

**PECO ENERGY COMPANY  
STATEMENT NO. 3**

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PECO ENERGY COMPANY – ELECTRIC DIVISION

DOCKET NO. R-2010-2161575

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DIRECT TESTIMONY

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WITNESS: ROBERT L. O'BRIEN

SUBJECT: PRESENTING PECO'S OVERALL  
REVENUE REQUIREMENT AND  
SUPPORTING CERTAIN RATEMAKING  
ADJUSTMENTS

DATED: MARCH 31, 2010

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1 (formerly Citizens Utilities Company) (“Citizens”) from 1975 to 1999 holding  
2 the positions of Vice President, Strategic Planning and Regulatory Affairs for  
3 Citizens’ Public Utilities Sector (1997 to 1999); Vice President, Corporate  
4 Regulatory Affairs (1978 to 1997); and Manager of Special Studies (1975 to  
5 1978). From 1967 to 1975, I was employed as controller by a series of  
6 companies engaged in the financial, communications, educational and printing  
7 industries. Prior to 1967, I was employed by Ernst & Young where I attained  
8 the status of Senior Auditor after four years (including two years work  
9 experience during a 5-year work-study program at the University of  
10 Cincinnati). I graduated from the University of Cincinnati in 1965 with a  
11 Bachelor of Business Administration, having majored in Accounting. I am a  
12 Certified Public Accountant.

13 **4. Q. Have you previously testified before the Pennsylvania Public Utility**  
14 **Commission (“Commission”) or any other regulatory agencies?**

15 A. Yes. I have testified before this Commission many times on behalf of  
16 Citizens’ water and telephone operations; on behalf of PECO Energy  
17 Company (“PECO” or the “Company”) in a 2008 gas rate proceeding; and on  
18 behalf of Duquesne Light Company in its 2005 application for a general rate  
19 increase. In addition, I have presented testimony in over 200 proceedings  
20 before state regulatory commissions in Arizona, California, Colorado, Hawaii,  
21 Idaho, Illinois, Indiana, Montana, Nevada, Ohio, Tennessee, Vermont and  
22 West Virginia on behalf of electric, natural gas, communications, water and  
23 wastewater utility companies. Those proceedings involved company-initiated

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

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

10 A. I was asked by PECO to assist it in preparing and presenting a request for a  
11 general rate increase for its electric delivery operations. More specifically, I  
12 will quantify PECO's overall revenue requirement, and will support certain  
13 pro forma ratemaking adjustments for the future test year ended December 31,  
14 2010 ("FTY") and the historic test year ended December 31, 2009 ("HTY"),  
15 and portions of the claimed measures of value, including PECO's cash  
16 working capital allowance.

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

20 A. In general, my assignment was to prepare pro forma adjustments to the  
21 Company's 2010 budget amounts to develop a pro forma test year  
22 presentation by Federal Energy Regulatory Commission ("FERC") account

1 classifications. As a starting point, I used PECO's actual (2009) and budgeted  
2 (2010) data. Where those data were not in FERC account format, I distributed  
3 the data to FERC accounts based on historic relationships and a review by  
4 PECO personnel to validate that the historic relationships were reasonable for  
5 the 2010 FTY. I then reviewed those data and, with input from Company  
6 personnel, developed certain standard ratemaking adjustments to annualize  
7 and normalize PECO's measures of value, revenue and expense claims.  
8 Finally, using the 8.95 percent rate of return recommended by Mr. Paul R.  
9 Moul (PECO St. No. 5), I calculated the overall revenue increase required.  
10 The resulting pro forma measures of value, revenues and expenses, including  
11 the proposed revenue increase, were used by Mr. Howard S. Gorman in his  
12 cost-of-service study ("COSS") (PECO St. No. 8) and by Mr. Alan B. Cohn in  
13 his design of customer-class rates (PECO St. No. 9).

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

15 A. Yes. Together with other Company witnesses, I am sponsoring portions of  
16 Exhibits RLO-1 and RLO-2, which comprise PECO's principal accounting  
17 exhibits for the 2010 FTY and the 2009 HTY, respectively, and Exhibit RLO-  
18 3, which includes workpapers for a consolidated tax adjustment reflected in  
19 the income tax calculation. As explained by Mr. Phillip S. Barnett (PECO St.  
20 No. 2), PECO's Chief Financial Officer, the base data for Exhibit RLO-1 were  
21 derived, for the most part, from PECO's 2010 capital and operating budgets;  
22 the corresponding data for Exhibit RLO-2 were taken from PECO's books and  
23 records for the year ended December 31, 2009. In addition, I am responsible

1 for the responses provided to certain of the Commission's standard data filing  
2 requirements.

3 **8. Q. Will you be discussing both Exhibit RLO-1 and Exhibit RLO-2?**

4 A. Yes, I will. However, because PECO is basing its proposed rate increase on  
5 the adjusted FTY (2010) data, I will focus my comments on Sections A  
6 (Summary), C (Measures of Value/Rate Base) and D (Operating  
7 Income/Revenues and Expenses) of Exhibit RLO-1. My testimony regarding  
8 Exhibit RLO-2, which is PECO's HTY (2009) accounting summary and is  
9 organized in essentially the same format as Exhibit RLO-1, will briefly  
10 address the pro forma adjustments and any area that requires additional  
11 comment or information.

12 **9. Q. How is the balance of your testimony structured?**

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



1 that are eliminated for jurisdictional ratemaking purposes; to reflect  
2 anticipated changes in revenues attributable to proposed changes in the  
3 Company's customer assistance program ("CAP") and the implementation of  
4 energy efficiency and conservation programs pursuant to Act 129; and other  
5 pro forma revenue adjustments as described in connection with those  
6 adjustments included in Exhibit RLO-1, Schedule D-5.

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

8 A. The pro forma FTY expenses were calculated using PECO's 2010 budget as a  
9 starting point. The budgeted expenses, which were prepared based on  
10 business activities and related cost elements such as payroll, employee  
11 benefits, etc., were distributed by me to FERC accounts using the distribution  
12 actually experienced by the Company during 2009, as adjusted based on a  
13 review of the 2010 budget data with Company personnel. The budget data  
14 were then annualized or normalized in accordance with established  
15 Commission ratemaking practices and other appropriate adjustments as  
16 described in connection with the specific schedules included in Exhibit RLO-  
17 1, Section D. Each of the annualization and normalization adjustments was  
18 then included in the appropriate FERC accounts.

19 **13. Q. Please describe how the taxes-other-than-income ("TOTI") were**  
20 **determined for the FTY.**

21 A. Those amounts were determined by using the budgeted figures for 2010, with  
22 pro forma adjustments to payroll taxes to capture the impact of the increase to

1 FTY salaries and wages and other adjustments to reflect known and  
2 measurable changes, as shown on Exhibit RLO-1, Schedule D-18.

3 **14. Q. Please describe the calculation of depreciation expense for the future test**  
4 **year.**

5 A. The pro forma depreciation expense for the FTY was determined using the  
6 year-end December 31, 2009 plant in service balances by FERC account plus  
7 an amount for the normal depreciation on 2010 plant additions and the current  
8 depreciable rates, lives and procedures described by Mr. Jorge Acevedo in his  
9 testimony (PECO St. No. 4). The total for these calculations is a depreciation  
10 expense of \$128.8 million as shown on Exhibit RLO-1, Schedule D-19, page  
11 1, line 41, column 4. This amount is then adjusted to capture the annualization  
12 of depreciation for FTY plant additions (column 5) and to reflect the changes  
13 in depreciation rates supported by Mr. Acevedo (column 6). Next, the total  
14 pro forma depreciation expense for electric operations is reduced by  
15 depreciation expense attributable to (1) transmission operations, as shown on  
16 lines 42 to 44, (2) Asset Retirement Costs on line 45, and (3) Smart Meters,  
17 Act 129 and Post 2010 elements as shown on lines 47, 48 and 49 respectively.  
18 The resulting pro forma FTY depreciation expense of \$101.3 million is shown  
19 on line 50 in column 7. This amount is increased by the electric distribution  
20 operations' allocable share of depreciation on common plant of \$23.8 million  
21 as shown on line 51 of page 1 (column 7) and detailed on page 2 of Schedule  
22 D-19 (column 7). The resulting figure, \$125.1 million, is shown on Schedule  
23 D-2, column 3 on lines 29 (\$124.7 million) and 30 (\$371,000).

1 15. Q. Why did you remove the depreciation expense attributable to  
2 transmission plant?

3 A. As noted by Mr. Craig L. Adams (PECO Statement No. 1) and as discussed in  
4 more detail by Mr. Cohn (PECO Statement No. 9), the Company is proposing  
5 to remove all transmission-related costs from its base rates with the exception  
6 of transmission related services required by the Company's default service  
7 customers. Those retail transmission costs are included in the Company's  
8 FTY revenue requirements as shown in Exhibit RLO-1. However, as  
9 described by Mr. Cohn, the Company is requesting that these retail  
10 transmission costs and expenses be recovered through a separate transmission  
11 service charge. If the Commission approves the Company's request for a  
12 retail transmission surcharge, those costs will be removed from the revenue  
13 requirement in this proceeding. This is discussed in more detail in connection  
14 with the revenue requirements portion of my testimony and in the testimony  
15 of Mr. Cohn.

16 16. Q. How were income taxes calculated?

17 A. Income taxes were calculated using the regulatory procedures normally  
18 followed by the Commission, including the use of synchronized interest  
19 expense; the normalization of the federal method difference for accelerated  
20 depreciation; the flow-through of other tax/book timing differences; the  
21 amortization of the unamortized investment tax credit; and the imputation of a

1 consolidated income tax adjustment. The income tax expense for the FTY at  
2 present and proposed rates is shown on Exhibit RLO-1, Schedule D-20.

3 **17. Q. Please describe how the pro forma revenue increase and revenues at**  
4 **proposed rates were established.**

5 A. Schedule A-1 of Exhibit RLO-1 shows the calculation of PECO's claimed  
6 revenue requirement and its requested rate increase. Column 3, lines 1 to 21,  
7 summarizes the pro forma measures of value; pro forma revenues at present  
8 rates; pro forma expenses and taxes at present rates; pro forma net operating  
9 income at present rates; and the calculated rate of return at present rates for  
10 the FTY. Lines 22 to 27 in column 3 set forth the calculation of the revenue  
11 increase required to provide the Company with the opportunity to earn the  
12 overall rate of return of 8.95 percent calculated and supported by Mr. Moul.  
13 The resulting required increase in net operating income on line 25 was  
14 increased by the Gross Revenue Conversion Factor ("GRCF") to provide for  
15 uncollectible expenses, gross receipt taxes, regulatory fees and income taxes  
16 on the increased revenues requested. The revenue increase shown on line 27  
17 of column 3 is then reflected on line 12 of column 4, which also contains the  
18 calculation of the expenses related to the revenue increase on lines 16 and 19.  
19 Measures of value, revenues and expenses at proposed rates are reflected in  
20 column 5, with the resulting rate of return of 8.95 percent shown on line 21 of  
21 column 5.

