educational background?**

12 mo I received a Bachelor of Science degree in Business Administration from Drexel
13 University in 1974. Additionally, I have completed the American Gas Association
14 ("AGA") Gas Rate Fundamentals program at the University of Wisconsin, the AGA
15 Advanced Gas Rate Course at the University of Maryland, and the Advanced Rate
16 Course sponsored by the Edison Electric Institute at Indiana University.

17 4. Q. **Please describe your work experience with PECO.**

18 mo Upon graduation from Drexel in 1974, I was employed by PECO as a Tax Accountant
19 in the Taxes Division. In 1982, I was promoted to Senior Tax Accountant. In these
20 positions my job responsibilities included tax planning, research, legislative analysis
21 and providing support for PECO's tax claims in rate proceedings.

1 In 1990, I was appointed to the position of Assistant to the Controller. In this position
2 my job responsibilities included the planning and implementation of financial controls
3 and the development of accounting systems.

4 In 1991, I was appointed Supervisor of Accounting Controls, Budget and Control
5 Division, with responsibility for preparing and analyzing financial information and
6 implementing accounting control procedures.

7 In 1992, I was appointed Supervisor, Gas Rates. After the Rate Division was
8 reorganized in 1995, I was appointed Manager, Tariff Administration and Policy. My
9 primary responsibility was the administration of the Company's electric and gas
10 tariffs, including the annual reconciliation of the Competitive Transition Charge
11 (CTC), Intangible Transition Charge (ITC), Purchased Gas Cost (PGC), and State Tax
12 Adjustment Surcharge (STAS) mechanisms. I am also currently responsible for the
13 Company's electric and gas Universal Service Fund Charge (USFC) mechanisms. In
14 addition, my responsibilities include coordinating the development of new electric
15 and gas rates and the preparation of financial information to support such new rates.

16 In 2007, my title was changed to Manager, Retail Rates.

17 **5. Q. Have you testified previously in any regulatory proceedings?**

18 Yes, I testified before the Pennsylvania Public Utility Commission (the "PUC" or
19 "Commission") in the Limerick 2 rate case (Docket No. R-891364) with respect to the
20 Company's tax expense claim. I also testified in the Company's securitization case
21 (Docket No. R-00973877) with respect to the rate reduction methodology,
22 reconciliation and required tariff changes; in the Company's electric restructuring

1 proceeding (Docket No. R-00973953) with respect to Universal Service cost recovery
2 and CTC recovery; and in the Company's gas restructuring proceeding (Docket No.
3 R-00994787) concerning tariff unbundling, the Migration Rider, proof of revenue
4 calculations and the impact on the Company's PGC. In addition, in 2002, I submitted
5 testimony concerning the Company's recovery of costs associated with the statutory
6 15 mill Revenue Neutral Reconciliation ("RNR") addition to gross receipts tax
7 ("GRT") (Docket No. R-00016856C0001) and in a case initiated by the Hatfield
8 Township Municipal Authority concerning CTC and ITC buyouts (Docket No. C-
9 20016610).

i0 6. Q. What is the purpose of your testimony in this proceeding?

11 ^{mo} My testimony will address (1) proposed changes to the Gas USFC mechanism that tie
12 recoveries to actual foregone revenues associated with PECO's Customer Assistance
13 Program ("CAP"); (2) proposed quarterly revisions to CAP discounts to coincide with
14 PGC changes; and (3) proposed changes to certain existing Gas Rules and
15 Regulations.

16 **II. CHANGES TO THE GAS USFC**

17 **Q. What is the Gas USFC?**

18 The Gas USFC is a mechanism that is designed to recover the revenue shortfall that
19 PECO experiences in providing discounted service to low income customers. In the
20 *Joint Petition for Settlement* that the Commission approved at Docket No. A-
21 110550F0147 (Unicorn Merger Proceeding), it was stipulated that PECO would be

1 entitled to recover \$200 annually through its Gas USFC for every customer enrolled
2 in its Gas CAP program in excess of a 17,500 customer threshold. The \$200 figure,
3 which was to remain in effect until PECO's next gas base rate case, was an estimate,
4 at the time, of the average dollar discount to be provided Gas CAP customers.
5 Viewed differently, it was assumed, for purposes of settlement only, that PECO's
6 existing base rates were sufficient to recover the revenue shortfall and related costs
7 attributable to the first 17,500 plan participants.

