BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION
v.
PECO ENERGY COMPANY

DOCKET NO. R-2018-3000164

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REBUTTAL TESTIMONY

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WITNESS: JIANG DING

SUBJECTS: CLASS COST OF SERVICE STUDY; CUSTOMER CHARGE; CAPACITY RESERVATION RIDER; ALLOCATION OF DISTRIBUTION COSTS; ENERGY CONSERVATION AND GENERAL MARKETING EXPENSES; AND DISTRIBUTION SYSTEM IMPROVEMENT CHARGE

DATED: JULY 24, 2018
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I. INTRODUCTION AND PURPOSE OF TESTIMONY

1. Q. Please state your full name, professional position and business address.

A. My name is Jiang Ding. I am employed by PECO Energy Company ("PECO" or the "Company") as Principal Regulatory & Rates Specialist. My business address is PECO Energy Company, 2301 Market Street, Philadelphia, Pennsylvania 19103.

2. Q. Have you previously submitted testimony in this proceeding?

A. Yes. I submitted direct testimony that is marked as PECO Statement No. 6. My background and qualifications are set forth in that statement.

3. Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to: (1) Office of Consumer Advocate ("OCA") witness Clarence Johnson regarding the cost of service study; (2) Bureau of Investigation & Enforcement ("I&E") witness Joseph Kubas regarding PECO’s proposed customer charge and Capacity Reservation Rider; and (3) Philadelphia Area Industrial Energy Users Group ("PAIEUG") witness Jeffry Pollock regarding distribution costs allocated to customers taking service at 69 kV or higher, energy conservation and marketing expenses, and modifications to PECO’s Distribution System Improvement Charge ("DSIC") tariff.
1  4.  Q.  Have you prepared exhibits to accompany your rebuttal testimony?

   A. Yes, I have prepared the following exhibits:

   PECO Exhibit JD-11  OCA’s response to PECO-OCA-II-19

   PECO Exhibit JD-12  FERC Accounts 364-367 – Allocation between customer and demand by other Pennsylvania utilities

   PECO Exhibit JD-13  PECO’s response to OCA-I-3

   PECO Exhibit JD-14  Attachment IE-I-RS-12-D(a) to PECO’s response to IE-I-RS-12-D

   PECO Exhibit JD-15  I&E’s response to PECO-IE-II-25

   PECO Exhibit JD-16  Calculation of Rate R customer charge adjusted to remove items questioned by I&E witness Kubas

   PECO Exhibit JD-17  PECO’s response to IE-VII-RS-20 including Attachments IE-VII-RS-20(a) through (e)

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II.  THE COMPANY’S CLASS COST OF SERVICE STUDY

6  5.  Q.  What issues raised by Mr. Johnson concerning the class cost of service study will you address?

   A. I will address the following issues raised by Mr. Johnson: (1) the Company’s customer-based allocation of secondary voltage distribution plant; (2) the allocation of “Other Revenues;” (3) the allocation of expenses for the Company’s large customer account employees; and (4) whether Rates R and RH should be consolidated for cost of service and revenue-increase distribution purposes.
6. Q. Mr. Johnson contends that it is more appropriate to allocate secondary voltage distribution plant, including secondary poles, overhead conductors, and underground conductors/conduit, on the basis of demand only. Do you concur with his analysis?

A. No, I do not. Allocating secondary voltage distribution plant on a customer-related basis is more appropriate because it accurately captures the costs associated with the sizing and design of PECO’s distribution system.

Consider the example of two developments each with 100 kW of demand. One has 50 homes, while the other has 20 homes. The total cost of running wires to and throughout the first development would be greater because of the need to extend PECO’s lines to more homes over a larger area. A customer-based allocator is, therefore, more reasonable than a demand-based allocator.

