

**PECO ENERGY COMPANY
STATEMENT NO. 10**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PECO ENERGY COMPANY – ELECTRIC DIVISION

DOCKET NO. R-2010-2161575

DIRECT TESTIMONY

WITNESS: STEPHEN R. XANDER

SUBJECTS: PROPOSED CHANGES TO PECO ENERGY
COMPANY – ELECTRIC DIVISION
UNIVERSAL SERVICE FUND CHARGE AND
OTHER TARIFF REVISIONS

DATED: MARCH 31, 2010

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1 Accountant. In these positions my job responsibilities included tax planning,
2 research, legislative analysis and providing support for PECO's tax claims in
3 rate proceedings.

4 In 1990, I was appointed to the position of Assistant to the Controller. In this
5 position my job responsibilities included the planning and implementation of
6 financial controls and the development of accounting systems. In 1991, I was
7 appointed Supervisor of Accounting Controls, Budget and Control Division,
8 with responsibility for preparing and analyzing financial information and
9 implementing accounting control procedures.

10 In 1992, I was appointed Supervisor, Gas Rates. After the Rate Division was
11 reorganized in 1995, I was appointed Manager, Tariff Administration and
12 Policy. My primary responsibility was the administration of the Company's
13 electric and gas tariffs, including the annual reconciliation of the Competitive
14 Transition Charge ("CTC"), Intangible Transition Charge ("ITC"), Purchased
15 Gas Cost ("PGC"), and State Tax Adjustment Surcharge ("STAS")
16 mechanisms. I continue to have responsibilities in these areas in my current
17 position. I am also currently responsible for the Company's electric and gas
18 Universal Service Fund Charge ("USFC") mechanisms. In addition, my
19 responsibilities include coordinating the development of new electric and gas
20 rates and the preparation of financial information to support such new rates.
21 In 2007, my title changed to Manager, Retail Rates. In December of 2009, my
22 title changed to Manager of Special Projects although my areas of
23 responsibility remain the same.

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

2 A. Yes, I testified before the Pennsylvania Public Utility Commission (the
3 “PUC” or “Commission”) in the Limerick 2 rate case (Docket No. R-891364)
4 with respect to the Company’s tax expense claim. I also testified in the
5 Company’s securitization case (Docket No. R-00973877) with respect to the
6 rate reduction methodology, reconciliation and required tariff changes; in the
7 Company’s electric restructuring proceeding (Docket No. R-00973953) with
8 respect to Universal Service cost recovery and CTC recovery; and in the
9 Company’s gas restructuring proceeding (Docket No. R-00994787)
10 concerning tariff unbundling, the Migration Rider, proof of revenue
11 calculations and the impact on the Company’s PGC. I have also submitted
12 testimony concerning: (1) the Company’s recovery of costs associated with
13 the statutory 15 mill Revenue Neutral Reconciliation (“RNR”) addition to
14 gross receipts tax (“GRT”) (Docket No. R-00016856C0001); (2) CTC and
15 ITC buyouts in a case initiated by the Hatfield Township Municipal Authority
16 (Docket No. C-20016610); and (3) proposed changes to PECO’s gas USFC
17 and other revisions to its gas service tariff in the Company’s 2008 gas base
18 rate case (Docket No. R-2008-2028394).

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

20 A. My testimony will address: (1) proposed changes to the Company’s Electric
21 USFC mechanism that will provide for full recovery of PECO’s revenue
22 shortfalls associated with its electric Customer Assistance Program (“CAP”);

1 and (2) proposed changes to certain existing tariffed Electric Rules and
2 Regulations.

