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September 12, 2024

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 – Electric Division
Docket No. R-2024-3046931**

Dear Secretary Chiavetta:

Enclosed for filing is the **Statement Of PECO Energy Company In Support Of The Joint Petition For Non-Unanimous Settlement Of Rate Investigation** in the above-captioned proceeding. As evidenced by the Certificate of Service, copies are being served upon Administrative Law Judge Marta Guhl, Administrative Law Judge Darlene Heep, and all parties of record.

If you have any questions, please contact me at 215.963.5384.

Very truly yours,



Kenneth M. Kulak

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Enclosures

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

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC
UTILITY COMMISSION**

v.

**PECO ENERGY COMPANY –
ELECTRIC DIVISION**

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DOCKET NO. R-2024-3046931

CERTIFICATE OF SERVICE

I hereby certify and affirm that I have this day served a copy of the **Statement Of PECO Energy Company In Support Of The Joint Petition For Non-Unanimous Settlement Of Rate Investigation** on the following persons in the manner specified in accordance with the requirements of 52 Pa. Code § 1.54:

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Dated: September 12, 2024

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC UTILITY
COMMISSION**

v.

**PECO ENERGY COMPANY -
ELECTRIC DIVISION**

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DOCKET NO. R-2024-3046931

**STATEMENT OF PECO ENERGY COMPANY
IN SUPPORT OF THE JOINT PETITION FOR
NON-UNANIMOUS SETTLEMENT OF RATE INVESTIGATION**

September 12, 2024

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
v.	:	DOCKET NO. R-2024-3046931
	:	
PECO ENERGY COMPANY – ELECTRIC DIVISION	:	

**STATEMENT OF PECO ENERGY COMPANY
IN SUPPORT OF THE
JOINT PETITION FOR NON-UNANIMOUS SETTLEMENT OF RATE
INVESTIGATION**

**TO THE HONORABLE ADMINISTRATIVE LAW JUDGE MARTA GUHL AND
ADMINISTRATIVE LAW JUDGE DARLENE HEEP:**

I. INTRODUCTION AND OVERVIEW

PECO Energy Company (“PECO” or the “Company”) submits this Statement in Support of the Joint Petition for Non-Unanimous Settlement of Rate Investigation (“Joint Petition” or “Settlement”) entered into by and among PECO and the following Joint Petitioners:¹

The Pennsylvania Public Utility Commission (“Commission”)
Bureau of Investigation and Enforcement (“I&E”);

Office of Consumer Advocate (“OCA”);

¹ Constellation Energy Generation, LLC and Constellation NewEnergy, Inc. (“Constellation”), Grays Ferry Cogeneration Partnership and Vicinity Energy Philadelphia, Inc. (“Grays Ferry/Vicinity”) and the Trustees of the University of Pennsylvania and The Hospital at the University of Pennsylvania (“UPenn”), which are parties to this proceeding, have authorized the Joint Petitioners to represent that they do not oppose the Settlement. Local 614 of the International Brotherhood of Electrical Workers, AFL-CIO (“Local 614”) did not join this Joint Petition and has indicated that it opposes the Settlement. The Administrative Law Judges informed Formal Complainant Alan McCarthy of the Settlement by letter dated September 5, 2024, and, to date, Mr. McCarthy has not submitted comments regarding the Settlement.

Office of Small Business Advocate (“OSBA”);

The National Railroad Passenger Corporation (“Amtrak”);

Electrify America, LLC (“EA”);

EVgo Services LLC (“EVgo”);

The Philadelphia Area Industrial Energy Users Group
 (“PAIEUG”);

The Southeastern Pennsylvania Transportation Authority
 (“SEPTA”);

Tenant Union Representative Network and the Coalition for
 Affordable Utility Services and Energy Efficiency in
 Pennsylvania (“TURN/CAUSE-PA”);

The City of Philadelphia (“City”) and Philadelphia Energy
 Authority (“PEA”) (together “City/PEA”); and

Walmart Inc.

If the settlement set forth in the Joint Petition (“Settlement”) is approved, it will resolve all issues in this proceeding with all parties except for Local 614.

The Settlement was achieved only after a comprehensive investigation of PECO’s operations and finances, which included: (1) extensive discovery (PECO responded to approximately 909 interrogatories); (2) submission of written direct, rebuttal, and surrebuttal testimony covering a wide range of issues; (3) public input hearings; (4) an evidentiary hearing in which PECO witnesses presented oral rejoinder and were cross-examined; and (5) negotiations among the Joint Petitioners as to the appropriate revenue level, rate structure, rate design, and other matters, as set forth in detail in the Joint Petition.

The Settlement has been achieved among parties representing a wide array of stakeholder interests, including residential, commercial and industrial customers, organizations representing

the interests of low-income customers, and developers of electric vehicle (“EV”) charging networks. The fact that the Settlement was reached among parties displaying the diverse interests of the Joint Petitioners is, in itself, strong evidence that the Settlement is reasonable and in the public interest. In fact, the Settlement reflects a carefully balanced compromise of the interests of all the Joint Petitioners based on their thorough and detailed consideration of the evidence adduced in this case, all of which was entered into the record at the evidentiary hearing conducted on August 8, 2024 and by the Joint Stipulation for Admission of Testimony and Exhibits filed on August 14, 2024.

Significantly, three of the signatories – I&E, the OCA, and the OSBA – are charged with specific legal obligations to carefully scrutinize all aspects of a utility’s request to increase rates. I&E, which has the broadest mandate, functions as an independent prosecutorial bureau within the Commission and, as such, is charged with representing the public interest in utility rate proceedings.² The OCA has a statutory obligation to protect the interests of residential consumers of public utility service,³ and the OSBA represents the interests of small businesses.⁴ As evidenced by their active and extensive participation in all aspects of this case, these statutory parties have conscientiously and rigorously discharged their statutory obligations. The statutory parties joining in and fully supporting the Settlement is strong evidence that the Settlement’s terms and conditions are just, reasonable, and in the public interest.⁵

² See *Implementation of Act 129 of 2008 Organization of Bureaus and Offices*, Docket No. M-2008-2071852 (Final Order entered Aug. 11, 2011), p. 5 (“BI&E will serve as the prosecutory bureau for purposes of representing the public interest in ratemaking and service matters . . .”).

³ See 71 Pa.C.S. §§ 309-1 et seq.

⁴ See 73 P.S. §§ 399.41 et seq.

