

A-110550F0160
Phila 9/28/05
JK

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

JOINT APPLICATION OF PECO ENERGY :
COMPANY AND PUBLIC SERVICE :
ELECTRIC & GAS COMPANY FOR : DOCKET NO. A-110550F0160
APPROVAL OF THE MERGER OF PUBLIC :
SERVICE ENTERPRISE GROUP, INC., :
WITH AND INTO EXELON CORPORATION :

Direct Testimony and Exhibit of
BRIAN KALCIC

RECEIVED
2005 SEP 27 P11 2:06
SECRETARY'S BUREAU

Issues addressed:
Measurement of the Merger Savings
Sharing of the Merger Savings with Ratepayers
Allocation of the Merger Savings among Rate Classes



DOCUMENT
FOLDER

On Behalf of the

Office of Small Business Advocate

Date Served: June 28, 2005

Date Submitted for the Record: _____

1
2 Direct Testimony of Brian Kalcic
3

4 **Q. Please state your name and business address.**

5 A. Brian Kalcic, 225 S. Meramec Avenue, St. Louis, Missouri 63105.
6

7 **Q. What is your occupation?**

8 A. I am an economist and consultant in the field of public utility regulation, and
9 principal of Excel Consulting. My qualifications are described in the
10 Appendix to this testimony.
11

12 **Q. On whose behalf are you testifying in this case?**

13 A. I am testifying on behalf of the Office of Small Business Advocate
14 (“OSBA”).
15

16 **Q. What is the subject of your testimony?**

17 A. I will examine select aspects of the proposed merger between Exelon
18 Corporation (“Exelon”) and Public Service Enterprise Group Incorporated
19 (“PSEG”). In the first section of my testimony, I will address topics related to
20 claimed merger synergies or savings, and examine whether the proposed
21 merger should be approved, as filed. In the second part of my testimony, I
22 will discuss the appropriate level of merger savings to be shared with
23 ratepayers, and how such savings should be allocated among rate classes.
24
25
26
27
28
29
30
31
32

33 **Q. Please summarize your primary recommendations.**

34 A. Based upon my analysis of the Joint Applicants’ filing, I recommend that:
35

- 1 • the Commission require a sharing with Pennsylvania ratepayers
2 of merger savings from both regulated and non-regulated
3 business segments as a necessary condition for approval of the
4 merger;
5
6 • the shared merger savings derived from the regulated electric
7 business be used to mitigate the electric distribution subsidies
8 currently provided by six (6) PECO Energy Company rate
9 classes;
10
11 • 50% of Pennsylvania's share of the generation-related savings
12 derived from the non-regulated business be used to mitigate the
13 generation-related rate increases scheduled to be paid by PECO
14 Energy Company electric customers beginning in 2006 and
15 2007; and
16



17
18
19
20
21
22
23 The specific details associated with the above recommendations are discussed
24 below.
25

26 **Merger Plan and Expected Synergies**
27

28 **Q. Please briefly describe the proposed post-merger organization of the**
29 **combined Exelon and PSEG entities.**

30 A. If approved, the merger would combine PSEG with and into Exelon, with the
31 latter becoming Exelon Electric & Gas ("EEG"). EEG would subsequently
32 have three transmission and distribution ("T&D") utilities operating in
33 separate states: 1) PECO Energy Company ("PECO") in Pennsylvania; 2)
34 Public Service Electric and Gas Company ("PSE&G") in New Jersey; and 3)
35 Commonwealth Edison Company ("ComEd" in Illinois). All three T&D
36 utilities would be subsidiaries of Exelon Energy Delivery Company, LLC,
37 which is an existing first level subsidiary of Exelon. In total, EEG's T&D

1 utilities would serve over 7 million retail electric customers and 2 million gas
2 customers.

3 The electric generation subsidiaries of PSEG would be merged under
4 Exelon Ventures Company, LLC, which is Exelon's separate first level
5 generation subsidiary.¹ The total generation capacity of EEG would exceed
6 50,000 MW, before any planned divestitures. In addition, EEG would
7 maintain two first level service subsidiaries, and retain PSEG's existing
8 investment subsidiary, i.e., PSEG Energy Holdings LLC, as a separate first
9 level subsidiary.

10
11 **Q. Have the Joint Applicants estimated the size of the expected merger
12 synergies/cost savings?**

13 A. Yes, they have. However, as discussed below, the Joint Applicants' filed
14 synergy analysis is limited to the portion of expected merger cost savings and
15 costs-to-achieve pertaining to the *regulated* business.²

16
17 **Q. What time period does the synergy analysis cover?**

18 A. The analysis covers the four-year period 2006-2009, at which time the
19 majority of the merger's costs-to-achieve will have been incurred and a steady
20 state of operations achieved.³

21
22 **Q. How are the expected merger synergies and costs-to-achieve broken
23 down?**

¹ Currently, Exelon is the corporate parent of Exelon Ventures Company, LLC, which controls all of the generation assets formerly owned by PECO and ComEd under a subsidiary named Exelon Generation Company, LLC ("Exelon Generation"). If the merger is consummated, all of the generation assets of PSEG will be transferred to Exelon Generation, whose ultimate corporate parent will change from Exelon to EEG.

² For simplicity, this testimony utilizes the Joint Applicants' characterization of generation as *non-regulated*. However, as explained below, generation continues to be subject to PUC *regulation* in numerous respects.

³ The four-year period would presumably last beyond the end of 2009 if the merger is not approved by the end of 2005.

1 A. In general, the Joint Applicants have employed a four-tier allocation process
 2 to split net merger savings and costs-to-achieve between: a) regulated and
 3 non-regulated businesses of the combined entity (“Tier I”); b) utility
 4 operating companies/states (“Tier II”); c) electric and gas business segments
 5 (“Tier III”); and d) electric transmission and distribution subcomponents
 6 (“Tier IV”). As one moves down through the various tiers in the synergy
 7 analysis, the classification of merger benefits and costs becomes more
 8 detailed. However, such detail does not impact the overall level of merger
 9 synergies identified at the Tier I level.

10
 11 **Q. Mr. Kalcic, what are the overall levels of the expected merger synergies
 12 and costs-to-achieve, on the regulated and non-regulated businesses, over
 13 the four-year period?**

14 A. The expected results are illustrated in Table 1 below.

15
 16 Table 1
 17 (\$ millions)

<i>Total Four-Year Tier I Results</i>	<i>Total Savings</i>	<i>Total Costs-to- -Achieve</i>	<i>Total Net Savings</i>
Regulated a/	\$535	\$380	\$155
Non-Regulated b/	\$1,397	-	-
Total	\$1,932	-	-

18 Source: a/ Exhibit WDA-6
 19 b/ Exhibit WDA-4 & OSBA-I-2.

20
 21 As shown in Table 1, the Joint Applicants expect the merger to produce
 22 approximately \$1.9 billion of savings over the four-year period. The savings
 23 are split between the Joint Applicants’ regulated and non-regulated
 24 businesses in the amounts of \$0.535 billion and \$1.397 billion, respectively.⁴

⁴ The estimated \$1.397 billion of savings from the non-regulated business is comprised of \$0.950 billion of direct savings (per OSBA-I-2) and \$0.447 billion in allocated corporate and shared services savings (per Exhibit WDA-4).

1 Table 1 also shows total expected costs-to-achieve of \$0.380 billion for
2 regulated business segments. Accordingly, total net merger savings from the
3 regulated business over the period are estimated at \$0.155 billion.
4

5 **Q. Why are the total costs-to-achieve and net merger savings for the non-**
6 **regulated business segments not shown in Table 1?**

7 A. PECO declined to provide the necessary information. In PECO's view, such
8 information is not relevant to this proceeding because all merger savings from
9 the non-regulated business should flow to the exclusive benefit of
10 shareholders.⁵
11

12 **Q. How much of the net merger savings from the regulated business, as**
13 **shown in Table 1, does PECO propose to share with Pennsylvania**
14 **ratepayers at this time?**

15 A. None. Instead, on page 10 of his direct testimony, Mr. O'Brien states:
16

17 As the Commission is aware, PECO's electric transmission and
18 distribution rates are capped through the end of 2006 and its
19 generation rates are capped through the end of 2010. These
20 commitments, to which PECO agreed as part of the 2000
21 PECO/Unicom Merger and the 1998 Electric Restructuring Case, will
22 not be affected by the Merger. ... At the same time, and as Mr.
23 Arndt explains in his testimony, the Merger will generate economies,
24 some of which will accrue to PECO's Pennsylvania jurisdictional
25 regulated businesses. Those economies will help offset future
26 increases in the cost of providing reliable regulated electric and gas
27 distribution service and, thus, may give rise, over time, to lower rates
28 than would otherwise be the case.
29

30 **Q. Has PECO offered to share any of its merger savings from the non-**
31 **regulated business with Pennsylvania ratepayers, either now or in the**
32 **future?**

⁵ See the response to OSBA-I-2(d).

1 A. Consistent with its previously cited position in this area, it has not.

2
3 **Q. In defending PECO's position with respect to sharing, Mr. O'Brien**
4 **refers to the existence of transmission, distribution and generation rate**
5 **caps (of various lengths) emanating from the 2000 PECO/Unicom**
6 **Merger and the 1998 Electric Restructuring case. Are you familiar with**
7 **the results of those proceedings?**

8 A. Yes, I am. I was a witness for the OSBA in the Restructuring case and have
9 evaluated the PECO/Unicom Merger for the purposes of the current merger
10 proceeding.

11
12 **Q. Are PECO's ratepayers subject to rate increases between now and**
13 **December 31, 2010?**

14 A. Yes. In fact, despite the existence of the rate caps referenced by Mr. O'Brien,
15 PECO's electric ratepayers will experience increases in each of the next two
16 years.

17
18 **Q. What are the magnitudes of these scheduled electric rate increases?**

19 A. All scheduled rate increases are summarized in Schedule BK-1 of OSBA
20 Exhibit No. 1. As shown on line 2 of Schedule BK-1, on January 1, 2006,
21 PECO's electric customers are subject to a distribution increase of 4.8% and a
22 CTC increase of 10.8%. In addition, PECO's default electric generation
23 service customers will receive a generation increase of 5.9%. On an
24 aggregate basis, the increase to a default service customer will be 6.6%, as
25 shown in column 9.⁶

26 Beginning on January 1, 2007, default service customers will receive
27 an additional generation rate increase of 10.3% (over 2006 generation rates).
28 This equates to a 2007 rate increase of 4.8% on a total bill basis, per column 9
29 on line 3.

30

⁶ The aggregate increase of 6.6% is derived by taking the change in the total system average rate from 2005 to 2006, i.e., 10.49 cents per kWh minus 9.84 cents per kWh or 0.65 cents per kWh, and dividing by 9.84 cents per kWh.

1 **Q. Schedule BK-1 does not indicate any rate increases over the 2008-2010**
2 **period. Are additional increases possible during this period?**

3 A. Yes. As previously noted by Mr. O'Brien, PECO's transmission and
4 distribution ("T&D") rate caps expire on December 31, 2006. Therefore,
5 additional T&D rate increases are possible after that date.
6

7 **Q. Mr. Kalcic, if PECO's current T&D rate cap extends through the end of**
8 **2006, how can distribution rates increase 4.8% on January 1, 2006?**

9 A. The 2006 distribution increase results from the expiration of the fourth and
10 final year of distribution rate cuts provided by the PECO/Unicom merger.
11

12 **Q. How much additional distribution revenue will PECO receive from the**
13 **2006 distribution rate increase through the end of 2010?**

14 A. As shown in lines 8-13 of Schedule BK-1, each annual revenue increase
15 exceeds \$40.0 million, and the cumulative increase through December 31,
16 2010, will be approximately \$206.5 million.⁷
17

18 **Q. What is your estimate of the total additional revenues to be paid by**
19 **PECO's ratepayers, in aggregate, over the 2006-2010 period?**

20 A. Per the information shown on line 13 of Schedule BK-1, I estimate that the
21 2006 and 2007 increases in PECO's distribution, CTC and default generation
22 service rates will result in ratepayers paying up to an additional \$1.76 billion
23 over the period.
24

25 **Q. Mr. Kalcic, when a certificate of public convenience is required under**
26 **Section 1102 of the Public Utility Code, Section 1103(a) allows the**
27 **Commission to issue the certificate only upon a finding or determination**
28 **that the granting of such certificate is "necessary or proper for the**
29 **service, accommodation, convenience, or safety of the public."**
30 **Moreover, according to the Pennsylvania Supreme Court, satisfying this**
31 **standard requires the Commission to find that a proposed merger would**

⁷ The billing determinants (MWh) and sales growth rates used in lines 8-13 of Schedule BK-1 are taken directly from PECO's compliance filing in the Restructuring case at Docket No. R-00973953.

1 “affirmatively promote the ‘service, accommodation, convenience, or
2 safety of the public’ in some substantial way.” City of York v.
3 Pennsylvania Public Utility Commission, 449 Pa. 136, 141, 295 A.2d 825,
4 828 (Pa. 1973). Given its refusal to share merger savings with
5 Pennsylvania ratepayers, has PECO established that the proposed
6 merger would provide the required affirmative public benefit?

7 A. No. Mr. O’Brien’s claim that the merger might result in lower rates (than
8 would otherwise be the case) several years in the future is insufficient to
9 establish an affirmative public benefit.

10
11 **Q. What is your recommendation in this area?**

12 A. I recommend that the Commission require a sharing of merger savings with
13 Pennsylvania ratepayers as a necessary condition for approval of the merger.
14 The OSBA’s recommended sharing levels are discussed in the following
15 section of my testimony.

16
17 **OSBA Recommended Sharing Levels**

18
19 **Q. Mr. Kalcic, according to the Joint Applicants, what is Pennsylvania’s**
20 **share of the total net merger savings of \$155 million on the regulated**
21 **business, as shown in Table 1 above?**

22 A. Per WDA Exhibit 6, Pennsylvania’s share is \$45.5 million over the four-year
23 period, or \$11.4 million per year, on average.⁸

24

⁸ The Joint Applicants break the \$155 million of Tier I savings into Tier II amounts, as follows:
Pennsylvania -- \$45.5 million; Illinois -- \$43.4 million; and New Jersey -- \$65.7 million.

1 **Q. Is the Pennsylvania share of \$45.5 million broken down further?**

2 A. Yes. The Joint Applicants' breakdown between electric and gas divisions is
3 shown in Table 2 below.

4
5 Table 2
6 (\$ millions)

<i>Tier</i>	<i>Four-Year Total</i>	<i>Average per Year</i>
II. – Pennsylvania	<u>\$45.5</u>	<u>\$11.4</u>
III. – Electric	\$38.8	\$9.7
III. – Gas	\$6.7	\$1.7

7 Source: Exhibit WDA-6

8
9 **Q. How much of Pennsylvania's \$11.4 million portion of annual merger
10 savings on the regulated business should be shared by PECO's
11 ratepayers?**

12 A. Given the meager level of Pennsylvania's total net merger savings on the
13 regulated business, I recommend that the Commission require PECO to share
14 100% of such savings with ratepayers, or \$11.4 million per year.
15 Specifically, I recommend that the Commission order PECO to cut annual
16 electric distribution revenues by \$9.7 million, and annual gas distribution
17 revenues by \$1.7 million, in line with the breakdown summarized in Table 2.

18
19 **Q. How long should these revenue reductions remain in effect?**

20 A. Each rate reduction should remain in effect until the conclusion of PECO's
21 next electric or gas base rate proceeding, as applicable, at which time the
22 value of the merger savings would be permanently reflected in PECO's base
23 rates.

24
25 **Q. Mr. Kalcic, how should your recommended \$9.7 million reduction in
26 annual electric distribution revenues be allocated among rate classes?**

27 A. I recommend that such rate reductions be used to mitigate the distribution rate
28 subsidies currently provided on PECO's electric system.