3 **II. CHANGES TO THE ELECTRIC UNIVERSAL SERVICE FUND CHARGE**

4 **7. Q. What is the electric USFC?**

5 A. The electric USFC is a mechanism that is designed to recover the revenue
6 shortfall that PECO experiences in providing discounted service to low-
7 income customers above the level that is recovered in its base rates. In the
8 *Joint Petition for Settlement* that the Commission approved at Docket No. A-
9 110550F0147 (“Unicom Merger Proceeding”), it was stipulated that PECO
10 would be entitled to recover \$383 annually through its electric USFC for
11 every customer enrolled in its electric CAP program in excess of a 90,000
12 customer threshold. The \$383 figure, which was to remain in effect until
13 PECO’s next electric base rate case, was a negotiated amount associated with
14 the average dollar discount to be provided electric CAP customers. Viewed
15 differently, it was assumed, for purposes of settlement only, that PECO’s
16 existing base rates were sufficient to recover the revenue shortfall and related
17 costs attributable to the first 90,000 plan participants.

18 **8. Q. Was any change subsequently made to the electric USFC for the recovery**
19 **of CAP costs?**

20 A. Yes. The electric USFC was supplemented pursuant to a settlement in
21 PECO’s last Three-Year Plan proceeding at Docket No. M-00061945 in 2008

1 (the “Three-Year Plan Settlement”). The Three-Year Plan Settlement,
2 paragraph C1, provided for an additional \$5.5 million of costs associated with
3 program enhancements, with those costs to be recovered through “a method
4 other than alteration to the \$383 USFC charge.” PECO therefore
5 implemented an additional charge, known as the “Supplemental USFC,” to
6 recover this \$5.5 million per year. The \$5.5 million represents an amount
7 agreed to by the parties and is not based upon any party’s specific calculation
8 of additional lost revenues caused by the program enhancements. Exhibit
9 SRX-1 includes the original USFC mechanism that provides for recovery of
10 the \$383 per customer CAP revenue shortfall for the CAP population above
11 90,000 (as approved in the Unicom Merger). It also includes the \$5.5 million
12 Supplemental USFC (as approved in the Three-Year Plan Settlement) as those
13 provisions are currently incorporated in the tariff.

14 **9. Q. Have additional CAP enhancements been approved by the Commission?**

15 **A.** Yes. In the settlement of PECO’s Default Service Program at Docket No. P-
16 2008-2062739, which was adopted on April 16, 2009, (the “Default Service
17 Settlement”), the Commission approved certain changes to PECO’s electric
18 CAP program. The key changes, which are discussed in more detail in the
19 testimony of Mrs. Lauren B. Feldhake (PECO Statement No. 6) are that
20 PECO will create a seven-tier electric CAP program effective January 1,
21 2011, with differentiated rate discounts for each tier such that approximately
22 90% of each tier of CAP customers will meet affordability targets based on
23 current rates.

1 **10. Q. How will the Default Service Settlement CAP enhancements affect**
2 **PECO's revenue shortfall from providing electric service at CAP**
3 **percentage discounts?**

4 A. The electric CAP enhancements are projected to increase the dollar amount of
5 the discounts the Company provides to CAP participants by approximately
6 \$13.4 million as shown in Exhibit RLO-1, Schedule D-5C.

7 **11. Q. Did the Default Service Settlement approve a mechanism for the recovery**
8 **of those increased costs?**

9 A. Yes. The basic structure of the electric USFC was retained as the cost-
10 recovery mechanism with an added component to recover the increased costs
11 of the Default Service Settlement enhancements. In Exhibit SRX-2, I provide
12 those already-approved post-2010 USFC tariff provisions. In summary, the
13 USFC mechanism, as revised by provisions in the Three-Year Plan Settlement
14 and the Default Plan Settlement, is designed so that PECO will recover its
15 CAP costs attributable to the new CAP enhancements, with annual true-ups so
16 that over-recoveries are returned to customers and under-recoveries are paid
17 by customers, in each case through adjustments to the next year's USFC
18 charge.

19 **12. Q. How is PECO proposing to recover its electric CAP costs in this case?**

20 A. PECO proposes to include all its expected CAP costs in its base rate claim.
21 That is, PECO's base rate claim in this proceeding includes the projected costs

1 of providing all of the discounts set forth in Mrs. Feldhake's testimony.
2 Consequently, all of the costs that are currently being collected through the
3 USFC – the \$383 per customer charge that was approved in the Unicom
4 Merger Proceeding, and the \$5.5 million in annual recovery through the
5 Supplemental USFC that was approved in PECO's last Three-Year Plan
6 Settlement -- will be recovered through the base rate claim, and the USFC
7 will be reset to zero. Moving forward, the USFC value will be adjusted
8 through Section 1307 proceedings and will become positive or negative to
9 address future over and under recoveries.

