

**PECO ENERGY COMPANY
STATEMENT NO. 9**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PECO ENERGY COMPANY – ELECTRIC DIVISION

DOCKET NO. R-2010-2161575

DIRECT TESTIMONY

WITNESS: ALAN B. COHN

SUBJECTS: REVENUE ALLOCATION AND RATE DESIGN

DATED: MARCH 31, 2010

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1 PECO's Rates and Regulatory Affairs Department and Strategic Planning
2 Department, where I have responsibility for managing base rate case filings, cost-of-
3 service studies and financial and economic analyses.

4 **5. Q. Have you testified previously before this Commission or other regulatory**
5 **bodies?**

6 A. Yes. I have testified in regulatory proceedings before the Pennsylvania Public Utility
7 Commission (the "Commission"), the Federal Energy Regulatory Commission and
8 the Maryland Public Service Commission. A list of the cases in which I have
9 submitted testimony is attached as Exhibit ABC-1.

10 **6. Q. What is the purpose of your direct testimony?**

11 The principal purpose of my testimony is three-fold. First, I will describe how PECO
12 proposes to allocate its claimed revenue increase among rate classes. In so doing, I
13 will explain the principles that guided PECO in developing its proposed revenue
14 allocation. Second, I will describe the changes PECO proposes in the rate design for
15 certain rate classes, and explain its reasons for those changes as well as the
16 development of the proposed new rates. As part of this discussion, I will also
17 introduce and describe one new rate rider that PECO is proposing, explain proposed
18 revisions to three existing riders, and discuss the elimination of several riders. Third,
19 I will discuss adjustments made to the Company's future test year revenues and
20 revenue requirement to exclude amounts billed and recovered under various
21 surcharges for default service and Act 129-mandated programs.

1 7. Q. Please identify the exhibits you are sponsoring.

2 A. In addition to Exhibit ABC-1, I am sponsoring the following exhibits:

Exhibit ABC-2	Proposed Revenue Allocation
Exhibit ABC-3	Redlined Tariff
Exhibit ABC-4	Residential Customer Charges Of Major Pennsylvania Electric Utilities
Exhibit ABC-5	Street-lighting Revenue Adjustment
Exhibit ABC-6	Transmission Service Charge Rider
Exhibit ABC-7	PJM Transmission Costs
Exhibit ABC-8	Calculation Of Transmission Service Charge
Exhibit ABC-9	Unbundled Transmission And Generation Working Capital
Exhibit ABC-10	Proposed Modification Of The Smart-Meter Cost-Recovery Charge
Exhibit ABC-11	Legacy Meter Costs Proposed To Be Recovered In The Smart-Meter Cost-Recovery Charge
Exhibit ABC-12	Calculation Of Smart-Meter Cost-Recovery Charge
Exhibit ABC-13	Proof Of Revenues
Exhibit ABC-14	GSA Administrative Costs

3 **II. REVENUE ALLOCATION**

4 8. Q. Please state the principles that guided PECO in developing its proposed revenue
5 allocation.

6 A. The proposed revenue allocation reflects a reasonable balance of accepted principles
7 for designing utility rates. Specifically, PECO considered the following three
8 principles in developing its proposed revenue allocation:

- 1 **a.** The results of the class cost-of-service study (Cost-of-Service Study)
2 prepared by Mr. Howard Gorman and discussed in PECO Statement No. 8
3 should be used as a guide in allocating the proposed revenue increase
4 among rate classes;
- 5 **b.** The proposed revenue allocation should move all major rate classes closer
6 to the cost-of-service indicated by the Cost-of-Service Study; and
- 7 **c.** Customer impacts should be considered, and PECO should attempt to
8 avoid increases in revenue for major rate classes that, on a percentage
9 basis, are disproportionate relative to the system-average increase.

10 **9. Q. Has an exhibit been prepared showing the cost-of-service by rate class?**

11 **A.** Yes, Exhibit HSG-1, which accompanies PECO Statement No. 8 and is sponsored by
12 Mr. Gorman, shows the cost-of-service at the Company's system-average rate of
13 return for each rate class based on data for the twelve months ending December 31,
14 2010. In addition, Exhibit HSG-1 shows the increase or decrease, in dollars and as a
15 percentage of class distribution revenues under present rates, that each rate class
16 would have to receive in order for its revenues to equal its indicated class cost-of-
17 service. PECO decided that it would not move all classes to their indicated cost-of-
18 service in a single rate case because to do so would be inconsistent with the principle
19 of gradualism that has traditionally been applied in Pennsylvania. Had the Company
20 allocated the increase on a full cost-of-service basis, some classes would have
21 received increases greater than 10%, while others would have seen a reduction in
22 rates. Given the amount of the proposed increase, it is appropriate that all major
23 classes receive an increase. Nonetheless, the results of the Cost-of-Service Study
24 remain an important guide for evaluating the proposed revenue allocation.

1 **10. Q. What is the revenue allocation that PECO determined to be appropriate at this**
2 **time?**

3 A. The proposed revenue allocation is shown in Exhibit ABC-2. Specifically, this
4 exhibit shows: (1) revenue at proforma present and proposed rates for each rate class;
5 and (2) the proposed revenue increases in dollars and percentage terms for each rate
6 class. The exhibit also shows the return on rate base produced by each rate class at
7 present and proposed revenue.

8 **11. Q. Why is the proposed revenue allocation reasonable?**

9 A. The proposed revenue allocation is reasonable because it appropriately reflects the
10 three principles I discussed previously. The results of Cost-of-Service Study were
11 reviewed to determine if moving all classes to the system-average rate of return
12 would produce reasonable increases for all classes. Based upon my review, I
13 determined that, under this approach, certain classes would receive increases that
14 were either too high or too low relative to the system-average increase. Recognizing
15 the length of time that has elapsed since PECO's last rate case and the fact that the
16 Cost-of-Service Study is used as a guide, I believe it is appropriate that all major
17 classes should receive a rate increase of some amount. The Company's proposal will
18 achieve that goal and will also produce class rates of return for the major classes that
19 are not less than 95% nor more than 155% of the system average. This provides
20 substantial movement toward the system average rate of return for the major classes.
21 Under present rates, class relative rates of return range from 0.2 times to 4.7 times the
22 system average. In subsequent base rate cases, the Company will propose revenue

1 allocations that will move all classes toward the system average rate of return. The
2 end result is reasonable because it produces a reasonable rate of return from all major
3 classes, moves the major classes closer to the system average return, and provides a
4 reasonable rate increase for each of the major rate classes.

5 **12. Q. Please explain the significance of the relative rates of return shown in Exhibit**
6 **ABC-2 to which you previously referred.**

7 A. The relative rate of return is the ratio of the rate of return for a rate class to the
8 system-average rate of return. Relative rates of return are commonly used to test
9 whether a proposed revenue allocation moves each rate class closer to, or at least no
10 further from, the system average rate of return. A relative rate of return of 1.00
11 would mean the class rate of return equals the system average rate of return and,
12 therefore, class revenues equal the class cost-of-service. Conversely, relative rates of
13 return that depart from 1.00 indicate that the class rates of return are higher or lower
14 than the system average rate of return and, therefore, the classes are providing
15 revenues higher or lower than their indicated cost-of-service.