22 **18. Q. What is the overall required increase in annual revenues?**

1 A. As shown on line 27 of Schedule A-1, the proposed increase in annual  
2 operating revenues is approximately \$316.4 million, or 6.94 percent of  
3 PECO's total annual retail revenues from electric operations at current rates,  
4 as shown on line 28 of Schedule A-1.

5 **19. Q. What is contained in Schedule B?**

6 A. Schedule B contains financial data for the FTY which is being sponsored by  
7 Messrs. Barnett and Moul.

8 **III. MEASURES OF VALUE**

9 **A. Plant In Service**

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

11 A. Schedule C-1 summarizes the measures of value for the FTY. Column 2  
12 identifies the schedule where of each of the elements is derived and columns 4  
13 and 6 show the amounts at present and proposed rates, respectively. The  
14 Company's claimed rate base for the FTY as shown in column 6 on line 11 is  
15 approximately \$3.2 billion.

16 **21. Q. Please describe Schedule C-2 of Exhibit RLO-1.**

17 A. Schedule C-2 contains 6 pages and presents the Company's claimed FTY  
18 utility plant in service.

19 **22. Q. How was the utility plant in service of \$4.6 billion shown on Schedule C-2,**  
20 **page 1, line 41 determined?**

1 A. That amount represents the estimated plant in service balance at December 31,  
2 2010 and is based on utility plant in service at December 31, 2009 plus  
3 budgeted 2010 capital expenditures estimated to be closed to plant in 2010,  
4 less 2010 estimated retirements.

5 **23. Q. Please describe what is contained on Schedule C-2, page 2.**

6 A. Page 2, column 2, presents the estimated year-end plant balances by  
7 functional plant category. The adjustments summarized in column 3 reflect  
8 the removal of transmission-related plant and other plant as shown on page 6,  
9 while the balance in column 4 reflects the Company's estimated distribution  
10 plant in service at the end of the FTY. The estimated distribution plant in  
11 service at December 31, 2010 of \$4.6 billion shown on line 13 in column 4 is  
12 entered on Exhibit RLO-1, Schedule A-1, at column 3, line 1.

13 **24. Q. What is shown on page 3 of Schedule C-2?**

14 A. Page 3 shows the plant in service balances budgeted as of the end of the FTY  
15 by FERC account in column 2 and the adjustments to remove the plant related  
16 to Smart Meters, Energy Efficiency projects (lines 2 and 25), transmission  
17 plant included in the transmission accounts (lines 4 to 14) and the portion of  
18 the general plant assigned to transmission operations (lines 29 to 40). The  
19 calculation of the general plant allocated to transmission is described in  
20 connection with page 6 of Schedule C-2.

21 **25. Q. How about Schedule C-2, page 4?**

1 A. Page 4 sets forth the Company's estimated plant additions for 2010 by FERC  
2 account. These data were developed based on a review of the 2010 capital  
3 budget and historic data to determine the appropriate FERC accounts for the  
4 net additions of \$323.7 million (\$355.1 million in column 2 less the \$31.4  
5 million in column 3 on line 41) of construction expenditures to be closed to  
6 plant in the FTY. The adjustments in column 3 remove specific plant  
7 additions in the FTY as shown on page 6.

8 **26. Q. Please describe page 5 of Schedule C-2.**

9 A. Page 5 of Schedule C-2 presents the estimated retirements associated with the  
10 plant additions identified on page 4. The estimated retirements for 2010 were  
11 determined using the average of the three prior years' retirements of \$31.8  
12 million. This amount was distributed to the FERC accounts based on the  
13 average of the three prior years' retirements.

14 **27. Q. What is contained on page 6 of Schedule C-2?**

15 A. Page 6 details the adjustments necessary to remove all FERC-jurisdictional  
16 transmission and transmission-related intangible and general plant from the  
17 account balances as shown in columns 2 and 3. In addition, plant additions  
18 that are related to the Company's Smart Meter program (column 4) and its  
19 energy efficiency program (column 5) are also removed since that investment  
20 will be recovered through separate surcharges. Finally, software related to  
21 projects related to activities after 2010 has also been removed, as shown in  
22 column 6. As shown in Column 3, 14.986% of intangible and general plant

1 was allocated to the transmission function. The allocation factor is based on  
2 2009 actual balances.

3 **B. Accumulated Depreciation**

4 **28. Q. What is the purpose of Schedule C-3 of Exhibit RLO-1?**

5 A. This schedule, consisting of 4 pages, presents the accumulated provision for  
6 depreciation at December 31, 2010 by FERC account, as developed by Mr.  
7 Acevedo. PECO's claim of approximately \$1.34 billion is summarized on  
8 page 1 of Schedule C-3 and then carried forward to line 2 of Schedule A-1.

9 **29. Q. What is contained on the remaining three pages of Schedule C-3?**

10 A. Page 2 shows the pro forma accumulated depreciation for the FTY by FERC  
11 account category, including the adjustment to remove the accumulated  
12 depreciation for transmission plant and also those related to other plant  
13 adjusted out of the plant in service are summarized in column 3. Page 3  
14 contains the estimated 2010 accumulated depreciation and pro forma  
15 adjustment to remove the transmission related amounts, the Smart Meter,  
16 Energy Efficiency and Post 2010 amounts by FERC account, while page 4  
17 shows the amount of cost of removal net of salvage included in the test year  
18 accumulated depreciation calculations.

1           **C.     Cash Working Capital**

2 **30.   Q.    What is set forth on Schedule C-4, page 1, of Exhibit RLO-1?**

3           A.    This is a summary of the Cash Working Capital (“CWC”) calculations, which  
4                are detailed on pages 2 to 11 of this schedule. The total of \$350.4 million  
5                shown on line 6 is included in PECO’s claimed measures of value in columns  
6                3 and 5, line 4, of Schedule A-1.

7 **31.   Q.    Please describe page 2 of Schedule C-4.**

8           A.    Page 2 summarizes the derivation of PECO’s claimed revenue collection lag  
9                and overall operating expense payment lag. The revenue lag days are shown  
10              on line 1; the expense lag days for each of the expense components appear on  
11              lines 2 to 7; and the O&M expense lag days of 33.44 days is shown on line 9.  
12              The net lag in the collection of revenue of 21.07 days shown on line 10 is then  
13              multiplied by the average daily operating expense balance on line 11 to arrive  
14              at the base CWC amount of \$227.1 million for operating expenses shown on  
15              line 12. The average daily operating expense balance of \$10.8 million on line  
16              11 was determined by dividing the total pro forma annual operating expenses,  
17              excluding uncollectible accounts expense, of \$3.9 billion on line 8, column 2  
18              by the number of days in a year, 365. The other components of CWC are  
19              shown on lines 13 to 16 and will be described in connection with my  
20              discussion of related supporting schedules.

21 **32.   Q.    Please describe the revenue lag calculation shown on Schedule C-4,**  
22 **page 3.**

1           A.    The total revenue lag days shown on line 21 were determined by dividing the  
2                    average month-end accounts receivable balances for the thirteen months  
3                    ended December 31 2009 shown in column 2 on line 17 into the annual  
4                    revenue billed during 2009, as shown in column 3 on line 17. This results in  
5                    an accounts receivable turnover rate of 9.53 (column 4, line 17), which is  
6                    equivalent to 38.30 lag days (365 days divided by 9.53 accounts receivable  
7                    turnover rate), as shown in column 5 on line 17. This is referred to as the  
8                    collection lag or the payment portion of the revenue lag. The payment portion  
9                    of the revenue lag is added to (1) the 1.0-day lag between the meter reading  
10                   day and the day bills are recorded as revenue and accounts receivable by the  
11                   Company and (2) the 15.21 day service period lag, which is the time from the  
12                   mid-point of the service period until the meter reading date, generating a total  
13                   revenue lag of 54.51 days, as shown on line 21.

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

15           A.    The mid-point of the service period is equal to the days in an average month  
16                   (365 days divided by 12, or 30.42 days) divided by 2, or 15.21 days.

17 **34.   Q.    Please describe page 4 of Schedule C-4.**

18           A.    Schedule C-4, page 4, shows the calculation of the expense lags used in the  
19                   CWC calculation. Lines 1 to 5 reflect the payroll expense lag. The payroll  
20                   amounts reflect the budgeted payroll for the FTY as shown on Schedule D-7  
21                   for distribution related payroll. The lag periods for the payment of union and  
22                   non-union payroll are combined because all employees are paid in accordance

1 with the same schedule and reflect PECO's actual payment cycles. Lines 6 to  
2 13 show the lag in the payment of pension costs during 2009, which pattern of  
3 payments is expected to be followed in the FTY and 2011. The lag period is  
4 calculated using the mid-point of the year 2009 service period of July 1 and  
5 the payment dates shown in column 1. This results in an average payment lag  
6 of 36.47 days, which was applied to the pro forma pension expense from  
7 Schedule D-9, page 1, line 13 and shown on line 3 of Schedule C-4, page 2 of  
8 10.

9 **35. Q. How did you develop the lag days associated with the purchased energy**  
10 **costs shown on lines 14 and 15 of Schedule C-4, page 4?**

11 A. Effective January 1, 2011, PECO will purchase power for its default-service  
12 customers on the open market. To calculate its CWC requirements, the  
13 Company determined, on a monthly basis for the year 2011, the number of  
14 days between the midpoint of the applicable service month and payment,  
15 estimated to be the first business day after the 19<sup>th</sup> calendar day of the  
16 following month. This procedure yields a composite expense lag of 35.63  
17 days as calculated on page 11, lines 1 to 13.

18 **36. Q. Does the Company plan to purchase 100 percent of its energy**  
19 **requirements from contract suppliers?**

20 A. No, I am advised that the Company plans to purchase 5 percent of the energy  
21 requirements of its residential classes on the spot market.

1 37. Q. **Have you calculated a separate expense lag for spot market purchases?**

2 A. Yes. The spot market purchases will be paid weekly, on Friday, for purchases  
3 made through the week ended the previous Tuesday. This results in a  
4 payment lag of 6.5 days, consisting of 3.5 days for the mid-point of the seven  
5 day service period and 3 days for the period between the end of the service  
6 period and the payment date. Since the payments will be made by wire  
7 transfer, the total lag days will be 6.5 as calculated on page 11, lines 14 to 17.

8 38. Q. **Please describe how you determined the payment lag associated with  
9 other operating and maintenance expenses.**

10 A. The summary of the average payment lag for all remaining expenses, as set  
11 forth on lines 16 to 20 of page 4 of Schedule C-4, was derived from data for  
12 the four months shown in detail on page 5 of Schedule C-4. More  
13 specifically, I requested that the Company provide a listing of all cash  
14 disbursements during each of the four months selected in a format that would  
15 show the payee, the date the service was provided or the invoice date, the  
16 amount of the disbursement, the date the payment cleared the bank, the  
17 account to which the disbursement was charged and certain other data. Each  
18 month's listing contained thousands of cash disbursements.