10 **13. Q. Please provide additional detail regarding the interaction between base**
11 **rate recovery and USFC recovery that PECO has proposed in this case.**

12 A. Under PECO's proposal, the base rates established at the conclusion of this
13 case will have built into them an amount of foregone revenues computed by
14 reference to: (1) the undiscounted tariff charges approved for the applicable
15 residential rate schedules; (2) the percentage discounts to be provided under
16 the revised electric CAP program; and (3) the projected number and usage (up
17 to a maximum of 650 kWh for October- June or 750 kWh for July-September
18 for CAP B and C) of customers in each of the seven electric CAP income
19 categories. Mr. Robert L. O'Brien (PECO Statement No. 3) discusses how
20 the CAP revenue shortfalls were calculated and the resulting adjustments,
21 which are set forth in Exhibit RLO-1, Schedule D-5C. On an annual basis,
22 PECO will determine the electric CAP discounts actually provided during the
23 preceding twelve months, compare that figure to the amount of foregone

1 revenues recovered in base rates, and use the electric USFC to reconcile over
2 or under-recoveries. This methodology will be identical to that approved in
3 PECO's last gas base rate proceeding at Docket No. R-2008-2028394.

4 **14. Q. What level of electric CAP costs does PECO propose to include in its base**
5 **rates?**

6 A. \$80,946,000. Please see Mr. Robert O'Brien's Exhibit RLO-1, Schedule D-
7 5C, for the derivation of this amount. (Line 1, Column 2 added to Line 17,
8 Column 3.) This amount represents the total expected revenue shortfalls
9 including those attributable to the enhancements contained in the Three-Year
10 Plan Settlement and the Default Service Settlement, offset by certain cash
11 working capital and uncollectible account expenses as described in Mrs.
12 Feldhake's testimony.

13 **15. Q. Why is PECO proposing an annual reconciliation of the electric USFC?**

14 A. Because PECO expects the amount of CAP discounts that are provided to
15 customers to vary. First, PECO expects the number of customers participating
16 in the electric CAP program to continue to expand as more people become
17 aware of the program and its enhanced benefits. Second, actual electric usage
18 by electric CAP customers could be higher or lower than assumed in
19 quantifying the foregone revenues built into base rates. Third, electric-supply
20 costs are likely to change over time and, as a result, there will be variations,
21 which may be material, in the Generation Service Adjustment ("GSA") and
22 thus in the revenues foregone. Fourth, base revenue recovery of this cost from

1 non-CAP residential customers could be higher or lower than projected in this
2 base rate case due to actual usage.

3 **16. Q. Why are the generation costs significant?**

4 A. As I explained above, with the enhancements approved in the Default Service
5 Settlement, eligible electric CAP customers will receive discounts calculated
6 as a percentage of their total electric bill including the GSA, which is likely to
7 account for a substantial portion of a typical electric customer's bill. For
8 example, even under current rates the total generation components account for
9 approximately 60% of residential rates. Changes to the GSA would in turn
10 change the CAP discounts provided and the resulting revenue shortfall.

11 **17. Q. Please describe the reconciliation mechanism the Company will use for**
12 **the revised electric USFC.**

13 A. The Company will reconcile costs on an annual basis using actual information
14 for the historic 12-month period ("E Factor") and projected costs for the future
15 12-month period ("C Factor") in the same way it reconciles its gas USFC
16 mechanism. In the reconciliation, the Company will compute the total costs
17 of the discounts for CAP customers and subtract the amount built into the
18 residential base rates approved in this proceeding. Since the CAP discounts
19 are recovered in distribution rates, the difference determined by the
20 reconciliation (either positive or negative) will be the basis for adjusting the
21 Variable Distribution Charges for applicable residential rate schedules. PECO
22 Exhibit SRX- 3 illustrates how the methodology will work. PECO Exhibit

1 ABC-3 consists of the applicable tariff page containing the proposed electric
2 USFC.

3 The mechanism will operate under Section 1307(e) of the Public Utility Code,
4 which requires the utility to file its reconciliation 60 days before a public
5 hearing and requires the Commission, absent good cause to the contrary, to
6 approve or disapprove the reconciliation within 60 days after such hearing.