⁵ See *Pa. P.U.C. v. T.W. Phillips Gas & Oil Co.*, Docket Nos. R-2010-2167797 et al., 2010 Pa. PUC LEXIS 1598 at *80-85 (Recommended Decision issued Oct. 5, 2010) (relying upon the support of I&E’s predecessor, the Office of Trial Staff (“OTS”), the OCA and the OSBA as evidence that the settlement in that case was reasonable and in the public interest). The Recommended Decision was expressly approved and adopted by the Commission in its Final Order entered Nov. 4, 2010 at the above-referenced dockets. *Accord* Opinion and

Moreover, as explained hereafter, the Company presented a compelling case for rate relief. This is evidenced by, among other factors, the fact that the Company's base rates have not increased since January 1, 2022; PECO will have invested approximately \$3.5 billion in new and replacement electric utility plant between January 2023 and December 2025 while experiencing rising labor and materials costs due to inflation and interest rates; and PECO's overall sales are expected to be nearly flat due, in large part, to the Company's aggressive pursuit of energy efficiency and conservation ("EE&C") through Commission-approved programs implemented in compliance with Pennsylvania's Act 129 of 2008 ("Act 129"). PECO St. 1, pp. 5-6; PECO St. 2, pp. 3-8.

The Company's need for rate relief and the reasonableness of the increase in revenues set forth in the Settlement are addressed further in Section II below. Section II also discusses the other terms of the Settlement and explains why they are reasonable in light of the evidence presented in this case and are in the public interest. Section III is a summation of the reasons why the Settlement as a whole is in the public interest.

A. Overview of the Company's Filing and the Settlement

PECO last filed for an increase in electric base rates in March 2021. PECO initiated this rate case on March 28, 2024 by filing Tariff Electric – Pa. P.U.C. No. 8 requesting an increase in its total annual operating revenues to become effective May 27, 2024. The requested increase in PECO's initial filing equaled approximately \$464 million, based on data for a fully projected future test year ("FPFTY") ending December 31, 2025. PECO also proposed one-time surcharge credits totaling \$64 million, resulting in a net electric rate increase of \$399 million in 2025. On

Order, *Pa. P.U.C. Aqua Pa., Inc.*, Docket Nos. R-2018-300355 et al., p. 55 (citing *T.W. Phillips* and explaining that "[w]hen each of the statutory advocates fully support a settlement, it is a good indicator that the terms and conditions of the settlement are just and reasonable").

April 25, 2024, the Commission instituted an investigation of PECO's existing and proposed rates and, as a result, the Company's proposed tariff was suspended by operation of law until December 27, 2024, which was subsequently conditionally extended by the Company to December 30, 2024.

Various issues pertaining to the level of revenues to which PECO is entitled were the subject of extensive discovery and were addressed at length in the parties' direct, rebuttal, surrebuttal and rejoinder testimony. Revenue requirement was also the subject of intensive negotiations, which produced an agreement among the Joint Petitioners that PECO has established its need for an increase in total electric distribution revenues of approximately \$354 million as of the end of the statutory suspension period in this case, in addition to the Distribution System Improvement Charge ("DSIC") revenue of \$64.3 million that will be rolled into base rates. The agreed increase is in lieu of the Company's initially requested increase of \$464 million. As part of the Settlement, PECO also agreed that if the Joint Petition is approved, the Company will not file for another electric distribution base rate increase prior to March 16, 2026. *See* Joint Petition, ¶¶ 13-15.

Witnesses for the OCA, TURN/CAUSE-PA, and the City/PEA recommended several modifications to PECO's universal service programs and expressed certain concerns regarding customer service and consumer protections. The Settlement includes extensive commitments from the Company to enhance assistance to low-income customers and address residential customer service issues raised in this case. *See* Joint Petition, ¶¶ 25-52.

Witnesses for the OCA, EA, EVgo and the City/PEA raised several issues regarding PECO's proposed modifications to its Electric Vehicle Fast Charging Pilot Rider (the "EV-FC Pilot Rider") and the EV Charging Pilot. The Settlement will benefit pilot participants by

extending the term of both pilots through May 31, 2029, increasing the demand credit under the EV-FC Pilot Rider and permitting the application of separate EV Charging Pilot incentive caps for certain City-related entities. The Settlement also provides for a collaborative to discuss whether a successor rate may be appropriate upon expiration of the EV-FC Pilot Rider. *See* Joint Petition, ¶¶ 53-55.

Various other specific issues that were raised by other parties' testimony have been resolved by the compromises on all sides that resulted in the agreed upon increase in electric distribution revenues of approximately \$354 million. There are certain terms that reflect the Joint Petitioners' agreement on specific issues, which are typically addressed in settlements, such as, for example, the equity return rate to be used in calculating the Company's DSIC and the "baseline" of FPFTY plant additions that must be exceeded before the Company may reinstate its DSIC. *See* Joint Petition, ¶¶ 20-22. In addition, the Joint Petitioners have resolved all rate structure and rate design issues by collaboratively developing the electric distribution base rates, as set forth in the electric tariff provided in Appendix A (the "Settlement Rates"). The Joint Petitioners are in full agreement that the Settlement Rates fairly and reasonably allocate the increase in electric distribution revenues among PECO's customer rate classes. *See* Joint Petition, ¶¶ 16-18.

A total of seven public input hearings were held in this case. *See* Joint Petition, ¶ 5. The Company believes that, given its size (PECO provides service to approximately 1.7 million electric customers),⁶ there were few service-related issues raised at the public input hearings.

As previously indicated, the specific terms of the Settlement are discussed in more detail in Section II below.

⁶ PECO St. 1, p. 3.

B. The Settlement Is Consistent with Commission Policy, Practice and Precedent Concerning Settlements

It is the Commission’s long-standing policy, practice, and precedent, embodied in its regulation at 52 Pa. Code § 5.231 and its Policy Statement on Settlements at 52 Pa. Code § 69.401, to strongly encourage parties to resolve contested proceedings through settlement. Indeed, in its Policy Statement, the Commission stated that “the results achieved from a negotiated settlement or stipulation, or both, in which the interested parties have had an opportunity to participate are often preferable to those achieved at the conclusion of a fully litigated proceeding.”⁷ There are many reasons why settlements can produce better outcomes and do a better job of promoting the public interest than full litigation, which have been repeatedly affirmed in decisions approving proposed settlements. Those reasons were aptly summarized in the Commission’s approval of a settlement of PECO’s 2018 electric rate case:

Rate increase proceedings are expensive to litigate, and the reasonable cost of such litigation is an operating expense recovered in the rates approved by the Commission. Partial or full settlements allow the parties to avoid the substantial costs of preparing and serving testimony and the cross-examination of witnesses in lengthy hearings, the preparation and service of briefs, reply briefs, exceptions and replies to exceptions, together with the briefs and reply briefs necessitated by any appeal of the Commission’s decision, yielding significant expense savings for the company’s customers. For this and other sound reasons, settlements are encouraged by long-standing Commission policy.⁸

Settlements also promote the public interest in another important way. In settlements, parties can, through compromise and agreement, craft innovative and creative solutions that the

⁷ 52 Pa. Code § 69.401.