16 III. RATE DESIGN

17 **13. Q. Explain in general how PECO proposes to change the charges within each rate**
18 **schedule to recover the revenue allocated to each rate class.**

19 A. PECO proposes to increase or decrease each of the charges within each rate schedule
20 in proportion to the revenue increase or decrease allocated to that rate class, subject to
21 rate design changes, discussed below, which include increasing the fixed distribution
22 charges (customer charges) by more than the average increase for its associated class.

1 PECO Exhibit ABC-3 consists of the relevant pages of the Company's tariff that
2 show, by strike-out and black lining, all of the proposed rate changes I discuss below.
3 The changes in Exhibit ABC-3 are being made to PECO Electric Service Tariff No. 4
4 which has been approved for service effective January 1, 2011. Currently, service is
5 provided under PECO Electric Service Tariff No. 3 and associated supplements. The
6 provisions of the current tariff that will continue past 2010 will be merged into Tariff
7 No. 4 at the time PECO's compliance filing is made in this rate proceeding.

8 **14. Q. Why is PECO proposing to increase fixed distribution charges for Rate**
9 **Schedules R and GS by more than the average increase for each class?**

10 A. These changes are proposed in an effort to align fixed distribution charges with
11 customer-classified costs.

12 **15. Q. What are PECO's proposed customer charges for Rates R and GS?**

13 A. PECO is proposing a residential customer charge of \$8.10 per month. At the
14 proposed level, the Company's customer charge will be closer to the customer-related
15 costs identified by Mr. Gorman in Exhibit HSG-1D and will be consistent with the
16 customer charges of the other major electric utilities that have made post-rate cap
17 base-rate filings, as shown by the data in Exhibit ABC-4. The Company is also
18 proposing to increase the Rate GS customer charge to \$14.30 per month for single-
19 phase customers and \$38.00 for polyphase customers. Single phase customers that do
20 not have demand measuring meters will have a customer charge of \$11 per month.

1 16. Q. Why is it important to move fixed distribution charges closer to the customer-
2 classified costs?

3 A. Customer-classified costs are, by definition, costs that vary based on the number of
4 customers, not usage. Such costs include the cost of meters, customer service lines,
5 billing and meter reading. As a consequence, customer-classified costs are, on
6 average, the same amount for each customer within a rate class. Accordingly,
7 customer-classified costs are appropriately recovered in the fixed distribution charge,
8 which is the same for each customer served under a given rate schedule. A utility
9 should, to the extent practicable, avoid including customer-classified costs in variable
10 distribution charges because to do so would make the recovery of customer-related
11 costs a function of customers' usage, which they are not. Misplacing customer costs
12 in variable distribution charges has two adverse consequences. First, it can create
13 inappropriate intra-class subsidies, because some customers will pay more than their
14 share of customer-classified costs and others less, based on their relative levels of
15 usage each month. Second, because customer costs, which are a fixed amount per
16 customer, would be recovered in a charge that applies to usage, which varies, the
17 Company could recover either too little or too much of its customer-related costs as a
18 consequence of variations in customer usage. In summary, putting customer costs in
19 the wrong element of a rate can be unfair to both customers and the utility. For these
20 reasons, among others, customer-related costs in a utility's cost-of-service should be
21 charged to customers in a manner that appropriately reflects the nature of the costs
22 incurred subject to consideration of the principle of gradualism.

1 **A. Proposed Changes In The Design Of Residential Rates**

2 **17. Q. What changes does PECO propose for rate schedules that apply to the**
3 **residential class?**

4 A. PECO is proposing four changes to residential rates:

- (1) Eliminating the existing difference in the variable distribution charges that apply, under Rate R (Residential Service), to usage above 500 kWh in the “Summer” and “Winter” periods (defined in Rate Schedule R as June through September and October through May, respectively).
- (2) Setting the variable distribution charge for the “Summer” period under Rate R-H (Residential Heating) equal to the Rate R variable distribution charge. The Rate R-H variable distribution charge for the “Winter” period will be a flat charge per kWh calibrated to the increased winter usage of heating customers.
- (3) Eliminate special Rate OP (Off-Peak Service) pricing.
- (4) Eliminate Rate R-T (Residential Time-Of-Use Service).

5 **18. Q. Explain why PECO proposes to eliminate the seasonal price differential in the**
6 **Rate R variable distribution charge.**

7 A. The difference in the variable distribution charge for “Summer” and “Winter” usage
8 above 500 kWh is a legacy of PECO’s “bundled” rates, which recovered generation
9 costs as well as distribution costs. The Summer/Winter differential was designed to
10 reflect differences in generation costs during those periods (or, alternatively, to create
11 incentives for customers to restrain their usage during the Summer period, which was
12 expected to have higher generation costs as well as constrained generation resources
13 due to higher demands). Any justification that may have existed for the seasonal
14 differential will be eliminated as of January 1, 2011, when customers will either

1 obtain default service at the single “Price-To-Compare” resulting from the
2 Company’s competitive generation procurement process or purchase generation
3 service from an electric generation supplier (“EGS”). Distribution costs do not
4 exhibit a seasonal variation that would justify the rate differential reflected in existing
5 rates and, therefore, it is appropriate to eliminate the summer/winter price difference
6 in the Rate R variable distribution charge.

7 **19. Q. Explain why PECO proposes to change the variable distribution charge for the**
8 **“Summer” and “Winter” periods under Rate R-H.**

9 A. PECO determined that the “Summer” price for Rates R-H should be the same as the
10 Rate R variable distribution charge because the usage under both rate schedules
11 would be similar during the “Summer” (non-heating) period inasmuch as both Rate R
12 and Rate RH customers have air conditioning load. However, the usage profile for
13 the “Winter” period under Rate R-H would be different because of heating-related
14 energy use. As I previously mentioned, the “Winter” variable distribution charge for
15 Rate R-H has been designed to reflect that higher usage. Specifically, the higher
16 winter usage by Rate R-H customers results in a lower per-kWh charge for the
17 “Winter” period. Additionally, for Rate R-H, the non-coincident peak used to
18 allocate demand-related distribution costs occurs in the winter months. The winter
19 rate is lower to reflect the higher load factor of Rate R-H customers as compared to
20 Rate R customers and the fact that the summer price is the same for both groups of
21 customers. The Company has eliminated the blocked prices in the winter months to
22 simplify the rate design of Rate R-H.

1 **20. Q. Explain why PECO proposes to eliminate the Rate OP pricing advantage for**
2 **distribution service.**

3 A. The pricing structure of Rate OP is also a vestige of “bundled” rates that had included
4 the cost of generation. As such, that pricing structure is not justified for the recovery
5 of distribution charges after the transition to competitively procured generation for
6 default service. PECO’s cost-of-service for kilowatt hours distributed under Rate OP
7 is the same as its cost-of-service for regular residential service. Therefore, PECO
8 proposes the same variable distribution charge for this service. In order to equalize
9 the variable distribution charges of rate OP and Rate R, any increase in Rate OP will
10 be allocated first to the variable distribution charge. As a result of this change, the
11 Rate OP customer charge is being reduced from \$4.65 to \$2.00 per month. A
12 customer charge is still necessary for Rate OP because customers served under this
13 rate schedule have a separate meter for this service.