7 The costs will also be subject to audit by the Commission's Bureau of Audits.
8 Based on the results of the approved reconciliation, PECO will change the
9 electric USFC rate on an annual basis effective January 1 of each year. The
10 results of the first annual reconciliation will become effective on January 1,
11 2012. Therefore, the initial electric USFC reconciliation calculated in this
12 fashion will be filed by August 30 (updated for actual information through
13 September 30) and will include a reconciliation of costs for the period January
14 1, 2011 through September 30 and a projection for the following calendar
15 year. This methodology is identical to that approved for the gas USFC
16 mechanism.

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

19 A. Yes, PECO proposes to use the statutory rate of interest permitted by law
20 (currently 6%) for under- and over-collected amounts. Interest will accrue
21 from the month of over/under collection to the midpoint of the collection
22 period, the sum of which will result in a credit to customers if over collected
23 or a charge to customers if under collected. This methodology is included in

1 the Default Service Settlement and is identical to that used in the gas USFC
2 mechanism.

3 **19. Q. What classes of service will be charged the electric USFC?**

4 A. Consistent with Commission current practice and current electric and gas
5 USFC mechanisms, the new proposed USFC will apply only to the residential
6 class.

7 **20. Q. Is the Company proposing to adjust the percentage CAP discounts as
8 well?**

9 A. Yes. Under certain circumstances. Using the methodology described in Mrs.
10 Feldhake's testimony, PECO will recalculate the percentage discounts on an
11 annual basis as provided for in the Default Service Settlement. The new
12 discounts will be filed with the Commission annually and become effective on
13 ten day's notice to coincide with the July 1 GSA change. The Company also
14 proposes to establish the initial discounting with the effective date of this base
15 rate case proceeding, on ten days notice. It should be noted that as the
16 discounts change the revenue shortfalls will increase or decrease relative to
17 those contained in this base rate case. These changes will be incorporated into
18 the annual USFC 1307 reconciliation filing and will influence the USFC rate
19 charged to non-CAP residential customers for the next annual period.

1 21. Q. Please describe the transition from the USFC mechanism currently in
2 place to the proposed USFC mechanism.

3 A. The current USFC reconciliation is filed by August 30 in order to provide 60
4 days for the Commission to hold a public hearing and 60 additional days for
5 the Commission to issue an Order, before the new USFC rate becomes
6 effective on January 1. The August 30 filing is updated with additional actual
7 information prior to the public hearing to make the reconciliation statement
8 and new rate as accurate as possible.

9 Under the proposed mechanism, the Company will continue to operate under
10 the existing USFC tariff schedule. Specifically, the Company will file on
11 August 30 its reconciliation schedules and develop a new USFC rate to
12 become effective January 1, 2011. As previously discussed the Company
13 proposes to roll into base rates the current "C Factor" for both the USFC and
14 Supplemental USFC, and therefore "zero out" this portion of the USFC rate,
15 effective with the Commission's final Order in this case. In addition, the
16 Company will track any under or over recoveries from the "old" USFC
17 mechanism through December 31, 2010, and include such amounts into the
18 new USFC reconciliation mechanism.

1 twelve billing cycles), a customer will be deemed to have bad credit if two or
2 more of its checks are dishonored within the prior twelve billing cycles. As to
3 the provisions that apply to commercial and industrial customers, PECO is
4 also making two changes. In its current form, this part of the definition
5 provides that commercial and industrial customers have bad credit if they are
6 insolvent, as evidenced by (1) a credit report of a reputable credit bureau or
7 credit reporting agency; (2) public data showing liabilities exceeding assets; or
8 (3) generally failing to pay debts as they fall due. PECO proposes to expand
9 the criteria for bad credit to include a commercial or industrial customer's
10 having a class of outstanding publicly traded debt that is rated below
11 investment grade. Additionally, the revision makes it clear that, while PECO
12 may consider third-party insolvency determinations, the final decision as to
13 whether a customer is deemed to have bad credit will be made by the
14 Company.