29
30 **Q. When were PECO's current electric distribution rates established?**

1 A. PECO's electric distribution rates were established in its 1998 Electric
2 Restructuring Case, Docket No. R-00973953.⁹

3
4 **Q. What classes are currently providing distribution subsidies on PECO's**
5 **electric system?**

6 A. Six rate classes are currently providing subsidies on PECO's system: 1) Rate
7 EP - Electric Propulsion; 2) Rate PD - Primary Distribution Power; 3) Rate
8 GS - General Service; 4) Rate RH - Residential Heating Service; 5) Rate OP
9 - Off-Peak Service; and 6) Rate SLE - Street Lighting Customer-Owned
10 Facilities.¹⁰ Schedule BK-2 shows the magnitude of the subsidy provided by
11 each class at the time of PECO's restructuring.

12
13 **Q. Why is it appropriate to use distribution merger savings to reduce the**
14 **distribution subsidies provided by the above rate classes?**

15 A. As shown on page 2 of Schedule BK-2, these classes provided an aggregate
16 annual subsidy of approximately \$29.3 million at the time of restructuring.
17 These annual subsidies will have continued unabated for eight (8) years, i.e.,
18 through 2006, in the absence of any mitigation in this proceeding.¹¹ Given
19 this history, I believe it is both reasonable and appropriate to use merger
20 savings to address the subsidy issue in this proceeding.

21
22 **Q. How should the Commission mitigate the distribution subsidies identified**
23 **in Schedule BK-2?**

24 A. I recommend that the Commission allocate the \$9.7 million in net electric
25 merger savings from the regulated business to the aforementioned six rate

⁹ Note that the PECO/Unicom Merger provided for an across-the-board reduction to PECO's distribution rates over a four-year period. However, PECO's distribution rates are slated to return to their original restructuring levels on January 1, 2006.

¹⁰ Rates RH and OP are residential rate schedules. Rates GS and OP are available to commercial and industrial customers, and Rate EP serves Amtrak.

¹¹ The subsidies will continue for more than eight years if PECO does not file a base rate case to set new distribution rates for the period beginning on January 1, 2007.

1 classes on an across-the-board basis, so as to reduce each class's subsidy
2 proportionately.

3 Schedule BK-3 provides a summary of the class subsidy levels derived
4 in Schedule BK-2. Column 1 of Schedule BK-3 shows the dollar amount of
5 the distribution subsidy provided by the six rate classes at the time of
6 restructuring. Column 2 shows each class's percentage of the aggregate
7 subsidy for the six classes. An across-the-board reduction in the subsidy
8 would give each of the six rate classes the same percentage of the available
9 rate relief as the percentage they pay of the aggregate subsidy.¹²

10
11 **Q. Previously, you recommended that the \$1.7 million of gas merger savings**
12 **shown in Table 2 be used to reduce gas distribution rates. How should**
13 **the \$1.7 million rate reduction be allocated to rate classes?**

14 A. I recommend that the \$1.7 million of rate relief be spread across-the-board on
15 current distribution revenues.

16
17 **Q. Mr. Kalcic, would it also be appropriate for the Commission to order**
18 **PECO to share a portion of Pennsylvania's allotment of the \$1.397 billion**
19 **of merger savings coming from the non-regulated business, as previously**
20 **identified in Table 1?**

21 A. Yes. If this merger is approved, it is clear that the Joint Applicants will
22 realize significant generation-related savings. Since PECO's electric
23 ratepayers remain responsible for certain generation-related costs, it is
24 appropriate that a portion of generation-related merger savings be shared with
25 customers.

26
27 **Q. Please elaborate.**

28 A. First, PECO's electric ratepayers have paid, and will continue to pay, stranded
29 cost on PECO's generation units through December 31, 2010. Second,

¹² If the Commission were to allocate less than \$9.7 million to eliminating the subsidy, each of the six classes should get a percentage of that lower amount that equals its percentage of the aggregate subsidy. Conversely, if the Commission were to allocate more than \$9.7 million, each of the six classes should receive that corresponding percentage of the larger amount. Any distribution rate relief over \$29.3 million should be shared across-the-board on distribution revenues by *all* rate classes.

1 PECO's electric ratepayers have paid, and will continue to pay,
2 decommissioning expense for PECO's nuclear units for the life of those units,
3 albeit to a different corporate entity, i.e., EEG rather than Exelon, if the
4 merger is approved.¹³ Third, as discussed below, I have been advised by
5 counsel for the OSBA that PECO has the statutory duty to continue to
6 mitigate generation-related stranded costs during its transition period, which
7 ends on December 31, 2010.

8 Accordingly, I find that despite the Joint Applicants' assertions to the
9 contrary, PECO's electric ratepayers continue to be responsible for certain
10 generation-related costs (including stranded costs), and are entitled to a
11 utility's best efforts toward continued mitigation of stranded costs over the
12 transition period. As such, PECO's electric ratepayers do have a claim on a
13 portion of the Joint Applicants' expected merger savings from the non-
14 regulated business.

15
16 **Q. Please identify the source of PECO's statutory duty to continue to**
17 **mitigate stranded costs.**

18 A. Counsel for the OSBA has advised me that this duty is imposed by Section
19 2808(c)(4) of the Public Utility Code, as follows:

20
21 The commission shall consider the extent to which the electric
22 utility has undertaken efforts to mitigate generation-related
23 transition or stranded costs by appropriate means in a manner that is
24 reasonable under all of the circumstances, including consideration
25 of whether mitigation has been commensurate with the magnitude
26 of the electric utility's generation-related transition or stranded
27 costs. *During the transition period, electric utilities shall have the*
28 *duty to mitigate generation-related transition or stranded costs to*
29 *the extent practicable.* [Emphasis supplied.]
30

¹³ See paragraph 13 of the approved settlement in the PECO/Unicom merger case, Docket No. A-110550F0147. However, as per the PECO/Unicom merger, ratepayers' nuclear decommissioning liability does not extend to any generating plants which PECO did not hold on December 31, 1999.

1 **Q. Mr. Kalcic, have the Joint Applicants identified Pennsylvania's share of**
2 **the \$1.397 billion of merger savings from the non-regulated business?**

3 A. No. As previously discussed, the Joint Applicants provided no detailed
4 synergy analysis of merger savings from the non-regulated business.
5

6 **Q. What do you recommend that the Commission consider in the absence of**
7 **such a breakdown of savings?**

8 A. Since the Joint Applicants have failed to provide such information, I
9 recommend that the Commission deem a full one-third of the four-year total
10 of \$1.397 billion, or \$465.7 million, as Pennsylvania's share.¹⁴ Of this four-
11 year total of \$465.7 million, approximately \$116 million would be available
12 annually for sharing between PECO's electric ratepayers and shareholders.
13

14 **Q. How much of the above \$116 million should be shared by PECO's**
15 **ratepayers?**

16 A. PECO ratepayers will be paying CTC charges through December 31, 2010.
17 Therefore, I recommend a 50%/50% sharing through the end of 2010, which
18 equates to \$58 million annually for ratepayers. After 2010, *all* generation-
19 related merger savings would accrue to shareholders.
20

21 **Q. How should the \$58 million be returned to ratepayers?**

22 A. As shown in Schedule BK-1, PECO's electric ratepayers are subject to
23 combined CTC/generation rate increases of up to \$1.5 billion over the
24 remaining years of the transition period. In order to mitigate the impact of
25 those increases, I recommend that the entire \$58 million be credited to
26 customers' bills each year.
27

28 **Q. Mr. Kalcic, how should the \$58 million be allocated to rate classes?**

29 A. Since the Joint Applicants' merger savings on the non-regulated business are
30 generation related, I recommend that the annual \$58 million be credited to
31 rate classes on the basis of each class's contribution to PECO's annual CTC

¹⁴ The \$1.397 billion is shown in Table 1 above. Because of the Joint Applicants' refusal to provide an analysis that would justify any other allocation, I have divided the \$1.397 billion equally among Pennsylvania, New Jersey, and Illinois.

1 revenue requirement. In other words, I recommend that each rate class get the
2 percentage of the \$58 million that equals that rate class's percentage share of
3 PECO's annual CTC revenue requirement.
4

5 **Q. Have you calculated the percentage share of each rate class's**
6 **contribution to PECO's CTC revenues?**

7 A. Yes. The information is shown in column 3 of Schedule BK-4.
8

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED]

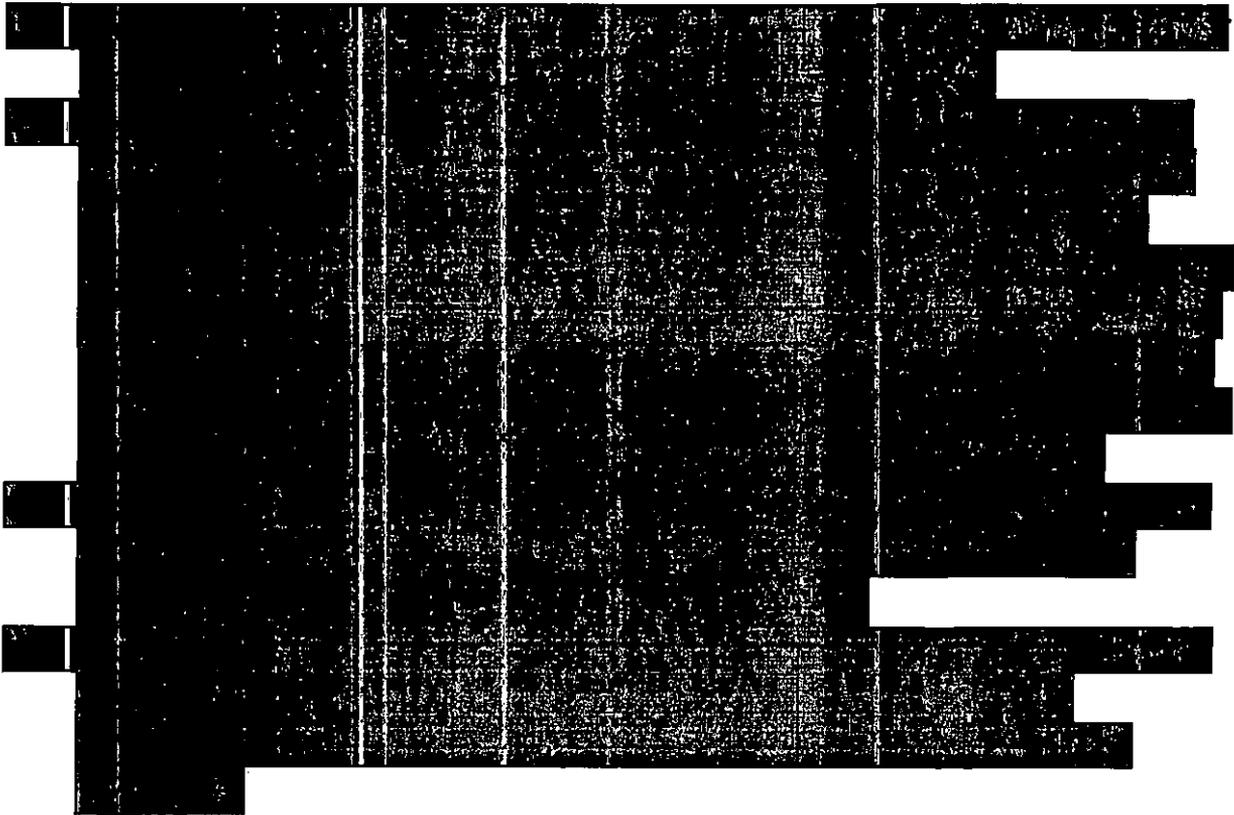
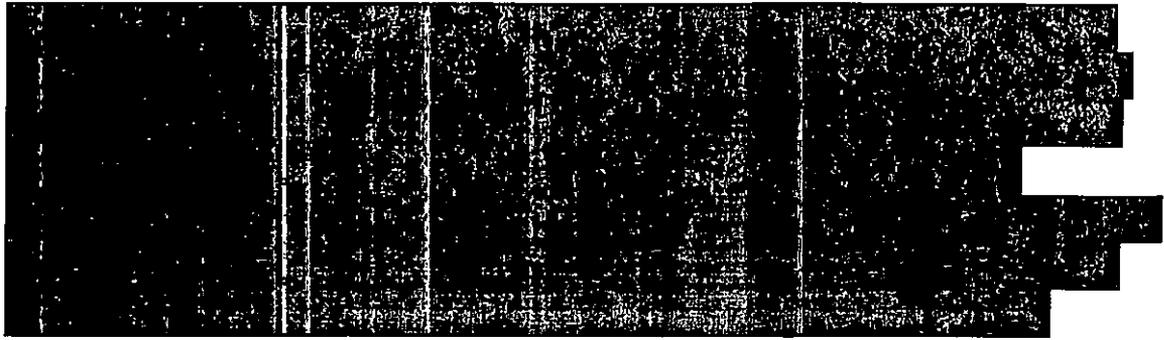
19 [REDACTED]

20 [REDACTED]

21 [REDACTED]

22 [REDACTED]

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29

[REDACTED]

[REDACTED]

[REDACTED]

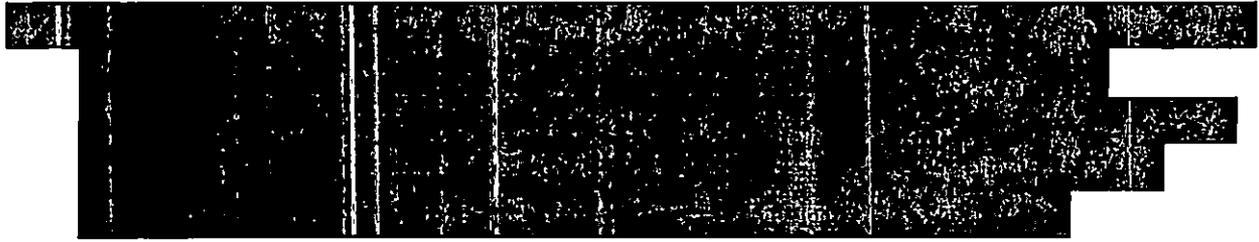
[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

1
2
3
4
5
6
7
8
9



Q. Does this conclude your direct testimony?

A. Yes.

APPENDIX

Qualifications of Brian Kalcic

Mr. Kalcic graduated from Illinois Benedictine College with a Bachelor of Arts degree in Economics in December, 1974. In May, 1977 he received a Master of Arts degree in Economics from Washington University, St. Louis. In addition, he has completed all course requirements at Washington University for a Ph.D. in Economics.

From 1977 to 1982, Mr. Kalcic taught courses in economics at both Washington University and Webster University, including such subjects as Microeconomic and Macroeconomic Theory, Labor Economics and Public Finance.

During 1980 and 1981, Mr. Kalcic was a consultant to the Equal Employment Opportunity Commission, St. Louis District Office. His responsibilities included data collection and organization, statistical analysis and trial testimony.

From 1982 to 1996, Mr. Kalcic joined the firm of Cook, Eisdorfer & Associates, Inc. During that time, he participated in the analysis of electric, gas and water utility rate case filings. His primary responsibilities included cost-of-service and economic analysis, model building, and statistical analysis.

In March 1996, Mr. Kalcic founded Excel Consulting, a consulting practice which offers business and regulatory services.

Mr. Kalcic has previously testified before the state regulatory commissions of Delaware, Kentucky, Maine, Massachusetts, Minnesota, Missouri, New Jersey, New York, Ohio, Oregon, Pennsylvania, Texas, and the Bonneville Power Administration.