14 **21. Q. Will there be other options for Rate OP customers?**

15 A. Yes. As part of its energy efficiency filing, the Company proposed a direct load
16 control rate that can be used by Rate OP customers. Additionally, the Company, as
17 required under Act 129, will, at a future date, be proposing time-of-use rates and/or
18 real time pricing rates. While some of these options might not be available at January
19 1, 2011, I would note that Rate OP customers will still be getting a significant benefit
20 in generation pricing until January 1, 2013.

21 **22. Q. Explain why PECO proposes to eliminate Rate R-T.**

1 A. The pricing structure of Rate R-T was also developed for “bundled” rates that
2 included generation costs and is inappropriate for variable distribution charges that
3 recover only distribution costs. The generation pricing differential, which was the
4 basis for this rate, was eliminated in the Company’s default service proceeding.
5 Alternatives, such as those discussed for Rate OP customers, will also be available for
6 these customers.

7 **23. Q. In developing the proposed rates for the residential class, how did you reflect the**
8 **revenue from the proposed electric CAP rates?**

9 A. The revenue under proposed rates for Rate R includes revenue PECO will receive
10 from participants in its electric CAP. As explained by Ms. Lauren Feldhake in PECO
11 Statement No. 6, the CAP Rider provides for a pre-determined discount from Rate R
12 or R-H for each CAP participant, depending upon the CAP “class” for which they are
13 eligible based on their income level. Under the electric Universal Service Fund
14 Charge (“USFC”) proposed in this case, and explained by Mr. Stephen R. Xander in
15 PECO Statement No. 10, variations from this revenue amount will be reconciled and
16 either recovered or refunded, as applicable, through changes in the Company’s
17 electric USFC.

18 **B. Proposed Changes In The Design Of Small-Commercial And Industrial**
19 **Rates**

20 **24. Q. What changes does PECO propose for rate schedules that apply to the small-**
21 **commercial and industrial class?**

1 A. PECO is proposing four changes to Rate Schedule GS, on which small commercial
2 and industrial customers are served:

- (1) Eliminating the declining-block structure of variable distribution charges.
- (2) Eliminating the “demand ratchet.”
- (3) Eliminating the Night Service GS Rider.
- (4) Eliminating the “heating block” and “demand forgiveness” provisions.

3 **25. Q. Why is PECO proposing to eliminate the declining-block structure of variable**
4 **distribution charges?**

5 A. The declining-block structure had been implemented to recover generation costs in
6 “bundled” rates when those costs were incurred by PECO for generation it owned.
7 The declining-block structure does not reflect cost-causation factors related to
8 distribution service and is not an appropriate rate design for variable distribution
9 charges.

10 **26. Q. What rate structure will replace the declining block rates?**

11 A. PECO proposes to replace the declining-block rates with a two-part rate consisting of
12 a demand (kW) charge and a variable distribution (kWh) charge such that 75% of
13 revenue that is not produced by the fixed distribution (customer) charge is recovered
14 by the kW charge and 25% by the kWh charge. The 25% of non-customer-charge
15 revenue to be recovered by the kWh charge approximates the revenue that would be
16 collected at the end block pricing of the existing declining-block structure.

1 Recovering a portion of Rate GS revenue on a kWh basis will also create some
2 incentive for energy efficiency.

3 **27. Q. Is PECO proposing to “phase-out” the declining block design for distribution**
4 **rates as it did in eliminating declining block charges for default service energy**
5 **supply in its default service case?**

6 A. No. Eliminating declining blocks for distribution charges and replacing them with a
7 demand and energy charge has a much smaller impact on customers’ bills than
8 eliminating the declining block charges for default service energy supply.
9 Consequently, a “phase-out” is not necessary. Under the default service regulations,
10 generation costs must be recovered through a flat kWh charge. Therefore, absent a
11 phase-out, eliminating the declining block design of energy charges would have had a
12 significant one-time impact on high and low load factor customers. However, the
13 Company’s proposed distribution rate design employs a kW charge that has been
14 calculated to recover an appropriate proportion of distribution costs. As a result,
15 under the proposed rate design, the overall price per kWh will decline as customer
16 load factors increase, which is consistent with the correlation that exists between
17 increasing load factors and declining unit prices exhibited by a declining block rate
18 design.

19 **28. Q. Explain the “demand ratchet” in Rate Schedule GS and why PECO is proposing**
20 **to eliminate it.**

21 A. The “demand ratchet” in Rate Schedule GS provides, generally, that for customers
22 with demand measurement, their billing demand for the months of October through

1 May will not be less than the higher of: (a) 40% of the highest billing demand in the
2 preceding June through September period; or (b) the minimum demand set forth in
3 their contract for service. The provision described in (a), above, is being eliminated,
4 and, as proposed by the Company, Rate Schedule GS will provide that a customer's
5 billing demand will be the higher of: (a) its measured demand, if it has demand
6 measurement; or (b) the minimum demand level set forth in its contract for service.
7 The demand ratchet was, effectively, a tool for seasonal pricing of generation when
8 the cost of building generation capacity to meet summer peak load was a major
9 determinant of the level of the Company's rates. The purpose of the ratchet was to
10 assure that customers that caused the summer peak paid their fair share of the cost.
11 Effective January 1, 2011, the ratchet has been eliminated with respect to generation
12 cost recovery pursuant to Electric Service Tariff No. 4, which was approved in the
13 Company's default service proceeding. Because generation costs were the primary
14 justification for a ratchet, the ratchet no longer is needed and is being eliminated. As
15 noted above, the Company is retaining a minimum billing demand in the customer's
16 contract for service. This is necessary to assure that customers pay for the
17 distribution capacity needed to serve them, since that capacity is in place twelve
18 months of the year

19 **29. Q. Explain the Night Service GS Rider and why PECO is proposing to eliminate it.**

20 A. The Night Service GS Rider is a legacy of bundled rates that was designed to
21 encourage customers to shift their use of generation to the Off-Peak Hours (as defined
22 in the rider) in order to reduce the overall cost-of-service. It does so by providing
23 reduced prices for demand and energy usage in the Off-Peak Hours that exceeds a

1 customer's demand and energy usage during On-Peak Hours (as defined in the rider).
2 The concept underlying the rider was that using energy in the off-peak period would
3 not drive the need for new generation and, therefore, discounts could be provided to
4 encourage usage in those hours. From a distribution perspective, however, the system
5 is designed to meet each class' maximum peak demand whenever it occurs and,
6 accordingly, the costs of distribution facilities are allocated on the basis of each class'
7 non-coincident peak demand. For customers that would use the Night Service GS
8 Rider, i.e., those whose overall demands are highest in the Off-Peak Hours, their non-
9 coincident peak occurs in the off-peak period. Consequently, in terms of distribution
10 service, no system benefit is achieved by shifting customer demand to the off-peak
11 period. Therefore, the justification for the Night Service GS Rider, which pertained
12 to "bundled" generation service, does not apply to distribution service.