19 39. Q. **How did you utilize the data provided by the Company?**

20 A. I added columns to the Company's schedule to show the number of days it  
21 took each disbursement to clear the bank and to calculate the dollar days (the

1 amount of the disbursement times the number of days the payment took to  
2 clear the bank) and sorted the disbursements by amount. I then eliminated  
3 disbursements that are included elsewhere in the CWC calculation.

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

6 A. First, I eliminated all disbursements related to capital charges since those  
7 would not be part of the Company's claimed operating expenses. Second, I  
8 eliminated all expenditures under \$1,000 since those amounts, while  
9 significant in number, would not have a meaningful impact on the overall lag  
10 day calculation. Third, I removed all commodity purchases since those are  
11 reflected in a separate CWC calculation as described. Fourth, I removed all  
12 amounts charged to non-expense accounts and any charitable contributions.  
13 Fifth, I adjusted for any items that were considered to be abnormal and/or  
14 non-recurring. Once these items were eliminated, I added a check clearing lag  
15 to the remaining disbursements that were paid by check. This process was  
16 completed for each of the four months shown on page 5, lines 1 to 8. The  
17 total for all four months of \$110.0 million for cash disbursements as shown in  
18 column 2 on line 9 of page 5 of Schedule C-4 and the related dollar-days of  
19 \$4.1 billion in column 3, were used to calculate the payment lag for general  
20 expenses of 37.74 lag days shown in column 4. The 37.74 lag days for Other  
21 Disbursements were then brought forward to Schedule C-4, page 2, line 7.

1 41. Q. Please explain how the average prepayments of \$7.8 million included on  
2 line 13 of Schedule C-4, page 2 were determined.

3 A. That amount is calculated on page 10 of Schedule C-4 and represents the  
4 thirteen-month average of actual amounts for each month end from December  
5 2008 to December 2009. As shown on page 10, the prepayments in question  
6 comprise fourteen different items, ranging from association dues to pole  
7 attachments to postage.

8 42. Q. How did you determine the lag days for the tax expense component of  
9 working capital shown on page 6 of Schedule C-4 and brought forward to  
10 page 2 on line 14?

11 A. The calculations on page 6 of Schedule C-4 use the pro forma tax expense net  
12 of transmission-related expense at proposed rates shown in column 3 and the  
13 net revenue lag days for each tax as shown in column 4. The result of the  
14 multiplication of those components is shown in column 5 and used as the  
15 working capital related to the taxes paid by the Company. The net payment  
16 lag days for each of the taxes are calculated on page 9 of Schedule C-4.

17 43. Q. Please describe the calculation of the interest expense lag shown on page 7  
18 and included on page 2 of Schedule C-4.

19 A. This calculation measures the lag associated with the semi-annual payment of  
20 interest on outstanding debt. The pro forma interest expense is the amount  
21 resulting from the synchronized interest calculation using the pro forma

1 measures of value and the weighted cost of debt included in the requested rate  
2 of return. The daily interest expense amount, calculated on line 5, is  
3 multiplied by the net payment lag of 36.74 for a reduction to the working  
4 capital allowance of \$8.6 million, as shown on line 9 and included on page 2  
5 at line 15.

6 **44. Q. Please describe the calculation of the working capital component related**  
7 **to preferred stock payments.**

8 A. This calculation, shown on page 8 of Schedule C-4, follows the same  
9 procedures as the calculation for interest expense on page 7. The pro forma  
10 dividend amount is developed on lines 1 to 4 and the per day amount shown  
11 on line 5. The lag days are calculated based on the quarterly dividend  
12 payment and the result is an addition to the working capital requirement of  
13 \$56,000, as shown on line 9 and also on line 16 of Schedule C-4, page 2.

14 **45. Q. What is presented on page 9 of Schedule C-4?**

15 A. As noted previously, this page provides the calculations of the net payment  
16 lag days for the tax component of PECO's CWC allowance. The type of tax  
17 and the payment schedule for that tax are shown in the description column  
18 with the actual payment dates reflected in column 1. The payment lead or  
19 (lag) from the midpoint of the service period is shown in column 3. The pro  
20 forma payment amount for each tax is shown in column 4 on the line with the  
21 name of the tax. For example, the federal income tax amount of \$107.7  
22 million is shown on line 1 in column 4. The payment amounts required are

1 reflected for each tax on the dates shown in column 1 and the weighted lead  
2 (lag) for each payment is calculated in column 5 for each tax. The payment  
3 lead (lag) days are calculated and shown on the total line for each tax. These  
4 days are compared to the lag days for revenue shown in column 7 and the net  
5 payment lag is shown in column 8 and also reflected on page 6 of Schedule C-  
6 4.

7 **46. Q. Why are separate calculations made for the various categories of tax**  
8 **expense?**

9 A. This is necessary because each of the tax expense items has separate payment  
10 dates. For example, as shown on page 9 of Schedule C-4, 25 percent of the  
11 estimated federal income tax liability is due on April 15, June 15, September  
12 15 and December 15 of each year. The tax payment dates and percents due  
13 for other tax expenses are not the same. Using a separate calculation for each  
14 tax expense provides a matching of the cash requirement for payment of those  
15 expenses with the anticipated cash from revenues.

16 **47. Q. What is shown on Schedule C-4, page 10?**

17 A. This page shows the calculation of the average prepaid expenses included in  
18 the CWC. The Company reviewed its prepaid accounts and selected only  
19 those prepaid expenses that were related, in whole or in part, to its electric  
20 delivery operations. The resulting prepaid accounts are shown in columns 2  
21 to 15 with the monthly totals in column 1. Where the items related entirely to  
22 the electric operations, such as the PUC Assessment in column 4, the total and

1 the average monthly amount were charged 100% to electric as shown on line  
2 15 in columns 2 to 9. In instances where the account related to both electric  
3 and gas operations, the total and average were distributed using an appropriate  
4 allocation factor as shown on line 15 in columns 10 to 13. Finally, where the  
5 prepaid expense is related to electric distribution and gas operations, the factor  
6 including only electric distribution operations was used as shown on line 15 in  
7 columns 14 and 15. The thirteen-month average for prepaid expenses for the  
8 electric distribution operations of \$7.8 million is shown on line 19 of Schedule  
9 C-4, page 10 and on page 1 of Schedule C-4, on line 5.

10 **48. Q. Please describe the calculations on page 11 of Schedule C-4.**

11 A. This page shows the calculation of the payment lag days the Company expects  
12 for its purchases of energy to provide to its customers. Lines 1 to 13 reflect  
13 the lag-days related to the contract purchases and lines 14 to 17 reflect the lag-  
14 days associated with the spot market.

15 **49. Q. What is the total amount of CWC included in the claimed measures of**  
16 **value?**

17 A. That amount is the \$350.4 million shown on Schedule C-4, page 1, line 6 and  
18 on Schedule A-1, columns 3 and 5, line 4.

19 **50. Q. Please describe Schedule C-5.**

20 A. Schedule C-5 was not used and therefore is blank.

1           **D.     Accumulated Deferred Income Taxes**

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

3           A.    Schedule C-6 shows the December 31, 2010 balance of accumulated deferred  
4           income taxes (“ADIT”) that is deducted in the determination of the measures  
5           of value. The ADIT shown on line 14 of \$573.8 million reflects the federal  
6           income tax that must be deferred in compliance with the normalization  
7           provisions concerning the use of accelerated tax depreciation on test year  
8           plant balances. The accelerated tax depreciation used in the determination of  
9           taxable income for federal and state income tax expense calculations is  
10          reflected on Schedule D-20.

11 **52.   Q.    Have you made an adjustment for the federal income tax on**  
12          **contributions-in-aid-of-construction (“CIAC”)?**

13          A.    No. PECO pays the federal income tax due on CIAC in the year the CIAC is  
14          received and includes that tax payment as a debit to the ADIT account as  
15          shown on line 6 for the Federal income tax and on line 12 for the State income  
16          tax. Under this procedure, the advanced income tax payment is included in  
17          the determination of the measures of value.

18 **53.   Q.    What is the amount of ADIT used in the measures of value?**

19          A.    The amount is \$573.8 million as shown on line 14 of Schedule C-6 and on line  
20          6 of Schedule A-1 in columns 3 and 5.

1           **E.     Customer Deposits**

2 **54.   Q.   Please explain how you determined the amount of customer deposits on**  
3           **Schedule C-7 that was deducted from the claimed measures of value on**  
4           **Schedule A-1.**

5           A.   That amount reflects the average month-end balance for the thirteen months  
6                ended December 31, 2009. The Company maintains a joint customer deposit  
7                account because many of its customers use both its electric and natural gas  
8                services. Schedule C-7 shows the customer deposits related to the Company's  
9                electric distribution operations.

10 **55.   Q.   How were the customer deposits allocated between electric and gas**  
11           **operations?**

12           A.   The customer deposits were allocated based on electric and gas customer class  
13                revenues.

14 **56.   Q.   What is the amount of customer deposits used in the measures of value?**

15           A.   The amount is a deduction of \$55.0 million, as shown on line 15 of Schedule  
16                C-7 and on Schedule A-1, line 7, columns 3 and 5.

17           **F.     Common Plant**

18 **57.   Q.   Please describe Schedule C-8.**

19           A.   Schedule C-8 calculates the amount of common plant and related  
20                accumulated depreciation that is properly allocated to PECO's electric  
21                distribution operations. Lines 1 to 10 reflect the components of the common

1 plant balance at December 31, 2010 and lines 11 to 19 reflect the associated  
2 components of accumulated depreciation on such plant as of that date. Total  
3 common plant and accumulated depreciation are presented in column 1 and  
4 the percent allocated to electric distribution operations is in column 2. The net  
5 common plant amount on line 22 in column 3 of \$225.5 million is included in  
6 the Company's measures of value on Schedule A-1, line 8, columns 3 and 5.  
7 The total common plant amount reflects the original cost of plant used in both  
8 electric and gas operations. The accumulated depreciation and amortization  
9 reflects the use of the Company's depreciation and amortization procedures  
10 and appropriate rates. As discussed by Mr. Acevedo, the allocation between  
11 electric distribution, electric transmission and gas operations is based on  
12 recorded data for three factors --- Plant in Service, Total Revenue and Total  
13 Customers that are frequently used to distribute common costs between utility  
14 services.

15 **G. Customer Advances For Construction**

16 **58. Q. What is contained on Schedule C-9?**

17 A. This schedule shows the average monthly balance of customer advances for  
18 construction of \$2.8 million on line 15, which is deducted in calculating the  
19 measures of value on Schedule A-1, line 9 in columns 3 and 5.