⁸ *Pa. P.U.C. v. PECO Energy Co.*, Docket No. R-2018-3000164 (Opinion and Order entered Dec. 20, 2018) (“PECO 2018 Rate Case Order”), p. 15; *see also Pa. P.U.C. v. Columbia Gas of Pa., Inc.*, Docket No. R-2021-3024296 (Opinion and Order entered Dec. 16, 2021), p. 9 (“Rate cases, in general, are expensive to litigate and the reasonable costs of such litigation is an operating expense recovered in the rates approved by the Commission. This means that a settlement, which allows the parties to avoid or minimize the substantial costs of litigation, may yield potential savings for the Company’s customers.”).

Commission may not be in a position to develop and impose unilaterally. That is certainly the case with the Settlement achieved by the Joint Petitioners in this proceeding, as explained in Section II below.

C. Settlements That Do Not Stipulate or Identify the Specific Components Underlying a Settled Revenue Increase Have Been Consistently Approved and Strongly Endorsed by the Commission as Promoting the Public Interest

As the Joint Petition makes clear (*see* Paragraphs 11 and 68-69), the Joint Petitioners acknowledge that, subject to the limited exceptions set forth in the Joint Petition, they have not sought, nor would they be able, to agree upon the specific ratemaking adjustments that support their respective decisions to enter into the Settlement. Nonetheless, as the Joint Petitioners explain in their respective Statements in Support, they are in full agreement that the Settlement achieves the following goals:

- Resolves a number of contested issues by means of interrelated compromises in a manner that produces an overall outcome well within the range of reasonable outcomes supported by the record evidence;
- Appropriately and fairly balances (1) the interests of customers in receiving safe, adequate and reliable service at just and reasonable rates and (2) the interests of the Company and its shareholders in having a reasonable opportunity – through continued prudent and efficient management – to earn a fair return on their investment in property dedicated to the public service, which will support further investment in additional needed plant and equipment;
- Produces a fair result for all parties;

- Contains significant enhancements to the Company’s universal service programs and various commitments regarding customer service and consumer protection measures; and
- Therefore, for all the foregoing reasons, is in the public interest.

As explained above, the Joint Petition embodies a so-called “black box” settlement because the Joint Petitioners have neither agreed upon, nor identified, their individual assessments of the various subsidiary components of the overall revenue requirement upon which they settled. The Joint Petitioners’ approach facilitates settlements by allowing parties to agree to an overall settled outcome that all parties find reasonable without abandoning or reversing their litigation positions on issues they deem important and thereby compromising their ability to present their arguments in other proceedings where settlement may not be possible.⁹ Thus, the net result is reasonable and acceptable to all, so long as the parties are not forced to reveal their positions and strategies or the compromises they made to reach the settled outcome.

⁹ See 52 Pa. Code § 5.231; 52 Pa. Code § 69.401. The Commission has approved black box settlements of base rate increases for many large utilities, including the settlement of PECO’s 2018 electric rate case discussed previously. See also *Pa. P.U.C. v. Pa.-Am. Water Co.*, Docket Nos. R-2022-3031672 and R-2022-3031673 (Order entered Dec. 8, 2022) (approving a black box settlement providing for a base rate increase of \$138 million); *Pa. P.U.C. v. PECO Energy Co. – Gas Div.*, Docket No. R-2022-3031113 (Order entered Oct. 27, 2022) (approving a black box settlement providing for a base rate increase of \$132 million); *Pa. P.U.C. v. Duquesne Light Co.*, Docket No. R-2021-3024750 (Opinion and Order entered Dec. 16, 2021) (approving a black box settlement providing for a base rate increase of \$74.2 million); *Pa. P.U.C. v. PECO Energy Co. – Elec. Div.*, Docket No. R-2021- 3024601 (Order entered Nov. 18, 2021) (approving a black box settlement providing for a base rate increase of \$132 million); *Pa. P.U.C. v. Pa.-Am. Water Co.*, Docket Nos. R-2020-3019369 and R-2020-3019371 (Opinion and Order entered Feb. 25, 2021) (“PAWC 2020 Rate Case Order”) (approving a black box settlement providing for a base rate increase of \$70.5 million); *Pa. P.U.C. v. Phila. Gas Works*, Docket No. R-2020-3017206 (Opinion and Order entered Nov. 19, 2020) (approving a black box settlement providing for a base rate increase of \$35 million); *Pa. P.U.C. v. UGI Utils., Inc. - Gas Div.*, Docket No. R-2020-3015162 (Opinion and Order entered Oct. 8, 2020) (approving a black box settlement for a base rate increase of \$20 million); *Pa. P.U.C. v. UGI Utils., Inc. - Gas Div.*, Docket No. R-2018-3006814 (Opinion and Order entered Oct. 4, 2019) (approving a black box settlement for a base rate increase of \$30 million); *Pa. P.U.C. v. Duquesne Light Co.*, Docket No. R-2018-3000124 (Opinion and Order entered Dec. 20, 2018) (approving a black box settlement providing for a base rate increase of \$40.5 million).

The Joint Petitioners’ approach to delineating the terms of the Settlement in the Joint Petition, namely, a “black box” subject to limited but appropriate exceptions, has been consistently and repeatedly found to be in the public interest and approved by the Commission. In the Recommended Decision recommending approval of the black box settlement in PECO’s 2022 gas rate case, for example, Administrative Law Judge F. Joseph Brady explained:

The Commission has noted that “Black box” settlements are an important aspect in the process of delivering timely and cost effective regulation. A black box settlement is a means to reach agreement on a rate increase in a case where the issues raised are varied and complex. To delineate and specify each component of the rate increase to the issues would be difficult, time-consuming, expensive and costly to the consumers as a rate case expense. To curtail any delineation is to save time, expense and costs of the parties and the ratepayers. The Commission has in the past found such black box settlements to be reasonable and in the public interest. The instant case is consistent with Commission precedent.¹⁰

Similarly, in the Peoples TWP LLC’s 2013 base rate case,¹¹ the Commission approved a settlement and stated the following in response to a complainant’s specific objection to the black box nature of the settlement:

We have historically permitted the use of “black box” settlements as a means of promoting settlement among the parties in contentious base rate proceedings. Settlement of rate cases saves a significant amount of time and expense for customers, companies, and the Commission and often results in alternatives that may not have been realized during the litigation process. Determining a company’s revenue requirement is a calculation involving many complex and interrelated adjustments that affect expenses, depreciation, rate base, taxes and the company’s cost of capital. Reaching an agreement between various parties on each component of a rate increase can be difficult and impractical in many cases. For these reasons, we support the use of a “black

¹⁰ *Pa. P.U.C. v. PECO Energy Co. – Gas Div.*, Docket No. R-2022-3031113 (Recommended Decision issued Oct. 11, 2022), pp. 18-19 (citations omitted).

