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March 11, 2021

VIA eFILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

**Re: Pennsylvania Public Utility Commission v.
PECO Energy Company – Gas Division
Docket No. R-2020-3018929**

Dear Secretary Chiavetta:

Enclosed for filing is the **Errata** to PECO Energy Company's Main Brief which was filed on March 3, 2021 ("Errata"), in the above-captioned proceeding. As evidenced by the Certificate of Service, copies of the Errata are being served upon Deputy Chief Administrative Law Judge Christopher P. Pell, and all parties of record.

If you have any questions, please do not hesitate to contact me at 215.963.5384.

Very truly yours,

Kenneth M. Kulak

KMK/tp
Enclosures

c: Per Certificate of Service (w/encls.)

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
v.	:	**Docket No. R-2020-3018929**
PECO ENERGY COMPANY – GAS DIVISION	:	

CERTIFICATE OF SERVICE

I hereby certify and affirm that I have this day served a copy of the **Errata** to PECO Energy Company's Main Brief filed on March 3, 2021, on the following persons in the manner specified in accordance with the requirements of 52 Pa. Code § 1.54:

VIA ELECTRONIC MAIL

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
v.	:	**Docket No. R-2020-3018929**
PECO ENERGY COMPANY – GAS DIVISION	:	

ERRATA

On March 3, 2021, PECO Energy Company ("PECO" or the "Company") filed its Main Brief in the referenced matter. Upon review of the as-filed document, PECO discovered errors on pages 5, 28, 31, 110-111 and in Paragraphs 61 and 240 to 242 of Appendix B. Accordingly, PECO submits the following errata with replacement pages (included as Attachment A) that incorporate the corrections:

	Reads	Should Read
Page 5, line 16	. . . the OCA does not believe that PECO will add any plant in service during the FPFTY . . .	. . . the OCA does not believe that PECO will add any incremental plant in service during the FPFTY. . .
Page 28, lines 2-3	As shown in Appendix A, the Company's pro forma O&M expenses, at present rate levels, equal $243,222,615 for the FPFTY.	As shown in Appendix A, the Company's pro forma O&M expenses, at present rate levels, equal $466,638,912 for the FPFTY.
Page 31, line 17; Appendix B, paragraph 62, line 2	. . . an approximately 3.8% increase . . .	. . . an approximately 3.9% decrease . . .

	Reads	Should Read
Page 31, line 19; Appendix B, paragraph 62, lines 4-5	. . . the Company's increase in contracting and materials expense in the FTY and FPFTY . . .	. . . the Company's increase over HTY booked amounts budgeted for the FTY and FPFTY . . .
Page 110, line 9; Appendix B, paragraph 240, lines 2-3, and paragraph 242, lines 1-2	. . . customers above and below annual volumes of 18 mmcf . . .	. . . customers with annual gas consumption capability of at least 18 mmcf and annual gas consumption capability of less than 18 mmcf . . .
Page 110, lines 13-14; Appendix B, paragraph 240, lines 3-4	. . . recommended creating separate "large" (over 18 mmcf per month) and "small" (18 mmcf and under per month) rate schedules . . .	. . . recommended creating separate "large" (at least 18 mmcf annual gas consumption capability) and "small" (less than 18 mmcf annual gas consumption capability) rate schedules . . .
Page 110, line 17; Appendix B, paragraph 240, line 7	. . . volumetric charges for usage above and below the 18,000 mmcf per month break point . . .	. . . volumetric charges for annual gas consumption capability of at least 18,000 mmcf and less than 18 mmcf. . .
Page 110, lines 19-20	. . customer with usage above and below 18,000 mmcf per month . . .	. . . customers with annual gas consumption capability below 18 mmcf and at least 18 mmcf. . .

	Reads	Should Read
Page 111, lines 2-3; Appendix B, paragraph 241, line 2	. . . volumetric charges for usage above 18 mmcf and 18 mmcf and below . . .	. . . volumetric charges for annual gas consumption capability of 18 mmcf and above and below 18 mmcf . . .