20 **59. Q. How were the monthly balances determined?**

21 A. The Company was able to identify the specific amounts attributable to its  
22 electric distribution operations based on a review of its accounting records.



1 discussion of the remaining schedules in Section D. Schedule D-1 also shows  
2 the revenue increase required of \$316.4 million on line 6 in column 2.

3 **63. Q. What is the indicated net operating income at proposed rates?**

4 A. As shown on line 26, column 3 of Schedule D-1, and also on Schedule A-1,  
5 line 20, column 5, that amount is \$289.7 million.

6 **64. Q. Please describe Schedule D-2.**

7 A. Schedule D-2 shows the derivation of the various line items on Schedule D-1.  
8 It begins with the Company's budgeted revenues and expenses for 2010 in  
9 column 1, and then annualizes and/or normalizes those figures through  
10 adjustments summarized in column 2. The pro forma data in column 3 are  
11 brought forward to Schedule D-1 and used in the determination of the required  
12 revenue increase. The various revenue adjustments in column 2 are  
13 summarized on Schedule D-3 and listed by adjustment on Schedule D-5, and  
14 the expense adjustments are summarized on Schedule D-3 and described in  
15 more detail on the separate adjustment schedules beginning with Schedule D-  
16 6.

17 **65. Q. Please describe Schedule D-3.**

18 A. Schedule D-3 summarizes the various adjustments that were made to the  
19 budgeted revenue and expense data to derive the pro forma present rate  
20 revenues that appear in column 3 of Schedule D-2 and are included in the  
21 adjusted amounts that are carried forward to column 1 of Schedule D-1. The

1 budgeted amounts are shown in column 1 on page 1 and the revenue  
2 adjustment totals are shown in column 2 on page 1. The electric cost  
3 adjustment is in column 3 on page 1 and the various expense adjustments are  
4 reflected in columns 4 to 11 of page 1 and in columns 13 to 22 of page 2 of  
5 Schedule D-3. Each of the pro forma adjustments will be described in  
6 connection with the specific schedule supporting the adjustment.

7 **66. Q. Please describe Schedule D-4.**

8 A. Schedule D-4 contains three pages and presents a summary of the pro forma  
9 adjustments to revenues and operating expenses shown on Schedule D-3 by  
10 FERC account.

11 **A. Revenue Adjustments**

12 **67. Q. Please describe Schedule D-5.**

13 A. Schedule D-5 presents a summary of the separate pro forma adjustments to  
14 revenue for the FTY. Each of these adjustments will be described in detail in  
15 connection with the separate calculation of the adjustment shown on  
16 Schedules D-5A to D-5H. Schedule D-5 also includes revenues related to the  
17 cost of electricity adjustment described in connection with Schedule D-6 as  
18 shown in column 11 of Schedule D-5 and on Schedule D-6A.

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

1 A. This adjustment reflects the removal of an existing customer served under the  
2 Company's Large Commercial HT tariff (lines 1 to 9 and lines 20 to 22) and  
3 the addition of 55 customers at the Philadelphia Navy Yard in South  
4 Philadelphia ("Navy Yard Customers") who will be served under the  
5 Company's Large Commercial HT tariff and its Small Commercial GS tariff  
6 (lines 10 to 19 and lines 23 to 25) which results in an increase in revenue at  
7 present rates of \$309,000 as shown on line 27 in column 8. The transaction  
8 that results in these customer changes is discussed in the testimony of Mr.  
9 Craig Adams (PECO St. No. 1)

10 **69. Q. How did you calculate the revenue adjustment shown on Schedule D-5B?**

11 A. This adjustment annualizes revenues for the projected number of customers at  
12 the end of the FTY. As shown on lines 1 to 3 for all customer classifications,  
13 this calculation determines the pro forma test year non-commodity revenues at  
14 present rates for the FTY. The average non-commodity revenues on line 3  
15 were divided by the average number of customers for the test year included in  
16 the 2010 budget on line 4 to determine the average non-commodity revenue  
17 per customer on line 5. The average non-commodity revenue, or margin, per  
18 customer for the FTY on line 5 was then multiplied by the difference between  
19 the average number of customers (line 4) and the number of customers at the  
20 end of the FTY (line 6) which difference is shown on line 7, yielding  
21 additional revenue of approximately \$1.4 million for the residential,  
22 residential heating and the small C&I customer classes as shown on line 8 by

1 customer classification. This pro forma adjustment is then reflected on  
2 Schedule D-5, column 4 by customer classification.

3 **70. Q. Please describe the adjustment on Schedule D-5C.**

4 A. This adjustment captures the impact on revenues of proposed changes to  
5 PECO's CAP and includes several components. The recommended  
6 programmatic changes are explained by Ms. Feldhake (PECO St. No. 6).

7 **71. Q. Please explain the CAP discount amounts shown on lines 1 to 6 of**  
8 **Schedule D-5C.**

9 A. Since the Company reflects the CAP discounts in an unbundled fashion, lines  
10 1 to 4 show where the CAP discounts are included in the Company's 2010  
11 budget. The \$22.0 million on line 1 reflects the amount of CAP discounts  
12 reflected in the distribution revenue section of the Company's 2010 budget.  
13 The CAP discount amounts on lines 2 to 4 are reflected in generation and  
14 transmission revenue categories. The total CAP discount of \$70.9 million on  
15 line 5 is re-bundled into distribution rates since the costs of CAP are to be  
16 recovered entirely in distribution rates. Since the budgeted distribution  
17 revenue contains the \$22.0 million of CAP discounts, the remainder, and  
18 amount on line 6 of \$48.9 million is adjusted into the distribution revenue.

19 **72. Q. Please describe the calculations on lines 7 to 11 of Schedule D-5C.**

20 A. As explained by Ms. Feldhake, this adjustment reflects the new increased  
21 CAP discounts from updated data in the new APPRISE study and also reflects

1 the increase in CAP tiers from five to seven. The revenue impact of this  
2 change, after netting out offsetting reductions in uncollectible expense and  
3 cash working capital, is \$9.8 million, as shown on line 11.

4 **73. Q. Please describe the last adjustment on lines 12 to 16 of Schedule D-5C.**

5 A. This adjustment annualizes the CAP credit to reflect the number of customers  
6 at the end of the FTY. The annualization of the CAP credit, less the  
7 uncollectible and CWC offset, results in an adjustment of \$290,000, as shown  
8 on line 16.

9 **74. Q. What is the total revenue adjustment for the CAP programmatic changes  
10 and related elements?**

11 A. As shown on line 17 of Schedule D-5C, the total adjustment to the CAP  
12 revenue credit is \$59.0 million.

13 **75. Q. What is the purpose of the adjustment on Schedule D-5D?**

14 A. The adjustment on Schedule D-5D removes non-distribution service revenue  
15 (i.e. transmission rent, PETT service fees and IPP Reserve release) from the  
16 Company's budgeted revenues for the FTY.

17 **76. Q. Please describe the adjustment on Schedule D-5E.**

18 A. The adjustment detailed on Schedule D-5E shows the reductions in revenue  
19 that the Company expects to experience related to the reductions in load that  
20 the Company must achieve in order to comply with the energy-efficiency and

1 conservation provisions of Act 129 of 2008. As described by Mr. Frank J.  
2 Jiruska (PECO Statement No. 7) the Company has been extremely aggressive  
3 in developing programs to help its customers save energy, including the early  
4 roll-out of a Compact Fluorescent Lamp (“CFL”) Program during the second  
5 half of 2009. The energy savings, however, have caused and will continue to  
6 cause substantial reductions in retail revenues and even greater amounts of  
7 savings for its customers. The Company is proposing to recognize the  
8 revenue reductions by reducing budgeted FTY revenues by the average of the  
9 projected savings in 2011 and 2012 (i.e., the period that PECO expects the  
10 rates established in this proceeding to be in effect). In addition, the Company  
11 is proposing to amortize the actual revenue losses incurred in 2010 over a  
12 two-year period.

13 **77. Q. What is the total amount of the pro forma revenue adjustment the**  
14 **Company is proposing?**

15 A. As shown on Exhibit RLO-1, Schedule D-5E, column 6, line 40, the Company  
16 is proposing a pro forma revenue adjustment to its FTY budget of \$31.5  
17 million which will allow the Company to recover its lost revenue for the  
18 period 2010 to 2012 as part of the revenue requirement in this proceeding.

19  
20 **78. Q. In your opinion, is it reasonable for PECO to request that these energy**  
21 **savings be recognized in the determination of its revenue requirement?**

1       A.    Yes, it is, primarily for two reasons. First, it is my understanding that Act 129  
2           specifically contemplates that revenue reductions attributable to the mandated  
3           energy efficiency programs be taken into account in establishing base rates.  
4           My adjustments are designed to achieve that end by (1) capturing a portion of  
5           the revenue loss that PECO will already have incurred during the FTY 2010  
6           by the time new rates become effective on or about January 1, 2011 and (2)  
7           setting rates based on sales levels that reflect the anticipated lost revenues  
8           related to the savings to be realized by the customers, on average, in 2011 and  
9           2012. Second, in my judgment, it would be unfair to require PECO to  
10          implement these programs, or be subjected to possible penalties for non-  
11          compliance with legislatively imposed energy-reduction goals, and then deny  
12          it rate recovery of the lost revenues particularly given the tremendous benefits,  
13          described by Mr. Jiruska, that customers will realize. This adjustment aligns  
14          the customer and Company interests in promoting energy-conservation,  
15          providing significant savings to the customers and permitting PECO to  
16          recover all of the lost revenue during the same period that the customers are  
17          receiving the benefits of reduced bills from the Commission approved  
18          programs.

19 **79.   Q.    In your prior answer, you indicated that PECO was seeking to recover**  
20 **only a portion of the revenues it will have lost by the time new rates go**  
21 **into effect. Please explain.**

22       A.    As I mentioned previously, PECO began the roll-out of its CFL program  
23           during the second half of 2009. However, to avoid any “retroactive

1 ratemaking” concerns, I have chosen not to reach back prior to the FTY, but  
2 instead have limited my proposed two-year amortization to revenues lost  
3 during 2010.

4 **80. Q. Please describe the adjustment shown on Schedule D-5F.**

5 A. This adjustment removes the budgeted costs of developing and implementing  
6 PECO’s energy-efficiency and conservation programs. It is my understanding  
7 that Act 129 allows that such costs be recovered through a separate Section  
8 1307 reconcilable adjustment clause. PECO will be utilizing this surcharge  
9 mechanism for the recovery of these costs.

10 **81. Q. Please describe the adjustment shown on Schedule D-5G.**

11 A. Similar to the adjustment described on Schedule D-5F, this adjustment is  
12 necessary to remove the revenue and costs included in the FTY budget that  
13 are related to the development and implementation of the Company’s Smart  
14 Meter Program. As previously explained in PECO’s smart meter proceeding  
15 at Docket No. M-2009-2123944, these costs will be recovered through a  
16 separate smart-meter surcharge.