13 **30. Q. What are the "heating block" and "demand forgiveness" provisions of Rate**
14 **Schedule GS and why does PECO propose to eliminate them?**

15 A. Rate GS customers with electric heat can either be billed under the "heating block"
16 for heating load, if they have a separate meter for heating load, or under the "demand
17 forgiveness" provision, if they do not have a separate meter. The "heating block"
18 provides lower variable distribution charges for heating load. The "demand
19 forgiveness" provision reduces the customers' billing demand by a set amount
20 assumed to reflect its heating load. That reduction produces a higher billing load
21 factor which, with declining-block rates, results in a lower average cost. The "heating
22 block" and "demand forgiveness" provision are a holdover from bundled rates where
23 the fixed cost of generation was the major part of the Company's cost-of-service, was

1 driven by summer peak load, and the cost of adding load in the winter was small. As
2 a result, in a “bundled” rate environment, discounting the charges to customers using
3 electricity for heating could be justified. However, from a distribution perspective the
4 system is designed to meet the localized, non-coincident peaks whenever they occur,
5 which, in the case of heating customers, is likely to be in the winter. As such, there
6 is no cost justification for discounting the distribution rate for heating load. However,
7 even with the elimination of the “heating block” and “demand forgiveness”
8 provisions, if Rate GS heating customers have a better load factor, the new rate
9 design may still result in a lower price per kWh for distribution service for them than
10 for the average Rate GS non-heating customer.

11 **C. Proposed Changes In The Design Of Large Commercial And Industrial**
12 **Rates**

13 **31. Q. What changes does PECO propose for rate schedules that apply the large**
14 **commercial and industrial customers?**

15 **A. PECO is proposing three changes to Rate Schedules PD (Primary Distribution) and**
16 **HT (High Tension), on which large commercial and industrial customers are served:**

- (1) Eliminating the declining-block structure of variable distribution charges.
- (2) Eliminating the “demand ratchet.”
- (3) Eliminating the Night Service PD Rider and the Night Service HT Rider.

17 **32. Q. Why is PECO proposing these changes?**

1 A. PECO is proposing these changes to Rate Schedules PD and HT for the same reasons
2 it is proposing comparable changes to Rate Schedule GS, which I previously
3 explained.

4 **D. Street And Traffic Lighting**

5 **33. Q. What rate schedules apply to street-lighting service?**

6 A. PECO provides street-lighting service under five rate schedules:

- SL-P Street-lighting – City of Philadelphia
- SL-S Street-lighting – Suburban Counties
- SL-E Street-lighting – Customer-Owned Facilities
- SL-E-Rider Suburban Street-lighting Rider
- AL Alley Lighting – City of Philadelphia
- POL Private Outdoor Lighting

7 **34. Q. How does PECO propose to change the rate schedules for street-lighting service?**

8 A. PECO’s ultimate goal is to consolidate all of its street-lighting rates into two rate
9 schedules. Rate Schedules SL-P, SL-E, SL-E-Rider and AL currently are available to
10 customers that own their own lighting fixtures. Rate Schedules SL-S and POL apply
11 to service provided with Company-owned fixtures. PECO’s proposed Rate Schedule
12 SL-E will apply to all street-lighting customers that own their own fixtures and are
13 currently served under Rate Schedules SL-P, SL-E and SL-E-Rider. PECO will
14 retain Rate Schedules SL-S and POL for lights owned by the Company, but will

1 equalize the rates over time. Rate AL will remain a separate rate schedule but will be
2 changed from a kWh charge to a location charge.

3 **35. Q. Explain the charges that will apply under each of the street-lighting rate**
4 **schedules.**

5 A. The new Rate SL-E will have a fixed distribution charge for each service location. In
6 developing the rates under Rate Schedules SL-S and POL, each type of light will
7 receive an equal percent increase. As explained above, Rate AL will be changed
8 from a kWh charge to a location charge. These rate structure charges are designed to
9 be revenue neutral and, therefore, customers should not experience a billing impact.

10 **36. Q. How will natural consolidation of street-lighting rate schedules affect the**
11 **Company's revenue?**

12 A. The natural consolidation of Rates SL-P and SL-E and the Rate SL-E-Rider will
13 likely result in an annual reduction in revenue of \$3.4 million. Exhibit ABC-5
14 provides the calculation of the revenue reduction. This adjustment is included in Mr.
15 O'Brien's Exhibit RLO-1 at Schedule D-5H as a proforma revenue reduction.

16 **37. Q. How will the natural migration occur in the street-lighting rates?**

17 A. Assuming the Company rate design is approved, the consolidation of Rates SL-P and
18 SL-E and the Rate SL-E-Rider will happen by the end of 2010 with no action
19 necessary by the Company because customers will migrate to the rate that is most
20 advantageous. The driving force will be the difference in the location charges for the
21 different lighting rates. Starting in 2011, all the lighting rates will have the same

1 energy charges. Therefore, the only difference in price will be due to differing
2 location charges. The proposed revenue adjustment assumes that all customers will
3 naturally migrate to the rate with the lowest location charge, which is Rate SL-E. In
4 fact, the default service case noted that Rate SL-E-Rider would be eliminated for just
5 that reason. The only difference between Rate SL-E and Rate SL-E-Rider that will
6 remain in 2011 will be the higher location charge under Rate SL-E-Rider. The same
7 is true for Rate SL-P. The only reason the City of Philadelphia is still served on Rate
8 SL-P is that Rate SL-P is part of the City's special contract. The discount under that
9 contract makes Rate SL-P comparable to Rate SL-E. Ideally, Rate AL would also be
10 moved to Rate SL-E. However, the increase resulting from such a change would be
11 too large to do at one time. However, the Company is taking the first step in that
12 direction by changing Rate AL to a fixed-location charge.

13 **38. Q. Will the consolidation of the street-lighting rates have an impact on the**
14 **collection of the Energy Efficiency Plan Charge ("EEPC")?**

15 A. Absent any adjustment by the Company, the change in street-lighting rates would
16 result in an undercollection of the street-lighting EEPC. This would occur because
17 the EEPC applied to the Rate SL-E location charge is lower than the EEPC applied to
18 the Rate SL-P location charge. The difference in the initial EEPCs is a function of
19 how the costs recovered in the EEPCs were allocated among street-lighting rate
20 schedules, i.e., on a per-kWh basis. Because Rate SL-P has, on average, higher kWh
21 usage per light, it received a greater allocation of costs and, therefore, a higher EEPC
22 to be added to its location charge than the EEPCs for the existing Rate SL-E
23 customers. In recognition of that differential in EEPCs, reflecting the allocation of

1 underlying costs, the Company proposes to retain the existing EEPCs for customers
2 currently served on Rate SL-P that migrate to Rate SL-E.

3 **39. Q. How does PECO propose to change Rate Schedule TL (Traffic Lighting)?**

4 A. First, Rate TL will be changed to Rate TLCL (Traffic Lighting and Constant Load).
5 The Rate TL currently consists of only a variable distribution charge of 2.14 cents per
6 kWh. The proposed Rate TLCL will consist of a fixed distribution charge of \$3.50
7 per location and a variable distribution charge of 1.56 cents per kWh, both of which
8 reflect the increases proposed in this case. In addition, the availability provision will
9 be changed so that Rate Schedule TLCL will apply to small constant load devices
10 with a maximum demand of less than 1.2 kW. To the extent the load on such a
11 device exceeds 1.2 kW, service will be provided under the terms of Rate GS (General
12 Service).