OSBA EXHIBIT NO. 1

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

JOINT APPLICATION OF PECO ENERGY :
COMPANY AND PUBLIC SERVICE :
ELECTRIC & GAS COMPANY FOR : DOCKET NO. A-110550F0160
APPROVAL OF THE MERGER OF PUBLIC :
SERVICE ENTERPRISE GROUP, INC., :
WITH AND INTO EXELON CORPORATION :

Exhibit of
BRIAN KALCIC

PECO Energy Company
 Approved Changes in System-Wide Average Rates and Revenues
 Absent Exelon/PSEG Merger Considerations
 (Rates in ¢/kWh)

Schedule BK-1

Effective Date ^{1/}	<u>Transmission</u>	<u>Distribution</u>	<u>Yr / Yr Change</u>	<u>CTC or ITC</u>	<u>Yr / Yr Change</u>	<u>Shopping Credit</u>	<u>Yr / Yr Change</u>	<u>Total Rate</u>	<u>Yr / Yr Change</u>
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8) = (1)+(2)+(4)+(6)	(9)
1 1-Jan-05	0.45	2.41	-	2.40	-	4.58	-	9.84	
2 1-Jan-06	0.45	2.53	4.8%	2.66	10.8%	4.85	5.9%	10.49	6.6%
3 1-Jan-07 ^{2/}	0.45	2.53		2.66		5.35	10.3%	10.99	4.8%
4 1-Jan-08	0.45	2.53		2.66		5.35		10.99	
5 1-Jan-09	0.45	2.53		2.66		5.35		10.99	
6 1-Jan-10	0.45	2.53		2.66		5.35		10.99	
<u>Revenue Impact ^{3/}</u>									
7 2005		-		-		-			
8 2006		\$40,642,560		\$92,286,910		\$86,156,930		\$219,086,400	
9 2007		\$40,967,700		\$93,025,210		\$247,672,450		\$381,665,360	
10 2008		\$41,295,440		\$93,769,410		\$249,653,830		\$384,718,680	
11 2009		\$41,625,810		\$94,519,560		\$251,651,060		\$387,796,430	
12 2010		<u>\$41,958,810</u>		<u>\$95,275,720</u>		<u>\$253,664,260</u>		<u>\$390,898,790</u>	
13 Total		\$206,490,320		\$468,876,810		\$1,088,798,530 ^{4/}		\$1,764,165,660	

^{1/} All rates per Docket Nos. R-00973953 and A-00110550F0147, i.e., exclude subsequent RNR, nuclear decommissioning and USFC adjustments.

^{2/} T&D rate caps expire 12/31/06.

^{3/} Increase over 2005 revenues, i.e., change from 2005 rate times kWh sales forecast for given year.

^{4/} Annual amounts reflect adjustment (reduction) for the 10.1% of load supplied by EGSs as of 4/01/05.

PECO Energy Company
 Calculation of Pro Forma Distribution Subsidies
 Per Restructuring Docket No. R-00973953
 (\$ 000)

<u>Rate EP</u>	Pro Forma Distribution Revenue Req.	(1)	Distribution Revenue Req. at 9.44%	(2)	Pro Forma Subsidy (3) = (1) - (2)
1 Operating Expense		\$6,140		\$6,140	
2 Rate Base		\$9,098		\$9,098	
3 Return @	10.51%	\$956	9.44%	\$859	
4 Income Taxes		\$458		\$412	
5 Revenue Taxes		<u>\$205</u>		<u>\$201</u>	
6 Subtotal		\$1,619		\$1,472	
7 Total		\$7,759		\$7,612	\$147
 <u>Rate PD</u>					
8 Operating Expense		\$12,434		\$12,434	
9 Rate Base		\$41,799		\$41,799	
10 Return @	10.80%	\$4,516	9.44%	\$3,946	
11 Income Taxes		\$2,207		\$1,928	
12 Revenue Taxes		<u>\$1,147</u>		<u>\$1,096</u>	
13 Subtotal		\$7,870		\$6,970	
14 Total		\$20,304		\$19,404	\$900
 <u>Rate GS</u>					
15 Operating Expense		\$93,395		\$93,395	
16 Rate Base		\$303,606		\$303,606	
17 Return @	11.18%	\$33,928	9.44%	\$28,660	
18 Income Taxes		\$16,557		\$13,986	
19 Revenue Taxes		<u>\$4,089</u>		<u>\$3,866</u>	
20 Subtotal		\$54,574		\$46,512	
21 Total		\$147,969		\$139,907	\$8,062

PECO Energy Company
 Calculation of Pro Forma Distribution Subsidies
 Per Restructuring Docket No. R-00973953
 (\$ 000)

Schedule BK-2
 Page 2 of 2

<u>Rate RH</u>		Pro Forma Distribution Revenue Req. (1)		Distribution Revenue Req. at 9.44% (2)	Pro Forma Subsidy (3) = (1) - (2)
1	Operating Expense	\$58,371		\$58,371	
2	Rate Base	\$191,153		\$191,153	
3	Return @	13.35%	\$25,517	9.44%	\$18,045
4	Income Taxes		\$12,452		\$8,806
5	Revenue Taxes		<u>\$3,442</u>		<u>\$3,045</u>
6	Subtotal		\$41,411		\$29,896
7	Total		\$99,782		\$88,267
					\$11,515
 <u>Rate OP</u>					
8	Operating Expense		\$8,450		\$8,450
9	Rate Base		\$21,156		\$21,156
10	Return @	29.96%	\$6,339	9.44%	\$1,997
11	Income Taxes		\$3,115		\$981
12	Revenue Taxes		<u>\$1,057</u>		<u>\$675</u>
13	Subtotal		\$10,511		\$3,653
14	Total		\$18,961		\$12,103
					\$6,858
 <u>Rate SLE</u>					
15	Operating Expense		\$3,346		\$3,346
16	Rate Base		\$19,070		\$19,070
17	Return @	15.67%	\$2,989	9.44%	\$1,800
18	Income Taxes		\$1,399		\$842
19	Revenue Taxes		<u>\$154</u>		<u>\$119</u>
20	Subtotal		\$4,542		\$2,761
21	Total		\$7,888		\$6,107
					<u>\$1,781</u>
22	GRAND TOTAL				\$29,263

Source: OSBA-I-23

PECO Energy Company
Breakdown of Total
Distribution Subsidies

Schedule BK-3

<u>Class</u>	<u>Pro Forma Subsidy (\$000) (1)</u>	<u>Percent of Total (2)</u>
1 Rate EP	\$147	0.5%
2 Rate PD	\$900	3.1%
3 Rate GS	\$8,062	27.6%
4 Rate RH	\$11,515	39.4%
5 Rate OP	\$6,858	23.4%
6 Rate SLE	<u>\$1,781</u>	<u>6.1%</u>
7 Total	\$29,263	100.0%

Source: Sch. BK-2

PECO Energy Company
 Breakdown of 2005
 CTC Revenues, by Rate Class

Schedule BK-4

<u>Rate Class</u>	2005 Pro Forma <u>MWh</u> (1)	CTC <u>Revenues</u> (2)	Percent of Total <u>CTC Revenue</u> (3)
1 HT	14,894,028	\$287,619,134	34.033%
2 EP	670,082	\$13,048,452	1.544%
3 PD	1,134,625	\$28,620,691	3.387%
4 GS	6,919,765	\$221,060,714	26.157%
5 RH	2,954,390	\$60,975,541	7.215%
6 R	8,076,474	\$232,340,271	27.492%
7 OP	394,227	\$239,224	0.028%
8 SLP	93,152	\$589,181	0.070%
9 SLS	17,736	\$369,884	0.044%
10 SLE	49,319	\$247,916	0.029%
11 Other	<u>9,461</u>	<u>\$7,208</u>	<u>0.001%</u>
12 TOTAL	35,213,259	\$845,118,216	100.0%
	¢ / kWh	2.40	

Source:

Dk. No. A- 00110550F0147

Dk. No. A- 00110550F0147

REFERENCED INTERROGATORY RESPONSES

OSBA-1-2

[REDACTED]

[REDACTED]

PECO Energy Company and Public Service Electric & Gas Company
Docket No. A-110550F0160

OSBA- Sct 1 -Question #2:

2. Please refer to the following statement, which is quoted from Exelon Corporation's December 20, 2004, press release regarding the proposed merger: *Substantial synergies. Exelon and PSEG expect synergies from the merger to be approximately \$400 million pre-tax in the first full year after closing, growing to \$500 million annually by the second year, excluding out-of-pocket costs to achieve and transaction costs. Approximately 85% of these synergies are cost related and 15% are based on increased production at PSEG's nuclear plants. These savings and productivity improvements are based on the proven capabilities of both companies, including implementing certain practices that have been successful under The Exelon Way transformation initiative. Savings are expected to come from the elimination of duplicative activities; improved operating efficiencies in nuclear and other generation operations; marketing and trading; corporate and business services and transmission and distribution, and supply chain benefits from improved sourcing. Approximately 70% of the synergies will come from the unregulated businesses, with the remaining 30% from the regulated utilities. (Emphasis supplied.)*
 - a. Please reconcile the above referenced expected synergy totals of \$400 million and \$500 million, with the first and second year synergies depicted in Exhibits WDA-2 and WDA-4.
 - b. Please provide a detailed derivation of all cost-related synergies that comprise the above referenced 85% of the total synergies expected from the merger. Please reconcile such synergies, by year, with the synergies depicted in Exhibits WDA-2 and WDA-4.
 - c. Please provide a detailed breakdown of the total PSEG nuclear plant synergies expected from the merger, by nuclear unit, for each of the years 2006 through 2009. Please provide the calculations necessary to show that such synergies comprise 15% of the total synergies expected from the merger.
 - d. Please provide the calculations necessary to show that approximately 70% of the total synergies are expected to come from unregulated businesses, and 30% from regulated businesses. Provide a Tier 1- through Tier 4-type breakdown of all such synergies, for each of the years 2006 through 2009.

OSBA-Set 1-Answer #2:

- a. The synergies depicted in EXHIBIT WDA - 4 comprise approximately 50% of the overall savings of \$400 to \$500 million with corporate and shared services representing 39% of the total and utilities representing 11%. The remaining synergies that comprise the \$400 to \$500 million are approximately 34% from nuclear, approximately 9% from trading and marketing, and approximately 7% from fossil generation. These percentage distributions are based on the second year distribution of savings and reflect the ramp-up time necessary to achieve a near steady-state of savings. EXHIBIT WDA - 2 depicts the net regulated synergies after reflecting the allocation of corporate and shared services savings to the regulated business. The allocation of corporate and shared services savings between regulated and nonregulated businesses does not have an impact of the total overall savings of \$400 to \$500 million.
- b. All the synergies depicted in EXHIBITS WDA - 2 and WDA - 4 are cost synergies. The derivation of these synergies is contained in the workpapers provided in response to OSBA-1-1. The approximately 85% of cost savings reflect all savings, both regulated and nonregulated. Details around the regulated cost savings and allocated savings are provided in the referenced workpapers. The breakdown of the 85% cost savings are as follows: approximately 43% staffing, 16% supply chain, 15% non-labor corporate programs, 9% non-labor information technology, and 3% nuclear outage costs. These percentages are based on the second year distribution of savings and reflect the ramp-up time necessary to achieve a near steady-state of savings. This distribution of savings remains relatively consistent over years three and four with mainly escalation and some longer lead synergy items slightly impacting the distribution of savings in those years.
- c. The nuclear improvement synergies were not developed by nuclear unit but rather by comparing the stand alone nuclear baselines for both PSEG and Exelon to determine improvement in operating efficiencies and elimination of redundant costs across the PSEG nuclear portfolio.

The nuclear improvement synergies represent approximately 15% of total savings based on a review of the distribution of year 2 total savings of \$500 million. The second year was chosen to reflect the ramp-up time necessary to achieve a near steady-state of savings. This distribution of savings remains relatively consistent over years three and four with mainly escalation and some longer lead synergy items slightly impacting the distribution of savings in those years. The amount of nuclear improvement synergies has no bearing on the regulated synergies.

- d. The approximately 70% unregulated synergies and 30% regulated synergies were based on a review of year 2 savings. The second year was chosen to reflect the ramp-up time necessary to achieve a near steady-state of savings. As EXHIBIT WDA - 4 indicates the corporate and shared services savings in year 2 are \$175.6 million before allocation with \$70.3 million allocated to the regulated business. The difference of \$105.3 (\$175.6 - \$ 70.3) million of corporate and shared services savings have been allocated to the nonregulated business. As noted in response a above, approximately 50% of the total savings are directly derived from nonregulated businesses (34% nuclear, 9% trading and marketing, and 7% fossil generation), approximately 11% are directly derived from the utility business with the remaining 39% from corporate and shared services.

Therefore, the 70% nonregulated savings is as follows:

Total Gross Savings	\$500 mm
Direct Nonregulated Savings %	50%
Direct Nonregulated Savings	\$250 mm
Allocated Corp / Shared Services Savings	\$105 mm
Total Nonregulated Savings after allocation	\$355 mm
Nonregulated savings as % of total	71%
Approximately	70%

The 30% regulated savings is as follows:

Total Gross Savings	\$500 mm
Direct Utility Savings	\$ 62 mm
Allocated Corp / Shared Services Savings	\$ 70 mm
Total Regulated Savings after allocation	\$132 mm
Regulated Savings as % of total	26%
Approximately	30%

Note: Differences are due to rounding in the \$500M estimate

The Tier 1 through Tier 4 breakdown of regulated synergies for 2006 through 2009 are summarized in Exhibit WDA 2. A Tier 1 through Tier 4 breakdown of all nonregulated synergies for 2006 through 2009 is not applicable as nonregulated synergies flow to the benefit of shareholders and are not allocated across jurisdictions and business segments.

Responsible Witness: William D. Arndt

OSBA STATEMENT NO. 2
9/22/05 A-110550F0160
Phila JK

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

JOINT APPLICATION OF PECO ENERGY :
COMPANY AND PUBLIC SERVICE :
ELECTRIC & GAS COMPANY FOR :
APPROVAL OF THE MERGER OF PUBLIC : DOCKET NO. A-110550F0160
SERVICE ENTERPRISE GROUP, INC., :
WITH AND INTO EXELON CORPORATION :

DOCUMENT
FOLDER

Rebuttal Testimony and Exhibit of

BRIAN KALCIC

On Behalf of the

Office of Small Business Advocate

Issues addressed:

Allocation of the Merger Savings among Rate Classes
Universal Service Programs
Renewable Energy and Energy Efficiency Programs



RECEIVED
2005 SEP 27 PM 2:06
SECRETARY'S BUREAU

Date Served: July 29, 2005

Date Submitted for the Record: _____

1 Rebuttal Testimony of Brian Kalcic

2
3
4 **Q. Please state your name and business address.**

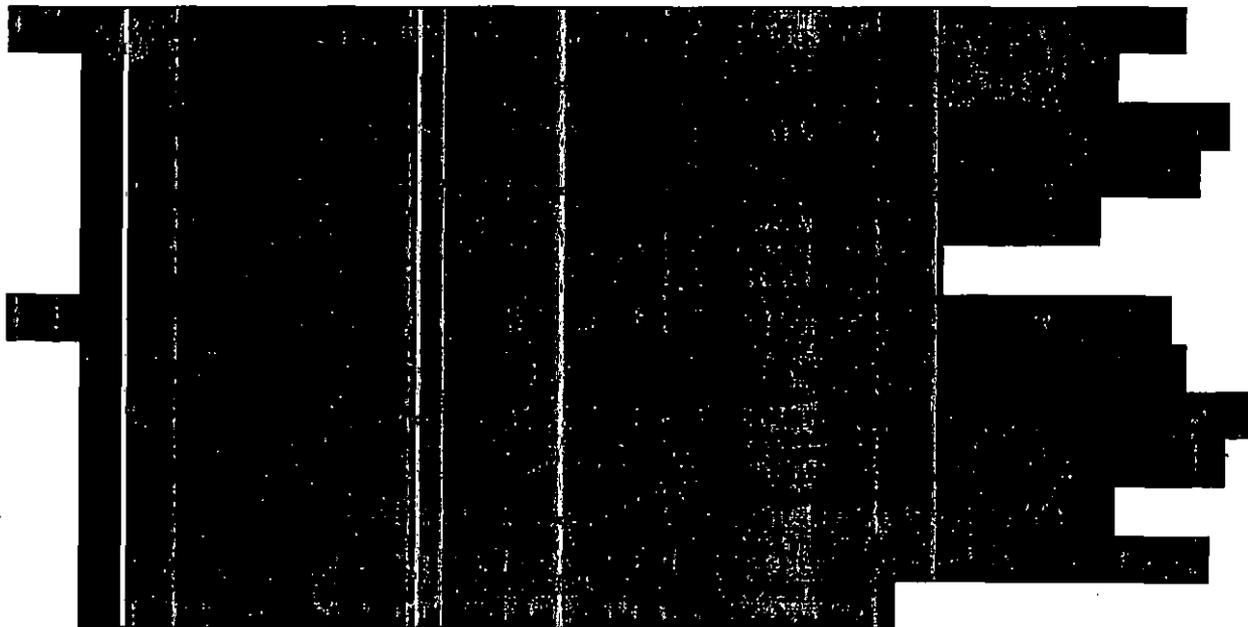
5 A. Brian Kalcic, 225 S. Meramec Avenue, St. Louis, Missouri 63105.