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ATTACHMENT A

bills), but had the effect of depriving PECO of tens of millions of dollars of additional revenue. While the OCA and CAUSE-PA recommend that the Commission now deny PECO any rate increase due to the COVID-19 pandemic, the Commission has made clear in recent decisions (including in *Columbia Gas* and in rate case proceedings initiated by Pennsylvania-American Water Company)[6] that "the continued use of traditional ratemaking methodologies during this pandemic is consistent with the setting of just and reasonable rates and the constitutional standards established in *Bluefield* and *Hope Natural Gas*, and the pandemic does not change the continued application of these standards."[7]

After first addressing the no-increase arguments of the OCA and CAUSE-PA, the Company addresses all of the revenue requirement adjustments, program changes, and rate design issues raised by the parties. Where possible, the Company has adopted recommendations of several parties, particularly in the area of rate design. In other areas, the Company has fully explained the bases and justifications for its claims and programs. The major issues addressed in Sections IV through X are summarized below.

Rate Base. The OCA proposes a $271 million rate base reduction on the grounds that the OCA does not believe that PECO will add any incremental plant in service during the FPFTY based on OCA witness Morgan's review of PECO data and concerns with respect to construction delays associated with the COVID-19 pandemic. The evidence demonstrates that Mr. Morgan's concerns are misplaced, and that there is no basis to conclude that the Company's projected plant additions for the FPFTY will not be achieved despite the effects of the pandemic. I&E's proposed reduction based on the timing for completion of the Company's "Natural Gas

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[6] *Pennsylvania-American Water Co. v. Pa. P.U.C.*, Docket Nos. R-2020-3019369 and R-2020-3019371 (Opinion and Order entered Feb. 25, 2021) ("*PAWC*").
[7] *Columbia Gas*, p. 51 (citing *Bluefield Waterworks and Imp. Co. v. P.S.C. of West Virginia*, 262 U.S. 679 (1923) ("*Bluefield*") and *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944) ("*Hope*")).

VI. EXPENSES

As shown in Appendix A, the Company's pro forma O&M expenses, at present rate levels, equal $466,638,912 for the FPFTY. The reasonableness of all expense claims has been demonstrated through extensive documentation provided in PECO's supporting data and through detailed explanations of all adjustments by Mr. Bradley, Mr. Stefani and Mr. Trzaska (PECO Sts. 1, 2, 2-R, 3 and 3-R). The discussion below addresses only those expense claims that the parties to this case have contested through testimony or exhibits.

A. Payroll and Payroll-Related Expense

PECO's requested payroll allowance for the FPFTY of $42,209,000 was presented by Mr. Trzaska. This figure was developed based upon PECO's authorized and budgeted employee complement for the FPFTY of 639 full-time equivalent ("FTE") positions. PECO also annualized budgeted payroll expenses to reflect wage increases to be granted during the FPFTY. For union and non-union employees, the Company projected 2.5% increases to become effective on January 1, 2022 and March 1, 2022, respectively. Finally, the Company adjusted its FPFTY budgeted data to normalize a one-time cash payment to union employees made in connection with the ratification of PECO's current collective bargaining agreements. *See* PECO St. 3, pp. 34-35; PECO Ex. MJT-1 Revised, Sch. D-6.

OCA witness Morgan and I&E witness Patel each proposed adjustments to reduce PECO's claim for payroll expense. As explained below, those proposed adjustments should be rejected.

1. The OCA's Proposed Adjustments

Mr. Morgan proposed two adjustments that, in aggregate, would reduce PECO's payroll expense claim by $2.477 million. His first adjustment was designed to set the employee complement at the actual level as of September 30, 2020 because, in Mr. Morgan's view, the

Moreover, Mr. Patel improperly applied his calculated vacancy rate to a total of 639 employees, which consists of the 602 actual employees as of the end of the HTY and the 37 employees that PECO will hire over the FTY and the FPFTY. The fundamental error in Mr. Patel's calculation is that the figure of 602 represents the *actual* filled positions for the HTY and does not include any budgeted "vacant" positions. Therefore, there is no basis for adjusting that figure by a "vacancy" rate. As Mr. Stefani explained, if Mr. Patel's proposed vacancy rate were only applied to the 37 employees that PECO will add by the end of the FPFTY, the Company's payroll-related expense claim would be reduced by $46,200 instead of the $858,715 claimed by Mr. Patel. PECO St. No. 2-R, pp. 10-11.