13 **40. Q. What are the kinds of constant-load devices to which the proposed Rate TL
14 would apply?**

15 A. This change would apply to devices such as WIFI antennae and certain
16 communication devices that boost power for cable television. These services
17 currently are billed under Rate GS as an unmetered customer with a 1.2 kW minimum
18 demand. The demands of these devices are, in general, well below 1.2 kW.

19 **41. Q. How will the proposed changes to Rate Schedule TL affect the bills of existing
20 Rate TL customers and customers with small constant-load devices that would
21 be billed under Rate TLCL?**

1 A. The change is revenue neutral to the current Rate TL customers and will reduce the
2 rates charged to small constant load devices that qualify for the rate. The impact of
3 the migration to Rate TLCL of customers with small constant load devices is included
4 in the Company's proof of revenue at present rates. As with Rate SL-E, the
5 Company, at the time of its compliance filing, will make sure that any adjustments to
6 the EEPC due to this change will be revenue neutral for the traffic lighting customers.

7 **E. Existing Riders Being Eliminated Or Revised**

8 **42. Q. What existing riders does PECO propose to eliminate?**

9 A. In addition to the Night Service GS, PD and HT Riders, discussed previously, PECO
10 proposes to eliminate the Seasonal Pricing Rider, the Off-Peak Rider, the Cooling
11 Thermal Storage Rider and the Transformer Rental Rider.

12 **43. Q. Why is PECO proposing to eliminate these riders?**

13 A. PECO proposes to eliminate the Seasonal Pricing Rider, the Off-Peak Rider and the
14 Cooling Thermal Storage Rider because their pricing structure is a legacy of
15 "bundled" rates. The pricing structure was developed to reflect generation cost
16 differentials for seasonal and off-peak use that do not apply to unbundled distribution
17 service, which now does not include any element of generation cost. Additionally,
18 the Off-Peak Rider was closed to new customers in 1972. PECO also proposes to
19 eliminate the Transformer Rental Rider effective on January 1, 2012. This rider was
20 closed to new customers in 1963. PECO will offer customers on this rider the option
21 to purchase the rented equipment, if appropriate, or to become a Rate GS customer
22 (that is, take service at lower voltage that does not require additional transformation).

1 **44. Q. What existing rider does PECO propose to revise?**

2 A. PECO proposes to revise the Auxiliary Service Rider, which is available to provide
3 supplementary and back-up electrical service to non-utility generators and customers
4 with their own generation. The current tariff provides for different pricing for
5 interruptible backup service, maintenance service, firm backup service, firm
6 maintenance service, and supplementary power. The pricing structure on the
7 generation side was changed in PECO's default service proceeding such that the
8 generation price will be the same for all types of power under the Auxiliary Service
9 Rider. Customers that prefer interruptible generation back-up service are eligible for
10 the Company's interruptible service riders. The distribution charges are being
11 modified as described below. The provisions of the tariff that are unchanged relate to
12 various notifications to the Company that are necessary when customer-owned
13 generation is operating in parallel with the Company's system.

14 **45. Q. How does PECO propose to change this rider?**

15 A. The pricing structure is being simplified. All distribution charges for this rate
16 schedule will be the same as the applicable distribution rate schedule under which the
17 customer is served. PECO has to have distribution facilities available to serve these
18 customers just as they do for all other distribution customers. As such, there is no
19 basis for providing a different rate design for distribution service for these uses.

1 IV. TRANSMISSION SERVICE CHARGE RIDER

2 46. Q. How have transmission costs charged to PECO by the PJM Interconnection
3 LLC (“PJM”) been reflected in developing the Company’s proposed base rates
4 and base rate revenue requirement?

5 A. All of the costs charged to PECO by PJM have been included in base rate revenue
6 requirements in developing the proposed base rates. However, the Company is
7 proposing an alternative cost recovery method that would recover such costs under a
8 Transmission Service Charge (“TSC”). The proposed TSC is a Section 1307
9 adjustment clause in the form set forth in PECO’s proposed TSC Rider. The tariff
10 pages that comprise the TSC Rider are provided as PECO Exhibit ABC-6. If the TSC
11 Rider is approved, the Company will recover the transmission costs charged to it by
12 PJM under that rider and, accordingly, those costs would not be included in the base
13 rates established at the conclusion of this case. I would note that initially all of the
14 major electric utilities in Pennsylvania have a transmission of cost recovery clause
15 like the TSC or have asked to implement one.

16 47. Q. What categories of costs would be recovered under the TSC Rider?

17 A. As I explained, the TSC Rider would recover all transmission charges imposed by
18 PJM, as set forth on PJM’s bills to PECO, which would include, principally, network
19 service charges and regional transmission enhancement plan charges, and any other
20 load-serving entity (“LSE”) transmission-related charges not paid by energy
21 suppliers, as set forth in the Company’s Supply Master Agreements approved in the
22 Company’s default-service proceeding.

1 **48. Q. Have you prepared an exhibit that shows the transmission costs that will be**
2 **removed from base rates and recovered through the TSC?**

3 A. Yes, Exhibit ABC- 7 shows, by category, the PJM-imposed costs that PECO will
4 remove from base rates and recover through a TSC.

5 **49. Q. Will the TSC be by-passable?**

6 A. Yes, if the TSC proposed by PECO is approved as filed, it will be by-passable. The
7 proposed TSC will apply only to customers that purchase default service from the
8 Company because the transmission costs being recovered are incurred by PECO for
9 default service. EGS are LSEs, as defined by PJM, and, as such, are charged the
10 same categories of costs for transmission service that PECO would recover under the
11 TSC for the default service it provides. Thus, recovering transmission costs under the
12 TSC assures competitive neutrality between default service and service offered by an
13 EGC since the TSC, as a by-passable charge, would be included in PECO's price-to-
14 compare.

15 **50. Q. How would the costs recovered under the TSC be allocated to customer classes**
16 **and recovered from customers?**

17 A. The costs to be recovered under the TSC would be allocated to customer classes and
18 recovered from default service customers on the same basis those costs would be
19 allocated to customer classes and recovered from customers if they were included in
20 base rates. Mr. Howard Gorman discusses the allocation of transmission costs in
21 PECO Statement No. 8. To assure that the costs allocated to each rate schedule will

1 be recovered from customers in the same manner as those costs would be recovered
2 in base rates, PECO proposes to allocate the total transmission charges it pays based
3 upon the network service peak load of its default service customers. The TSC will
4 replace the current transmission charges that retain the declining-block rate structure.
5 As noted above, the change in rate design along with recovery under a reconcilable
6 mechanism will assure a level playing field with competitive suppliers.