6
7 **Q. Have you previously submitted direct testimony in this proceeding?**

8 A. Yes, I have.

9
10 **Q. What is the subject of your rebuttal testimony?**

11 A. My rebuttal testimony responds to certain points raised in the direct testimony
12 of the following witnesses: 1) Mr. Richard La Capra and Ms. Barbara R.
13 Alexander on behalf of the OCA; 2) Mr. David F. Keim on behalf of the OTS;
14 3) Mr. Harry S. Geller on behalf of Action Alliance et al. ("Action Alliance");
15 4) Mr. Thomas J. Tuffey and Mr. John J. Plunkett on behalf of The
16 PennFuture Parties ("PennFuture"); and 5) Mr. Lewis M. Milford on behalf of
17 The Reinvestment Fund ("TRF"). However, for convenience, I have
18 organized my rebuttal testimony by subject matter rather than party.
19



33
34 Allocation of Merger Savings

1 **Q. On page 23 of his direct testimony, Mr. La Capra recommends, in part,**
2 **that the current distribution rate reduction of \$40 million per year that**
3 **was agreed to in the PECO-Unicom merger settlement be continued**
4 **through 2010, as a condition for approval of this merger. If approved,**
5 **how would this proposal allocate such merger benefits among PECO's**
6 **rate classes?**

7 A. Since the PECO-Unicom distribution rate reduction is scheduled to expire on
8 December 31, 2005, Mr. La Capra's proposal is equivalent to \$200 million of
9 prospective distribution rate relief (i.e., \$40 million times 5 years). At the
10 same time, the continuation of PECO's existing distribution rates through
11 2010 would effectively assign the \$200 million of new merger benefits to rate
12 classes in direct proportion to each class's current distribution rate reduction.
13 The PECO-Unicom merger settlement provided for an across-the-board
14 reduction to class distribution revenues.¹ Therefore, Mr. La Capra's proposal
15 would allocate \$200 million of prospective merger benefits to rate classes on
16 the same basis, i.e., across-the-board on class distribution revenues.
17

18 **Q. Does Mr. La Capra's proposal include an extension of the current**
19 **distribution rate cap?**

20 A. Yes, through December 31, 2010. In essence, Mr. La Capra seeks to set class
21 distribution rates for five more years, without the guidance provided by a
22 class cost-of-service study. Moreover, such an approach would preclude the
23 Commission from addressing the class distribution subsidies identified in the
24 cost-of-service study PECO submitted during restructuring.
25

26 **Q. In support of his recommendation, does Mr. La Capra specifically**
27 **identify \$200 million of merger savings as distribution-related?**

28 A. No, he does not. Instead, Mr. La Capra argues that the "Commission should
29 examine the entirety of the projected corporate-wide savings from this
30 merger" when considering whether the merger would provide substantial
31 affirmative benefits to Pennsylvania.²
32

¹ See page 8 of the approved Joint Petition for Settlement in Docket No. A-00110550F0147.

² See page 22, lines 4-5 of OCA Statement No. 1.

- 1 **Q. What is the “entirety” of projected merger savings referenced by Mr. La**
2 **Capra?**
- 3 A. Mr. La Capra is referring to the approximate \$500 million in projected annual
4 corporate-wide savings, before costs to achieve, which have been identified
5 by the Applicants.³
- 6
- 7 **Q. What percent of the projected \$500 million in corporate-wide synergies**
8 **do the Applicants attribute to their “regulated,” i.e., non-generation,**
9 **businesses?**
- 10 A. The Applicants deem approximately 30% of such savings as arising from
11 non-generation sources.⁴
- 12
- 13 **Q. Mr. Kalcic, in light of the nature of the corporate-wide synergies relied**
14 **upon by Mr. La Capra, how much of the OCA’s recommended \$40**
15 **million in annual distribution rate reductions is actually distribution-**
16 **related?**
- 17 A. At best, only \$12 million (i.e., 30% times \$40 million) is related to PECO’s
18 electric distribution business.⁵
- 19
- 20 **Q. Does Mr. La Capra offer any rationale for allocating 100% of his**
21 **recommended \$40 million in annual merger savings to PECO’s rate**
22 **classes on the basis of class distribution revenues?**
- 23 A. No, Mr. La Capra is silent on this issue.
- 24
- 25 **Q. Is it appropriate to ignore the underlying source of the merger synergies**
26 **when allocating merger savings to PECO’s rate classes?**
- 27 A. Not at all. Ignoring the source of the synergies would produce a mis-
28 assignment of the associated merger benefits across PECO’s rate classes.
- 29
- 30 **Q. Please elaborate.**

³ See page 19, lines 30-31 of OCA Statement No. 1, and the response to OSBA-I-2.

⁴ See the response to OSBA-I-2(d).

⁵ Recall that the Applicants’ non-generation businesses comprise *both* electric and gas operations. Accordingly, a portion of the \$12 million would be properly assignable to PECO’s regulated gas business.

1 A. The costs associated with PECO's generation plant and supply are recovered
 2 through CTC and POLR generation charges, as established in PECO's
 3 restructuring proceeding. In contrast, the distribution rates currently paid by
 4 PECO's rate classes are in no way related to the costs associated with PECO's
 5 generation supply function. To the extent that the proposed merger produces
 6 savings in generation-related costs, such savings *must* be flowed back to
 7 customers on a generation-related basis. To do otherwise would result in a
 8 grossly inequitable assignment of merger savings to rate classes.

9 To illustrate this point, columns 1 and 2 in Schedule BK-1R of OSBA
 10 Exhibit No. 2 contrast PECO's rate class contributions to distribution and
 11 CTC revenues, respectively. As shown on Schedule BK-1R, a distribution-
 12 based assignment of generation-related merger savings would inappropriately
 13 benefit PECO's residential and lighting classes (i.e., lines 5-10), at the
 14 expense of PECO business rate classes (i.e., lines 1-4).⁶

15
 16 **Q. What would be the magnitude of this shift in the allocation of merger
 17 benefits?**

18 A. As shown in Table 1R below, the allocation of generation-related merger
 19 benefits to rate classes on the basis of distribution revenues would improperly
 20 shift over 32% of generation-related merger savings from business customers
 21 to residential and street lighting customers.

22
 23 Table 1R
 24 Alternative Allocation Outcomes

<i>Customer Class</i>	<i>Allocation on Distribution</i> <i>a</i>	<i>Allocation on CTC</i> <i>b</i>	<i>Difference</i> <i>c=a-b</i>
Business	32.7%	65.1%	-32.4%
Residential	64.7%	34.7%	30.0%
Lighting	2.4%	0.1%	2.3%

25 Source: Schedule BK-1R

⁶ PECO's business classes are comprised of Rate HT High-Tension Power, Rate EP Electric Propulsion, Rate PD Primary-Distribution Power and Rate GS General Service. PECO's residential classes include Rate RH Residential Heating Service, Rate R Residential Service and Rate OP Off-Peak Service. Finally, PECO's lighting classes include Rate SL-P Street Lighting in City of Philadelphia, Rate SL-S Street Lighting-Suburban Counties and Rate SL-E Street Lighting Customer-Owned Facilities.

1 **Q. Would Mr. La Capra's preferred distribution-based allocation of**
2 **generation-related merger savings comport with the nature of the overall**
3 **class rate increases that are scheduled over the upcoming 2006-2010**
4 **period?**

5 A. No. As shown in Schedule BK-1 of OSBA Exhibit No. 1, PECO will collect
6 three (3) generation-related increases from ratepayers over this period,
7 ranging from 5.9% to 10.3%, and one (1) distribution-related increase of
8 4.8%. Of course, the referenced generation-related increases are required to
9 pay for PECO's acquisition of POLR energy and to pay for PECO's allowable
10 stranded costs. Nevertheless, Mr. La Capra proposes to cancel the
11 *distribution* increase, ignore the generation-related increases and flow 100%
12 of ratepayer-allocated generation savings back to rate classes on a distribution
13 revenue basis. All in all, I find Mr. La Capra's preferred allocation
14 methodology to be totally without foundation.
15

16 **Q. What is shown in column 3 of Schedule BK-1R?**

17 A. Column 3 provides a more detailed breakdown of the aggregate rate increases
18 to be paid by PECO's customers over the 2006-2010 period, as previously
19 provided in Schedule BK-1 of OSBA Exhibit No. 1. Specifically, column 3
20 of Schedule BK-1R shows the relative rate class contributions to the expected
21 \$1.76 billion increase in aggregate revenues to be paid by PECO customers
22 over the period.⁷ Since the vast majority (i.e., over 88%) of the \$1.76 billion
23 in scheduled increases is generation-related, the percent of the aggregate
24 increase to be paid by each rate class (i.e., column 3 of Schedule BK-1R)
25 closely mirrors the relative class contributions to CTC revenues shown in
26 column 2 of Schedule BK-1R.
27

28 **Q. What do you conclude from column 3 of Schedule BK-1R?**

29 A. Due to the relative size of the generation-related increases in 2006-2007,
30 PECO's business classes are slated to pay a larger percentage of the

⁷ Line 13 of Schedule BK-1 provides a breakdown of the \$1.76 billion total, by *type* of increase, i.e., distribution, CTC and shopping credit. Schedule BK-2R shows the amount of the increases in distribution, CTC and shopping credit revenues to be paid, by *rate class*. Column 3 of Schedule BK-1R is taken directly from column 5, page 1 of Schedule BK-2R (rounded to one decimal place).

1 upcoming aggregate 2006-2010 rate increases than PECO's residential and
2 lighting classes.

3
4 **Q. Would the allocation of generation-related merger savings to rate classes**
5 **on the basis of CTC revenues provide for an appropriate mitigation of**
6 **upcoming individual class increases?**

7 A. Yes. Since generation-related merger savings would be properly allocated to
8 rate classes on the basis of CTC revenues, a greater amount of rate relief
9 would automatically flow to those rate classes facing higher increases.

10
11 **Q. Mr. Kalcic, have you reviewed the direct testimony of OTS witness David**
12 **F. Keim in this proceeding?**

13 A. Yes, I have.

14
15 **Q. What amount of merger savings does Mr. Keim recommend be shared**
16 **with PECO's electric ratepayers?**

17 A. Mr. Keim recommends that PECO's ratepayers receive \$134 million of
18 merger benefits over 4 years, or \$33.5 million per year.

19
20 **Q. How would the \$33.5 million be shared among rate classes?**

21 A. Mr. Keim recommends that PECO's electric distribution rates be reduced by
22 \$33.5 million per year for four years, beginning January 1, 2007, with each
23 rate class receiving a proportional reduction based on total distribution
24 revenue.⁸

25
26 **Q. Is Mr. Keim's proposal to allocate merger savings to rate classes based**
27 **on distribution revenue appropriate?**

28 A. No. As previously discussed in response to Mr. La Capra, there is no nexus
29 between class distribution revenues and generation-related savings. The
30 Commission should reject Mr. Keim's allocation proposal.

31
32 **Universal Service Programs**
33

⁸ See page 13, lines 1-2 of OTS Statement No. 1, and OTS's response to the Joint Applicants' Interrogatories – Set IV, No. 5.

1 **Q. Beginning on page 36 of her direct testimony, Ms. Alexander presents a**
2 **number of recommendations regarding specific benefits which should be**
3 **directed toward Universal Service programs as a condition for approval**
4 **of the merger. Does Ms. Alexander quantify the total cost associated**
5 **with her Universal Service program recommendations?**

6 A. No. Ms. Alexander provides a number of recommendations pertaining to
7 PECO's Customer Assistance Program ("CAP"), CARES and Matching
8 Energy Assistance Fund ("MEAF"). However, Ms. Alexander only quantifies
9 the cost associated with one of her recommendations, i.e., the estimated \$10.3
10 million cost to increase the level of CAP-discounted usage from 500 kWh to
11 800 kWh per month.

12
13 **Q. Does Ms. Alexander propose to allow an increase in PECO's Universal**
14 **Service Fund Charge ("USFC") mechanism in order to recover the**
15 **incremental costs associated with her Universal Service proposals?**

16 A. No. PECO currently recovers a USFC equal to \$0.0004 per kWh within the
17 variable distribution service charges applicable to residential customers on
18 Rate Schedules R, RH and RT. Ms. Alexander proposes a freeze in the
19 USFC at the current \$0.0004 per kWh level until PECO's next base rate
20 proceeding. Because of her proposal to freeze the USFC, Ms. Alexander
21 recommends that "any additional expenses for these programs should be
22 funded from Merger savings as identified by other witnesses."⁹

23
24 **Q. Do you agree?**

25 A. No. Such an approach would be inconsistent with current Commission policy
26 to recover a utility's approved Universal Service costs solely from its
27 residential customers.

28
29 **Q. How should any expansion of PECO's low-income programs be funded?**

30 A. Ms. Alexander specifically noted that PECO has identified a \$15 million
31 reduction in bad debt expense associated with the implementation of Act 201.
32 Since Act 201 savings are derived from residential accounts, it would be
33 appropriate to utilize the full \$15 million in annual bad debt expense savings

⁹ See page 7 of OCA Statement No. 4.

1 to fund any Commission approved changes in PECO's Universal Service
2 programs. Should the additional funding requirement exceed \$15 million per
3 year, I recommend that the excess be recovered from an increase in the level
4 of PECO's USFC, or financed by a corresponding reduction in the residential
5 class's share of total ratepayer-allocated merger savings. Either approach
6 would be consistent with current Commission policy in this area.

7
8 **Q. Mr. Kalcic, have you reviewed the direct testimony of Mr. Geller on**
9 **behalf of Action Alliance?**

10 A. Yes, I have.

11
12 **Q. Do you have any comments?**

13 A. Yes. Mr. Geller discusses a number of alleged "inadequacies" pertaining to
14 PECO's low-income programs. Absent correction, Mr. Geller concludes "the
15 proposed Merger would provide no benefit to the low-income community
16 within PECO's service territory and would not be in the public interest."¹⁰
17 However, Mr. Geller fails to estimate the costs associated with "remedying"
18 PECO's Universal Service programs.

19 In the event that the Commission adopts any of Mr. Geller's
20 recommendations, I would advocate that the Commission adopt my
21 recommended funding approach for Universal Service programs, as
22 previously discussed in connection with Ms. Alexander's testimony.