3. Employee Benefits Expense and Payroll Taxes

Messrs. Morgan and Patel have recommended adjustments to PECO's employee benefits expense and payroll taxes. *See* OCA St. 2, pp. 25-26, 42 and Schs. LKM-12 and LKM-29; I&E St. 1, pp. 16-18. These adjustments, however, are concomitant to their proposed adjustments to payroll expense and, therefore, should be rejected for the reasons previously discussed.

B. Contracting And Materials Expense

The Company is seeking recovery of contracting and materials expense of $42,955,000 in the FPFTY. This is an approximately 3.9% decrease over the Company's projected FTY contracting and materials expense of $44,651,000. Three initiatives are the principal drivers in the Company's increase over HTY booked amounts budgeted for the FTY and FPFTY: (1) PECO is enhancing its mapping system to improve the Company's ability to locate and track gas distribution facilities and the Company is increasing its investment in its gas mapping project in the FTY; (2) the Company anticipates incremental contracting and materials expense related to PECO's planned activities to reduce its non-emergent leak backlog; and (3) PECO will be required to incur additional security expenses in the FTY for crews working in high-crime areas.

directly-assigned meters, as it did for the Rate TS-F total through-out volumes.[58] The Company agreed that the design day demand should have been reduced by the demand relating to one customer served with directly-assigned meters and made that change in the revised COSS submitted with Ms. Ding's Rebuttal Testimony. The impact on the resulting allocation factors used in the revised COSS was not material, as shown by the data provided in Table 3 of PECO Statement No. 6-R at page 23.

Rates TS-F and TS-I Annual Volumes Rate Differential. Mr. Knecht contended that the Rates TS-F and TS-I have an unacceptably large differential in the volumetric charges for customers with annual gas consumption capability of at least 18 mmcf and annual gas consumption capability of less than 18 mmcf. Mr. Knecht observed that these rate classes represent a "not-insignificant amount" of base rate revenues (approximately 7%) and contended that there was not apparent cost allocation justification for the rate differential. Mr. Knecht made two recommendations for addressing his concerns. From a customer classification standpoint, he recommended creating separate "large" (at least 18 mmcf annual gas consumption capability) and "small" (less than 18 mmcf annual gas consumption capability) rate schedules for customer currently on Rates TS-F and TS-I. This would produce separate rate classes that would have to be separately analyzed as such in PECO's COSS. Alternatively, Mr. Knecht recommended narrowing the differential in the volumetric charges for annual gas consumption capability of at least 18,000 mmcf and less than 18 mmcf reflected in the existing Rate Schedule TS-F and TS-I.

PECO strongly opposed creating separate rate classification for customers with annual gas consumption capability below 18 mmcf and at least 18 mmcf. As Ms. Ding explained, a number of factors other than usage alone must be considered in establishing separate rate classifications. PECO St. 6-R, pp. 23-24. A proper consideration of all of those factors does not support the creation of the

[58] OSBA St. 1, p. 27.

separate, usage-based classifications Mr. Knecht recommended. However, PECO did accept Mr. Knecht's alternative recommendation to narrow the differential in the volumetric charges for annual gas consumption capability of 18 mmcf and above and below 18 mmcf and reflected those changes in the rate design for Rates TS-F and TS-I proposed in the Rebuttal Testimony of PECO witness Bisti (PECO St. 7-R, pp. 15-16 and PECO Ex. JAB-4 Revised (Corrected)).