Mr. Johnson also suggests that his proposal for a purely demand-related allocation is the prevailing regulatory treatment for secondary distribution plant.¹ To support this claim, Mr. Johnson references a NARUC study that describes the “basic customer method” (i.e., classifying all wires, poles, and transformers as demand-related) as a “general approach . . . used by more than 30 states.” In my opinion, this, too, is incorrect because it ignores the diversity of regulatory treatment for secondary distribution plant and fails to consider other important cost drivers. First, Mr. Johnson clarified that he was unaware of which utilities within those 30 states, other than Texas, actually

use the basic customer method, or whether those utilities were ordered to do so by their respective state regulatory bodies. Second, in Pennsylvania alone, utilities allocated approximately 55% to 67% of secondary distribution plant on a customer-basis. This range is more reflective of the regulatory treatment for secondary distribution plant in the region, and the Commission’s own guidance identifies customer costs as including “the cost of meters, meter reading, billing, and some portion of the distribution system.” Third, Mr. Johnson’s conclusion ignores the principal cost drivers for some secondary distribution plant. For example, the principal cost driver for secondary conductors is the labor cost component of installation costs, which correlates much more closely with the length of the installed conductors and, therefore, to the number of customer locations that those conductors connect to the primary voltage system.

7. **Q.** Mr. Johnson also avers that distribution plant is correlated with load density, but is not significantly impacted by the number of secondary voltage customers on the system. Do you agree?

**A.** No, Mr. Johnson’s premise regarding load density is also incorrect. Just because secondary voltage distribution facilities may be used by more

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2 See PECO Exhibit JD-11 (OCA Response PECO-OCA-II-19).

3 Pennsylvania utilities also allocated approximately 0.1% to 66% of primary distribution plant on a customer-basis. PECO, on the other hand, allocates primary distribution plant based on demand only. See PECO Exhibit JD-12.

customers in a densely populated area as compared to a less densely populated area does not alter the fact that those facilities are customer-related. The distribution system has to be built to serve all customers without regard to their spatial distribution, and the fact remains that, because facilities are built to physically connect all secondary voltage customers to each other and to the primary voltage system, the costs of those facilities are customer-related.

Mr. Johnson contends that potential economies of scale may reduce the cost of building and maintaining distribution facilities in more densely populated areas. However, there is no evidence that his hypothesis is correct in real-world conditions. Costs are not the same in densely populated and less densely populated areas. In fact, costs may be – and frequently are – higher on a per-customer basis in densely-populated areas because of the higher costs to perform work in those locations. Thus, the fundamental proposition underlying Mr. Johnson’s argument should not be assumed to be correct.

Moreover, even if the economies of scale Mr. Johnson alleges did exist, they would not demonstrate that there is a tighter correlation (or any correlation at all) between the cost of secondary distribution facilities and demand. Stated another way, merely criticizing the degree of correlation that exists between number of customers and secondary system costs does not provide affirmative evidence that the costs of those facilities actually correlate with demand, as Mr. Johnson hypothesizes. In short, nitpicking the customer-based correlation, which clearly exists, does not justify abandoning a customer-
based allocation for a demand-based allocation, which Mr. Johnson has not demonstrated is supported by any, let alone a similar, degree of correlation.

To reiterate, PECO must install facilities to physically connect all secondary-voltage distribution customers, and it incurs the costs to do so notwithstanding the level of demand those facilities carry. (This concept applies equally to ducts and underground cabling, as well.) In other words, because secondary voltage facilities must be installed regardless of their planned usage, and because they must physically connect all secondary-voltage customers to each other as well as to the primary voltage system, those facilities clearly are a customer-correlated cost.

Finally, I would note that Mr. Johnson tries to rely on an excerpt from Dr. Bonbright to critique the minimum-system concept for identifying customer-related costs of the distribution system. However, Mr. Johnson overlooks Dr. Bonbright’s advice that excluding the minimum system component from “demand-related costs” “stands on much firmer ground.”

8. Q. Mr. Johnson proposes that two components of “Other Revenues,” namely connection charges and returned check fees, should be allocated to customer classes based on the customer allocator instead of the distribution plant allocator. Please respond.

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A. I have reviewed Mr. Johnson’s proposal and believe it is reasonable to use the customer allocator instead of the distribution plant allocator. The effect of this change would be to reallocate approximately $1.1 million in “Other Revenue” to the Rate R and RH classes.

Q. Mr. Johnson also asserts that expenses for large customer account managers and service representatives should be allocated only to the Rate GS, PD, HT, and EP classes based on distribution revenues. Do you agree with this allocation adjustment?