15 **25. Q. What does the definition of "Service" provide?**

16 A. In addition to a definition of "service" generally, this provision sets forth each
17 level of electric service the Company offers based, principally, but not
18 exclusively, on voltage and load. As to each level of service, the definition
19 also provides limitations on availability.

20 **26. Q. How does PECO propose to revise the definition of "Service"?**

21 A. PECO is revising the criteria that define the availability of "standard
22 polyphase secondary" service at 120/208 volts and at 277/480 volts, which are

1 set forth in subsections (c) and (d) of that definition. In general, PECO is
2 identifying a ceiling, defined by total load, above which these forms of
3 secondary service will not be provided by the Company and, therefore, the
4 customers will be required to take service, at the point of delivery, under Rate
5 HT at high tension voltage. As explained below, this means that customers
6 with loads above the stated ceiling will be required to own and operate their
7 own transformation to reduce the voltage of the electricity delivered by PECO
8 to the voltage levels needed by the customer.

9 **27. Q. What are the specific changes PECO is proposing?**

10 A. Subsection (c) of the definition of “standard polyphase secondary” service is
11 being revised to state that customers with service capacity in excess of 750
12 kilovolt amperes (kVa) (a measure of load) served through transformers
13 located either inside or outside of the customer’s building will not be eligible
14 to receive service from the Company at 120/208 volts and “the only rate
15 option available to the customer will be Rate HT.” Similarly, subsection (d)
16 of the definition is being revised to state that customers with service capacity
17 in excess of 750 kVa served from transformers located inside their building or
18 in excess of 1,500 kVa for transformers located outside their building will not
19 be eligible to receive service from the Company at 277/408 volts and “the
20 only rate option available to the customer will be Rate HT.”

1 **28. Q. Why are these changes being proposed?**

2 A. Customers with loads above the cut-off levels stated in the proposed revisions
3 are very large. In fact, they are among PECO's largest customers. If such a
4 customer could require PECO to provide service at the referenced secondary
5 voltage levels (120/208 volts and 277/408 volts), PECO would be required to
6 install, own, operate and maintain complex transformation equipment that
7 would serve only that customer location. As a result, allowing such large
8 customers to take service at secondary voltage levels would impose
9 significantly higher costs for their service locations than the cost per service
10 location that the Company incurs for customers with lower loads that are
11 customarily served at secondary voltage levels. In short, without the
12 limitation the Company is proposing, there is a possibility that one or more
13 large customers could attempt to save the costs of owning and operating their
14 own transformation and, in so doing, impose higher, and in our view
15 unreasonable, costs on customers whose loads are appropriate for service at
16 secondary voltage levels.

17 **29. Q. How are these large customer currently served by PECO?**

18 A. Virtually all large commercial and industrial customers of PECO have already
19 made the investment in transformation necessary to receive service at high
20 tension voltage, are being served on Rate HT and are receiving the price
21 advantage provided by taking service at that voltage level. Consequently,
22 PECO does not anticipate that the revisions it is proposing would affect the

1 service being received by any current customers. Rather, these revisions are
2 being proposed to preempt the possibility that, at some point in the future, a
3 large customer may try to achieve cost savings by avoiding an investment in
4 transformation and, instead, demand service at secondary voltage from PECO.

5 **30. Q. Turning to the Rules and Regulations, please explain how and why PECO**
6 **proposes to revise Rule 1.1.**

7 A. Rule 1.1 deals with filing and posting of the Company's tariff. It is being
8 revised to explain that the Company's electric service tariff is also available
9 on the Company's website and provides the web address. Thus, customers
10 will know that, with access to a computer, they can always view the latest,
11 effective tariff.