23
24 **Renewable Energy and Energy Efficiency Programs**

25
26 **Q. Mr. Kalcic, have you reviewed the direct testimony submitted by Mr.**
27 **Tuffey and Mr. Plunkett on behalf of PennFuture?**

28 A. Yes.

29
30 **Q. What do these witnesses advocate as conditions for approval of this**
31 **merger?**

32 A. Beginning on page 17 of his direct testimony, Mr. Tuffey presents a number
33 of renewable energy recommendations which would require \$60.5 million in

¹⁰ See page 30 of Action Alliance Statement No. 1.

1 incentive financing. Mr. Tuffey also recommends that the Commission
2 require PECO to contribute \$20 million in separate funding for energy
3 efficiency, as a condition of the merger. On page 10 of his direct testimony,
4 Mr. Plunkett recommends that the Joint Applicants commit to providing still
5 more funding for energy efficiency programs in the amount of \$68 million per
6 year for three years, or \$204 million in total, as a condition of the merger.

7
8 **Q. Does either PennFuture witness discuss in detail how such expenditures**
9 **would be financed?**

10 A. No. Mr. Tuffey does not mention financing in his testimony.¹¹ Mr. Plunkett
11 merely states that “a funding mechanism” should be established in the context
12 of developing an approved energy efficiency action plan.

13 In aggregate, PennFuture recommends that PECO spend \$284.5 million
14 for renewable energy and energy efficiency programs. If approved, I believe
15 that it is reasonable to conclude that most, if not all, of the required funding
16 would have to be provided by PECO’s ratepayers, either through the use of
17 the ratepayers’ share of the merger savings or through a separate rate
18 surcharge.

19
20 **Q. Mr. Kalcic, should PECO ratepayers be required to finance \$284.5**
21 **million for renewable energy and energy efficiency programs over the**
22 **next three years?**

23 A. No. As discussed in my direct testimony, PECO’s customers are
24 already facing rate increases totaling as much as \$1.76 billion over the
25 next five years. The proposals advanced by PennFuture’s witnesses
26 would only exacerbate this problem.

27 Furthermore, the Alternative Energy Portfolio Standards Act
28 (“Act 213”) requires that all Pennsylvania generation suppliers meet a
29 statewide standard with respect to renewable energy via an established
30 timetable. The above witnesses would appear to require PECO to meet
31 a separate standard, rather than the one spelled out in Act 213.

32

¹¹ However, in response to the Joint Applicants’ Interrogatories – Set III, No. 1 to PennFuture, Mr. Tuffey states the \$80.5 million in required funding “should come from shareholders as part of the affirmative benefits required for this merger.”

1 **Q. Please discuss some of the ways in which PennFuture's proposals**
2 **differ from the requirements of Act 213.**

3 A. First, PennFuture would effectively accelerate the timetable for
4 meeting renewable energy standards, in that Act 213 does not require
5 formal compliance by PECO until the end of 2010.¹² Second, Act 213
6 anticipates that an EDC will buy renewable energy at competitive
7 prices established in the marketplace, i.e., an EDC's direct investment
8 in clean energy is not required. PennFuture would require PECO to
9 invest in (i.e., fund) clean energy projects, which is inconsistent with
10 the Act. Third, the Act's reliance on the marketplace to supply clean
11 energy is intended to insure a level playing field for all technologies.
12 Those technologies (and companies) that supply the requirements of
13 Act 213 at lowest cost will grow and prosper, while those that cannot
14 compete will exit the market. In contrast, PennFuture seeks to incent
15 certain technologies, in effect, to create a non-level playing field.

16
17 **Q. What technologies does PennFuture favor?**

18 A. Mr. Tuffey would reserve all incentive financing for wind power and
19 solar photovoltaic technologies, which comprise only two (2) of the
20 eight (8) Tier I alternative energy sources recognized in Act 213. Mr.
21 Plunkett would apply 100% of his recommended \$204 million toward
22 energy efficiency (i.e., demand-side management) programs, which is
23 but one (1) of seven (7) allowable Tier II alternative energy sources in
24 Act 213.

25
26 **Q. Does PennFuture explain why it has singled out the above**
27 **technologies for assistance?**

28 A. No. For example, on page 7 of his direct testimony, Mr. Tuffey
29 testifies that he endorses all "renewable energy sources in Tier I of Act
30 213." Yet, he immediately concludes, without explanation, that "the
31 source most currently important is wind energy."
32

¹² PECO may, of course, choose to meet the Act's renewable energy requirements by an earlier date. However, cost recovery in that instance would not begin until 2011.

1 **Q. What is your recommendation with respect to PennFuture's**
2 **proposals to require PECO to contribute \$284.5 million to**
3 **renewable energy and energy efficiency programs, as a condition**
4 **for approval of the merger?**

5 A. PennFuture's proposals would impose unique and costly renewable
6 energy and energy efficiency requirements on PECO that are
7 inconsistent with Act 213. As such, I recommend that the Commission
8 reject PennFuture's funding proposals.

9
10 **Q. Mr. Milford submitted direct testimony on behalf of TRF. Have**
11 **you reviewed his testimony?**

12 A. Yes, I have.

13
14 **Q. What is Mr. Milford's primary recommendation?**

15 A. As a condition of this merger, Mr. Milford recommends that the
16 Commission require PECO to contribute \$30 million to support a
17 regional clean energy fund, to be administered by the Sustainable
18 Development Fund ("SDF").¹³

19
20 **Q. Is a regional clean energy fund required by Act 213?**

21 A. No.

22
23 **Q. Has the SDF received prior funding from PECO?**

24 A. Yes, it has. PECO contributed a total of \$31.8 million to the SDF as
25 part of its restructuring and Unicom merger agreements.¹⁴ In addition,
26 PECO ratepayers are scheduled to contribute 0.005¢ per kWh to the
27 SDF, beginning January 1, 2007.

28
29 **Q. Do you recommend that the Commission adopt Mr. Milford's**
30 **proposal in this area?**

31 A. No. The Commission should reject his recommendation for all of the
32 reasons previously discussed in connection with PennFuture's

¹³ Under Mr. Milford's proposal, PSE&G would also be required to contribute \$30 million toward the regional fund.

¹⁴ See page 13 of PennFuture Statement No. 1.

1 testimony and because the SDF is already scheduled to receive funding
2 from PECO's ratepayers.

3

4 **Q. Does this conclude your rebuttal testimony?**

5 A. Yes.

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

JOINT APPLICATION OF PECO ENERGY :
COMPANY AND PUBLIC SERVICE :
ELECTRIC & GAS COMPANY FOR :
APPROVAL OF THE MERGER OF PUBLIC : DOCKET NO. A-110550E0160
SERVICE ENTERPRISE GROUP, INC., :
WITH AND INTO EXELON CORPORATION :

Exhibit of

BRIAN KALCIC

PECO Energy Company
 Class Shares of 2005 Distribution Revenues,
 2005 CTC Revenues and Cumulative 2006-2010 Rate Increases

Schedule BK-1R

<u>Rate Class</u>	Percent of 2005 <u>Distribution \$</u> (1)	Percent of 2005 <u>CTC \$</u> (2)	Percent of Cumulative Rate Increases <u>2006-2010</u> (3)
1 HT	12.827%	34.033%	32.688%
2 EP	0.862%	1.544%	1.520%
3 PD	2.307%	3.387%	3.260%
4 GS	16.699%	26.157%	23.943%
5 RH	11.617%	7.215%	8.133%
6 R	50.844%	27.492%	29.367%
7 OP	2.257%	0.028%	0.532%
8 SLP	1.254%	0.070%	0.261%
9 SLS	0.453%	0.044%	0.099%
10 SLE	0.687%	0.029%	0.166%
11 Other	0.192%	0.001%	0.031%
12 TOTAL	100.000%	100.000%	100.000%

Source:

Dk. No. A- 00110550F0147

Sch BK-4 Column 3

Sch BK-2R Page 1 of 5

PECO Energy Company
Class Shares of Approved System-Wide Revenue Increases, by Type
Absent Exelon/PSEG merger Considerations
Basis: Cumulative Increases 2006-2010

Rate Class	Total Five-year Increases All Types (1)=(2)+(3)+(4)	Total Five-Year Increases, by Type			Class % of 5-Year Increases (5)
		Distribution (2)	CTC (3)	Generation* (4)	
1 HT	\$576,662,282	\$26,487,009	\$159,572,874	\$390,602,399	32.7%
2 EP	\$26,822,223	\$1,779,692	\$7,239,362	\$17,803,169	1.5%
3 PD	\$57,508,030	\$4,764,215	\$15,878,936	\$36,864,879	3.3%
4 GS	\$422,392,479	\$34,482,126	\$122,645,850	\$265,264,503	23.9%
5 RH	\$143,485,331	\$23,988,776	\$33,829,608	\$85,666,947	8.1%
6 R	\$518,080,949	\$104,986,935	\$128,903,819	\$284,190,195	29.4%
7 OP	\$9,380,779	\$4,660,772	\$132,722	\$4,587,285	0.5%
8 SLP	\$4,604,341	\$2,589,335	\$326,881	\$1,688,125	0.3%
9 SLS	\$1,747,330	\$935,408	\$205,213	\$606,709	0.1%
10 SLE	\$2,927,386	\$1,418,655	\$137,544	\$1,371,187	0.2%
11 Other	\$554,523	\$397,396	\$3,999	\$153,128	0.03%
12 TOTAL	\$1,764,165,653	\$206,490,319	\$468,876,808	\$1,088,798,526	100.0%

Source: Sch BK-2R Page 2 Sch BK-2R Page 3 Sch BK-2R Page 4 Class % of Column 1

* Adjusted for 10.1% shopping.

PECO Energy Company
 Pro Forma Distribution Increases, by Rate Class
 (2006-2010)

Rate Class	Total Distribution Increase (1)=sum (2) to (6)	Increase in Distribution Revenues					D
		2006 (2)	2007 (3)	2008 (4)	2009 (5)	2010 (6)	% (7)
1 HT	\$26,487,009	\$5,213,319	\$5,255,025	\$5,297,065	\$5,339,443	\$5,382,157	12.8%
2 EP	\$1,779,692	\$350,289	\$353,091	\$355,916	\$358,763	\$361,633	0.9%
3 PD	\$4,764,215	\$937,719	\$945,221	\$952,782	\$960,405	\$968,088	2.3%
4 GS	\$34,482,126	\$6,786,962	\$6,841,257	\$6,895,987	\$6,951,156	\$7,006,764	16.7%
5 RH	\$23,988,776	\$4,721,603	\$4,759,375	\$4,797,450	\$4,835,831	\$4,874,517	11.6%
6 R	\$104,986,935	\$20,664,106	\$20,829,418	\$20,996,053	\$21,164,025	\$21,333,333	50.8%
7 OP	\$4,660,772	\$917,359	\$924,698	\$932,095	\$939,552	\$947,068	2.3%
8 SLP	\$2,589,335	\$509,647	\$513,724	\$517,834	\$521,977	\$526,153	1.3%
9 SLS	\$935,408	\$184,112	\$185,585	\$187,070	\$188,566	\$190,075	0.5%
10 SLE	\$1,418,655	\$279,227	\$281,461	\$283,713	\$285,983	\$288,271	0.7%
11 Other	\$397,396	\$78,218	\$78,843	\$79,474	\$80,110	\$80,751	0.2%
12 TOTAL	\$206,490,319	\$40,642,560	\$40,967,700	\$41,295,440	\$41,625,810	\$41,958,810	100.0%

Source: Annual increases per Schedule BK-1.
 Class shares given by column 7.

PECO Energy Company
 Pro Forma CTC Increases, by Rate Class
 (2006-2010)

Rate Class	Total CTC Increase (1)=sum (2) to (6)	Increase in CTC Revenues					CTC % (7)
		2006 (2)	2007 (3)	2008 (4)	2009 (5)	2010 (6)	
1 HT	\$159,572,874	\$31,408,010	\$31,659,275	\$31,912,549	\$32,167,848	\$32,425,192	34.0%
2 BP	\$7,239,362	\$1,424,891	\$1,436,290	\$1,447,780	\$1,459,363	\$1,471,038	1.5%
3 PD	\$15,878,936	\$3,125,379	\$3,150,383	\$3,175,586	\$3,200,990	\$3,226,598	3.4%
4 GS	\$122,645,850	\$24,139,830	\$24,332,950	\$24,527,613	\$24,723,833	\$24,921,624	26.2%
5 RH	\$33,829,608	\$6,658,529	\$6,711,798	\$6,765,492	\$6,819,616	\$6,874,173	7.2%
6 R	\$128,903,819	\$25,371,558	\$25,574,532	\$25,779,127	\$25,985,359	\$26,193,243	27.5%
7 OP	\$132,722	\$26,123	\$26,332	\$26,543	\$26,755	\$26,969	0.0%
8 SLP	\$326,881	\$64,339	\$64,853	\$65,372	\$65,895	\$66,422	0.1%
9 SLS	\$205,213	\$40,391	\$40,714	\$41,040	\$41,369	\$41,699	0.04%
10 SLE	\$137,544	\$27,072	\$27,289	\$27,507	\$27,727	\$27,949	0.03%
11 Other	\$3,999	\$787	\$793	\$800	\$806	\$813	0.001%
12 TOTAL	\$468,876,808	\$92,286,910	\$93,025,210	\$93,769,410	\$94,519,560	\$95,275,720	100.0%

Source: Annual increases per Schedule BK-1.
 Class shares given by column 7.

PECO Energy Company
Pro Forma Generation Increases, by Rate Class
(2006-2010)

Rate Class	Total Shopping C. Increase (1)=sum (2) to (6)	Increase in Shopping Credit Revenues*					C % (7)
		2006 (2)	2007 (3)	2008 (4)	2009 (5)	2010 (6)	
1 HT	\$390,602,399	\$30,908,476	\$88,851,565	\$89,562,378	\$90,278,876	\$91,001,104	35.9%
2 EP	\$17,803,169	\$1,408,770	\$4,049,743	\$4,082,141	\$4,114,798	\$4,147,717	1.6%
3 PD	\$36,864,879	\$2,917,128	\$8,385,771	\$8,452,857	\$8,520,480	\$8,588,643	3.4%
4 GS	\$265,264,503	\$20,990,454	\$60,340,557	\$60,823,281	\$61,309,867	\$61,800,344	24.4%
5 RH	\$85,666,947	\$6,778,849	\$19,486,932	\$19,642,827	\$19,799,970	\$19,958,369	7.9%
6 R	\$284,190,195	\$22,488,049	\$64,645,644	\$65,162,809	\$65,684,111	\$66,209,582	26.1%
7 OP	\$4,587,285	\$362,993	\$1,043,484	\$1,051,832	\$1,060,247	\$1,068,729	0.4%
8 SLP	\$1,688,125	\$133,582	\$384,003	\$387,075	\$390,172	\$393,293	0.2%
9 SLS	\$606,709	\$48,009	\$138,010	\$139,114	\$140,227	\$141,349	0.1%
10 SLE	\$1,371,187	\$108,502	\$311,908	\$314,404	\$316,919	\$319,454	0.1%
11 Other	<u>\$153,128</u>	<u>\$12,117</u>	<u>\$34,833</u>	<u>\$35,111</u>	<u>\$35,392</u>	<u>\$35,675</u>	0.01%
12 TOTAL	\$1,088,798,526	\$86,156,930	\$247,672,450	\$249,653,830	\$251,651,060	\$253,664,260	100.0%

Source: Annual increases per Schedule BK-1.
Class shares given by column 7.

Sch. BK-2R
page 5

* Adjusted for 10.1% shopping.