7 **51. Q. What are the principal elements of the TSC?**

8 A. The TSC, as proposed by the Company, consists of the following principal elements:

- (1) The TSC will be calculated separately for each customer class. For residential customers, the TSC will be a kWh charge. For commercial and industrial customers, the TSC will be a kW charge.
- (2) The TSC will become effective on a service-rendered basis at the same time as the base rates established in this case.
- (3) Subsequent proposed TSC rates and accompanying information will be filed by December 1 of each year to become effective on January 1 of the next year and remain in effect for 12 months. Accordingly, the TSC Computation Year will be the 12 months beginning on January 1 and ending on December 31 of the same year. The TSC Reconciliation Year will be the 12 months ending on October 31 immediately preceding the Computation Year.
- (4) The costs included in the calculation of the TSC for each Computation Year will be based on the projected transmission costs for that period, and the charge will be calculated on the basis of projected default service sales. A working-capital component will also be included in the charge, which is discussed separately in Section V.
- (5) The TSC will be fully reconcilable. The reconciliation will compare revenue billed under the TSC to PECO's actual transmission costs recoverable under the TSC for the Reconciliation Year. Interest on over and under-collections will accrue at the legal rate set forth in 41 P.S. § 202 (currently 6.0%).

9 **52. Q. Have you prepared an exhibit showing the calculation of the TSC?**

1 A. Yes. Exhibit ABC-8 shows the mechanics of the calculation of the TSC based on the
2 transmission costs claimed in this case and test year sales.

3 **V. GENERATION SUPPLY AND TRANSMISSION WORKING CAPITAL RIDER**

4 **53. Q. What are the components PECO proposes to include in its Generation Supply**
5 **Adjustment (“GSA”) and its TSC to reflect the cost of working capital**
6 **requirements associated with providing generation and transmission service for**
7 **default service customers?**

8 A. PECO proposes to include a Generation Supply Working Capital (“GSWC”) charge
9 in its GSA and a Transmission Cost Working Capital (“TCWC”) charge in its TSC.
10 The GSWC and TCWC charges are being added in order to “unbundle” the working
11 capital revenue requirement associated with a portion of PECO’s default generation
12 supply and transmission service costs by recovering that revenue requirement in the
13 GSA and TSC, which apply only to default service customers, rather than in base
14 rates, which are charged to all (shopping and non-shopping) customers. The GSWC
15 and TSWC components of the GSA and TSC will recover the portion of the
16 generation and transmission service working capital revenue requirement that would
17 be avoided if a customer were served by an EGS in lieu of taking default service.

18 **54. Q. What portion of PECO’s default generation service and transmission service**
19 **working capital requirement would not be incurred if a customer received**
20 **service from an EGS?**

21 A. The working capital requirement that PECO avoids when a customer shops
22 corresponds to the working capital requirement an EGS incurs when it serves a PECO

1 customer. That determination is affected by the Company's proposal to implement a
2 purchase-of-receivables program, under which it would purchase EGS' receivables.
3 At the time the EGS receives payment for the purchase of its receivables, the EGS
4 ceases to incur a working capital requirement for the purchased account, and that
5 requirement is, instead, imposed on PECO. Accordingly, the working capital
6 requirement to be recovered in the GSA and TSC begins when generation suppliers
7 and PJM are paid for generation and transmission service, respectively, and continues
8 until the date that corresponds to when an EGS receivable is purchased.

9 **55. Q. Why is PECO proposing to unbundle the portion of its working capital**
10 **requirement described above?**

11 A. The unbundling will assure that generation supply and transmission service working
12 capital costs are recovered on a competitively neutral basis. As I previously
13 explained, to the extent the Company is avoiding such working capital costs when a
14 customer shops, an EGS will be incurring that working capital cost. Including this
15 cost in the GSA and TSC (and, therefore, in the price-to-compare), as PECO is
16 proposing, assures a level playing field for competitive suppliers.

17 **56. Q. What are the GSWC and TCWC charges?**

18 A. The proposed GSWC and TCWC charges will be components of the Company's
19 current GSA and TSC, respectively. The tariff pages that contain the GSWC and
20 TCWC charges are provided in PECO Exhibit ABC-3. If these charges are approved,
21 the Company will recover its GSWC and TCWC revenue requirement under the GSA

1 and TSC and, accordingly, those costs will be removed from the base rates established
2 at the conclusion of this case.

3 **57. Q. What expenses incurred by PECO give rise to the cash working capital revenue**
4 **requirement that will be recovered in the GSWC and TCWC charges?**

5 A. PECO purchases generation supply and transmission services in order to provide
6 generation supply service to its default-service customers. PECO must pay energy
7 suppliers and its transmission provider (PJM) before it receives payment from default-
8 service customers for the default generation supply service it furnishes. The funds
9 needed to pay energy suppliers and PJM in advance of customers' payments is
10 PECO's investment in working capital. Like PECO's other investments made to
11 provide service to customers, the working-capital requirement imposes a revenue
12 requirement at PECO's pre-tax overall cost of capital.

13 **58. Q. Have you prepared an exhibit that shows how you calculated the GSWC and**
14 **TCWC revenue requirement that would be recovered under those charges?**

15 A. Yes, Exhibit ABC-9 shows that calculation. Page one of the exhibit shows the
16 calculation of the working capital revenue requirement associated with the purchase
17 of generation supply. Page two shows the calculation of the working capital revenue
18 requirement associated with the purchase of transmission service to bring the default
19 generation supply to PECO's load zone. In both cases, the revenue requirement is
20 converted to a unit rate.

21 **59. Q. How were the revenue lags determined for purposes of Exhibit ABC-9?**

1 A. The revenue lags were calculated as the difference between (1) the mid-point of the
2 monthly service period; and (2) the date an EGS would be paid by PECO under its
3 proposed purchase of receivables program for EGS service rendered during that same
4 period. Under the purchase of receivables program, EGSs serving residential
5 customers are paid 25 days after the bill that includes the EGS' charges is issued.
6 Commercial and industrial customers are paid 20 days after billing.

7 **60. Q. How were the expense lags determined for purposes of Exhibit ABC-9?**

8 A. The derivation of the expense lag is discussed by Robert L. O'Brien in PECO
9 Statement No. 3. In general, they are based upon PJM payment terms for
10 transmission and a small portion of the generation cost. Most of the generation cost
11 lag days are based upon the Company's Supply Master Agreement payment terms.

12 **61. Q. What pre-tax cost of capital was used to calculate the revenue requirement
13 developed on Exhibit ABC-9?**

14 A. The cost of capital is based upon the components of the overall rate of return
15 supported by Paul R. Moul in PECO Statement No. 5. The preferred stock and
16 common equity return rates have been grossed up for state and federal income taxes.

17 **62. Q. How would the costs recovered under the GSWC charge be allocated to
18 customer classes and recovered from customers?**

19 A. The costs to be recovered under the GSWC charge will be added to the GSA and,
20 therefore, collected on a cents-per-kWh basis as part of the GSA. The rate will be the
21 same for all classes. The Company is not proposing a reconciliation of the GSWC.

1 Instead, the Company is proposing to maintain the GSWC unit rate determined in this
2 case until its next base rate case. If approved by the Commission, the GSWC will be
3 added to the GSA and deducted from distribution rates.