A. No, I do not agree. Mr. Johnson’s proposed allocation adjustment is based on his conclusion that Rates GS, PD, and HT are supported in part, and Rate EP is supported in full, by these large customer account employees, and that the allocation to these classes based on distribution revenues is a reasonable proxy for the level of assistance provided by the large customer account personnel. However, the procedure Mr. Johnson used to adjust the allocation of large customer account expenses solely to those classes is flawed. Mr. Johnson explains his method by first stating that PECO recorded the expenses at issue in FERC Accounts 903, 905, 908, 912, and 926. However, he incorrectly assumes that, with the exception of Account 926, all the accounts are allocated on a customer basis. As noted below, Mr. Johnson’s assumptions are incorrect:

Account 903: This account is not allocated on a customer basis; it is based on a weighted allocator. Refer to PECO Exhibit JD-7, p. 9, line 8. Specifically,
“ESO”-related activities (i.e., large customer account services), shown on line 6, are exclusively assigned to Primary and HT.

Account 905: Most of the expenses in this account are IT business service related costs, which reflect services that are provided to all customers and not just commercial and industrial classes.

Account 908: This account is not allocated on a customer basis; it is based on a weighted allocator. Refer to PECO Exhibit JD-7, p. 10, line 6. Expenses associated with “LIURP” (Low Income Usage Reduction Program) and “Residential Marketing” are assigned to Rates R and RH, while “Marketing-General” and “Conservation” are assigned based on PECO’s Energy @ Generation (MWH) allocator to all customers.

Account 912: This account has a zero balance, and is not included in the cost of service study.

Accordingly, the costs in each of these accounts properly reflect the assignment of large customer account employees to large commercial customers in the Company’s filing

Q. Mr. Johnson proposes to combine Rate R and Rate RH for purposes of the cost of service study. Do you agree with this change?

A. I disagree with the change because it leads to inappropriate cross subsidization between the two residential rate classes and the other rate classes. Mr. Johnson observes that the separate classes, which both consist of residential
electric customers who use electricity for domestic purposes, are a remnant of
an outdated rate structure in which space heating customers received a
differential winter rate. Mr. Johnson argues that the RH tariff should instead
be considered a sub-class of the residential class, and that the combination of
the two classes recognizes “cost savings which arise when space heating and
non-space heating customers reside in the same localized area.”

The error in Mr. Johnson’s argument is that customers served on Rate RH and
those served only on Rate R are not evenly situated throughout PECO’s
service territory in the way he assumes. There are many developments served
on PECO’s distribution system that were built entirely with, and retain,
electric home heating. In those instances, and others, Rate RH customers are
concentrated on specific localized distribution facilities. The non-coincident
peaks (“NCPs”) of those Rate RH customers reflect the peaks they impose on
the localized facilities that serve them, and those winter peaks are actually
driving the need for capacity in those localized areas.

Combining Rate R and Rate RH into a single customer class for cost of
service analysis effectively ignores the Rate RH winter peaks. Doing so also
ignores the cost-causation factor that is actually driving capacity needs in
those localized areas where Rate RH customers receive service. The result of
such an inappropriate class definition is not, as Mr. Johnson contends, “greater
diversity in hourly peaks.” Rather, the result is the subsidization of Rate RH.

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6 OCA Statement No. 3, p. 22.
III. CUSTOMER CHARGE AND CAPACITY RESERVATION RIDER

11. Q. Mr. Johnson, on behalf of the OCA, testified that PECO’s proposed customer charge should only recover costs that “directly” vary with the number of customers. Do you agree?

A. I do not agree. The costs included in PECO’s proposed customer charge are consistent with the Commission’s recent guidance in a 2012 PPL Electric Utilities (“PPL”) proceeding and a 2004 Aqua Pennsylvania (“Aqua”) proceeding. Those cases support the recovery of both direct and certain indirect customer costs and reflect the Commission’s current policy regarding customer charges. PECO’s proposed customer charge is consistent with that guidance. In contrast, Mr. Johnson’s conclusions are based on a superseded Commission policy that, prior to the Commission’s entry of final orders in the PPL and Aqua cases, limited the customer charge to a narrower subset of direct costs.