PECO Energy Company
Percent of Pro Forma 2005 Revenues, by Rate Class
Basis: 10.1% Shopping

Rate Class	Total Revenue (1)=sum(2) to (5)	Transmission (2)	Distribution (3)	D %	CTC Revenues (4)	CTC %	Shopping Credit* (5)	G %
1 HT	\$969,506,786	\$52,428,442	\$108,822,555	12.8%	\$287,619,134	34.0%	\$520,636,655	35.9%
2 EP	\$46,520,976	\$2,430,642	\$7,311,914	0.9%	\$13,048,452	1.5%	\$23,729,968	1.6%
3 PD	\$102,641,139	\$5,309,097	\$19,573,898	2.3%	\$28,620,691	3.4%	\$49,137,453	3.4%
4 GS	\$757,106,690	\$40,802,383	\$141,670,693	16.7%	\$221,060,714	26.2%	\$353,572,900	24.4%
5 RH	\$285,520,241	\$11,800,136	\$98,558,496	11.5%	\$60,975,541	7.2%	\$114,186,068	7.9%
6 R	\$1,087,646,587	\$45,165,727	\$431,341,500	50.8%	\$232,340,271	27.5%	\$378,799,088	26.1%
7 OP	\$25,689,848	\$187,298	\$19,148,902	2.3%	\$239,224	0.03%	\$6,114,424	0.4%
8 SLP	\$13,638,722	\$161,075	\$10,638,351	1.3%	\$589,181	0.1%	\$2,250,115	0.2%
9 SLS	\$5,106,664	\$84,948	\$3,843,144	0.5%	\$369,884	0.04%	\$808,688	0.1%
10 SLE	\$7,983,355	\$79,193	\$5,828,580	0.7%	\$247,916	0.03%	\$1,827,666	0.1%
11 Other	<u>\$1,854,754</u>	<u>\$10,726</u>	<u>\$1,632,713</u>	0.2%	<u>\$7,208</u>	0.001%	<u>\$204,107</u>	0.01%
12 TOTAL	\$3,303,215,763	\$158,459,667	\$848,370,746	100.0%	\$845,118,216	100.0%	\$1,451,267,132	100.0%
	¢/kWh 9.38	0.45	2.41		2.40		4.12	

Source: Dk. No. A-
00110550F0147

* Adjusted for 10.1% shopping.

Applied
Sch.
BK-2R,
p. 2

Applied
Sch.
BK-2R,
p. 3

Applied
Sch.
BK-2R,
p. 4

REFERENCED INTERROGATORY RESPONSES

Joint Applicants' Interrogatories to OTS – Set IV, No. 5

Joint Applicants' Interrogatories to PennFuture – Set III, No. 1

Joint Application of PECO Energy Company
and Public Service Electric and Gas Company
for Approval of the Merger of Public Service
Enterprise Group Incorporated With and Into
Exelon Corporation

Docket No. A-110550F0160

Office of Trial Staff's Responses to Joint Applicant's Interrogatories - Set IV

5. Regarding page 13, lines 1-4: Please explain how Mr. Keim proposes to allocate his recommended \$33.5 million annual rate reduction amongst PECO's different rate classes.

Response (David F. Keim)

I would recommend that the rate reduction be allocated proportionately to all retail rate classes, based on each class's distribution sales revenues for the most recent calendar year.

RESPONSES BY THE PENNFUTURE PARTIES TO JOINT APPLICANTS'
INTERROGATORIES AND REQUEST FOR PRODUCTION OF DOCUMENTS
(SET III)

As stated by the Joint Applicants, the following questions and responses pertain to Statement No. 1 of the PennFuture Parties, the direct testimony of Thomas J. Tuffey. The responsible witness for these answers is Mr. Tuffey.

1. Page 4, lines 15-20: In Mr. Tuffey's view, should the \$80.5 million of proposed funding of renewable energy and energy efficiency initiatives be absorbed by shareholders or, alternatively, paid for by customers? If shareholders, please explain the basis for Mr. Tuffey's position. If customers, please explain the rate mechanism that Mr. Tuffey proposes for cost recovery.

Response: Mr. Tuffey believes that this funding should come from shareholders as part of the affirmative benefits required for this merger. As explained in Mr. Tuffey's testimony (pp. 16-17) based on his review of responses to interrogatories in this proceeding, PECO's current renewable energy and energy efficiency programs are inadequate.

OSBA STATEMENT NO. 3
A-110550F0160 ~~PK~~
Phila 9/22/05

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

DOCUMENT
FOLDER

JOINT APPLICATION OF PECO ENERGY :
COMPANY AND PUBLIC SERVICE :
ELECTRIC & GAS COMPANY FOR :
APPROVAL OF THE MERGER OF PUBLIC : DOCKET NO. A-110550F0160
SERVICE ENTERPRISE GROUP, INC., :
WITH AND INTO EXELON CORPORATION :

Surrebuttal Testimony of

BRIAN KALCIC

On Behalf of the

Office of Small Business Advocate

Issues addressed:

Measurement of the Merger Savings
Sharing of the Merger Savings with Ratepayers
Allocation of the Merger Savings among Rate Classes
[REDACTED]

RECORDED
2005 SEP 27 PM 2:06
SECRETARY'S BUREAU

Date Served: August 26, 2005

Date Submitted for the Record: _____

1 Surrebuttal Testimony of Brian Kalcic

2

3

4 **Q. Please state your name and business address.**

5 A. Brian Kalcic, 225 S. Meramec Avenue, St. Louis, Missouri 63105.

6

7 **Q. Have you previously submitted testimony in this proceeding?**

8 A. Yes, I have.

9

10 **Q. What is the subject of your surrebuttal testimony?**

11 A. My surrebuttal testimony addresses various points raised in the rebuttal
12 testimony of the following Joint Applicant witnesses: a) Mr. Denis P.

13 O'Brien; b) Mr. William D. Arndt; [REDACTED]

14 [REDACTED] and e) Mr. J. Gregory Sidak. In addition, I will respond to the
15 rebuttal testimony of Mr. Richard La Capra on behalf of the OCA.

16

17 **Joint Applicant Witness O'Brien**

18

19 **Q. On pages 8-9 of his rebuttal testimony, Mr. O'Brien estimates that the**
20 **total value of the "concessions" sought by the opposing parties, as a**

1 **condition for approval of the merger, exceeds \$900 million. Mr. O'Brien**
2 **characterizes the cost to PECO of these concessions as “staggering,” and**
3 **indicates that “hundreds of millions of dollars” in costs for social and**
4 **environmental programs would eventually be borne by ratepayers**
5 **through higher rates. Do you have any comment?**

6 A. Yes. By aggregating the value of the merger concessions sought by the
7 opposing parties, Mr. O'Brien creates the impression that the opposing parties
8 have presented a unified position to the Commission on the subject of
9 affirmative public benefits – an aggregate position that, in Mr. O'Brien's
10 opinion, is clearly unreasonable.

11 While it may be more convenient from a rebuttal standpoint for the
12 Joint Applicants to consider the opposing parties as representing a single,
13 collective position, such is not the case. As discussed in my rebuttal
14 testimony, the OSBA opposes a number of third party proposals in this
15 proceeding. As a result, the OSBA respectfully requests that the Commission
16 consider its recommended proposals as separate and distinct from the \$900
17 million package computed by Mr. O'Brien.

18
19 **Q. On page 10 of his rebuttal testimony, Mr. O'Brien indicates that “PECO**
20 **would be willing to consider a modest extension of the current**

1 distribution and transmission rate cap coupled with an appropriate
2 sharing of future regulated merger savings.” Please comment.

3 A. While Mr. O’Brien does not provide specific details concerning what PECO
4 might be willing to agree to in this area, it would not be appropriate to extend
5 PECO’s distribution rate cap without mitigating the class distribution
6 subsidies previously identified in OSBA Statement No. 1.

7
8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 [REDACTED]

1 [REDACTED]

2 [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 [REDACTED]

7
8 **Q. On page 43, lines 10-15 of his rebuttal testimony, Mr. O'Brien identifies**
9 **the OSBA as one of the parties requesting a four-year extension of**
10 **PECO's transmission and distribution ("T&D") rate cap. Is Mr.**
11 **O'Brien correct in this regard?**

12 A. No. PECO failed to assess the OSBA testimony in this area.¹

13 The OSBA has not proposed *any* extension in PECO's current T&D
14 rate cap, which is set to expire on December 31, 2006. Moreover, on page 9,
15 lines 9-23 of OSBA Statement No. 1, I specifically allow that my
16 recommended reduction in PECO's electric distribution revenues of \$9.7
17 million per year should remain in effect only until the conclusion of PECO's
18 next electric base rate proceeding.

19

¹ See the Joint Applicants' response to OSBA-I-26.

1 **Q. On page 45, lines 7-12 of his rebuttal testimony, Mr. O'Brien alleges that**
2 **the opposing parties "ignore the enormous market and regulatory risks**
3 **associated with a guaranteed rate reduction package [that is] coupled**
4 **with a stay-out period beyond December 31, 2006." Is this argument**
5 **applicable to the OSBA?**

6 **A. No. As previously discussed, the OSBA has not recommended a stay-out**
7 **period beyond December 31, 2006.**

8
9 **Joint Applicant Witness Arndt**

10
11 **Q. On page 18, lines 3-14 of his rebuttal testimony, Mr. Arndt comments on**
12 **your use of total gross (rather than net) merger synergies from non-**
13 **regulated businesses to derive your recommended sharing levels. Mr.**
14 **Arndt states that, contrary to your representation, PECO did provide**
15 **information concerning the costs to achieve merger synergies from non-**
16 **regulated businesses in response to OCA-XI-1. Is Mr. Arndt correct?**

17 **A. Yes. At the time I prepared my direct testimony, I was unaware of the**
18 **response to OCA-XI-1.² Accordingly, I will revise my previous proposal,**

² A copy of OCA-XI-1 is provided in OTS Exhibit No. 1, Schedule 4.

1 which would have shared merger savings from non-regulated businesses on a
2 *gross* basis, to one that shares merger savings from non-regulated businesses
3 on a *net* basis, later in my testimony.
4

5 **Q. On page 18, line 15 through page 19, line 8 of his rebuttal testimony, Mr.**
6 **Arndt characterizes your “attempt to allocate non-regulated merger**
7 **savings to each of three regulatory jurisdictions” as a fundamental error.**
8 **Mr. Arndt also states “there is no basis to allocate those savings to any**
9 **regulatory jurisdiction. That having been said, there is certainly no basis**
10 **to allocate to PECO a share of non-regulated savings that exceeds its**
11 **share of regulated merger savings, which is what Mr. Kalcic has done.”**
12 **Do you have any comments?**

13 A. Yes. First, I would strongly disagree that there is “no basis to allocate those
14 savings to any regulatory jurisdiction.” The Joint Applicants’ non-regulated
15 generation facilities and related operations are, in fact, spread over three
16 regulatory jurisdictions, i.e., Pennsylvania, New Jersey, and Illinois. If the
17 proposed merger is approved, each jurisdiction will contribute toward the
18 total net synergies identified by the Joint Applicants as attributable to non-
19 regulated businesses. Accordingly, an appropriate “allocation” of merger
20 synergies from non-regulated businesses among the three jurisdictions would

1 be one where each jurisdiction is credited with its underlying contribution
2 toward the total.³

3 Second, I disagree with Mr. Arndt's statement that there is no basis to
4 allocate to PECO a share of merger savings from non-regulated businesses
5 that exceeds PECO's share of merger savings from regulated businesses.

6 Each jurisdiction's contribution toward merger savings from non-regulated
7 businesses will depend, in part, on the magnitude of its generation-related
8 operations relative to those in other jurisdictions. A state's contribution
9 toward generation-related synergies is separate and distinct from its
10 contribution toward merger synergies that arise from regulated gas and
11 electric distribution businesses. As such, I see no reason why PECO's
12 contribution toward merger synergies from non-regulated businesses must be
13 less than or equal to Pennsylvania's share of merger savings from regulated
14 businesses.

15
16
17
³ Unfortunately, the Joint Applicants have failed to provide this underlying jurisdictional
breakdown. See the Joint Applicants' response to OSBA-I-27.

1 **Q. Mr. Kalcic, what are the overall levels of the expected merger synergies**
 2 **and costs-to-achieve, using the additional costs-to-achieve information**
 3 **provided in the Joint Applicants' response to OCA-XI-1?**

4 A. The expected four-year merger savings results are shown in Table 1S below.

5
 6 Table 1S
 7 Four-Year Merger Savings
 8 (\$ Millions)

<i>Total</i>	<i>Total</i>		
<i>Four-Year</i>	<i>Total</i>	<i>Costs-to-</i>	<i>Total</i>
<i>Tier I Results</i>	<i>Savings</i>	<i>Achieve</i>	<i>Net Savings</i>
Regulated	\$535	\$380	\$155
Non-Regulated	\$1,385	\$355	\$1,030
Total	\$1,920	\$735	\$1,185

9 Source: OCA-XI-1.

10
 11 **Q. How do the total net merger savings shown in Table 1S compare to those**
 12 **provided in Table 1 of OSBA Statement No. 1?**

13 A. The total net savings shown for the regulated businesses are unchanged at
 14 \$155 million. However, the total savings amount reported for the non-

1 regulated businesses decreases from \$1,397 million in Table 1 to \$1,030
2 million in Table 1S, with the inclusion of costs-to-achieve information.⁴

3
4 **Q. Mr. Kalcic, do you wish to revise your previous recommendations with**
5 **respect to the sharing of merger savings from *regulated* businesses with**
6 **PECO's ratepayers?⁵**

7 A. No, since the total level of net merger savings from regulated businesses is
8 unchanged.

9
10 **Q. Do you wish to revise your previous recommendations with respect to the**
11 **sharing of merger savings from *non-regulated* businesses?**

12 A. Yes, I do. Table 1S shows \$1,030 million in expected net merger savings
13 from non-regulated businesses over the four-year period. As discussed above,
14 the Joint Applicants have failed to provide a breakdown of merger savings
15 from non-regulated businesses, by jurisdiction. Therefore, I continue to
16 recommend that the Commission deem a full one-third of the (revised) four-

17

⁴ Note also that total gross merger savings from non-regulated businesses decline slightly from \$1,397 million in Table 1 to \$1,385 million in Table 1S, due to the more rigorous accounting of total merger savings provided by PECO in OCA-XI-1.

⁵ See pages 8-11 of OSBA Statement No. 1.

1 year total of \$1,030 billion, or \$343.3 million, as Pennsylvania's share. Of
2 this four-year total of \$343.3 million, approximately \$86 million would be
3 available annually for sharing between PECO's electric ratepayers and
4 shareholders.

5 Consistent with my previous testimony, I recommend a 50%/50%
6 sharing of the \$86 million between ratepayers and shareholders, through the
7 end of 2010, which equates to \$43 million annually for ratepayers.⁶

8
9 **Q. Mr. Kalcic, for purposes of illustration, how much of the merger savings**
10 **from non-regulated businesses would PECO's ratepayers be awarded if**
11 **Pennsylvania's allocation were limited to the same share Pennsylvania is**
12 **to receive of the merger synergies from regulated businesses, as**
13 **suggested by Mr. Arndt?**

14
15
16
17
18

⁶ My previous recommendation would have established ratepayers' share at \$58 million per year. See page 13 of OSBA Statement No. 1.

1 A. Per page 50 of PECO Statement No. 2, Pennsylvania's percentage share of
2 total net merger savings from regulated businesses is 29.7% (\$46 million
3 divided by \$155 million).⁷ Multiplying \$1,030 million by 29.7% produces a
4 Pennsylvania share of \$305.9 million over four years, or approximately \$76
5 million per year. A 50%/50% sharing of this amount between ratepayers and
6 shareholders would produce \$38 million in annual ratepayer benefits.