¹¹ *Pa. P.U.C. v. Peoples TWP LLC*, Docket No. R-2013-2355886 (Opinion and Order entered Dec. 19, 2013), pp. 27-28 (citations omitted).

box” settlement in this proceeding and, accordingly, deny this Exception.¹²

As evidenced by the authorities discussed above, the Commission fully endorses the concept of black box settlements, such as the Settlement achieved in this case.

D. General Standard for Approval of Settlements

It is well established that, to approve a settlement, the Commission must determine that the proposed terms and conditions, viewed in the context of the settlement as a whole, are in the public interest.¹³ In Section II, below, each of the principal terms of the Settlement is discussed in light of the record evidence and the parties’ positions. As explained therein, the final resolution achieved by each of those terms is consistent with, and promotes, the public interest.

II. SPECIFIC SETTLEMENT TERMS¹⁴

A. Revenue Requirement (Joint Petition, Paragraphs 13-14)

As previously explained, following detailed discovery, the submission of multiple rounds of testimony, and extensive negotiations, the Joint Petitioners agreed to the Settlement embodied in the Joint Petition. Under the terms of the Settlement, PECO will be entitled to charge electric distribution base rates, designed to produce an annual increase in electric distribution base rate operating revenues of approximately \$354 million for service rendered on and after January 1, 2025. The \$354 million increase is in addition to base distribution rates after the roll-in to those rates of approximately \$64.3 million in DSIC revenue and reflects adjustments for unbundled operating costs recovered through PECO’s Generation Supply Adjustment and Transmission

¹² *Id.* at 28.

¹³ *See Pa. P.U.C. v. CS Water & Sewer Assoc.*, 74 Pa. P.U.C. 767, 771 (1991); *Pa. P.U.C. v. Phila. Elec. Co.*, 60 Pa. P.U.C. 1, 22 (1985).

¹⁴ Section II of this Statement in Support contains a general description of the terms and conditions of the Settlement set forth in the Joint Petition. While every effort has been made to try to ensure that the descriptions are accurate, if any inconsistency exists or is perceived between the Statement in Support and the terms and conditions of the Joint Petition, the Joint Petition shall take precedence and shall control.

Service Charge. The agreed-upon revenue requirement excludes a one-time surcharge credit totaling approximately \$64 million in 2025 for (i) the incremental COVID-19 related bad debt that the Company recovered through current rates and (ii) revenue received for past use of PECO's fiber network. *See* Joint Petition, ¶¶ 13-14.

Under the Settlement Rates, the bill for a typical Residential customer using 700 kilowatt hours (“kWh”) per month will increase by \$13.58 per month, from \$135.85 to \$149.43 (or 10.0%), including default service generation, taxes, and other surcharges.¹⁵ *See* Joint Petition, Appendix D. By comparison, in the Company's initial filing, the bill for a typical Residential customer using 700 kWh per month would have increased by \$16.67 per month, from \$135.85 to \$152.52 (or 12.3%), including default service generation, taxes, and other surcharges. The increases originally proposed, and those that would result from the Settlement Rates, are set forth for the other major customer classes in Appendix D to the Joint Petition.

Significantly, since the Company's current base rates became effective on January 1, 2022, PECO has continued to make substantial investments in its electric distribution system to ensure that customers can continue to receive safe and reliable service. PECO will invest approximately \$3.5 billion in new and replacement electric utility plant between January 2023 and December 2025. At the same time, materials and contracting costs have escalated as a result of general inflationary trends and high interest rates. While PECO has been making substantial investments in new and replacement electric plant to maintain and enhance service to customers, its overall load growth is expected to remain nearly flat. PECO St. 2, pp. 3-7.

¹⁵ All rate effect calculations use riders in effect as of March 1, 2024 and the Price-to-Compare from March 1, 2024, which assures that the rates are being compared on a consistent basis.

The factors discussed above, namely, increased investment and rising financial costs, have compromised the Company's ability to earn a fair return on its investment absent rate relief. On a pro forma basis, PECO's electric distribution operations are projected to produce an overall return on invested capital of 4.44%, and a return on common equity of only 4.33%, during the twelve months ending December 31, 2025. PECO St. 2, p. 7; PECO Ex. MJT-1 Revised, Sch. A-1. Those return levels are clearly inadequate, as PECO witness Paul R. Moul points out in his direct testimony (PECO St. 5). Absent rate relief, PECO's financial results would deteriorate even further in 2026 and thereafter and could jeopardize PECO's ability to appropriately invest in the infrastructure needed to maintain and improve its safety, reliability, and customer service levels. It is particularly important for PECO to maintain and possibly improve its credit ratings because the electric distribution function is extremely capital intensive. In fact, PECO projects that it will need to invest approximately \$1.45 billion in electric distribution plant over the next two years (2024-2025) with a continued focus on storm hardening and resiliency. PECO St. 1, pp. 21-24; PECO St. 2, p. 8. Accordingly, it is important that PECO obtain the increased revenues that the Settlement will provide.

In light of the standards consistently applied by this Commission, the revenue requirement provisions of the Settlement are reasonable and in the public interest. The Commission has outlined the following general principles for assessing whether a settlement meets the public interest standard:

The purpose of this investigation is to establish distribution rates for PECO's customers that are "just and reasonable" pursuant to Section 1301 of the Code, 66 Pa. C.S. § 1301. A public utility seeking a general rate increase is entitled to an opportunity to earn a fair rate of return on the value of the property dedicated to public service. *Bluefield Water Works and Improvement Co. v. Public Service Comm'n of West Virginia*, 262 U.S. 679 (1923) (*Bluefield*).