12. Q. Mr. Johnson has proposed a customer charge of $7.84 because he believes that PECO’s proposed customer charge is too high and reflects costs that are not appropriately included in a customer charge that is limited to recovering only “direct” customer costs. Have you reviewed Mr.

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8 OCA Statement No. 3, p. 29 n.22. Of the decisions cited by Mr. Johnson, only one pertains to an electric utility, and it dates from 1990. The other two decisions that Mr. Johnson cited (both involving gas utilities) also predate the Commission’s PPL decision.
Johnson’s analysis of the customer charge for reasonableness, and do you believe it is appropriate?

A. I have reviewed the analysis and conclude that Mr. Johnson, relying on superseded Commission policy, has failed to include all the costs that are permitted by the PPL and Aqua Orders. Mr. Johnson reduces call center costs included in the customer charge by approximately 25% on the basis that those costs should only pertain to residential billing, residential stop/start/transfer, CAP billing assistance, and financial arrangements. All of the call center costs Mr. Johnson proposes to exclude, such as outage and emergency calls, are driven by the number of customers. Mr. Johnson also proposes to exclude uncollectible expense and customer service and sales expense (FERC Accounts 904-910), which he contends are indirect costs largely unrelated to billing. However, all of these costs are directly related to serving customers and vary in proportion to the number of customers. For example, the inclusion of uncollectible expense is appropriate because not every customer pays his or her bill. As new customers are likely to have the same payment pattern, on average, as existing customers, there will be some level of uncollectible accounts expense that is appropriately reflected in the customer charge. Moreover, the addition of new customers increases calls to the PECO call center and inquiries regarding problems with bill payment, for which collection-related services are needed. Each customer service function, such as the call center, credit and collections, and billing functions, requires computers and appropriate IT support. In addition, Account 908 consists of
customer assistance expense and the addition of customers drives an increase
in the kinds of customer assistance recorded in this account. These are all
appropriate inclusions in the customer charge and well within the allowable
parameters of the Commission’s current policy defining the kinds of costs that
properly may be reflected in a customer charge.

6 13. Q. Mr. Kubas, on behalf of I&E, testified that there should be no increase to
customer charges, because PECO did not adequately support its claim
beyond a “summary of various costs” in PECO Exhibit JD-5. Please
respond.

A. Mr. Kubas is incorrect. The Company provided multiple documents to
support its customer charge analysis, including a breakdown of the
components reflected in the summary table in PECO Exhibit JD-5, as
summarized below:

PECO Exhibit JD-13 (which consists of PECO’s response and attachment to
OCA-I-3): Attachment OCA-I-3(a) to the Company’s response to OCA-I-3
provided a breakdown of the customer costs by FERC plant accounts as a
component of total Electric Plant in Service. The Company also provided a
breakdown of O&M expenses by FERC Account. The customer charges are
calculated at the end of this Attachment on line 192, and tie directly to the
values listed in PECO Exhibit JD-5 on line 7.