7

8 **Q. On page 5, lines 8-11 of his rebuttal testimony, Mr. Arndt claims that the**
9 **OSBA proposes “that a portion of the merger synergies generated by**
10 **non-regulated businesses should be allocated to PECO’s customers**
11 **through a reduction in distribution and transmission rates.” What is the**
12 **basis for Mr. Arndt’s claim in this regard?**

13 A. In responding to OSBA-I-28, Mr. Arndt correctly concludes that the OSBA's
14 stated basis for allocating savings from non-regulated businesses among
15 PECO's rate classes is the annual CTC revenue requirement. However, Mr.
16 Arndt maintains that because I did not explicitly state that the credit should

⁷ In OTS Exhibit No. 1, Schedule 3, Mr. Keim computes a regulated electric distribution savings ratio of 22.6% for Pennsylvania by dividing \$35 million by \$155 million. However, a proper “electric-to-electric” distribution comparison would replace the \$155 million of total net synergies from regulated electric and gas operations in Mr. Keim’s calculation with \$108 million, which is the sum of the expected *electric* distribution merger synergies in Illinois, New Jersey and Pennsylvania. Dividing \$35 million by \$108 million would produce a Pennsylvania ratio of 32.4%.

1 take the form of an actual reduction in PECO's CTC, ITC or shopping credit,
2 he assumed that the credit would take the form of a distribution and/or
3 transmission rate reduction under the OSBA's proposal.

4
5 **Q. Is that an accurate characterization of the OSBA's position in this**
6 **proceeding?**

7 A. No, it is not. The OSBA does not advocate using merger synergies from non-
8 regulated businesses to reduce PECO's distribution and transmission rates.

9
10 **Q. Mr. Kalcic, so that the record is clear, please explain the OSBA's position**
11 **regarding how merger savings from non-regulated businesses should be**
12 **allocated among, and to individual customers within, PECO's rate**
13 **classes.**

14 A. Due to the generation-related nature of the non-regulated businesses, the
15 OSBA recommends that the ratepayers' share of synergies from non-
16 regulated businesses be allocated to rate classes on the basis of each class's
17 contribution to PECO's annual CTC revenue requirement.⁸ Within each rate
18 class, individual customers would receive a pro-rata share of the class savings

⁸ See OSBA Statement No. 1 at 13-14.

1 as a “merger savings bill credit,” based on their full monthly CTC revenue
2 payment.⁹

3
4 **Q. Would PECO be required to reduce its unbundled CTC charges to**
5 **implement the credit?**

6 A. No. The credit would not require a recompilation of class CTC charges. In
7 fact, PECO would continue to charge its approved CTC rates, and recover its
8 approved stranded cost balance, over the remainder of the transition period.

9 As explained above, the merger savings bill credit would simply be computed
10 as a percentage of a customer’s CTC payment, and shown separately on the
11 bill.

12
13 **Q. How often would the CTC bill credit percentage change?**

14 A. The percentage would change once per year, to coincide with changes in
15 PECO’s total pro forma CTC revenue level.

16

⁹ The OSBA’s CTC allocation proposal is equivalent to giving all ratepayers an equal percentage discount off the CTC portion of their bill during a given year.

1

2

3

[REDACTED]

4

5

[REDACTED]

6

[REDACTED]

7

[REDACTED]

8

[REDACTED]

9

[REDACTED]

10

[REDACTED]

11

[REDACTED]

12

[REDACTED]

13

[REDACTED]

14

[REDACTED]

15

[REDACTED]

16

[REDACTED]

17

18

[REDACTED]

19

[REDACTED]

20

[REDACTED]

1 [REDACTED]

2 [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED]

14

15 [REDACTED]

16

17 [REDACTED]

18 [REDACTED]

19 [REDACTED]

20

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19

[REDACTED]

1
2
3
4
5
6
7
8
9

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Joint Applicant Witness Sidak

10
11
12
13
14
15
16
17
18

Q. On pages 6-7 of his rebuttal testimony, Mr. Sidak argues that the opposing parties' proposals to share merger savings from non-regulated businesses with ratepayers "are contrary to due process and would harm economic welfare. The Supreme Court of the United States has determined that a regulatory body cannot appropriate the profits from the unregulated operations of a firm to support the firm's regulated

¹⁰ See the Joint Applicants' response to OSBA-I-29.

1 **operations.” Do you agree that the OSBA’s proposal would appropriate**
2 **unregulated profits to support PECO’s regulated electric operations?**

3 A. No. The OSBA has proposed that merger savings from non-regulated
4 businesses be shared with *ratepayers*, not with PECO. No part of the
5 OSBA’s recommended sharing proposal would entail the use of a revenue
6 stream from a non-regulated business to subsidize PECO’s regulated electric
7 (i.e., distribution and transmission) rates. Moreover, the OSBA has not
8 proposed an extension in PECO’s current T&D rate cap, as a condition of the
9 merger. Consequently, the OSBA’s proposal would not constrain PECO’s
10 regulated revenue requirement in any fashion.

11
12 **Q. On page 7, lines 13-17 of his rebuttal testimony, Mr. Sidak claims that**
13 **the “regulatory rent extraction” associated with the opposing parties’**
14 **proposals “would discourage the kind of efficiency and productivity**
15 **gains the Competition Act sought to foster by de-regulating generating**
16 **assets.” Do you have any comment?**

17 A. Yes. Mr. Sidak fails to recognize the fact that the OSBA’s generation-related
18 sharing proposal would award ratepayers just 50% of Pennsylvania’s annual
19 merger synergies from non-regulated businesses, through the end of the

1 transition period, i.e., December 31, 2010.¹¹ *Shareholders would receive*
2 *100% of the generation-related efficiency and productivity gains, in*
3 *perpetuity, after December 31, 2010.* In my opinion, this outcome should be
4 more than sufficient to encourage the types of efficiency and productivity
5 gains envisioned by the Competition Act, out into the future.

6
7 **Q. On page 9, lines 12-18 of his rebuttal testimony, Mr. Sidak notes that**
8 **PECO transferred its generating assets and liabilities to Exelon,**
9 **pursuant to Commission approval of the Restructuring Settlement. Mr.**
10 **Sidak goes on to argue that “the asset transfers terminated any**
11 **possibility of continuing jurisdiction by the Commission over either the**
12 **transferred assets, any subsequent transfer of those assets by ExGen, or**
13 **the disposition by ExGen of the proceeds of any subsequent transfer.”**
14 **How do you respond?**

15 A. As previously discussed in OSBA Statement No. 1, PECO ratepayers remain
16 liable for the decommissioning expense associated with PECO’s nuclear
17 generating units for the life of those units.¹² Consequently, it is simply not

¹¹ Moreover, if the merger were to be approved on January 1, 2006, all costs-to-achieve would be amortized by December 31, 2009. In that case, the Joint Applicants would retain in excess of 50% of the net merger synergies during calendar year 2010, under the OSBA’s proposal.

¹² See Third Revised Page No. 33 of PECO’s tariff, establishing a Nuclear Decommissioning Cost Adjustment Clause (NDCA), included as Attachment B to this testimony.

1 accurate to state that PECO transferred all of its generating liabilities to
2 Exelon, as Mr. Sidak contends.

3
4 **Q. On page 14, lines 4-7 of his rebuttal testimony, Mr. Sidak concludes**
5 **“[b]ecause cost of service regulation of generation has been terminated,**
6 **customers no longer bear the risks that attend utility ownership of**
7 **generation assets. Correspondingly, they do not have a claim on any**
8 **post-restructuring increase in the value of those assets that may occur.”**
9 **Do you agree?**

10 A. No. As previously noted, customers do bear some of the risks that
11 attend utility ownership of *generation* assets, namely, the risks
12 associated with decommissioning expense liability. In particular,
13 ratepayers are liable for the decommissioning expense on seven (7)
14 PECO generating units over the lives of those units, which currently
15 extend as far as 2034.¹³ In addition, PECO is allowed to petition for a
16 change in its NDCA every five (5) years, to reflect updated
17 decommissioning cost estimates.¹⁴ Consequently, I would argue that
18 ratepayers’ ongoing liability for decommissioning expense reinforces

¹³ Based on information contained in the approved settlement in Docket No. R-00038102.

¹⁴ The most recent NDCA adjustment occurred on January 1, 2004.

1 ratepayers' claim to a portion of merger synergies from non-regulated
2 businesses.

3
4 **OCA Witness LaCapra**

5
6 **Q. What topics does Mr. LaCapra address in his rebuttal testimony?**

7 A. Mr. LaCapra critiques my proposal to allocate \$9.7 million of electric
8 distribution-related merger savings to the six rate classes which are
9 currently providing distribution subsidies on PECO's electric system.
10 He also addresses my proposal to allocate generation-related merger
11 savings to rate classes on the basis of CTC revenues.

12
13 **Q. Does Mr. LaCapra agree with either of your proposed allocations?**

14 A. No. Mr. LaCapra prefers that the entire amount of the ratepayers' share
15 of merger savings be allocated to rate classes via an across-the-board
16 reduction to distribution revenues.

17
18 **Q. Has Mr. LaCapra presented a convincing case for his
19 recommended allocation methodology?**

20 A. Per the discussion below and in my rebuttal testimony, he has not.

1

2 **Q. On page 3, lines 21-28 of his rebuttal testimony, Mr. LaCapra**
3 **claims that the cost-of-service study used in your subsidy analysis**
4 **is outdated, and argues that an updated study is likely to produce**
5 **“quite different” results. Do you have any comment?**

6 A. Yes. Mr. LaCapra is correct that the cost-of-service study was
7 performed in PECO’s restructuring proceeding. However, that fact
8 does not render the study irrelevant. Mr. LaCapra proposes to reduce
9 PECO’s 2006 distribution rates and revenues, and freeze the resulting
10 rates through December 31, 2010. Yet, the distribution rates and
11 revenues that form the foundation of Mr. LaCapra’s allocation proposal
12 were derived from the very cost study that Mr. LaCapra deems
13 outdated. In my opinion, it would not be appropriate to perpetuate
14 PECO’s current distribution rates through December 31, 2010, while
15 ignoring the class cost-of-service results that generated those rates.¹⁵

16

17 **Q. Is Mr. LaCapra correct that an updated cost study could produce**
18 **different results?**

¹⁵ In other words, if the cost-of-service study is outdated (as Mr. LaCapra contends), then there is no justification for using it (as Mr. LaCapra would effectively do) to set distribution rates through the end of 2010.

1 A. Yes, but one cannot simply equate “different” results with one that
2 entails a fundamental change in the relative class rates of return. Mr.
3 LaCapra’s suggestion that an updated cost study would show that the
4 subsidies I identified in my direct testimony have been abated, or even
5 eliminated, is pure speculation.

6

7 **Q. On page 4, lines 1-9 of his rebuttal testimony, Mr. LaCapra argues**
8 **that the cost-of-service study used in PECO’s restructuring**
9 **proceeding did not calculate separate class rates of return based**
10 **only on the distribution function, i.e., using distribution-only**
11 **revenues, rate base and expenses. Do you agree?**

12 A. No. It is correct that PECO’s cost study was employed to unbundle
13 total rates into distribution, transmission and generation-related
14 components. However, the underlying “bundled” rates of return of
15 each rate class were applied uniformly to all functional components of
16 their respective allocated rate base, to produce total unbundled
17 revenues and rates, by rate class. This outcome is equivalent to using
18 PECO’s unbundled distribution revenues, rate base and expenses to
19 calculate distribution-only class rates of return.

20

1 Q. On page 4, lines 16-23 of his rebuttal testimony, Mr. LaCapra
2 argues that class rate of return differentials should be addressed in
3 the context of a base rate proceeding, with proper consideration
4 given to the principle of gradualism. How do you respond?

5 A. While a base rate proceeding is the preferred venue, I find it notable
6 that it is Mr. LaCapra's proposal, not the OSBA's, which would
7 effectively preclude such a review through 2010. In addition, I would
8 point out that the OSBA's proposal to address existing distribution
9 inequities would eliminate only a *portion* of the underlying subsidies,
10 and therefore conforms to the principle of gradualism.

11

12 Q. On page 4-5 of his rebuttal testimony, Mr. LaCapra addresses your
13 proposal to allocate generation-related merger savings to classes
14 based on CTC revenues. Mr. LaCapra argues, in part, that his
15 proposal to provide rate relief via a distribution rate reduction is
16 preferable because it would continue "the distribution rate relief
17 from the prior merger without the need for disruption in rate levels
18 or possible inequities from changes in the method of providing rate
19 relief." How do you respond?

1 A. As shown in Schedule BK-1 of OSBA Exhibit No. 1, PECO ratepayers
2 will, unfortunately, experience a considerable disruption in rate levels,
3 e.g., aggregate rate increases that total \$600.8 million in 2006 and 2007
4 alone. Such disruption will occur whether or not Mr. LaCapra's
5 preferred allocation methodology is adopted.

6 In addition, I believe it is disingenuous of Mr. LaCapra to allude
7 to "possible inequities from changes in the method of providing rate
8 relief." As discussed in my rebuttal testimony, Mr. LaCapra has
9 provided no valid foundation for his proposal to allocate *generation-*
10 *related* savings on the basis of class *distribution* revenues.

11
12 **Q. On page 5, lines 10-21 of his rebuttal testimony, Mr. LaCapra**
13 **complains that your recommended allocation methodology would**
14 **effectively result in a different allocation of merger savings across**
15 **rate classes compared to his distribution-based proposal, and**
16 **therefore "disadvantage" certain classes. How do you respond?**

17 A. Again, Mr. LaCapra offers no valid rationale for assigning generation-
18 related savings to rate classes on the basis of class distribution
19 revenues. Without such a foundation, Mr. LaCapra has no basis to

1 judge whether any class would be “disadvantaged” by the OSBA’s
2 proposal.

3

4 **Q. Does this conclude your surrebuttal testimony?**

5 A. Yes.

6

ATTACHMENT "A" REDACTED

ATTACHMENT B

PECO Energy Company

Superseding Second Revised Page No. 33

NUCLEAR DECOMMISSIONING COST ADJUSTMENT CLAUSE (NDCA)

The NDCA provides for the recovery of nuclear of decommissioning costs related to the Company's Ownership interest in Nuclear Generation as of 12/31/99. The NDCA shall be charged to all customers taking service under this Tariff. The adjustment shall be a cents per kWh charge calculated to the nearest one hundredth of one cent.

The Company's Ownership interest in nuclear generation as of December 31, 1999 consists of the following:

Peach Bottom 1	100%
Peach Bottom 2	42.49%
Peach Bottom 3	42.49%
Salem 1	42.59%
Salem 2	42.59%
Limerick 1	100%
Limerick 2	100%

Formula

The following formula shall be used to determine the NDCA.

$$\text{NDCA} = \frac{\text{PaPUC Authorized Decommissioning Expense Adjustment}}{\text{Total Pennsylvania Jurisdictional Sales for Calculation Year}}$$

Where:

PaPUC Authorized Decommissioning Expense Adjustment (Adjusted Annual Accrual - Base Accrual) x .95 = the Adjusted Annual Accrual

in the Calculation Year less the Base Accrual. As of January 1, 2004, the NDCA shall be \$0.0001/kWh and will be added to the distribution charge for Rates POL and SL-S, the service location distribution charge for Rate SL-E, and the Variable Distribution Service Charges for all other customers.

Total Pennsylvania Retail Jurisdictional Sales = total kWh sales under this Tariff for the calculation year including sales for distribution or CTC purposes.

Calculation Year = year in which the Company proposes a change to the NDCA. To the extent a new cost study, performed every five years, indicates the Company requires an adjustment in the rate, the Company shall change the NDCA to reflect such new expense level. In calculating the annual expense the Company shall use the sinking fund methodology.

Adjusted Annual Accrual = accrual necessary to fund the Adjusted Obligation.