8 **8. Q. Does the Gas USFC, as currently constituted, provide for the annual**
9 **reconciliation of revenues and costs?**

10 ^{no} No, it does not. The fixed \$200 per customer figure was a negotiated amount and was
11 based on a profile of providing a total or partial discount only to the variable
12 distribution component of a customer's bill. If the programmatic changes to the Gas
13 CAP program proposed by Mr. Manus J. McHugh (PECO Statement No. 6) are
14 approved, the \$200 per customer amount that PECO is currently authorized to collect
15 (but only for customers in excess of 17,500) would be insufficient to cover the value
16 of the rate discounts provided.

17 ^o ^o **Have you quantified the dollar value of the discounts that would flow to Gas**
18 **CAP customers if those changes were adopted?**

19 Yes, I have. The average annual discount, expressed in terms of foregone revenues,
20 would exceed \$200 in all cases (i.e., for each of the four stratified Gas CAP income
21 categories), as follows: CAP A/B - \$1,147, CAP C - \$1,143, CAP D - \$389, and CAP

E - \$347. These discount amounts are based on average annual usage for CAP customers and pro forma PGC and distribution rates as presented in this proceeding.

3 10. Q. How does PECO propose to deal with this problem?

4 Ao Built into the base rates established at the conclusion of this case will be an amount of
5 foregone revenues that takes into account the undiscounted tariff charges approved for
6 Rate GR; the percentage discounts to be provided under the revised Gas CAP
7 program; and the projected number and usage of customers in each of the four Gas
8 CAP income categories. Mr. Robert L. O'Brien (PECO Statement No. 3) discusses
9 the quantification of the CAP revenue shortfalls and related adjustments, which are
10 calculated on Exhibit RLO-1, Schedule D-5C. On an annual basis, PECO will
11 determine the Gas CAP discounts actually provided during the preceding twelve
12 months; compare that figure to the amount of foregone revenues recovered in base
13 rates; and utilize the Gas USFC to reconcile over or under-recoveries.

14 11. Qo **How will the Company calculate the revenue shortfall to be included in this
15 calculation?**

16 Ao PECO will determine the difference between the revenues the customer would have
17 been billed under the otherwise applicable undiscounted residential rate (Rate GR)
18 and the amount the customer was actually charged under the appropriate Gas CAP
19 rate. As discussed by Mr. McHugh, the Company will offset the revenue shortfall
20 calculation by 13%, which represents, on average, the portion of CAP customers' bills
21 that go unpaid. Reducing the total revenue shortfall by this amount reflects a likely

1 reduction to uncollectible account expense associated with reduced billings to CAP
2 customers. In this way, PECO will be compensated for no more, and no less, than the
3 actual level of foregone revenues.

4 12. Q. Why is PECO proposing an annual reconciliation of the Gas USFC?

5 mo For several reasons. First, we expect that the number of customers participating in the
6 Gas CAP program will continue to expand as more people become aware of the
7 discounts that are available. Second, actual gas usage by Gas CAP customers could
8 be higher or lower than assumed in quantifying the foregone revenues built into base
9 rates. Third, gas supply costs have exhibited significant volatility over recent years
10 and, as a result, PECO has experienced wide swings in its PGC rate.

11 13. Q. Why is the volatility of purchased gas costs important?

12 mo At present, PECO's Gas CAP program provides relief in the form of partial or total
13 forgiveness of the variable distribution charge. As explained by Mr. McHugh, the
14 Company has proposed that henceforth eligible Gas CAP customers receive discounts
15 calculated as a percentage of their total gas bill, which, of course, includes the PGC.
16 In fact, the PGC currently accounts for 70% to 80% of a typical customer's bill.

17 14. Q. Please describe the reconciliation mechanism to be utilized by the Company.

18 The Company will reconcile costs on an annual basis using actual information for the
19 historic 12-month period ("E Factor") and projected costs for the future 12-month
20 period ("C Factor") in much the same way as it reconciles its PGC mechanism. The

1 Company proposes to compute the total costs of the discounts for the CAP customers
2 and then subtract the amount contained in residential base rates approved in this
3 proceeding. The difference (either positive or negative) would then be used to adjust
4 the Variable Distribution Charges for Rate GR (Gas Residential) contained in the
5 Tariff. Please refer to Exhibit SRX-1 for an illustration of this methodology and to
6 Exhibit SRX-2 for the applicable tariff pages.