PECO Exhibit JD-14 (which consists of Attachment IE-I-RS-12-D(a) to
PECO’s response to IE-I-RS-12-D): In its response and attachment included
in PECO Exhibit JD-14, the Company set forth a robust analysis of customer-related costs and provided a detailed comparison of its analysis to the Commission-approved customer-cost analysis employed in *Pa. P.U.C. v. PPL Elec. Util. Corp.*, Docket No. R-2012-2290597. The Company’s comparison demonstrates that the costs included in PECO’s proposed customer charge are consistent with the customer costs identified by the analysis presented by PPL and approved by the Commission in that proceeding. Mr. Kubas avers that the PPL example is inapposite, likely because of the different way in which the costs were classified between the two analyses. However, the key components underlying the customer charge are very similar. For example, PECO’s costs include a Net Plant amount of $378 million, compared to PPL’s $333 million. PECO has Other O&M Expenses of $69 million, while PPL had $73 million of the same expenses; PECO has “Other A&G Expenses” of $37 million, while PPL had $40 million of the same expenses; and PECO has “Employee Benefits” expenses of $8 million, while PPL had $15 million of the same expenses. Additionally, PECO has “Customer Service” expenses of $9 million, while PPL had $13 million of the same expenses. Further, PECO has “Late Payment Charge” revenue of $2 million, while PPL had $3 million of the same type of revenue. Also, in PECO Exhibit JD-15 (which includes Mr. Kubas’s response to PECO-I&E-II-25), Mr. Kubas asserts that “PECO is claiming $13.3 million in ‘Miscellaneous Distribution Expenses’ while PPL made no claim for “Miscellaneous Distribution Expenses.” The $13.3 million Mr. Kubas pointed out is for costs related to Meter and Service Investment
Mr. Kubas also asserts that “PECO is claiming over $158 million in net plant, other rate base items, and over $11 million of depreciation expense related to customer accounts and customer service while PPL made no rate base or annual depreciation expense claims for customer accounts and customer service.” Mr. Kubas further asserts that PECO is claiming $685,000 in “PUC Assessment,” while PPL made no such claim. I believe that Mr. Kubas’s assertions are not correct; PPL simply presented its data differently. Nonetheless, I recalculated PECO’s customer costs by removing $158 million of net plant, $11 million of depreciation expense and $685,000 of “PUC Assessment,” which are the amounts Mr. Kubas identified. Even without those items, the customer costs properly recoverable in PECO’s customer charge would be $13.90 per month for the Residential class. Refer to PECO Exhibit JD-16, Line 31.

PECO Exhibit JD-17 (which consists of PECO’s response and attachments to IE-VII-RS-20): PECO’s response to part “C” in IE-VII-RS-20 explains the calculation of the customer charges and includes the same four customer charge components reflected in PECO Exhibit JD-5: service line investment, meter investment, customer accounts, and customer services. The Company’s use of these four categories to form the basis of the customer charge is consistent with authoritative guidance on Pennsylvania ratemaking principles, which explains that “[t]he local distribution line, the service drop, and the
meter are installed and must be depreciated and earned upon, even if the
customer is on vacation that month and uses no services."

Attachments IE-VII-RS-20(a) – (e) provide the detailed cost of service study
to support the four customer charge components explained above.
Furthermore, Attachment IE-VII-RS-20(e) provides a summary schedule for
the customer charges, in which “Total Revenue Requirement” at Schedule S,
line 119 (refer to PECO Exhibit JD-17, p. 157), ties to PECO Exhibit JD-5
line 5.

The documents that were identified and discussed above, together with my
direct testimony and accompanying exhibits, including PECO Exhibit JD-5,
fully support the Company’s proposed customer charge.

14. Q. Mr. Kubas also recommends that PECO’s proposed wording changes to
the Capacity Reservation Rider (“CRR”) be approved, but that the
revenue from the CRR and the cost to provide service under the CRR be
analyzed separately in the Company’s cost of service study in the next
base rate case. Do you agree?

A. I think it is reasonable to look for a way to incorporate all CRR costs into the
appropriate rate class. However, cost of service is based on rate class
allocations, and CRR customers could be in any of PECO’s GS, PD, HT and
EP rate classes. As CRR customers do not comprise a particular rate class, it

9 Cawley and Kennard, supra note 4 at p. 144.
is my opinion that they should not be analyzed separately in a cost of service study.

IV. ALLOCATION OF DISTRIBUTION COSTS

15. Q. Mr. Pollock has focused upon certain investments that formerly had been recorded in transmission plant accounts but, applying FERC-approved criteria, were determined to be distribution property and, therefore, are recorded in the Company’s distribution plant accounts. Mr. Pollock proposes separating that investment from distribution substation and Primary HT investment costs that are allocated to all customers, and to also exclude the load served at 69 kV and higher voltages from that allocation. Then, he proposes that only the plant reclassified from transmission to distribution be allocated to 69 kV and higher voltage customers. Do you agree with Mr. Pollock’s proposal?