Interruptible Rate Classes – MV-I, IS and TCS. In his Direct Testimony, Mr. Knecht contended that customers served under interruptible Rates MV-I, IS and TCS do not offer any material distribution service benefits because, for Rate MV-I, there has been no interruption for at least five years and the Rate TCS class has been interrupted only once in the past five years. Mr. Knecht also contended that Rate IS service is interruptible for gas supply reasons, not because it produces distribution system benefits. For these reasons, Mr. Knecht's cost-of-service study assigned design day demands, and associated demand costs, to the MV-I, IS, and TCS rate classes.

PECO opposed Mr. Knecht's proposal because he fundamentally misunderstood the benefits of the ability to interrupt these customers if a design day peak were to be reached on PECO's system. PECO's system is designed to operate at a design day without these customers being on-line (i.e., PECO doesn't incur the costs to size its system to meet the demands of these customers at the time of a design day peak). Assigning peak day demands to these classes, therefore, imposes costs on these customers for a level of service they will not receive and do not expect to receive. In his Surrebuttal Testimony, Mr. Knecht, while not necessarily agreeing with PECO's explanation of the theoretically basis for its COSS approach, agreed that these classes should not be assigned demand costs.[59]

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[59] OSBA St. 1-S, p. 10.

Mechanics School in March 2020 due to the pandemic, and the training program has already been rescheduled for September 2021. *Id.*

58. Mr. Patel's proposed adjustment improperly applied his calculated vacancy rate to a total of 639 employees, which consists of the 602 actual employees as of the end of the HTY and the 37 employees that PECO will hire over the FTY and the FPFTY. The 602 HTY employees represents the *actual* filled positions as of June 30, 2020 and does not include any budgeted "vacant" positions. PECO St. 2-R, pp. 10-11.

59. If Mr. Patel's proposed vacancy rate were only applied to the 37 employees that PECO will add by the end of the FPFTY, the Company's payroll-related expense claim would be reduced by $46,200 instead of the $858,715 claimed by Mr. Patel. *Id.*

60. The Company's proposal to normalize costs related to the union contract ratification bonus that PECO incurs each time it negotiates new union over the average length of those agreements (i.e., six years) is reasonable and appropriate. PECO St. 3-R, pp. 21-22.

61. Apart from the OCA/I&E concomitant adjustments, no party disputes PECO's claims for employee benefits and payroll taxes or the manner in which they were calculated.

B. Contracting And Materials Expense

62. The Company is seeking recovery of contracting and materials expense of $42,955,000 in the FPFTY. This is an approximately 3.9% decrease over the Company's projected FTY contracting and materials expense of $44,651,000. Three initiatives are the principal drivers in the Company's increase over HTY booked amounts budgeted for the FTY and FPFTY: (1) PECO is enhancing its mapping system to improve the Company's ability to locate and track gas distribution facilities and the Company is increasing its investment in its gas mapping project in the FTY; (2) the Company anticipates incremental contracting and materials expense related to PECO's planned activities to reduce its non-emergent leak backlog; and

demands for "pure" Rate L customers (i.e., those that do not use Rate L for Standby Sales Service). Second, Mr. Knecht takes issue with the long-standing Commission-approved relationship between Rate L and Rate TS-F for transportation customers served on Rate TS-F that voluntarily elect to obtain Standby Sales Service from PECO. OSBA St. 1, pp. 26-27.

238. Mr. Knecht's proposal blurs the distinction between sales service and transportation service. Moreover, customers have expressed their preference to continue the existing relationship between Rate L as Standby Sales Service and Rate TS-F transportation service by electing to receive Standby Sales Service. PECO St. 6-R, pp. 21-22. Mr. Knecht's recommendation should, therefore, be rejected.

239. Mr. Knecht claims that the Company obtained the design day demand of 68,000 mcf/day for Rate TS-F from its Purchased Gas Cost filing and noted that it does not appear the Company adjusted that figure to remove demands related to customers served by directly-assigned meters, as it did for the Rate TS-F total through-out volumes. The Company agreed that the design day demand should have been reduced by demand relating to one customer served with directly-assigned meters and made that change in the revised COSS submitted with Ms. Ding's Rebuttal Testimony.