4 **63. Q. How would the costs recovered under the TCWC charge be allocated to**
5 **customer classes and recovered from customers?**

6 A. The costs to be recovered under the TCWC charge will be a component of the TSC,
7 as I previously explained in Section IV. As such, these costs will be allocated among
8 classes and collected on the same basis as the other components of the TSC. The
9 Company is not proposing a reconciliation of the TCWC. Instead, the Company is
10 proposing to maintain the TCWC unit rate determined in this case until its next base
11 rate case.

12 **64. Q. Please summarize the principal elements of the GSWC and TCWC charges.**

13 A. The GSWC and TCWC charges, as proposed by the Company, consist of the
14 following principal elements:

- (1) The GSWC and TCWC charges will be billed to default service customers and will be by-passable.
- (2) The GSWC charge will be the same for all classes.
The TCWC charge will be allocated among classes on the same basis as the other components of the TSC.
- (3) The GSWC and TCWC charges will become effective on a service-rendered basis at the same time as the base rates established in this case.
- (4) The GSWC and TCWC charges will only change in a base rate case.
- (5) The GSWC and TCWC charges will not be reconcilable.

1 65. Q. Does Exhibit ABC-9 show the calculation of the GSWC and TCWC charges?

2 A. Yes. Exhibit ABC-9 shows the mechanics of the calculation of the GSWC and
3 TCWC charge based on estimated costs and projected sales.

4 VI. EXPANSION OF THE SMART METER COST RECOVERY RIDER

5 66. Q. What is the Smart Meter Cost Recovery (“SMCR”) Rider?

6 A. The SMCR Rider is a tariff rider setting forth a Section 1307 cost recovery
7 mechanism – the SMCR charge – designed to recover, on a full-and-current basis, all
8 of PECO’s incremental costs to provide, operate and maintain smart-meter
9 technology. The SMCR Rider is currently pending Commission approval as part of
10 the Company’s Smart Meter Technology Procurement and Installation Plan at Docket
11 No. M-2009-21239944. PECO and other parties to that proceeding reached a
12 settlement of all issues except one (“Smart Meter Settlement”). On January 28, 2010,
13 the presiding Administrative Law Judge issued a Recommended Decision finding that
14 the Settlement, including the terms of the Company’s SMCR Rider, should be
15 approved. A final Commission Order is expect by mid-April.

16 67. Q. How does PECO propose to revise its SMCR Rider in this case?

17 A. PECO proposes to revise the SMCR Rider to recover meter and meter-reading costs.
18 If the SMCR Rider is approved, the cost of meters and meter reading currently being
19 recovered in PECO’s base rates will be removed from base rates. By recovering all
20 meter and meter-reading costs under the SMCR Rider, the savings and avoided costs
21 that may arise from ceasing the operation of PECO’s existing metering systems will

1 flow to customers automatically. After PECO's Smart Meter Procurement and
2 Installation Plan has been fully implemented, the meter and meter reading costs would
3 be rolled back into base rates in a subsequent base rate case.

4 **68. Q. Has PECO previously advised the Commission and the parties to its Smart**
5 **Meter Procurement and Installation Plan proceeding of its intention to propose,**
6 **in a future base rate case, removing all meter and meter reading cost from base**
7 **rates and recovering such costs through the SMCR charge?**

8 A. Yes, in my direct testimony (PECO Statement No. 5) at Docket No. M-2009-
9 2123944, I explained that PECO planned to make such a proposal in its next base rate
10 case. No party to that proceeding expressed any opposition to PECO's plan at that
11 time.

12 **69. Q. Have you prepared revised tariff pages showing the modification of the SMCR**
13 **Rider that PECO is proposing?**

14 A. Yes, the revised tariff pages showing the proposed changes, in black lined form, are
15 set forth in Exhibit ABC-10.

16 **70. Q. Have you prepared an exhibit showing the derivation of the costs that PECO**
17 **proposes to remove from its base rates and recover under the SMCR Rider if its**
18 **proposal in this case is approved?**

19 A. Yes, Exhibit ABC-11 shows these costs. As shown in that exhibit, the costs to be
20 recovered in the surcharge consist of both capital and expense. On the capital side,
21 the cost, as defined by the revenue requirement on the rate base associated with

1 meters, will be moved to the surcharge for recovery. Rate base will be calculated by
2 starting with the original cost of meters (Account 370) and subtracting the associated
3 accumulated depreciation and accumulated deferred income taxes. The rate base will
4 also be adjusted, consistent with the Smart Meter Settlement, to reflect the accelerated
5 amortization of the current meters. The rate of return used in the calculation will be
6 that allowed in this case and, thereafter, will be consistent with the terms of the Smart
7 Meter Settlement which provides for a return on equity equal to that granted in this
8 proceeding and the use of PECO's actual capital structure and cost rates of debt and
9 preferred stock. As to operating and maintenance expenses, the Company will be
10 removing meter reading fees and asset use fees charged by Cell Net as well as meter
11 depreciation expense from base rates and will recover those costs under the SMCR
12 Rider.

13 **71. Q. How will charges to customers be determined under the revised SMCR Rider?**

14 A. The elements of the SMCR charge will be the same except for the addition of
15 PECO's "legacy" meter and meter reading costs, which are identified above. The
16 allocation of legacy meter costs to customer classes and recovery of costs from
17 customers in each class will be done in the same manner used to unbundle the cost.

18 **72. Q. Are there any provisions in the Settlement of the Company's Smart Meter
19 Technology Procurement and Installation Plan at Docket No. M-2009-21239944
20 that will impact the calculation of the unbundled meter cost?**

21 A. Yes. The provision for the recovery of accelerated depreciation of existing meters
22 will affect the unbundled legacy meter cost calculation. This part of the Smart Meter

1 Settlement provides that PECO's remaining meter investment at December 31, 2010
2 will be recovered over a 10-year period ending December 31, 2020. The unbundled
3 cost going forward will, therefore, include the recovery of existing meter investment
4 based upon a remaining life calculation with December 31, 2020 as the designated
5 end of life of such meters. In this way, the rate base will reflect the appropriate
6 reduction for the accelerated depreciation of that investment.

7 **73. Q. Have you prepared an exhibit showing the calculation of the SMCR charge**
8 **under PECO's proposal?**

9 A. Yes. Exhibit ABC-12 shows the calculation of the residential legacy meter cost for
10 the first quarter of 2011 assuming the Commission approves the Smart Meter
11 Settlement and the Company's unbundling proposal. Note the higher revenue
12 requirement associated with the accelerated depreciation of the legacy meters should
13 not be removed from the base rate revenue requirement used to establish rates in this
14 proceeding because it is not included in the Company's existing costs and, therefore,
15 there is nothing to be removed. Assuming approval of the Company's unbundling
16 proposal, base rates established in this proceeding would be adjusted based upon
17 Exhibit ABC-11. Smart Meter costs will be recovered under the SMCR Rider,
18 consistent with the Commission's final Order in the Smart Meter proceeding, with
19 one change. The SMCR Rider filed in the Smart Meter proceeding, consistent with
20 the Commission's directives, categorized the accelerated depreciation of legacy
21 meters as a smart meter cost and, as such, included those costs directly in the
22 component "SM(n)" of the SMCR formula. In this case, where the Company is
23 proposing to unbundle its legacy meter costs, the Company is treating the accelerated

1 depreciation as a component of its legacy costs and including it in a new component
2 of the SMCR formula designated "L" (for legacy costs). However, changing the
3 component of the formula in which the accelerated depreciation is included in
4 calculating the SMCR does not change the fact that such accelerated depreciation is
5 being recovered in a manner that is consistent with the Smart Meter Settlement.