In determining what constitutes a fair rate of return, the Commission is guided by the criteria set forth in *Bluefield, supra*, and *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944). In *Bluefield* the United States Supreme Court stated:

A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.¹⁶

Neither the Public Utility Code nor principles of due process require the Commission to adhere to a specific formula or methodology to determine “just and reasonable” utility rates.¹⁷

Indeed, Pennsylvania appellate precedent holds as follows:

[T]he power to fix “just and reasonable” rates imports a flexibility in the exercise of a complicated regulatory function by a specialized decision-making body and that the term “just and reasonable” was not intended to confine the ambit of regulatory discretion to an absolute or mathematical formulation but rather to confer upon the regulatory body the power to make and apply policy concerning the appropriate balance between prices charged

¹⁶ *Pa. P.U.C. v. PECO Energy Co. – Elec. Div.*, Docket No. R-2015-2468981 (Opinion and Order entered Dec. 17, 2015), pp. 6-7; *see also* PAWC 2020 Rate Case Order, pp. 11-14.

¹⁷ *See Duquesne Light Co. v. Barasch*, 488 U.S. 299, 315-16 (1989) (“the Commission was not bound to the use of any single formula or combination of formulae in determining rates”) (quoting *FPC v. Hope Nat. Gas Co.*, 320 U.S. 591, 605 (1944)).

to utility customers and returns on capital to utility investors consonant with constitutional protections applicable to both.¹⁸

In short, “just and reasonable” rates, like the associated concept of a “fair return,” are not point values. Rather, both “just and reasonable” rates and a “fair return” exist within a “constitutional range of reasonableness.”¹⁹ And there are a variety of ways in which the parameters of the “constitutional range of reasonableness” can be determined. As long-standing Commission precedent establishes, one important way to identify an outcome that is within the acceptable “range” is through the settlement process. In that way, parties with differing interests engage in an adversarial process to scrutinize the evidence supporting a rate request and, based on robust negotiations, agree to a reasonable overall result.

Applying the ratemaking principles discussed above and the standards employed by the Commission for assessing settlements, the revenue level set forth in the Settlement is reasonable, in the public interest and should be approved. As previously explained, the significant increase in the Company’s plant in service projected over the next two years, and rising labor and materials costs, among other factors detailed in the testimony of PECO’s witnesses, present a compelling case for significant rate relief.

Moreover, with respect to the *Bluefield*, *Hope*, and *Barasch* standards, the Settlement carefully balances (1) the right of the Company and its investors “to earn a return on the value of the property which it employs for the convenience of the public” and “to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties” with (2) the right of customers to pay rates that are commensurate with “business undertakings which are attended by corresponding risks and uncertainties” without providing the utility

¹⁸ *Pa. P.U.C. v. Pa. Gas & Water Co.*, 424 A.2d 1213, 1219 (Pa. 1980).

¹⁹ *Duquesne Light*, 488 U.S. at 312. See also *Pa. Gas & Water Co.*, *supra*.

“profits . . . realized or anticipated in highly profitable enterprises or speculative ventures.”²⁰

That balance is ensured by the fact that parties legally obligated to protect consumers and the public interest vigorously investigated all aspects of the Company’s proposed increase and concluded that the Settlement Rates are just and reasonable. Similarly, the Company carefully considered the proposed revenue increase in light of the obligation to its investors to secure a reasonable opportunity to earn a fair return, maintain the financial stability of its business, and obtain needed capital on reasonable terms. The Company concluded that the Settlement Rates satisfy those criteria. The careful balance of interests achieved by the Settlement avoids what could have been a significant expenditure of time, money, and other resources by the parties and the Commission to individually resolve a number of issues and proposed adjustments that have now been subsumed by the interrelated compromises that led to the Settlement. Those savings are in everyone’s interest and, in themselves, are another important reason why the Settlement promotes the public interest.

B. Electric Base Rate Stay-Out (Joint Petition, Paragraph 15)

Paragraph 15 sets forth the Company’s agreement to a base rate stay-out. Specifically, it provides that PECO will not file for another general rate increase under Section 1308(d) for its electric operations prior to March 16, 2026. The stay-out provision will provide customers base rate stability for a period of at least approximately two years.

C. Revenue Allocation and Rate Design (Joint Petition, Paragraphs 16-18)

As required by the Commission’s filing requirements, PECO submitted a fully-allocated class cost of service study (the “COSS”), which was prepared and sponsored by Company witness Tamara J. Jamison (PECO St. 6 and accompanying exhibits). Ms. Jamison applied well-

²⁰ *Bluefield, supra.*

established cost-of-service principles and well-accepted COSS procedures to functionalize and classify the Company's total cost of providing electric distribution service and to allocate the functionalized and classified costs among its major rate classifications. PECO St. 6, pp. 5-31.

The OCA and the OSBA proposed several revisions to PECO's COSS (OCA St. 3, pp. 8-20; OCA St. 3SR, pp. 4-9; OSBA St. 1, pp. 6-10; OSBA St. 1-SR, pp. 4-5), some of which Ms. Jamison accepted, and Ms. Jamison explained why the others were not warranted. *See* PECO St. 6-R, pp. 2-6. Although PAIEUG witness Billie S. LaConte did not propose any revisions to PECO's COSS in this case, she claimed that the COSS results diverge from prior rate cases due to "anomalous" non-coincident peak ("NCP") data. Based on that claim, she recommended an alternative revenue allocation based on average historical load factors from the Company's previous rate cases. PAIEUG St. 1, p. 9-12; PAIEUG St. 1-R, pp. 8-9. However, as Ms. Jamison explained, the NCPs used in the COSS in this case are based on actual system data and are closer to 10-year averages overall than the NCPs used in PECO's 2021 and 2018 electric rate cases COSSs. *See* PECO St. 6-R, p. 7; PECO St. 6-SR, pp. 2-3.

Revenue Allocation (Joint Petition, Paragraph 16). Although complete agreement could not be reached among all the Joint Petitioners with respect to either the COSS or the revisions to that study proposed by the OCA and the OSBA, there was no dispute that a COSS should be used as a guide and that the Commission has long recognized that the movement toward cost of service should be tempered by the concept of gradualism in order to avoid large, disruptive, one-time increases to any particular customer class. That was the approach the Company employed to develop its proposed revenue allocation and rate design in this case, as explained by PECO witness Joseph A. Bisti. *See* PECO St. 7, pp. 3-5; PECO St. 7-R, pp. 5-8; PECO St. 7-SR, pp. 2-3.