Adjusted Obligation = Gross Decommissioning Obligation reduced by \$50 million for ratemaking purposes.

Gross Decommissioning Obligation = The total decommissioning cost obligation as approved by the Commission as expressed in escalated future dollars.

Methodology for Calculating Expense

The base period expense shall be based upon the decommissioning costs set forth in the table below. The Company shall use a sinking fund methodology to determine the appropriate level of decommissioning expense. The assumptions shall be consistent with NRC policy and requirements.

The Base Accrual shall consist of the following levels for each unit.

Peach Bottom 1	\$2,992,000
Peach Bottom 2	2,588,000
Peach Bottom 3	5,976,000
Salem 1	2,651,000
Salem 2	2,509,000
Limerick 1	4,403,000
Limerick 2	8,043,000
Total	\$29,162,000

Frequency of Calculation

The annual expense shall be recalculated every five years. The Company shall adjust the NDCA to reflect the new expense level 60 days after filing the new study and the associated rate calculation with the PaPUC. The first calculation of the NDCA shall be considered to have taken place on January 1, 1998.

Completion of Decommissioning

In the event that the actual expenditures necessary to accomplish full decommissioning of the PECO interest are less than the full balance in the funds established for such purpose, PECO shall be entitled to a release of such funds to PECO for the purpose of sharing the amount between ratepayers and shareholders. In the event that such release is granted, PECO's shareholders shall be entitled to retain: (1) the first \$50 million of the net after-tax amount; and (2) 5 percent of the remaining net after-tax amount of the released funds.

REFERENCED INTERROGATORY RESPONSES

OSBA – 1-26

OSBA – 1-27

OSBA – 1-28

[REDACTED]

Joint Application of PECO Energy Company and
Public Service Electric & Gas Company
Docket No. A-110550F0160

OSBA – 26:

Reference page 43, lines 10-15 of PECO Statement No. 1-R. Please identify the basis for Mr. O'Brien's conclusion that the OSBA has "proposed a four-year extension" of PECO's transmission and distribution rate cap. Include a reference(s) to the specific portion of OSBA Statement No. 1 and/or OSBA Statement No. 2 that supports PECO's conclusion.

Response:

The referenced portion of Mr. O'Brien's testimony is not entirely correct. The answer at page 43, lines 13-16 should be changed to read as follows:

Yes. The OCA proposed an extension of the electric transmission and distribution rate cap for an additional four years, through December 31, 2010. In addition, the OTS has proposed extending the electric transmission and distribution rate cap to January 1, 2009 and imposing a cap on gas distribution rates to that same date.

Responsible Witness: Denis P. O'Brien

Joint Application of PECO Energy Company and
Public Service Electric and Gas Company,
Docket No. A-110550F0160

OSBA – 27:

Reference page 5, lines 5-7 of PECO Statement No. 2-R. Is it Mr. Arndt's testimony that "state allocations were provided" for the non-regulated portion of expected merger savings? If so, [please] provide a copy of the referenced breakdown, and reconcile the existence of such information with PECO's response to OSBA-1-2(d). If not, please identify the state allocations referenced by Mr. Arndt, and explain in detail how those allocations should be applied to the Joint Applicants' total non-regulated merger synergies.

Response:

No, it is not Mr. Arndt's testimony that "state allocations were provided" for the non-regulated portion of expected merger savings, as he stated explicitly in PECO Statement No. 2-R (page 18, lines 19-22, through page 19, lines 1-8). As Mr. Arndt also explained, the attempt to allocate non-regulated merger savings to each of three regulatory jurisdictions underscores the fundamental error in Mr. Kalcic's approach, which seeks to appropriate merger savings that will be generated within non-regulated, non-utility subsidiaries of Exelon and PSEG and "allocate" those savings based on jurisdictional distinctions that have meaning only for regulated operations. This is the same explanation provided in the response to OSBA-I-2(d). While any such allocation is flawed in its fundamental concept, there is certainly no basis for using a simple, arbitrary allocation of one-third to each of the three regulatory jurisdictions represented by the utility subsidiaries of Exelon and PSEG considering the material difference in the sizes of the three regulated distribution operations of PSEG and Exelon. The state jurisdictional allocations used to allocate regulated merger savings by jurisdiction were provided in Mr. Arndt's direct testimony and accompanying exhibits (PECO Statement No. 2, page 45, lines 13 – 21, and page 50, and WDA Exhibit 6), as Mr. Arndt also explained (PECO Statement No. 2-R, p. 19).

Responsible Witness: William D. Arndt

Joint Application of PECO Energy Company
and Public Service Electric & Gas Company
Docket No. A-110550F0160

OSBA – 28:

Reference page 5, lines 8-11 of PECO Statement No. 2-R. Please identify the basis for Mr. Arndt's conclusion that the OSBA proposes "that a portion of the merger synergies generated by non-regulated businesses should be allocated to PECO's customers through a reduction in distribution and transmission rates." Include a reference(s) to the specific portion of the OSBA Statement No. 1 and/or OSBA Statement No. 2 that supports PECO's conclusion.

Response:

The basis for Mr. Arndt's statement is OSBA Statement No. 1, page 12 lines 21-31 and page 13, lines 1-7. Mr. Kalcic there explains that the reductions he proposes should be "credited to rate classes on the basis of each class's contribution to PECO's annual CTC revenue requirement." While the stated basis for Mr. Kalcic's proposed allocation between classes is the "annual CTC revenue requirement," Mr. Kalcic did not state that the "credit" would take the form of an actual reduction of PECO's CTC, ITC or "shopping credit." The only remaining element of PECO's rates is the distribution and transmission component. In summary, if Mr. Kalcic intended that the "credit" he proposed as the mechanism to give customers a share of non-regulated merger savings would, in fact, represent a reduction of PECO's CTC and ITC, then that was not clear from his direct testimony. OSBA Statement No. 2 was rebuttal testimony and, therefore, was not available to Mr. Arndt at the time his rebuttal testimony was prepared. OSBA Statement No. 2 explains Mr. Kalcic's position that a portion of non-regulated merger savings would be given to the customers of PECO's regulated operations "on the basis of CTC revenues" (p. 6, lines 7-9), but does not make it explicit that the billing credits Mr. Kalcic proposes would actually represent a reduction of PECO's CTC and ITC.

Responsible Witness: William D. Arndt

A-110550F0160 9/22/05
Phila X

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

JOINT APPLICATION OF PECO ENERGY :
COMPANY AND PUBLIC SERVICE :
ELECTRIC & GAS COMPANY FOR :
APPROVAL OF THE MERGER OF PUBLIC : DOCKET NO. A-110550F0160
SERVICE ENTERPRISE GROUP, INC., :
WITH AND INTO EXELON CORPORATION :

Supplemental Testimony of

BRIAN KALCIC

On Behalf of the

Office of Small Business Advocate

Issues addressed:
Directed Questions

DOCUMENT
FOLDER

RECEIVED
2005 SEP 27 PM 1:59
SECRETARY'S BUREAU

Date Served: August 26, 2005

Date Submitted for the Record: _____

1 Supplemental Direct Testimony of Brian Kalcic

2
3
4 **Q. Please state your name and business address.**

5 A. Brian Kalcic, 225 S. Meramec Avenue, St. Louis, Missouri 63105.

6
7 **Q. Have you previously submitted testimony in this proceeding?**

8 A. Yes, I have.

9
10 **Q. What is the subject of your supplemental direct testimony?**

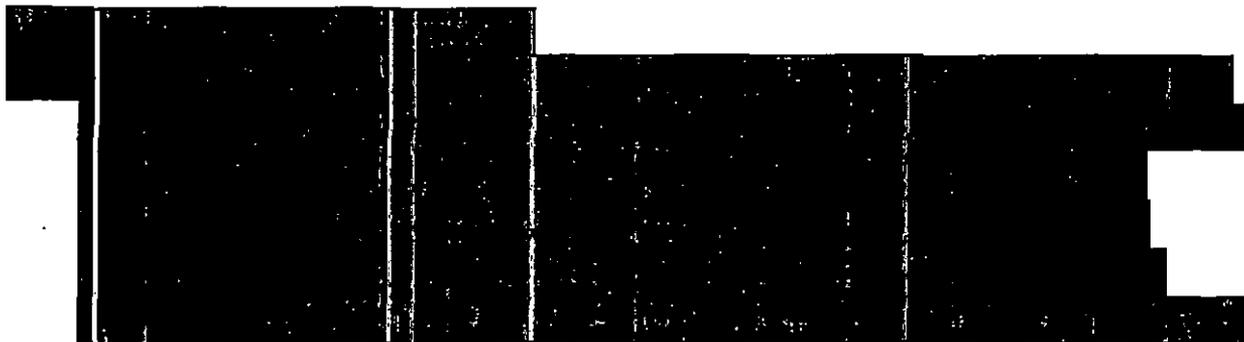
11 A. I will respond to Question Nos. 1, 3 and 5 that were directed to the parties by
12 Commissioners William Shane and James H. Cawley on July 15, 2005 (i.e.,
13 "Directed Questions").

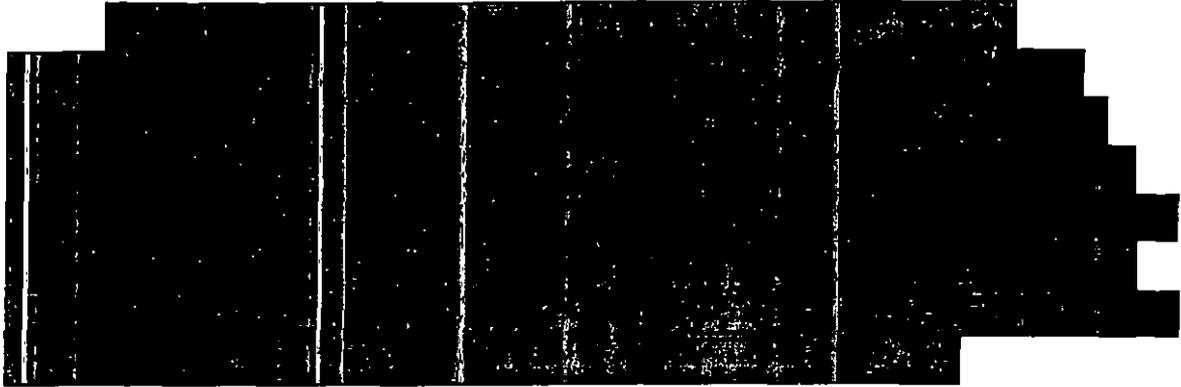
14
15 Directed Question No. 1

16
17 **Q. Mr. Kalcic, please read Directed Question No. 1 for the record.**

18 A. Directed Question No. 1 reads as follows:

19
20 Neighboring states have availed themselves of opportunities to
21 enhance their economic competitiveness through access to
22 economical energy resources. What opportunities exist from this
23 proposed merger in terms of economic development for
24 Pennsylvania? Specifically, does this proposed merger present
25 us with an opportunity to strengthen the State's ability to remain
26 competitive during periods of economic recession and volatile
27 energy pricing?





1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33

Q. Mr. Kalcic, is it correct that, in your direct and rebuttal testimony in this proceeding, you recommend that ratepayers' share of generation-related merger savings be allocated to rate classes on the basis of CTC revenues?

A. Yes.

Q. Would the rate relief created by an allocation of generation-related merger savings to rate classes on the basis of CTC revenues be consistent with the goal of promoting economic development in PECO's service territory?

A. Yes, it would. Such an allocation would provide for greater mitigation in the cost of electricity for businesses located in PECO's service territory, as compared to the OCA's proposal to allocate all merger-related rate reductions on the basis of distribution revenues.¹

Directed Question No. 3

Q. Please read Directed Question No. 3 for the record.

A. Directed Question No. 3 reads as follows:

Would it be possible to set aside 10% or some relatively small share of the 'virtually' divested generation to augment economic development and economic competition within the Commonwealth? For example, could the parties consider and comment on creating a pool of energy and capacity of at least

¹ See Table 1R on page 4 of OSBA Statement No. 2 for a comparison of customer class merger savings shares under the two scenarios.

1 260 MWs which could be used at the discretion of the Secretary
2 of the Department of Community and Economic Development to
3 attract and retain business in the Commonwealth?
4

5 **Q. Do you have any comments?**

6 A. Yes. The question asks the parties to explore the possibility of creating a
7 pool of energy and capacity, totaling at least 260 MW, which could be used to
8 attract and retain business in the Commonwealth. Presumably, such a pool of
9 assets would need to be made available to the Commonwealth at below-
10 market prices in order to be useful as an economic development tool. If
11 PECO were to provide energy and capacity at below-market prices, it is
12 reasonable to conclude that the cost of the discounted power would have to
13 count against (i.e., be financed by) the total pool of merger savings to be
14 shared by ratepayers.
15

16 **Q. What would be the ramification of using merger savings to fund low cost
17 power for economic development?**

18 A. The use of merger savings to fund 260 MW of below-market power for
19 economic development would lead to a misallocation of merger benefits
20 across PECO's rate classes.
21

22 **Q. Why?**

23 A. As previously discussed in my direct and rebuttal testimony, the majority of
24 the savings that would be created by this merger are generation-related.
25 Accordingly, one may conclude that generation-related merger savings would
26 be needed to pay for any below-market power set aside for economic
27 development. However, generation-related merger savings are possible only
28 because *all* PECO ratepayers have paid (and continue to pay) for PECO's
29 generation assets. Any attempt to restrict generation-related merger savings
30 to a subset of PECO's customers, rather than all of PECO's rate classes,
31 would result in a misallocation of merger savings.
32

33 **Q. Would you recommend using merger savings to create a 260 MW pool of
34 energy and capacity for economic development purposes?**

1 A. No. Consistent with my response to the OCA and OTS proposals to allocate
2 generation-related merger savings on the basis of distribution revenues, I do
3 not believe that it would be appropriate to allocate a disproportionate share of
4 the merger savings to any class of customers, including PECO's business
5 classes.

6
7 **Q. How should merger savings be assigned to rate classes?**

8 A. Merger savings should be allocated to rate classes in proportion to each
9 class's contribution toward making those savings possible. In the case of
10 generation-related merger savings, the allocation should be on the basis of
11 CTC revenues. This approach would give PECO's business classes a greater
12 share of the generation-related merger savings than under a distribution-based
13 allocation methodology (i.e., 65.1% versus 32.7%, per Table 1R), but would
14 do so in a manner that does not violate traditional ratemaking principles.

15
16 **Directed Question No. 5**

17
18 **Q. Please read Directed Question No. 5 for the record.**

19 A. Directed Question No. 5 reads as follows:

20
21 Would the combination of the PSE&G gas division with the
22 PECO gas division and the Philadelphia Gas Works provide
23 critical mass for a viable, profitable, shareholder owned public
24 utility, assuming a revenue stream from off system sales from an
25 LNG facility, and separate resolution of the problem of a billion
26 dollar debt?

27
28 **Q. Do you have any comment?**

29 A. Yes. It is not clear from the question whether the assumed "separate
30 resolution" of Philadelphia Gas Works' ("PGW") billion dollar debt would be
31 sufficient to enable the above entities to combine on a stand-alone basis, i.e.,
32 without the need of a further funding source(s). However, to the extent that
33 an additional funding source would be necessary, it would not be appropriate

1 to utilize *electric* merger savings to facilitate a gas merger.² To do so would
2 disregard the source of the merger savings and result in a misallocation of
3 merger benefits.
4

5 **Q. Does this conclude your supplemental direct testimony?**

6 A. Yes.

² PECO estimates its total Pennsylvania gas-related merger savings to be \$6.7 million for the first four-years, or \$1.7 million per year. See Table 2 on page 9 of OSBA Statement No.1. Note that this total would be unaffected by the sharing of (electric) generation-related merger savings with ratepayers.