7 The mechanism will operate under Section 1307(e) of the Public Utility Code, which
8 requires that the reconciliation be filed 60 days prior to a public hearing and that,
9 absent good cause to the contrary, the Commission, within 60 days after such hearing,
10 approve the reconciliation. The costs will also be subject to audit by the
11 Commission's Bureau of Audits. Based on the results of the approved reconciliation,
12 PECO will change the Gas USFC rate on an annual basis. The Company proposes to
13 synchronize changes in the Gas USFC with changes in the PGC and have the results
14 of the first annual reconciliation become effective on December 1, 2009. Therefore,
15 the initial Gas USFC reconciliation calculation made this way will be filed by July 31,
16 2009 and will include a reconciliation of costs for the period January 1, 2009 through
17 December 1, 2009 and a projection for the following 12 months.

18 **15. Q. Is the Company proposing to include interest in the reconciliation calculation?**

19 ^{mo} Yes, PECO proposes to use the statutory rate of interest permitted by law (currently
20 6%) for under and over collected amounts. Interest would accrue from the month of
21 over/under collection to the midpoint of the collection period, the sum of which

1 would result in a credit to customers if over collected or a charge to customers if
2 under collected.

16. **Q. What classes of service will be affected by the Gas USFC?**

4 **A.** Consistent with current practice, the Gas USFC will continue to apply exclusively to
5 the residential class.

6 17. **Q. Is the Company proposing to adjust the percentage CAP discounts as well?**

no Yes, under certain circumstances. Using the methodology described in Mr.
8 McHugh's testimony, PECO will recalculate the percentage discounts on a quarterly
9 basis to coincide with changes in the PGC (Dec. 1, Mar. 1, Jun 1, and Sep. 1). We
10 believe this proposal will minimize the need to change CAP discounts, thus
11 minimizing customer confusion, while at the same time ensuring that swings in the
12 PGC costs will not affect the discounts provided to CAP customers. The new
13 discounts will be filed with the Commission and become effective on one day's notice
14 to coincide with the quarterly PGC filings and notice requirement.

15 18. **Q. What are the percentage discounts that the Company is recommending in this
16 rate proceeding?**

17 As explained by Mr. McHugh, those discounts would be 90% for CAP A/B, 75% for
18 CAP C, 50% for CAP D, and 10% for CAP E as determined under 2008 budget
19 conditions. Based on average usage levels, those percentage discounts translate into
20 annual bills of \$300 for CAP A/B customers (using the minimum monthly guideline

1 of \$25 for a heating customer), \$305 for CAP C customers, \$609 for CAP D
2 customers, and \$1,097 for CAP E (see Exhibit MJM- 3). If the March 1, 2008
3 increase in the PGC and the effects of the base rate increases requested in this
4 proceeding are taken into account, somewhat greater percentage discounts are
5 required to meet these dollar billing targets. The discounts would remain at 90% for
6 CAP A/B and would increase to 79% for CAP C, 58% for CAP D and 24% for CAP
7 E as shown on Exhibit SRX-3. These discounts are reflected in the new proposed
8 tariff pages attached to Mr. McHugh's testimony.

9 **19. Q. Please describe the transition from the USFC mechanism currently in place to**
10 **the proposed USFC mechanism.**

11 The current USFC reconciliation is filed by July 31 in order to provide 60 days for the
12 Commission to hold a public hearing and 60 additional days for the Commission to
13 issue an Order, prior to the new USFC rate becoming effective on December 1. The
14 July 31 filing is updated with additional actual information prior to the public hearing
15 to make the reconciliation statement and new rate as accurate as possible. Since the
16 Commission's Order in this proceeding may not become effective until approximately
17 January 1, 2009, the Company will continue to operate under the existing USFC tariff
18 provisions for the balance of this year. Specifically, the Company will file its
19 reconciliation schedules and develop a new USFC rate to become effective December
20 1, 2008. The Company proposes to include the recovery of future USFC costs in base
21 rates, and therefore "zero out" the USFC rate, effective with the Commission's Final
22 Order in this case. In addition, the Company will track any under or over recoveries

1 from the "old" USFC mechanism through December 31, 2008, and roll such amounts
2 into the new USFC reconciliation mechanism.

3 **III. PROPOSED CHANGES TO EXISTING TARIFF**
4 **RULES AND REGULATIONS**

5 **20. Are you proposing any changes to the Company's existing tariff rules and**
6 **regulations?**

7 Yes. The Company is proposing revisions to Tariff Rules 7.3, 3.3 and 10.2 and the
8 Definition of Terms Section. The recommended changes are intended to promote
9 more effective administration practices and processes.