The allocation of the revenue increase under the Settlement Rates was subject to careful consideration and detailed negotiations among the Joint Petitioners. As a result, the Joint Petitioners were able to reach agreement on the allocation among customer classes of the revenue increase under the Settlement Rates that is depicted in Paragraph 16 of the Joint Petition. That allocation provides for reasonable movement toward the system average rate of return by the various customer classes as measured by the Company's COSS. Accordingly, the revenue allocation effected by the Settlement Rates and depicted in Paragraph 16 of the Joint Petition is consistent with the Commonwealth Court decision in *Lloyd v. Pennsylvania Public Utility Commission*, 904 A.2d 1010 (Pa. Commw. Ct. 2006). Moreover, as the Commonwealth Court recognized in pre-*Lloyd* decisions, which were not disturbed by its holding in *Lloyd*, "there is no single cost of service study or methodology that can be used to answer all questions pertaining to costs"²¹ nor is there any "set formula for determining proper ratios among rates of different customer classes."²²

Rate Design (Joint Petition, Paragraphs 17-18). The Joint Petitioners' litigation positions regarding rate design differed somewhat from each other and from the Company's proposed rates. The principal areas of disagreement related to the level of PECO's fixed distribution service charges (i.e., customer charges) for the Residential ("Rate R") and Residential Heating ("Rate RH") classes. As explained by Ms. Jamison, PECO's proposed residential customer charge was supported by the same type of customer cost analysis that the Commission approved in a 2012 PPL Electric Utilities Corp. ("PPL") base rate case and a 2004

²¹ *Executone of Phila., Inc. v. Pa. P.U.C.*, 415 A.2d 445, 448 (Pa. Commw. Ct. 1980).

²² *Peoples Nat. Gas Co. v. Pa. P.U.C.*, 409 A.2d 446, 456 (Pa. Commw. Ct. 1979).

Aqua Pennsylvania (“Aqua”) base rate case²³ as the basis for the customer charges it adopted in those cases. PECO St. 6-R, pp. 13-15.

As part of the Settlement, the Joint Petitioners have agreed that the residential customer charge should be \$11.25 per month in lieu of a charge of \$14.28 per month proposed by the Company in its initial rate case filing (Joint Petition, Paragraph 17 and Appendix A). The residential customer charge is fully supported by the detailed analysis of customer-related costs conducted by Ms. Jamison (PECO Exhibit TJJ-4), who followed the Commission’s guidance in the *Aqua 2004*, *PPL 2012*, *UGI Electric 2018* and *Aqua 2022* decisions. That analysis shows that the customer-related costs for residential customers support customer charges of \$33.28 and \$33.58 per month for Rate R and Rate RH, respectively.

In addition, Paragraph 18 reflects the Joint Petitioners’ agreement resolving issues between the OCA and PECO pertaining to the offset factor applied to reconcilable Customer Assistance Program (“CAP”) costs recovered through the Company’s Universal Services Fund Charge. *Compare* OCA St. 4, pp. 92-99 *and* OCA St. 4SR, pp. 2-4 *with* PECO St. 10, pp. 4-7; PECO St. 3-R, pp. 25-26; PECO Ex. MJT-7; PECO St. 10-R, pp. 24-25 *and* Tr. 672-73 (Trzaska).

Reasonableness of the revenue allocation and rate design provisions of the Settlement. Every rate proceeding consists of two parts. First, the overall revenues to which a utility is entitled must be determined. The second part of the process is determining how much of the total revenue requirement each rate class should bear. The allocation of revenue

²³ *Pa. P.U.C. v. PPL Elec. Utils. Corp.*, Docket No. R-2012-2290597 (Opinion and Order entered Dec. 28, 2012), pp. 124-32; *Pa. P.U.C. v. Aqua Pa., Inc.*, R-00038805 (Opinion and Order entered Aug. 5, 2004) (“*Aqua 2004*”); *see also* *Pa. P.U.C. v. Aqua Pa., Inc.*, R-2021-3027385 (Opinion and Order entered May 16, 2022) (“*Aqua 2022*”), pp. 268-69; *Pa. P.U.C. v. UGI Utils., Inc. – Elec. Div.*, R-2017-2640058 (Opinion and Order entered Oct. 4, 2018) (“*UGI Electric 2018*”), pp. 173-76.

responsibility can be one of the more contentious parts of a rate proceeding because it is a “zero sum” exercise among the non-utility parties – any revenue responsibility not borne by a particular rate class must be borne by one or more other rate classes. While cost-of-service studies are the touchstone for reasonable allocations of revenue responsibility among rate classes,²⁴ the Commission has often stated that cost-of-service analyses must reflect the exercise of judgment and are as much a matter of art as of science.²⁵ For that reason, Pennsylvania appellate courts have repeatedly held that the Commission, in crafting a reasonable rate structure, is “invested with a flexible limit of judgment” and may establish just, reasonable and nondiscriminatory rates within a “range of reasonableness.”²⁶

Thus, establishing a reasonable revenue allocation requires a careful balancing of the countervailing interests of the non-utility parties representing the various customer classes. Accordingly, this aspect of a rate proceeding is particularly well suited to achieving a reasonable overall outcome based on the give-and-take of the settlement process. That is precisely what occurred in this case, which resulted in a complete settlement of all contested issues involving revenue allocation and rate design among a wide array of parties representing the interests of residential, commercial, and industrial customers.

While settlement negotiations among parties representing a wide array of customer and stakeholder interests can, in themselves, ensure a reasonable outcome, the revenue allocation under the Settlement Rates also comports with well-accepted ratemaking principles. As previously explained, although some parties proposed revisions to the COSS, the Joint

²⁴ See *Lloyd v. Pa. P.U.C.*, *supra*.

²⁵ See *Pa. P.U.C. v. Phila. Suburban Water Co.*, 75 Pa. P.U.C. 391, 440 (1991).

²⁶ *U.S. Steel Corp. v. Pa. P.U.C.*, 390 A.2d 865, 872 (Pa. Commw. Ct. 1978).

Petitioners are in general agreement that the Settlement Rates make appropriate progress in moving all classes closer to their cost of service consistent with the principle of gradualism.

With respect to rate design, the Settlement Rates reflect the need to recover the customer component of total cost of service in the customer charge, while recognizing that increases in the customer charges can impact low-usage customers. Accordingly, the Settlement Rates provide for an increase in PECO's Rate R and Rate RH customer charges, but in a lesser amount than the customer charges that the Company originally proposed.

For all the foregoing reasons, the proposed revenue allocation and rate design are reasonable, appropriately balance the interests of all parties, and are in the public interest.

D. FPFTY Reports (Joint Petition, Paragraph 19)

In its initial filing, PECO developed its FPFTY revenue requirement employing plant-in-service balances and other rate base elements projected as of the end of the FPFTY (December 31, 2025). I&E proposed that the Company update PECO Exhibit MJT-2, Schedule C-2 by April 1, 2025, and PECO Exhibit MJT-1, Schedule C-2 by April 1, 2026, to include actual capital expenditures, plant additions, and retirements by month for 2024 and 2025, respectively. I&E St. 3, pp. 6-7. PECO has agreed to provide such updates, as set forth in more detail in Paragraph 19 of the Joint Petition (*see also* PECO St. 3-R, p. 4). In addition, PECO agrees that in its next base rate proceeding, it will prepare a comparison of its actual expenses and rate base additions for the twelve months ended December 31, 2025 to its projections in this case.