17 **82. Q. According to Mr. Adams (PECO Statement No. 1), the Company is**  
18 **proposing to remove all meter investment and operating costs from its**  
19 **base rates and to recover them through its smart meter surcharge as well.**

20 **Is that correct?**

1 A. Yes. While those costs have not been removed from PECO's revenue  
2 requirement as presented in Exhibit RLO-1, Mr. Cohn has prepared and has  
3 attached to his testimony (PECO Statement No. 9) an exhibit itemizing the  
4 Company's existing meter-related costs and explaining how approval of the  
5 Company's recommended unbundling of meter-related costs affects its  
6 proposed base rates and smart-meter surcharge. This same exhibit has been  
7 included as an attachment to my testimony as Exhibit RLO-4, which will be  
8 described later in my testimony.

9 **83. Q. Please describe the revenue adjustments included on Schedule D-5 in**  
10 **column 9.**

11 A. There are three adjustments in column 9, each removing budgeted revenue  
12 from the FTY that is not related to the Company's distribution operations.  
13 First, the Company is removing \$1.029 billion of Competitive Transition  
14 Charge (CTC) revenue because the CTCs are scheduled to expire at the end of  
15 2010 when PECO's generation rate caps are lifted. Second, the Company is  
16 removing revenue included in its 2010 budget for transmission services as  
17 shown on line 32 in column 9. These revenues and the related transmission  
18 expenses are shown on Schedule D-3, p. 1, column 2, line 24 and p.2, column  
19 22, lines 68 to 79. Finally, the adjustment for \$5.293 million described in  
20 connection with Schedule D-5D to remove non-distribution revenue is also  
21 reflected in this column.

22 **84. Q. Please describe the adjustment on Schedule D-5 in column 10, line 2.**

1 A. The adjustment on line 2 provides a correction to the Company's 2010 budget  
2 which did not reflect the monthly charge to customers that participate in the  
3 Company's Off Peak program. While each of those customers have two  
4 meters, the budget only included one meter charge in the 2010 revenues. This  
5 adjustment increases revenue at present rates for the FTY by \$5.1 million as  
6 calculated on lines 10 to 12 of Schedule D-5H which is then shown on  
7 Schedule D-5, column 10, line 2.

8 **85. Q. What is the adjustment on Schedule D-5, column 10, line 6?**

9 A. This adjustment, as described in more detail by Mr. Cohn, reflects the  
10 consolidation of customers on three street lighting tariffs into a single tariff,  
11 mainly due to the elimination of certain discounts currently provided under  
12 two of those tariffs. Once those discounts have been removed, effective  
13 January 1, 2011, the street lighting tariff SLE will provide all street lighting  
14 tariff customers with the lowest appropriate rate for service. The Company  
15 understands that the customers currently using the other two tariffs will  
16 change to the SLE tariff. These changes result in the revenue adjustment  
17 reflected in column 10, line 6 and calculated on Schedule D-5H, lines 1 to 9.

18 **86. Q. What is shown in column 11 on Schedule D-5?**

19 A. This adjustment provides the Company's estimate of the adjustment necessary  
20 to reflect the annual cost of purchased energy, beginning on January 1, 2011,  
21 including related gross receipts tax, to serve default service customers. The

1 calculation of the costs related to this revenue is shown on Schedule D-6B and  
2 summarized on Schedule D-6A.

3 **87. Q. Please describe the adjustment on Schedule D-6A.**

4 A. The Company increased its budgeted purchased energy related revenue and  
5 expense to reflect the increase in purchased-energy costs effective January 1,  
6 2011. The amounts shown in column 1 reflect the purchased energy related  
7 revenue in the budget for the FTY at present rates. Those amounts are  
8 reflected on Schedule D-5, column 2 on lines 12 to 17. Due to the end of the  
9 purchase agreements and the requirement for the Company to purchase energy  
10 on the open market, the Company has calculated the increase in purchased-  
11 energy costs and related revenue on Schedule D-6B. The difference between  
12 the \$1.284 billion of energy costs and the \$1.365 billion for the related energy  
13 revenue shown on Schedule D-6B, lines 10 to 12 is the gross receipts tax of  
14 \$80.5 million shown on line 11.

15 **88. Q. Please describe the calculations included on Schedule D-6B.**

16 A. These calculations show, by customer classification, the cost of energy used  
17 by the Company for the FTY in columns 2 to 4 and the related cost of energy  
18 effective January 1, 2011. The Company has used the same customer  
19 megawatt hour ("MWH") usage included in the FTY budget as shown in  
20 columns 2 and 5. The difference is in the cost per MWH by customer  
21 classification as shown in columns 4 and 6. The increase in energy related  
22 revenue for the FTY at present rates of \$1.365 billion is shown on line 10.

1 Since the revenue amounts shown on lines 1 to 9 include revenue for the gross  
2 receipts taxes, the related amount of \$80.5 million is removed on line 11. The  
3 increase in energy costs of \$1.285 billion is shown on line 12 and also on line  
4 3 of Schedule 6-D.

5 **B. Operating Expense Adjustments**

6 **89. Q. Does the Company budget its operating expenses by FERC account?**

7 A. No, as mentioned previously, it does not. Rather, the Company budgets its  
8 operating expenses by cost element or business activity, such as payroll,  
9 employee benefits, rent, etc.

10 **90. Q. How were the 2010 budget data restated by FERC account for purposes**  
11 **of preparing this rate application?**

12 A. The recorded 2009 FERC balances were analyzed to develop a chart showing  
13 each cost element within each FERC account. After this process was  
14 completed, I then distributed the budgeted 2010 cost elements to the FERC  
15 accounts using the ratios actually experienced in 2009. For example, I  
16 determined how much of the payroll expensed in 2009 was charged to each  
17 FERC account in 2009 and then distributed the 2010 budgeted payroll to  
18 FERC accounts based on those ratios. This process was used for each cost  
19 category to transform the 2010 expense category budget to a FERC-based  
20 budget.

1 **91. Q. Why was it necessary to transform the 2010 cost category budget to a**  
2 **FERC-based budget?**

3 A. Essentially for two reasons. First, the Company's annual reports to the  
4 Commission are presented on a FERC-account basis, and having the test-year  
5 budget presented in the same format facilitates a comparison of the test year  
6 budget data to prior years' experience. Second, it was necessary to have the  
7 test year data available by FERC account for use by Mr. Gorman in his Cost  
8 of Service Study.

9 **92. Q. Did Company personnel review your proposed distribution of the**  
10 **budgeted expense data across the FERC accounts?**

11 A. Yes, and they confirmed the reasonableness of the process and the results.

12 **93. Q. In your opinion, does this process result in a fair presentation of the**  
13 **Company's 2010 budgeted expenses by FERC account?**

14 A. Yes, it does.

15 **94. Q. Were each of the pro forma adjustments reflected on Schedule D-3 also**  
16 **charged to the appropriate FERC accounts?**

17 A. Yes, they were.

18 **95. Q. Are the various pro forma expense adjustments presented on Schedule**  
19 **D-3?**

1 A. Yes, they are. The cost elements are identified in the headers of the columns  
2 on pages 1 and 2 of Schedule D-3 and each adjustment is described in  
3 connection with a separate schedule showing its derivation. These  
4 adjustments are shown by FERC expense category on the Section D summary  
5 schedules.

6 **96. Q. Please describe Schedule D-7.**

7 A. Schedule D-7 consists of two pages and shows the calculation of the FTY  
8 annualization adjustments for salaries and wages ("S&W"). Column 2  
9 contains the 2010 budget data summarized by FERC account categories  
10 showing a total to be expensed of \$125.0 million on line 14, column 4.  
11 Column 5 shows the annualization adjustment of \$4.1 million distributed to  
12 the FERC expense categories, while column 6 lists the pro forma amounts  
13 claimed, totaling \$129.2 million as shown on line 14 and an annualization  
14 increase of 3.305 percent as shown on line 15. The adjustment of \$4.1 million  
15 is reflected on Schedule D-3, column 4 on lines 28 through 35.

16 **97. Q. How was the annualization adjustment derived?**

17 A. The calculation is shown on page 2 of Schedule D-7. In short, the adjustment  
18 annualizes budgeted S&W expense to reflect the number of employees at the  
19 end of 2010 and certain pay rate increases to become effective during or  
20 shortly after the FTY. More specifically, I have annualized (1) the 3.0 percent  
21 pay rate increase that became effective on March 1, 2010 (lines 5 to 7 in  
22 column 3); (2) the projected 3.0 percent pay raise for union employees on

1 January 1, 2011 (lines 9 to 11 in column 2); and (3) the projected 3.0 percent  
2 pay raise for non-union employees on March 1, 2011. These adjustments seek  
3 to capture the S&W expense that PECO will incur during the first year that the  
4 rates set in this case are in effect. For example, rates from this proceeding  
5 should be effective around January 1, 2011 and it is common practice to  
6 include changes to expenses projected to occur shortly after the end of the  
7 FTY as in the case of the projected January 1, 2011 and March 1, 2011 pay  
8 increases.

9 **98. Q. Please describe the adjustment shown on lines 12 to 16.**

10 A. This adjustment normalizes a one-time payment that was made as part of the  
11 current union contract. The portion of the payment that was expensed  
12 (\$824,000) was split between electric and gas operations and the \$652,000  
13 allocated to electric operations was divided by five to reflect the five-year  
14 term of the contract. The resulting amount of \$130,000 shown on line 14 was  
15 added to the pro forma adjustment for S&W.

16 **99. Q. Please explain the calculations on lines 17 to 23 of Schedule D-7, page 2.**

17 A. These calculations would normally provide an annualization for an increase in  
18 the number of employees during the FTY. However, since the FTY budget  
19 included most of the 33 new hires for 2010 in January they are already  
20 included in the budget for a full year and therefore the annualization  
21 adjustment for new hires in the FTY is zero as shown on line 23.

1 100. Q. What is the total pro forma adjustment for S&W for the FTY?

2 A. The amount is \$4.1 million, which is an adjustment of 3.305 percent as shown  
3 on lines 25 and 26 respectively.

4 101. Q. Please describe Schedule D-8 of Exhibit RLO-1.

5 A. Schedule D-8 shows the adjustment to normalize rate case expense. The  
6 Company expended approximately \$300,000 on this filing during 2009 (line  
7 4) and has budgeted an additional \$3.2 million for 2010. This adjustment,  
8 which normalizes the total estimated cost of this case over a two-year period,  
9 yields a normalized annual expense of \$1.75 million.

10 102. Q. Please describe Schedule D-9 of Exhibit RLO-1.