240. Mr. Knecht argued that the Rates TS-F and TS-I have an unacceptably large differential in the volumetric charges for customers with annual gas consumption capability of at least 18 mmcf and annual gas consumption capability of less than 18 mmcf. Mr. Knecht recommended creating separate "large" (at least 18 mmcf annual gas consumption capability) and "small" (less than 18 mmcf annual gas consumption capability) rate schedules for customer currently on Rates TS-F and TS-I. This would produce separate rate classes that would have to be separately analyzed as such in PECO's COSS. Alternatively, Mr. Knecht recommended

narrowing the differential in the volumetric charges for annual gas consumption capability of at least 18,000 mmcf and less than 18 mmcf reflected in the existing Rate Schedule TS-F and TS-I.

241. PECO accepted Mr. Knecht's recommendation to narrow the differential in the volumetric charges for annual gas consumption capability of 18 mmcf and above and below 18 mmcf and reflected those changes in the rate design for Rates TS-F and TS-I proposed in the Rebuttal Testimony of PECO witness Bisti. PECO St. 7-R, pp. 15-16; PECO Ex. JAB-4 Revised (Corrected).

242. Mr. Knecht's proposal to create separate rate classification for customers with annual gas consumption capability of at least 18 mmcf and annual gas consumption capability of less than 18 mmcf per month is misguided because other factors, beyond usage alone, should be considered in establishing separate rate classifications. PECO St. 6-R, pp. 23-24. Therefore, Mr. Knecht's separate, usage-based classification should be rejected.

243. Mr. Knecht argues that customers served under interruptible Rates MV-I, IS and TCS do not offer any material distribution service benefits. Mr. Knecht therefore assigned design day demands, and associated demand costs, to the MV-I, IS, and TCS rate classes, in his alternative cost-of-service study.

244. Mr. Knecht's proposal for the MV-I, IS, and TCS rates classes should be rejected. Assigning peak day demands to these classes imposes costs on these customers for a level of service they will not receive and do not expect to receive and is inconsistent with cost causation principles.

B. Revenue Allocation

245. PECO's proposed rates are designed to fairly allocate the Company's requested increase among its customer classes and make reasonable progress in moving all classes closer to their cost of service consistent with well-accepted ratemaking principles.

C. Allocation of Universal Service Program Costs

246. Universal service costs are currently allocated to the residential customer class, and PECO did not propose any change to the allocation of such costs in this proceeding. *See* PECO Exhibit JAB-2.

247. Both OCA witness Colton and CAUSE-PA witness Miller recommended that the Company allocate universal service costs to all customer classes (*see, e.g.,* OCA St. 5, pp. 56-90; CAUSE-PA St. 1, pp. 48-54), while OSBA witness Knecht and PAIEUG witness LaConte opposed that recommendation, *see* OSBA St. 1-R, pp. 21-30; PAIEUG St. 1-R, pp. 10-13.

248. PECO believes this gas distribution base rate case is not the appropriate place to consider broad universal service cost allocation proposals, particularly when PECO's gas-only CAP population is an exceedingly small part of its total CAP population. *See* PECO St. 10-R, p. 12.

249. In *Columbia Gas*, the Commission recently rejected proposals to reallocate universal service costs to non-residential gas customers. *See Columbia Gas Order*, pp. 258-261.

250. The Company does not support a change in universal service cost allocation as part of this proceeding but, as Ms. Colarelli explained, intends to address the allocation of universal service costs in its next electric base rate proceeding. *See* PECO St. 10-R, p. 12.

D. Tariff Structure and Rate Design

1. Residential Customer Charge

251. The Company's current residential customer charge is $11.75 per month and has been in place since rates went into effect following the Company's 2010 gas base rate case. This is the lowest residential customer charge among all of Pennsylvania's major gas distribution companies and is far below the residential customer-related costs identified in the Company's COSS prepared in connection with this rate case (i.e., $30.26 per month). The Company