E. DSIC (Joint Petition, Paragraphs 20-22)

Section 1358(b)(1) requires that a utility's DSIC be reset at zero on the effective date of new base rates. Section 1358(b)(2) specifies when, after such a "reset," a utility may begin to

charge a DSIC. In its Supplemental Implementation Order,²⁷ the Commission has set forth its criteria for determining when a utility may charge a DSIC following a base rate “reset.”

The Settlement provides that the DSIC rate will be reset to zero effective January 1, 2025, PECO will not implement a DSIC during the calendar year ending December 31, 2025 and the first DSIC in 2026 will be effective no earlier than March 31, 2026. In any event, and consistent with the requirements of the Supplemental Implementation Order, the Company will not begin to impose a DSIC until the total aggregate gross plant costs (before depreciation or amortization) associated with the eligible property that has been placed in service exceed the baseline of gross plant balances shown in Appendix C of the Joint Petition (which total \$11,503,005,000). This provision relates solely to the calculation of the DSIC during the time that the Settlement Rates are in effect. *See* Joint Petition, ¶¶ 20-21.

As explained in Section II.A. above, the revenue requirement elements of the Settlement reflect, for the most part, a matrix of compromises by the Joint Petitioners, and therefore, specific ratemaking adjustments are not spelled out in the Joint Petition, subject to limited exceptions. The Joint Petitioners have recognized that, notwithstanding the “black box” nature of the Settlement regarding revenue requirement, it is important to resolve, as part of the Settlement, the rate of return on equity that Joint Petitioners agree should be used by the Company in computing the Company’s DSIC revenue requirement. To that end, the Joint Petitioners have agreed and stipulated in Paragraph 23 of the Joint Petition that the Company shall use the rate of return on equity as calculated for electric utilities and published in the “Bureau of Technical Utility Services [(‘TUS’)] Report on the Quarterly Earnings of

²⁷ *Implementation of Act 11 of 2012*, Docket No. M-2012-2293611 (Final Supplemental Implementation Order entered Sept. 21, 2016) (“Supplemental Implementation Order”).

Jurisdictional Utilities” for the most recent quarter for calculating the return on equity component of the Company’s DSIC. The TUS calculation is a recognized and accepted benchmark return on equity for use in calculating revenue requirement under the DSIC. Moreover, TUS regularly updates its calculation to reflect changes in market-determined equity costs based on a clearly stated methodology and database. A term like Paragraph 23 has been adopted in settlements of numerous base rate cases for major utilities that employ a DSIC.

F. Storm Reserve Account (Joint Petition, Paragraphs 23-24)

In its initial filing, the Company requested deferred accounting authorization via the proposed Storm Reserve Account for storm damage expense to protect both PECO and customers from variations between forecasted expense (using a 60-month historic average ending March 31, 2024) and actual expense due to the unpredictability of weather events. PECO St. 3, pp. 70-75; PECO St. 3-R, pp. 21-25. I&E and the OCA opposed PECO’s proposed Storm Reserve Account and proposed a rate allowance based on a five calendar-year historic average of actual storm damage expense (2019-2023). *See* I&E St. 1, pp. 36-40; I&E St. 1-SR, pp. 35-40; OCA St. 1, pp. 39-41; OCA St 1SR, pp. 19-20. Paragraph 23 acknowledges that, in order to reach the Settlement, the Company’s proposed Storm Reserve Account was withdrawn for purposes of this case without prejudice. In addition, Paragraph 24 sets forth the Joint Petitioners’ agreement that PECO shall be permitted to recover up to \$22.8 million for storm damage costs incurred in January 2024, subject to review for reasonableness and prudence, in the Company’s next rate case.

G. Universal Service Programs (Joint Petition, Paragraphs 25-41)

1. Customer Assistance Program (Joint Petition, Paragraphs 25-27)

Witnesses for the OCA and TURN/CAUSE-PA each made recommendations concerning PECO’s CAP, including that PECO should: (1) participate in the Department of Human

Services (“DHS”) data sharing program; (2) perform routine Universal Services screening for new, moving and non-emergency calls, including a warm transfer process if necessary; (3) automatically enroll or recertify customers following receipt of a Low-Income Home Energy Assistance Program (“LIHEAP”) grant; (4) make additional customer contacts during disconnection and reconnection related to CAP; (5) provide “stand alone” noticing related to CAP; (6) recognize additional exemptions to the maximum CAP credits; (7) change the timing and content of the maximum credit notification letter and evaluate customers approaching their maximum credit for PECO’s Low-Income Usage Reduction Program (“LIURP”); and (8) adjust maximum CAP credits when the Price-to-Compare changes. OCA St. 4, pp. 37-42; TURN/CAUSE-PA Sts. 1, pp. 28-41 & 1-SR, pp. 18-26. City/PEA witnesses expressed concern that participation in the City’s “Solar for All” program may conflict with participating in CAP and made recommendations regarding City involvement in data collection and reporting. City/PEA Sts. 3, pp. 5, 10-12 & 3-SR, pp. 1-3.

In response to those proposals, PECO witness Jacqueline F. Golden explained PECO’s existing screening strategies, described the Company’s current processes that provide customers with appropriate information about the availability of CAP and explained the challenges associated with auto-enrollment of LIHEAP recipients into CAP and why additional exemptions to the maximum CAP credits are not warranted. *See* PECO St. 10-R, pp. 8-19; Tr. 752-53.

Under the Settlement PECO will implement several measures to benefit CAP customers, including: (1) participation in the DHS data sharing program in a manner consistent with the Commission’s June 13, 2024 data sharing order at Docket No. M-2023-3038944 and (2) addition of PECO’s health usage rider exemption language to the maximum CAP credit notification letters. In addition, PECO will convene a stakeholder collaborative by July 1, 2025 to discuss

how PECO could implement automatic enrollment of non-CAP LIHEAP grant recipients in CAP. Joint Petition, ¶¶ 25-27.