12 **31. Q. What is the purpose of Rule 3.2?**

13 A. Rule 3.2 states that the customer must make available a suitable location for
14 the service meter(s) and other equipment necessary for the Company to
15 furnish service to the customer.

16 **32. Q. What are PECO's proposed changes to Rule 3.2, and why are they being**
17 **proposed?**

18 A. PECO proposes to add language that expands on the customer's obligations.
19 Specifically, the revisions state, in substance, that the location must be (1)
20 suitable to the Company; (2) adequate to allow its employees, contractors and
21 agents convenient, unimpeded access to the meter/equipment location(s) while

1 minimizing the risk of harm to them and the risk of damage to the
2 meter/equipment; (3) not interfere with the ability to receive electronic
3 communication signals for remote reads; and (4) not be concealed. The
4 reasons for these proposed changes are self-evident and are driven by
5 concerns for safety and reliability. The Company needs access to its meters
6 and other equipment for maintenance, to investigate meter tampering or theft
7 of service and to deal with emergency situations, such as fires, which require
8 PECO to get to its meter(s) and other equipment quickly. Meter and other
9 equipment must not be concealed or otherwise obstructed in ways that can
10 block the transmission of signals from PECO's automatic meter reading
11 devices, which will help avoid estimated bills or delayed billing.

12 **33. Q. What is the purpose of Rule 5.3 and how does the Company propose to**
13 **change it?**

14 A. Rule 5.3 governs the terms and conditions under which the Company may
15 require applicants and customers to make a refundable deposit. PECO
16 proposes to revise Rule 5.3 to allow it to require deposits if, in addition to the
17 conditions currently permitting PECO to require deposits, the customer is
18 deemed to have bad credit, lack creditworthiness or as may be required by the
19 Federal Bankruptcy Law. PECO is also moving from Rule 5.3 to Rule 5.5 the
20 language which deals with existing customers who have secured the return of
21 a deposit and the circumstances under which they may be required to post new
22 deposits. Lastly, PECO is adding language explaining that the Company may

1 charge additional deposits based upon continued bad credit, lack of
2 creditworthiness and increased usage.

3 **34. Q. Why are these changes being proposed?**

4 A. The proposed changes expand the conditions under which PECO may require
5 a deposit by adding two additional criteria, namely, creditworthiness and the
6 requirements of the Federal Bankruptcy Law. The creditworthiness standard
7 was authorized by Chapter 14 in 2004 and, therefore, the tariff is being
8 updated to reflect that fact and to put customers on notice of the deposit
9 requirements now permitted by the Public Utility Code. As the Commission
10 is aware, Chapter 14 was enacted to protect responsible customers from rate
11 increases attributable to the uncollectible accounts of customers that can
12 afford to pay their bills, but do not do so. Imposing deposits for lack of
13 creditworthiness is important because it can help prevent shifting uncollectible
14 expense to customers who pay their bills on a timely and current basis.
15 Additionally, Federal Bankruptcy Law requires utilities to obtain deposits
16 when customers petition the bankruptcy court for relief. Including this
17 criterion in Rule 5.3 will alert customers contemplating bankruptcy that a
18 deposit is necessary to assure continued utility service. Finally, PECO is
19 proposing language allowing it to impose additional deposits based upon
20 continued bad credit, lack of creditworthiness and increased usage. This
21 provision reflects the fact that, after an initial deposit is paid, the risk to the
22 Company of non-payment of charges for service may increase and, therefore,
23 justify an increased deposit.

1 **35. Q. How does the Company propose to revise Rule 5.5?**

2 A. Rule 5.5 deals with the Company's obligation to return deposits when
3 specified conditions have been satisfied. PECO is revising this rule to make it
4 clear that returning a deposit does not preclude the Company from requiring a
5 new deposit if the customer, thereafter, demonstrates bad credit or lack of
6 creditworthiness.