A. No, I do not. First, regarding the use and categorization of distribution facilities, under FERC’s “Seven-Factor Test,” high-voltage lines that serve specific customers and are radial in nature are properly classified as distribution plant. Because the Company’s high-voltage customers are generally served by radial lines, the Company facilities that serve them are distribution plant, not transmission plant. In fact, in 2009, the Company

performed an Accounting Reclassification of over $54 million of transmission plant. The plant was reclassified from its transmission plant accounts to distribution plant accounts and is now recorded in Accounts 360 to 367 consistent with the requirements of the FERC Seven-Factor Test. That $54 million represents a substantial amount of distribution plant and fully refutes Mr. Pollock’s contention that customers served at voltages of 69 kV and above do not use the distribution system. Moreover, and contrary to Mr. Pollock’s assumption, the property reclassified from transmission to distribution is not the only distribution plant used by, and properly allocable to, customers served at voltages of 69 kV and above.

Mr. Pollock also contends that if higher voltage customers are not using distribution substations, they should not be allocated any of the associated cost. However, PECO has already addressed this concern. Specifically, PECO proposes to increase the high-voltage discount in this proceeding to better account for substation transformation. In addition, I disagree with Mr. Pollock’s assertions that higher-voltage customers should be exempted from bearing any portion of substation costs. To the contrary, to the extent these higher-voltage customers are served by radial lines from a substation, a portion of the substation (e.g., the breaker to which the radial line connects) is properly allocated to distribution plant. Once some portion of the substation cost is classified as distribution, a portion of the land on which the substation is located and the substation’s structure should also be classified as distribution. From the reclassification of transmission plant to distribution
plant required by FERC’s Seven-Factor Test, which I previously described, we know that substation facilities and related plant are, in fact, serving a
distribution function.

V. ENERGY CONSERVATION AND GENERAL MARKETING EXPENSES

16. Q. Mr. Pollock proposes to allocate Energy Conservation and General Marketing Expenses relative to total base revenue requirements, because he contends that PECO’s proposed allocation on a kWh basis does not benefit all customers equally. Do you agree with this proposal?

A. No. Costs in this account are generally related to information about energy efficiency and conservation programming or new electric technologies. This information, which is shared through “energy at home” or “energy at work” communications or provided by account managers, benefits all customers and energy efficiency will generate more benefits for those with greater usage. Therefore, the kWh allocation is appropriate.

VI. PECO’S DSIC

17. Q. Mr. Pollock recommends that PECO’s DSIC tariff be modified to: (i) exclude application to those customers who take service at a higher voltage level; and (ii) specify that the DSIC does not apply to facilities that were re-functionalized from transmission to distribution plant accounts pursuant to FERC’s Seven-Factor Test. Do you believe these modifications are appropriate?
A. No. Mr. Pollock’s proposal should be rejected because it is based on two incorrect assumptions: (1) Rate HT and EP customers who take service at a higher voltage level do not use distribution facilities; and (2) facilities reclassified to distribution under FERC’s Seven-Factor Test are not actually distribution facilities.

First, high-voltage customers use distribution facilities. As I previously explained, under the FERC Seven-Factor Test, high-voltage lines that serve specific customers and are radial in nature are properly classified as distribution plant. Because the Company’s high-voltage customers are generally served by radial lines, the Company’s facilities that serve the radial lines are distribution plant, not transmission plant. Radial lines are supported by poles, and it is therefore appropriate to allocate a share of poles to distribution. This substantial amount of distribution plant that serves high-voltage customers directly refutes Mr. Pollock’s arguments.

Mr. Pollock also contends that if customers served at higher voltage (69 kV and above) are not using distribution substations, they should not be allocated any of the associated cost. As I previously discussed, one cannot simply assume that higher-voltage customers do not use any facilities located at substations. Most of the substations supporting the 69 kV and higher voltage customers are combined transmission and distribution substations. Because high-voltage customers are distribution customers, a portion of the land and structures for substations is appropriately allocated to them. The Company already provides a high-voltage discount (which it is proposing to increase in
this case) to account for the way higher-voltage customers use substation transformation. For all these reasons, PECO’s DSIC should continue to apply to high-voltage customers.

Second, plant that is reclassified from transmission to distribution in accordance with FERC’s Seven-Factor Test is properly considered distribution. Mr. Pollock has provided no authority for stripping such facilities of their regulatory status as distribution assets. Therefore, additions to the plant that has been reclassified from transmission to distribution should continue to be eligible for recovery under PECO’s DSIC.

VII. CONCLUSION

18. Q. Does this complete your rebuttal testimony?

A. Yes, it does.