6 **VII. REVENUE EFFECT BY RATE SCHEDULE, PROOF OF REVENUES,**
7 **AND SCALE-BACK**

8 **74. Q. Have you prepared a summary of revenues at present and proposed rates for**
9 **each rate class?**

10 A. Yes. Exhibit ABC-2 shows the revenue at both proforma present rates and proposed
11 rates, as well as the percentage increases each class will experience on an overall bill
12 basis.

13 **75. Q. Have you prepared proofs of revenue with respect to PECO's present and**
14 **proposed rates?**

15 A. Yes. Exhibit ABC-13 is a proof of revenue with respect to PECO's proforma present
16 and proposed distribution rates. A proof of revenue showing that PECO's proposed
17 transmission rates is provided in Exhibit ABC-8 where the proposed rate is
18 developed. As shown, the proposed rates, based upon pro forma billing determinants
19 for the future test year, will produce PECO's requested overall increase in revenue of
20 approximately \$316,360,000.

21 **76. Q. How does PECO propose to scale-back the proposed rates if it is granted less**
22 **than the revenue increase it requests?**

- 1 A. In the event it is granted less than its requested increase, PECO proposes that:
- 2 a. The revenue increases proposed for all rate classes be reduced in
3 proportion to the proposed increase for each class, but no class shall
4 receive a rate reduction due to the scale back.
- 5 b. The fixed distribution charges for all rate classes remain as proposed, and
6 all other rates and charges for all rate schedules be reduced
7 proportionately to produce the revenue target for each rate class.

8 **VIII. POST 2010 AND ACT 129 COSTS**

9 **77. Q. Do the Company's test-year expenses include amounts that are recoverable**
10 **under the GSA consistent with the Commission-approved settlement of its**
11 **default service proceeding?**

12 A. No, they do not. Expense items, specifically administrative costs, that are recoverable
13 in the GSA have been deferred and are not reflected in the test year. The current
14 estimate of these expenses is shown in Exhibit ABC-14. That exhibit updates
15 Appendix F to the Default Service Settlement to reflect the current estimates of
16 recoverable cost. The capital projects to be recovered in the GSA per Appendix F
17 have also been excluded from the capital expenditures in the test year as shown in
18 Exhibit RLO-1, Schedules D-19 and C-2. Exhibit ABC-14 provides a current
19 estimate of the capital expenditures recoverable under the GSA.

20 **78. Q. The Company's settlement in its Market Rate Transition Phase-in Plan**
21 **proceeding at Docket Number P-2008-2062741 provided that the Company was**
22 **allowed to include the cost of that program in its next base rate case. Has the**
23 **Company reflected these costs and if so, at what level?**

1 A. Yes, the Company's claim reflects the recovery of the cost of this program. Exhibit
2 RLO-1, Section D, Schedule 17a, provides the cost the Company is seeking to
3 recover. As shown there, the Company is seeking recovery of \$880,000 in capital
4 costs and \$220,000 in deferred expenses.. A three-year amortization is being used
5 because the program will conclude in three years.

6 **79. Q. Does the Company's test year budget include any revenues and expenses related**
7 **to the smart meter program?**

8 A. Yes. The test year budget includes revenue to be billed and expenses and capital to
9 be recovered under the SMCR Rider. These amounts have been removed from the
10 Company's claims in this case by Mr. O'Brien on Schedules D-19, C-2, and D-5G of
11 Exhibit RLO-1. Among the costs removed is the cost of labor associated with
12 employees to the extent they are contractors or internal employees working solely on
13 the smart meter project whose positions were backfilled, Any positions in the test
14 year that are specifically for the smart meter project have been removed. It is the
15 Company's intent going forward to include incremental employee or contractor costs
16 associated with the Smart Meter project in the smart meter surcharge. Incremental
17 labor cost (the expense portion) will consist of contract labor or new employees hired
18 specifically for the project and internal hires for the project but only to the extent the
19 prior position of the internal hire has been back-filled. Currently, there are four
20 positions included in the test year for smart meters. These positions are for a core
21 strategic team and will not be recovered in the SMCR charge. PECO's accounting
22 group is developing procedures to assure proper tracking of expenditures such that
23 only costs recoverable under the SMCR are deferred for recovery.

1 **80. Q. How has the Company handled the compliance cost associated with the grant it**
2 **received under the American Recovery and Reinvestment Act (“ARRA”)?**

3 A. The portion of the ARRA compliance cost associated with smart meters has been
4 removed from the test year and will be recovered in the SMCR charge.
5 Approximately 75% of the ARRA compliance costs is associated with smart meters
6 and 25% with smart grid projects, based upon the Company’s filing for the stimulus
7 grant. The compliance cost associated with the smart grid portion of the grant,
8 approximately \$1.5 million, will remain in the test year because those projects are not
9 included in the SMRC charge.

10 **81. Q. The Company’s energy efficiency filing also provided for recovery of certain**
11 **internal labor costs under a surcharge mechanism. Have those costs, to the**
12 **extent included in the test year, been removed?**

13 A. Yes. Mr. O’Brien on Schedule D-5F, D-19, and C-2 of Exhibit RLO-1 removed all
14 revenues, expenses, and capital associated with the energy efficiency program that are
15 recovered in the surcharge. Certain management costs have not been removed
16 because the associated managers may spend time on other projects and their cost has
17 not been included in the energy efficiency surcharge or program cost. The only
18 internal labor to be included in the energy efficiency surcharge is that associated with
19 new positions needed to implement the Company’s energy efficiency plan. To the
20 extent that new hires are made internally, the prior position must be back-filled in
21 order for the new hire to be included in the cost recovery surcharge. The Company

1 has established internal procedures to assure proper tracking of cost included as
2 recoverable cost for the energy efficiency program.

3 **IX. CONCLUSION**

4 **82. Q. Please summarize your conclusions.**

5 A. PECO's proposed rates reflect a reasonable allocation of the Company's proposed
6 revenue increase and a reasonable rate design for each rate schedule. The Company's
7 proposed TSC will provide a reasonable means of recovering PJM-imposed
8 transmission charges. Additionally, the GSWC and TCWC charges to be included in
9 the GSA and TSC will appropriately "unbundle" the cash working capital associated
10 with generation supply and transmission service and, thereby, assure recovery of that
11 cost on a competitively neutral basis. The proposed change to the SMCR Rider is
12 consistent with the proposal PECO made in its smart meter proceeding to recover all
13 meter and meter-reading costs in the SMCR charge. As previously explained, this
14 charge will automatically flow through to customers savings and avoided costs
15 created by the smart meter program. Finally, as I also explained, the Company has
16 properly adjusted its claims in this case to eliminate revenues billed and costs
17 recovered under its post-2010 and Act 129 surcharges.

18 **83. Q. Does that conclude your direct testimony?**

19 A. Yes.