11 A. The top half of Schedule D-9 annualizes non-pension employee benefits  
12 expense to reflect (1) a full year's level of costs associated with employees to  
13 be added during the FTY and (2) changes in the level of expense during the  
14 FTY. However, since most of the new hires and the related benefits were  
15 included in the FTY budget, there is no annualization for that component  
16 included in the adjustment. The calculations on lines 10 to 12 of page 2  
17 recognize the increase in employee benefits costs to reflect an annualized  
18 level for the FTY. Since the Company budgets based on expenses throughout  
19 the year, an annualization adjustment is necessary to reflect a year-end cost  
20 level for the FTY. I have estimated this annualization impact by using one-  
21 half of the increase from 2009 to 2010 of \$138,000 which is shown on line 14.

1 The additional cost for the FTY of \$138,000, as shown on line 12, is brought  
2 forward to page 1.

3 103. Q. How was the \$71.7 million annual pension contribution amount shown on  
4 line 8 of Schedule D-9, page 1, derived?

5 A. The \$71.7 million is a combination of two amounts. First, \$47.3 million is the  
6 contribution requirement for the year 2010, as determined by the Company's  
7 outside actuary, Towers Perrin. In addition, the Company will be making an  
8 additional annual contribution of \$24.4 million in both 2010 and 2011 in an  
9 effort to smooth-out future pension requirements. Approximately 67.220  
10 percent of the \$71.7 million figure is allocable to the distribution function and  
11 63.92 percent of that amount, or \$30.8 million, will be expensed as shown on  
12 line 13. The Company believes that the \$30.8 million is representative of the  
13 amount it will expense to its electric distribution operations on a normalized  
14 ongoing basis and should be used for ratemaking purposes. The adjustment of  
15 \$20.5 million on line 17 is the difference between the \$32.6 million and the  
16 pension amount included in the FTY budget for distribution expense of \$10.3  
17 million on line 16.

18 104. Q. What is presented on Schedule D-10 of Exhibit RLO-1?

19 A. Schedule D-10 calculates an adjustment to the Company's budgeted  
20 uncollectible expenses. Lines 1 to 4 develop a three-year average rate of net  
21 uncollectible accounts charged off to total tariff revenue for the 2007-2009  
22 period, which is then used in determining the level of uncollectibles expense

1 at pro forma proposed rates, as shown in column 2 of Schedule D-1. It is also  
2 used to adjust the amount of uncollectible expense in the budget to conform to  
3 the three-year average for the charge offs. The resulting 1.1153 percent  
4 shown on line 4 in column 5 is used on line 9 with the pro forma revenues at  
5 present rates for the FTY to calculate the pro forma uncollectibles of \$52.0  
6 million shown in column 5 on line 9. This pro forma uncollectible amount for  
7 the FTY is then added to the three-year average of pre-program arrearages  
8 (“PPA”) associated with the CAP which are not included in other accounts.  
9 This PPA average is shown as \$15.8 million on line 8 in columns 2 and 5.  
10 The total pro forma amount for uncollectibles at present rates for the FTY is  
11 \$67.7 million which is a net decrease of \$6.7 million as shown on line 12 and  
12 brought forward to Schedule D-3 in column 8 on line 32 on page 1. In  
13 addition, the 1.11530 percent rate is used to provide for uncollectible expenses  
14 associated with the required revenue increase as shown on Schedule D-1, line  
15 13 in column 2.

16 **105. Q. Please describe Schedule D-11.**

17 A. Schedule D-11 shows the costs of purchased electricity and natural gas that  
18 PECO’s electric distribution function will incur in the operation of its  
19 facilities. Lines 1 and 2 reflect the commodity that the Company will pay  
20 effective January 1, 2011 for electricity and gas, respectively, to operate its  
21 businesses. In addition, the Company is reflecting the distribution charges it  
22 will incur for gas services provided by the PECO Gas Division as an expense  
23 on line 5 and the revenue it will charge to the PECO Gas Division for electric

1 distribution service it will provide to the Gas Division. There are similar  
2 adjustments included in the gas rate case filed in Docket No. R-2010-  
3 2161592.

4 **106. Q. Please describe the adjustment shown on Schedule D-12.**

5 A. Pursuant to settlement agreements previously approved by the Commission,  
6 PECO has been making payments to certain economic development  
7 organizations. Those payment obligations were included in the Company's  
8 budget for 2010 and will expire at the end of 2010. Accordingly, the related  
9 costs are being deleted from PECO's expense claims.

10 **107. Q. Please describe Schedule D-13.**

11 A. This adjustment normalizes incentive compensation expense to reflect a level  
12 that more closely matches the historic level and the level planned for 2011.  
13 The 2010 budget reflects a one-time reduction in the target level of incentive  
14 compensation which, along with other permanent reductions in employee-  
15 related benefit and other expenses, were implemented to recognize the  
16 downturn in the economy.

17 **108. Q. Please describe the adjustment on Schedule D-14.**

18 A. The adjustment on Schedule D-14 captures the interest expense that the  
19 Company must pay on customer deposits. Since the average balance of  
20 customer deposits is used as a reduction to rate base, the interest expense is  
21 included as a pro forma expense for the FTY. The interest for residential

1 customers was calculated using an annual rate of interest of 6 percent. An  
2 annual rate of 0.35% was used for commercial and industrial customers. The  
3 total pro forma expense of \$1.1 million is shown on Schedule D-14, line 29  
4 and brought forward to Schedule D-3, page 2.

5 **109. Q. Please describe the pro forma adjustment on Schedule D-15.**

6 A. This adjustment reflects an increase to FTY budgeted expenses for storm  
7 damage restoration expense of \$8.87 million, as shown on line 12. PECO  
8 believes that it is appropriate, for ratemaking purposes, to normalize storm  
9 damage expense based on a multi-year period so that the impact on restoration  
10 costs of periodic severe storms, such as that experienced in the summer of  
11 2006 and the most recent winter storms in January, February and March of  
12 2010, can be recognized as costs and recovered by the Company.

13 **110. Q. What are the costs related to the storm restoration activities so far in**  
14 **2010?**

15 A. Actual costs charged to expense through the end of February 2010 totaled  
16 \$10.1 million (budget through February totaled \$1.6 million). In addition, the  
17 actual costs capitalized through February equalled \$5.1 million compared to  
18 only \$400,000 included in the budget.

19 **111. Q. Please describe the components of the test year adjustments shown on**  
20 **Schedule D-16.**

1 A. Schedule D-16 essentially does four things. First, it removes the revenues and  
2 expenses attributable to FERC-jurisdictional transmission service (i.e.,  
3 transmission service to other entities) as shown on lines 1 to 8. Second, it  
4 removes the FTY amounts for regional marketing on line 9. Third, it removes  
5 portions of the Administrative and General expenses related to transmission  
6 services on lines 10 to 24. Finally, it captures the depreciation expense  
7 associated with the Company's Smart Grid program that is related to  
8 transmission. The latter amount is not included with the other depreciation  
9 expense adjustment set forth on Schedule D-19 since the Smart Grid program  
10 is a separate program. These amounts reflect the budget amounts and all of  
11 the pro forma adjustments described earlier as they relate to the transmission  
12 business. Please note that the approximate \$188.5 million and the \$259,000  
13 that I have not removed from the transmission expenses, as shown on lines 5  
14 and 6, are related to retail transmission services PECO is providing to its  
15 customers. The revenue requirement related to these services would be  
16 stripped out and recovered through a reconcilable transmission service charge  
17 if PECO's unbundling proposal described in the testimony of Mr. Cohn  
18 (PECO St. No. 9) is accepted. The impact of this on the overall revenue  
19 requirement is shown on Exhibit RLO-4, column 2.

20 **112. Q. Please describe the adjustment for service to the Navy Yard included on**  
21 **Exhibit RLO-1, Schedule D-17.**

22 A. Schedule D-17 contains a revenue requirement calculation showing the  
23 components of a transaction where the Company is going to provide service to

1 the Navy Yard Customers who are currently provided private utility service  
2 by the Philadelphia Industrial Development Corporation (“PIDC”). This  
3 transaction, as described in more detail by Mr Adams (PECO St. No. 1) will  
4 require the Company to acquire some of the existing facilities currently  
5 serving the Navy Yard Customers for \$15 million (line 1) and also to expend  
6 \$2.5 million a year to contract with Duke Energy, which currently provides a  
7 similar service to PIDC, or some other external third party to provide service  
8 and operate the equipment within the Navy Yard (line 7). The revenue  
9 requirement adjustment of \$4.7 million shown on line 8 was determined using  
10 the \$15.0 million of investment on line 1, an annual depreciation expense  
11 amount of \$268,000 (line 3) based on a remaining depreciable life 56 years  
12 since installation, a net plant balance at the end of 2011 of \$14.7 million on  
13 line 4, the pre tax rate of return of 13.43 percent from Mr. Moul’s testimony  
14 and the \$2.5 million of operating expense on line 7.

15 113. Q. What is contained on Exhibit RLO-1, Schedule D-17a?

16 A. Schedule D-17a contains the revenue requirement calculation for the customer  
17 Phase-In Program implemented by the Company on July 1, 2009 pursuant to  
18 the Commission’s Order in Docket No. P-2008-2062741 as described by Mr.  
19 Cohn (PECO St. No. 9). This adjustment provides for recovery of (1) the  
20 software costs related to the program of \$880,000 (line 1) over a three year  
21 period, or \$293,000 annually (line 3), (2) a return on the average plant  
22 investment during that three-year period of \$59,000 (line 6) and (3) the  
23 operating expenses which were incurred in 2009 and deferred for recovery in

1 this rate case of \$220,000, amortized over three years (line 7). The total  
2 revenue requirement for this program is \$425,000 as shown on line 8.

3 **C. Taxes – Other Than Income Taxes**

4 **114. Q. Please describe Schedule D-18.**

5 A. Schedule D-18 contains 3 pages. Page 1 presents a summary of the budget  
6 amounts for the FTY (column 2), adjustments to those amounts in column 3,  
7 the total pro forma expense amounts in column 4 and the amount charged to  
8 transmission in column 5. The calculations for the payroll related changes are  
9 made on Schedule D-18, page 2 while the changes in the gross receipts tax  
10 (“GRT”) are shown on page 3. The calculations for the increase in payroll  
11 taxes, as shown on page 2, lines 1 to 4 for FICA expense, use the ratio of tax  
12 expense to payroll expense included in the 2010 budget times the payroll  
13 adjustment for 2010 to produce an adjustment to FICA expense for the FTY  
14 of \$288,000 as shown on line 4. The same procedures were followed for the  
15 other related payroll tax items. The total pro forma increase of \$322,000,  
16 shown on page 1, column 3, lines 9 to 11, is added to the increase in GRT on  
17 line 8 of \$7.2 million calculated on page 3 for a total adjustment of \$7.6  
18 million (column 3, line 14). The offset adjustment for transmission related  
19 costs of \$4.5 million shown in column 5 totaled on line 14. The two  
20 adjustments are brought forward to Schedule D-3, page 2, columns 19 and 22,  
21 line 79 for a net increase in FTY tax expense of \$3.1 million (\$7.6 million less  
22 \$4.5 million) and a pro forma FTY expense for taxes other than income of  
23 \$290.4 million.