10 **21. What is the purpose of Rule 7.3?**

11 ^{no} Rule 7.3 governs the terms and conditions under which PECO will extend its gas
12 system to serve new customers. Simply stated, the Company will make a capital
13 investment in new facilities up to the additional estimated annual revenue ("EBAR")
14 to be generated over five years (as discussed subsequently, we are also recommending
15 changes to the application of the EBAR test). If the projected cost of the new
16 facilities exceeds PECO's required investment, the applicant(s) for service must fund
17 the difference. This type of line extension policy is common for gas distribution
18 companies and serves to hold the new applicant responsible for a portion of the
19 necessary capital costs, rather than spreading those costs over the total customer base.

20 **22. Q. What changes to Rule 7.3 are you proposing?**

1 First, we propose to clarify that the cost of meter installations is not included in the
2 projected capital cost of the new facilities. This reflects actual company practice and
3 is attributable to the fact that carrying costs associated with meter installations are
4 recovered through a customer's monthly Fixed Distribution Charge ("Customer
5 Charge"), which presently is not counted for purposes of the EBAR test.

6 Second, we propose to include, as distribution revenue for purposes of applying the
7 EBAR test, the portion of the Customer Charge approved in this rate case that
8 recovers the carrying cost of services. In effect, these revenues will become an offset
9 to capital costs the new customer would otherwise be responsible for. This will
10 equitably provide a benefit to the potential new customer by more closely matching
11 the revenue that will be provided by the new customer to the capital investment the
12 Company will be making to serve the new customer. Third, we propose to make clear
13 in our tariff the Company's longstanding practice of taking into account not only the
14 estimated revenue associated with buildings currently under construction in a
15 residential development, but also those that are to be completed within a three-year
16 period from the time of contract signing. Exhibit SRX-4 has a red-line version of
17 these tariff changes.

18 23. Q. Please describe Rule 3.3 and how the Company proposes to change it.

19 no Rule 3.3 describes the requirements for a suitable meter location. The proposed
20 changes are designed to clarify that the meter location should minimize any risk of
21 damage to the meter and to ensure that the meter is placed in a location that can be
22 accessed by the Company's remote meter reading system. It also specifies that the

1 location must allow for Company personnel to gain unimpeded access to the meter.

2 Exhibit SRX-5 has a red-line version of the tariff changes.

3 24. Q. Please describe Rule 10.2 and how the Company proposes to change it.

4 Rule 10 governs the relative responsibilities of PECO and the customer for Company
5 equipment on the customer's premises. The Company is proposing changes to Rule
6 10.2 to clarify that the customer is responsible for all reasonable costs incurred to
7 rectify an unsafe condition on the customer's premises resulting from changes made
8 to the premises after PECO has completed service and meter installations. Exhibit
9 SRX-6 has a red-line version of proposed changes to Rule 10.2.

10 25. Q. Why is this change necessary?

11 mo The Company repeatedly encounters situations where, after it installs a service and
12 places a meter in a safe location, a customer makes changes to the landscape of the
13 property or to the external appearance of his/her home or place of business. Often,
14 customer property changes result in unsafe meter locations. These rules would clarify
15 that after the Company installs a meter in a safe location, customers would be
16 responsible for maintaining a safe location and protecting the meter on their property.

17 26. Q. Can you describe actual situations where this has occurred?

18 mo Yes. The Company has received calls from the public that Company meters are
19 located in a parking area. Upon investigation, Company records reveal that the meters
20 were initially placed in a safe location, such as a grassy area. After the Company's

1 installation of the meter, the customer may have paved the grassy area and converted
2 it to a parking area. The meter is then subject to vehicular and other unanticipated
3 damage. Another example is where a residential customer builds an outdoor deck or
4 other structure over the immediate area where the meter is located, thus creating
5 potential safety and access issues.

6 **27. Please describe the change you are recommending to the Definition of Terms and**
7 **Explanation of Abbreviations Section of the tariff.**

8 The Company proposes to clarify the definition of delivery point to ensure
9 understanding of where the Company's service line ends and the customer-owned fuel
10 line starts. Therefore, the tariff will now specifically define the delivery point as the
11 point at which the Customer's facilities are connected to the Company's facilities,
12 which is the first fitting after the outlet side of the meter connection. Please refer to
13 Exhibit SRX-7 for a red-lined version of this tariff change.

14 **28. Q. Does this conclude your testimony at this time?**

15 **A.** Yes, it does.