7 **36. Q. What is the subject of Rule 7.2 and how does PECO propose to change it?**

8 A. Rule 7.2 deals with extensions of PECO's electric supply lines for standard
9 electric service. Rule 7.2A(1) sets forth the definition of "Line Extension."
10 PECO is proposing a revision to the definition to make clear that, when a Line
11 Extension is made by PECO, the Company's supply line extends only to the
12 connection with the customer's point of delivery.

13 **37. Q. Why is this revision needed?**

14 A. The revision is needed because of apparent customer confusion as to where a
15 Line Extension ends. The proposed change will make it clear that the Line
16 Extension ends at the point of delivery, which is consistent with the
17 Company's current practice. In so doing, the revised rule will ensure
18 customers can easily identify the point that demarcates facilities they are
19 responsible for maintaining and the facilities that PECO is responsible for
20 maintaining.

1 **38. Q. What is the subject of Rule 10?**

2 A. In its current form, Rule 10 deals, generally, with rights and responsibilities of
3 the Company and its customers with respect to Company equipment located
4 on a customer's premises. As I will explain, PECO proposes to expand the
5 scope of this rule.

6 **39. Q. What are the changes PECO is proposing?**

7 A. PECO proposes changing the title and Rule 10.2 and also proposes adding a
8 new Rule 10.11.

9 **40. Q. How is the title changing?**

10 A. "Company Equipment On Customer's Premises" would change to "Company
11 Equipment" because, in relevant part – principally new Rule 10.11, discussed
12 below – the rule will also cover Company property located on public rights-
13 of-way.

14 **41. Q. How does PECO propose to change Rule 10.2?**

15 A. Rule 10.2 sets forth the customer's responsibility to safeguard Company
16 equipment and ensure that a safe environment exists for that equipment on the
17 customer's premises. The customer is responsible for paying the cost to repair
18 or replace Company property located on its premises that may be damaged.
19 PECO proposes to revise the rule to more clearly state that, if, after the
20 Company completes its service and meter installation, an alteration of

1 customer's premises creates an unsafe condition, the customer will be
2 required to pay all costs to remedy the situation, which may include installing
3 protective measures and/or relocating the Company's property.

4 **42. Q. Why is this change necessary?**

5 A. The revision will clearly articulate the customer's responsibility not only to
6 provide an initial safe location for the Company's equipment, but to maintain
7 a safe environment thereafter. A customer's alteration of its premises may
8 impede access to PECO facilities or place customer property in unsafe
9 proximity to those facilities. In those cases, the remedy is to either move
10 PECO's facilities or make costly changes to put those facilities in a safe
11 condition. This tariff clarification will ensure that PECO is fully compensated
12 for that work.

13 **43. Q. What does new Rule 10.11 provide?**

14 A. PECO is proposing Rule 10.11 (Recovery For Property Damage) to ensure the
15 Company will be fully compensated when its property is damaged by
16 someone else's intentional or negligent acts. The rule provides that the party
17 causing the damage must compensate the Company for all costs incurred by
18 the Company, including all costs for, or related to, labor, materials,
19 transportation, and tools. Compensable labor costs will include benefit and
20 administrative overhead expenses for PECO employees and third-party
21 contractors. Compensable material expenses may include any added stores
22 expense as defined by the rule.

1 44. Q. Why is Rule 10.11 needed?

2 A. When PECO's property is damaged by the acts of a third party, the costs of
3 repairing that damage should be borne by the person or entity responsible for
4 the damage and not automatically imposed on PECO's customer base.
5 Unfortunately, in recent years, insurance companies have taken the position –
6 which some civil courts appear to give credence – that PECO should not be
7 allowed to recover the costs identified in Rule 10.11 unless there is a clear
8 statement in PECO's tariff assigning responsibility for such costs. Rule 10.11
9 will provide a clear, Commission-approved statement that such damages
10 should properly be the responsibility of the individual or entity that damages
11 the Company's property. Of course, absent recovery from a third party, such
12 costs would be a cost of business properly included in operating and
13 maintenance expenses for ratemaking purposes.

14 IV. CONCLUSION

15 45. Q. Does this conclude your direct testimony?

16 A. Yes.