1 115. Q. Please describe the adjustment for the GRT shown on Schedule D-18,  
2 page 3 of 3.

3 A. On page 3 of Schedule D-18, I calculate PECO's gross receipt tax liability at  
4 pro forma present rate revenue levels. The pro forma revenues, shown by  
5 type on lines 1 to 16, are used to calculate the GRT at pro forma at present  
6 rates. As shown on lines 23-25, an adjustment to budgeted GRT of \$7.2  
7 million is required.

8 116. Q. Do you make an adjustment to recognize the additional GRT that will be  
9 required to be paid by the Company on the revenue increase allowed by  
10 the Commission in this proceeding?

11 A. Yes. As will be described in connection with Exhibit RLO-1, Schedule D-20,  
12 page 2, the incremental GRT is recovered through the gross revenue  
13 conversion factor ("GRCF") used to determine the amount of revenue  
14 required to provide the net income increase found reasonable in this  
15 proceeding.

16 D. Depreciation Expense

17 117. Q. Please describe the adjustment to depreciation expense on Schedule D-19,  
18 pages 1 and 2.

19 A. The Company's claimed depreciation expense allowance was developed and  
20 is presented by Mr. Acevedo (PECO St. No. 4). The adjustment set forth on  
21 Schedule D-19 annualizes 2010 depreciation expense levels to reflect a full

1 year's depreciation for plant added during 2010 and also reflects changes in  
2 depreciation rates for each of the plant accounts. PECO's total depreciation  
3 expense claim for electric distribution plant (including allocated general plant)  
4 is \$101.3 million, as shown on Schedule D-19, page 1, line 50, column 7. The  
5 FTY amount for the depreciation of common plant is \$23.8 million, as shown  
6 in column 7 on line 51 of page 1 and calculated on page 2 of Schedule D-19.  
7 The adjustments for the electric distribution plant depreciation and the  
8 common plant depreciation are shown on Schedule D-3, page 2, column 20 on  
9 line 76. As indicated at the bottom of page 1 of Schedule D-19, lines 42 to 49,  
10 I have removed the \$16.6 million of depreciation expense attributable to  
11 transmission operations (lines 42 to 44) as well as depreciation expense  
12 included in the budget for the other programs shown on lines 45 to 49. The  
13 total depreciation expense for the electric distribution operations for the FTY  
14 is the \$125.1 shown on line 52 in column 7.

15 **E. Income Taxes**

16 118. **Q. Please describe the income tax calculation shown on Schedule D-20,**  
17 **page 1.**

18 A. This schedule calculates the pro forma income tax expense for the FTY at  
19 present and proposed rates, as set forth in columns 3 and 5, respectively. Line  
20 1 shows the revenue at present rates, the revenue increase and revenue at  
21 proposed rates, while line 2 shows the total operating expenses at present  
22 rates, related to the revenue increase and at proposed rates from Schedule D-1.  
23 Line 3 shows the operating income before income taxes. Synchronized

1 interest expense is calculated on lines 4 to 6 using the total measures of value  
2 for the FTY on line 4 and the weighted cost of debt recommended by Mr.  
3 Moul (PECO St. No. 5) on line 5. The resulting interest expense on line 6 is  
4 used to reduce the taxable income on line 7.

5 In compliance with Commission practice, the difference between accelerated  
6 tax depreciation (line 8) and pro forma book depreciation (line 9) is used to  
7 adjust the state taxable income as shown on line 10. In addition, there is a  
8 deduction for the Medicare Part D subsidy and for the repair allowance  
9 deduction on lines 11 and 12 respectively which are used to reduce state  
10 taxable income as shown on lines 7 to 13. The Company then used the  
11 statutory state income tax rate of 9.99 percent to determine the pro forma state  
12 income tax expenses as shown on line 14. Federal income tax expense is  
13 calculated on lines 15 to 21. Line 22 shows the total State and Federal income  
14 tax expense before the amount for Federal deferred income taxes are  
15 calculated. Lines 23 to 27 reflect the deferral of federal income taxes as  
16 required by federal income tax regulations reflecting tax depreciation  
17 normalization for post-1981 fixed asset additions.

18 The total income tax expense before other adjustments is shown on line 28 at  
19 present and proposed rates in columns 3 and 5 respectively. The other  
20 adjustments include the amortization of the investment tax credit ("ITC") for  
21 the electric distribution plant and for the electric distribution portion of the  
22 common plant as shown on lines 29 and 30, respectively. The adjustment for  
23 the consolidated income tax offset is shown on line 31.

1 119. **Q. Please explain the nature and calculation of the ITC amortization.**

2 A. The ITC represents tax credits used by the Company in years prior to 1987,  
3 the amortization of which will not have been completed by the end of the  
4 FTY. While the availability of the tax credits ended in 1987, they have been  
5 amortized over the useful lives of the assets used to generate the ITC. The  
6 amortization for 2010 reduces income tax expense at both present and  
7 proposed rates, as shown on Schedule D-20, page 4, lines 6 and 7 and brought  
8 forward to Schedule D-20, page 1, lines 29 and 30.

9 120. **Q. Does PECO participate in the filing of a consolidated federal income tax  
10 return?**

11 A. Yes, it does. PECO participates in a consolidated federal income tax return as  
12 part of the Exelon Corporation (Exelon) consolidated group (the  
13 “Consolidated Group”).

14 121. **Q. Has PECO reflected a consolidated income tax adjustment (“CTA”) in  
15 calculating its claim for federal income tax expense in this proceeding?**

16 A. Yes. PECO has made a CTA of \$537,000, as shown on Schedule D-20, page  
17 1, line 31 and calculated on Exhibit RLO-3. While PECO disagrees that any  
18 CTA should be made, it recognizes that Pennsylvania appellate court  
19 precedent controls this issue. Accordingly, the Company has calculated a  
20 CTA using the same basic approach the Commission has employed in other  
21 rate cases.

1 **122. Q. Why does PECO disagree with the use of a CTA in setting rates?**

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

7 **123. Q. What is your understanding of the CTA approach generally employed by**  
8 **this Commission?**

9 A. It is my understanding that the Commission uses the "modified effective tax  
10 rate" method and bases its adjustments on average non-regulated losses  
11 experienced over an historic three-year period.

12 **124. Q. Is that the approach used in PECO's computation?**

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

17 **125. Q. Please explain further how the calculation was made.**

18 A. PECO used a three-year average of consolidated taxable income for the period  
19 2006-2008. For each of the tax years 2006, 2007 and 2008, the adjusted tax  
20 losses of non-regulated corporations were summed, and a portion of that total

1 was allocated to PECO based on the proportion of PECO's taxable income,  
2 adjusted by amounts related to competitive transition charges, to the taxable  
3 income of all corporations (regulated and non-regulated) with taxable income  
4 in the Consolidated Group. The tax losses allocated to PECO were further  
5 allocated between electric and gas operations based on the taxable income  
6 derived from each.

7 **126. Q. Has a schedule been prepared showing the derivation of the CTA?**

8 A. Yes. Schedules showing the computation are set forth in Exhibit RLO-3.

9 **127. Q. What is PECO's total income tax expense claim in this proceeding?**

10 A. The income taxes are shown on Schedule 20, page 1 of 4, line 32 for pro  
11 forma expense at present rates in column 3 of \$17.0 million, the increment of  
12 income tax expense on the revenue increase shown in column 4 of \$121.8  
13 million and the pro forma income tax expense of \$138.9 million at proposed  
14 rates is shown in column 5.

15 **128. Q. Please describe Schedule D-20, page 2.**

16 A. This schedule shows the calculation of the gross revenue conversion factor  
17 (GRCF) used on Schedule A-1 to determine the revenues required to achieve  
18 the overall rate of return requested by PECO. The conversion factor captures  
19 the additional uncollectibles, GRT, regulatory fees and federal and state  
20 income taxes attributable to the additional revenues resulting from the  
21 proposed rate increase.

1 129. Q. **Please describe pages 3 and 4 of Schedule D-20.**

2 A. Page 3 provides a summary of the tax depreciation and book depreciation used  
3 in the calculation of income taxes on page 1 of Schedule D-20 and page 4  
4 shows the calculation of the ITC used to reduce income tax expense on page  
5 1, lines 29 and 30.

6 **V. HISTORIC TEST YEAR**

7 130. Q. **Please describe the process used to prepare the pro forma 2009 HTY  
8 presentation contained in Exhibit RLO-2.**

9 A. The basic process was the same as described in connection with Exhibit RLO-  
10 1 except that I used the actual recorded data for the HTY (2009) as the starting  
11 point for Exhibit RLO-2 while Exhibit RLO-1 used the budget data for the  
12 FTY (2010). As with the FTY, I reviewed the recorded data and, where  
13 appropriate, made pro forma adjustments. In addition, I used data from  
14 Exhibit RLO-1 as the basis for several of the pro forma amounts used in  
15 Exhibit RLO-2.

16 131. Q. **What assumptions did you make to determine what pro forma  
17 adjustments would be necessary for the HTY?**

18 A. I included pro forma adjustments that reflected the annualization and  
19 normalization of HTY elements and also adjustments for future events that  
20 have impacted the FTY. For example, I have annualized the salaries and  
21 wages for wage increases and for number of employees similar to the

1 adjustment for the salaries and wages in the FTY. I also made an adjustment  
2 for the cost of electricity effective January 1, 2011 or the other related changes  
3 to be effective on that date, such as the removal of the CTC revenue and the  
4 elimination of the related amortization. The pro forma adjustments for the  
5 HTY are numbered consistent with the adjustments for the FTY. For  
6 example, the adjustment for salaries and wages is on Schedule D-7 in both  
7 years to facilitate reference between the FTY and the HTY. Where there is no  
8 adjustment in the HTY, such as for the elimination of the Smart Meter  
9 elements (since there were none in the recorded HTY data) that adjustment  
10 will simply state not applicable.

11 **132. Q. Please describe Exhibit RLO-2, Schedule A-1.**

12 A. Schedule A-1 shows a summary of the measures of value on lines 1 to 11,  
13 operating revenue and expenses and calculated rates of return at present and  
14 proposed rates on lines 12 to 21, and the revenue increase required on lines 22  
15 to 28.

16 **133. Q. What is contained on Schedules B-1 to B-8?**

17 A. These schedules contain recorded financial data for the year ended December  
18 31, 2009 and the calculation of the rate of return using year end 2009 data.

19 **134. Q. Please describe Schedule C-1.**

20 A. Schedule C-1 lists the measures of value components which have been  
21 adjusted to reflect only the distribution portion of each element. The total

1 measure of value for the HTY is \$3.0 billion, as shown on line 11 in column  
2 6.

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

4 A. Schedule C-2 contains 6 pages and presents the electric plant in service at  
5 December 31, 2009 for the Company's distribution operations. Page 1 shows  
6 the pro forma plant by FERC account, page 2 contains a summary by plant  
7 grouping and page 3 reflects the removal of the transmission assets including  
8 the allocated portion of the intangible and general plant. Pages 4 and 5 show  
9 the additions to plant and retirements from plant in 2009. Finally, page 6  
10 shows the adjustments to remove the transmission plant. The transmission  
11 portion of the intangible and general plant in column 3 was determined using  
12 the allocation factor used for 2009 which was based on actual 2008  
13 components.

14 **136. Q. Please describe Schedule C-3.**

15 A. Schedule C-3 contains 4 pages that provide the accumulated depreciation by  
16 FERC account at December 31, 2009 and also the net cost of removal for  
17 2009.

18 **137. Q. Please describe what is contained in Schedule C-4.**

19 A. Schedule C-4 contains 11 pages that show the calculation of the CWC  
20 allowance for the HTY of \$328.3 million (line 6). The information for  
21 average prepayments on line 5 is the same as utilized in Exhibit RLO-1,

1 because the FTY claim is based on the thirteen-month average for the period  
2 ended December 31, 2009. In addition to the prepayments, the lag periods for  
3 revenue, payroll, pension, electric purchases, transmission purchases and other  
4 disbursements utilized in Exhibit RLO-1 were also used in the HTY  
5 calculation. Those pages have been included with the data in RLO-2 for  
6 convenient reference.

7 **138. Q. Please describe page 2 of 11 of Schedule C-4.**

8 A. Page 2 provides a summary of the calculations for each of the elements of the  
9 CWC for the HTY. The expenses in column 2 and those included in the  
10 determination of the lead-lag amounts for taxes, interest and preferred  
11 dividends are the pro forma amounts for the 2009 HTY while the prepayment  
12 amount is the thirteen month average through December 31, 2009. The  
13 resulting \$328.3 million of CWC shown on line 16 is brought forward to  
14 Schedule A-1 in the calculation of the measures of value.

15 **139. Q. Please describe pages 3 to 11 of Schedule C-4.**

16 A. These pages show the calculations of various leads and lags and working  
17 capital requirements for the 2009 HTY following the same procedures used  
18 for the FTY as described in connection with Exhibit RLO-1, Schedule C-4.  
19 While the amounts for the HTY expenses vary from those in the FTY, the  
20 procedures followed to determine the lead/lag periods applied to those  
21 expense levels are the same and were described in connection with the same  
22 schedules in RLO-1.

1 **140. Q. What is contained on Schedule C-5?**

2 A. Schedule C-5 is not used and therefore is blank.

3 **141. Q. Please describe the calculations on Schedule C-6.**

4 A. These calculations present the ADIT for December 31, 2009. The procedures  
5 followed are the same as those utilized for the ADIT calculation at the end of  
6 2010, except that year-end 2009 balances were used. The resulting ADIT of  
7 \$558.0 million for electric distribution utility plant and for the electric  
8 distribution portion of common plant is shown on line 14 of Schedule C-6.

9 **142. Q. Please describe the data presented on Schedules C-7, C-9 and C-10.**

10 A. The data on these schedules is the same data that was presented and described  
11 in connection with RLO-1, since the same 13 month period was used.

12 **143. Q. Please describe the calculation of common plant shown on Schedule C-8.**

13 A. This schedule shows the electric portion of common plant at December 31,  
14 2009. The gross common plant at December 31, 2009 is the \$517.1 million  
15 shown on line 6 in column 1. Of this amount, \$348.3 million is allocated to  
16 electric distribution operations, as shown in column 3. This gross plant  
17 amount is reduced by the accumulated depreciation shown on lines 11 to 14,  
18 yielding the net common plant amount attributable to electric distribution  
19 operations at December 31, 2009 of \$212.3 million, as shown on lines 20 to  
20 22.

1 144. Q. What is presented on Schedule D-1?

2 A. Schedule D-1 shows the net operating income at present rates for the HTY,  
3 the pro forma revenue deficiency and the pro forma required revenue level.

4 145. Q. Please describe Schedule D-2.

5 A. Schedule D-2 shows revenue and expenses recorded for 2009, pro forma  
6 adjustments and the pro forma revenue and expense amounts at present rates.  
7 This schedule summarizes the adjustments that are detailed on Schedules D-3  
8 and D-5 and explained in connection with other supporting schedules to be  
9 described later in my testimony.

10 146. Q. Please describe Schedule D-3.

11 A. Schedule D-3 contains two pages which present a summary of each of the pro  
12 forma adjustments made to revenues and operating expenses, including  
13 depreciation and taxes-other than income taxes. Each of the adjustments will  
14 be described in connection with the specific schedule containing the  
15 calculation of the adjustment.

16 147. Q. What is contained in Schedule D-4?

17 A. This schedule shows the recorded and pro forma adjustment amounts for the  
18 HTY by revenue category and by FERC account for expenses.

19 148. Q. Please describe Schedule D-5.

1 A. Schedule D-5 shows the pro forma adjustments to the 2009 recorded revenue.  
2 Each of the listed adjustments is discussed in connection with Schedules D-  
3 5A to D-5H. Some of the adjustments made to the FTY data in Exhibit RLO-  
4 1, such as the removal of the Smart Meter revenue, were not made in 2009  
5 because they are not appropriate.

6 **149. Q. Please describe the adjustment on Schedule D-5A.**

7 A. The adjustment on Schedule D-5A reflects the revenue impact of the changing  
8 customer base connected with service to the Navy Yard Customers as  
9 described in connection with this adjustment in the FTY.

10 **150. Q. What adjustment is contained on Schedule D-5B?**

11 A. This adjustment annualizes revenues for customer growth during 2009. The  
12 process utilized is as described in connection with the same adjustment for the  
13 FTY on Exhibit RLO-1, Schedule D-5B.

14 **151. Q. Please describe the adjustment on Schedule D-5C.**

15 A. This adjustment reflects changes to the CAP discounts for the HTY using the  
16 same procedures and programs included in the FTY calculations. The  
17 schedule shows the discounts for the HTY on lines 1 to 5, unbundled and then  
18 rebundled as a reduction to distribution revenues as shown on line 5 of \$68.9  
19 million. The Company then reflected the change in the CAP discount to  
20 reflect the use of the data from the new 6-tier APPRISE Affordability Study

1 as shown on lines 7 to 11. Finally, the annualization adjustment shown on  
2 lines 12 to 16 uses the same data used in the FTY calculations.

3 **152. Q. Please describe the adjustment on Schedule D-5D.**

4 A. Adjustment D-5D, which is included in column 9 on Schedule D-5, removes  
5 non-distribution revenue from the HTY for the distribution operations.

6 **153. Q. What is contained in the adjustment on Schedule D, 5E?**

7 A. This adjustment reflects the average of the revenue losses associated with the  
8 load reductions mandated by Act 129. Similar to the adjustment made in the  
9 FTY which assumed the recovery of lost revenue on January 1, 2011, the  
10 Company is using the same calculation for the HTY. However, unlike the  
11 FTY where the budget included a lost revenue amount of \$19.5 million as  
12 shown on lines 1 to 5 of Schedule D-5E, the recorded 2009 data does not  
13 contain that revenue reduction. Therefore, the \$19.5 million for the revenue  
14 loss in 2010 is reflected in total as shown on lines 26 to 30 and the adjustment  
15 required is the \$41.3 million reflected on lines 36 to 40.

16 **154. Q. Please describe the adjustment on Schedule D-5F**

17 A. The adjustment on Schedule D-5F weather normalizes the recorded revenue  
18 for the HTY. Since the Company records its actual revenue, a weather  
19 normalization adjustment is required to restate the revenue at present rates for  
20 the HTY.

1 155. Q. What is the adjustment on Schedule D-5H?

2 A. This adjustment, similar to the adjustment for the FTY, reflects the migration  
3 of street lighting customers to a single tariff.

4 156. Q. What is contained on Schedule D-6?

5 A. This schedule contains the adjustments for energy purchases related to the  
6 changes in revenue where appropriate. The increase in energy costs  
7 associated with the procedural changes effective on January 1, 2011 are  
8 calculated on Schedule D-6B and reflected in column 3. The ancillary service  
9 costs related to the Company's distribution customers is shown in column 4  
10 and the weather normalization energy expense is reflected in column 5.

11 157. Q. Please describe the calculations on Schedule D-6B.

12 A. For the reasons discussed in connection with Schedule D-6B in RLO-1, the  
13 Company is making a similar adjustment in the HTY. The MWH shown in  
14 column 2 reflect the actual MWH provided by the Company in 2009 plus the  
15 MWH related to the weather normalization adjustment. The adjustment of  
16 \$1,228 million results from using the weather normalized MWH and the pro  
17 forma costs projected at January 1, 2011.

18 158. Q. Please describe Schedule D-7.

19 A. Schedule D-7 annualizes salaries and wages for the 2009 HTY. Page 1 shows  
20 the recorded amounts in column 2 and the pro forma adjustment in column 5

1 by FERC expense category. Page 2 shows the calculation of the adjustment,  
2 which follows the same procedures described in connection with the FTY  
3 using the data from 2009 for the number of employees and the average pay  
4 increases.

5 **159. Q. What is contained on Schedule D-8?**

6 A. Schedule D-8 normalizes rate case expenses using the same recorded and  
7 estimated amounts used in the FTY calculation on Exhibit RLO-1, Schedule  
8 D-8.

9 **160. Q. Please describe the adjustments on Schedule D-9.**

10 A. These adjustments annualize employee benefits and pension expense  
11 following the same procedures used in the FTY and described in connection  
12 with Exhibit RLO-1, Schedule D-9. The full-time equivalents and recorded  
13 amounts reflect the 2009 HTY data with the exception of the estimated  
14 pension payment amount on line 8 of page 1, which is the same amount used  
15 in the FTY pro forma calculation.

16 **161. Q. Are the adjustments on Schedules D-10 to D-18 similar to the**  
17 **adjustments included in Exhibit RLO-1 and described in connection with**  
18 **the schedules presented in that exhibit?**

19 A. Yes, they are, with the exception of the adjustment on Schedule D-13 which is  
20 not necessary in the HTY.

1 **162. Q. Please describe Schedule D-19.**

2 A. Schedule D-19 presents adjusted depreciation and amortization expense for  
3 2009 annualized for plant amounts at the end of the HTY.

4 **163. Q. Please describe the income tax calculations on Schedule D-20.**

5 A. This schedule shows the calculation of the pro forma income tax expense for  
6 the 2009 HTY reflecting the revenue, expenses and measures of value  
7 included in the pro forma present rate data. In addition, tax depreciation  
8 amounts were calculated for electric plant, as shown on page 3, and used in  
9 the calculations on page 1. The calculated income tax expense amounts  
10 totaled on line 32 were used in the calculation of the overall revenue increase  
11 requirement shown on Schedule A-1.

12 **164. Q. Does this complete your direct testimony?**

13 A. Yes, it does.