**2. Low-Income Usage Reduction Program (“LIURP”)
(Joint Petition, Paragraphs 28-31)**

TURN/CAUSE-PA recommended several changes to PECO’s LIURP, including: (1) increasing the annual budget by \$4.4 million; (2) revising the high usage eligibility threshold to account for usage on a per-square foot basis; (3) improving direct solicitation to high usage CAP customers; and (4) reporting to the Universal Services Advisory Committee (“USAC”) about (i) barriers and solutions regarding tenant issues and (ii) barriers and solutions regarding coordination with other home repair and weatherization programs. *See* TURN/CAUSE-PA St. 1, pp. 42-52; TURN/CAUSE-PA St. 1-SR, pp. 29-32. In her rebuttal testimony, Ms. Golden explained that TURN/CAUSE-PA’s criticisms of the success of PECO’s LIURP narrowly looks at individual statistics in isolation, PECO works with customers who are renters to minimize barriers to accessing LIURP and appropriately engages the USAC and program partners on various LIURP issues. *See* PECO St. 10-R, pp. 19-22.

Under the Settlement, PECO will increase its annual LIURP budget by \$1 million (from \$6.6 million to \$7.6 million). In addition, PECO will provide an overview of how the Company targets CAP customers approaching their maximum CAP credit for LIURP services at the USAC meeting held in the third quarter of 2025, and the Company will track and report annually to its USAC on the number of LIURP jobs deferred due to Health & Safety issues with the home or other extenuating circumstances and the reasons for deferral. PECO will also provide the City with the CAP and LIURP information that is currently provided to the USAC on a quarterly basis. Joint Petition, ¶¶ 28-31.

3. Matching Energy Assistance Fund (“MEAF”) (Joint Petition, Paragraphs 32-34)

PECO’s existing MEAF is funded through voluntary donations that are matched up to \$300,000 with shareholder funds. As explained by Ms. Golden, PECO proposed to change the maximum allowable MEAF grant from \$500 to \$1,000 per account to expand the number of customers who may qualify for assistance. PECO St. 10, pp. 9-10; PECO St. 10-R, pp. 22-23. TURN/CAUSE-PA made several recommendations related to PECO’s MEAF, including that: (1) MEAF grant amounts be increased to \$1,000 for baseload electric service with an additional \$1,000 for heating customers; (2) MEAF funds be distributed proportional to low-income populations in each county; and (3) PECO replace MEAF’s zero balance requirement with a requirement that a grant be sufficient to “resolve the crisis”; (4) PECO monitor the performance of each MEAF agency including requiring monthly reports from each agency; (5) PECO file monthly reports on the status and availability of MEAF; and (6) MEAF operation issues be referred to the Commission’s Bureau of Audits and I&E. TURN/CAUSE-PA St. 1, pp. 52-71; TURN/CAUSE-PA St. 1-SR, pp. 33-42.

Under the Settlement, PECO agreed to several changes to improve access to its MEAF program, including: (1) setting maximum grants at \$1,250 per account; (2) replacing the zero balance requirement with the amount stated on the termination notice or as otherwise agreed to by PECO; (3) additional MEAF reporting requirements at USAC meetings; (4) more oversight of MEAF agencies; and (5) expanded information regarding applying for MEAF on the Company’s website. *See* Joint Petition, ¶¶ 32-34.

4. Other PECO Commitments to Enhance Assistance to Low-Income Customers (Joint Petition, Paragraphs 35-41)

In this case, PECO proposed a \$300,000 increase to the existing \$500,000 annual expanded outreach budget in order to build upon existing outreach efforts and increase virtual enrollment opportunities for a range of residential customer offerings available to low-to-moderate income (“LMI”) customers. *See* PECO St. 10, pp. 11-13; PECO St. 10-R, pp. 3-6. While that proposal was not contested, witnesses for the OCA, TURN/CAUSE-PA, and the City/PEA expressed concerns about affordability in response to PECO’s proposed base rate increase and made several recommendations to increase assistance to low-income customers. *See* OCA Sts. 4, pp. 11-55, 65-70 & 4SR, pp. 14-18; TURN/CAUSE-PA Sts. 1, pp. 10-22 & 1-SR, pp. 10-17; City/PEA Sts. 1, pp. 3-8, & 1-SR, pp. 2-4. In response to those concerns, PECO witness Golden explained the Company’s robust outreach efforts, PECO’s current use of a natural language processing analytics solution to identify opportunities to improve processes and customer service representative performance, and the Company’s existing termination noticing process that already provides customers with appropriate information about the availability of assistance programs. PECO St. 10-R, pp. 3-6, 11-13; Tr. 748-52.

The Settlement includes various commitments to connect PECO customers in need with programs that can reduce their bill and enhance assistance to low-income customers, including: (1) extending the future utilization of speech analytics to assist with quality monitoring of calls concerning universal service programs and other low-income customer issues; (2) using confirmation of low-income status in its billing system to establish a customer’s payment arrangement length of up to five years; (3) seeking Commission approval for additional language in PECO’s 10-Day Termination Notice about the availability of assistance programs that may stop disconnection of service for non-payment; (4) providing customers eligible for the Cold

Weather Service with a CAP application, a Universal Services Program Information Sheet (one pager), and information regarding PECO's Residential Heating rate; and (5) upon application and approval for enrollment in CAP as a first time CAP customer, reconnecting non-CAP customers identified as confirmed low-income customers in PECO's system prior to disconnection at a reduced restoration amount and enroll those customers in CAP upon reconnection. PECO will also hold semi-annual meetings with the City and the PEA, the first being prior to December 31, 2025, in order to expand outreach opportunities in low-income areas and language access improvements. Joint Petition, ¶¶ 35-39, 41.

H. Customer Service and Consumer Protections (Joint Petition, Paragraphs 42-52)

1. Call Center Performance (Joint Petition, Paragraph 42)

OCA witness Nicolas A. DeMarco recognized recent improvements in PECO's call center performance in terms of wait times and call abandonment rate, but recommended that PECO conduct further analysis on how to improve first call resolution and investigate call handling issues that have not been resolved since the Commission's Bureau of Audit's "PECO Energy Company Management and Audits Report" issued in July 2022 at Docket No. D-2021-3023906 ("2022 Audit Report"). OCA St. 5, pp. 11-15; OCA St. 5-SR, pp. 10-13. PECO witness Golden explained that PECO is already focused on improving first contact resolution and driving high levels of customer satisfaction. PECO St. 10-R, pp. 46-47. Under the Settlement, PECO agreed to investigate any material issues with call handling that were identified in the 2022 Audit Report which have not been resolved by the actions PECO agreed to take in its implementation plan for the audit report. PECO will file a report on its investigation within six months of the effective date of the new rates established in this proceeding. Joint Petition, ¶ 42.

2. Low-Income Customer Security Deposits and Disconnections (Joint Petition, Paragraphs 43-45)

TURN/CAUSE-PA made several recommendations concerning security deposits, including that PECO: (1) educate customers about the low-income security deposit exemption and income screen customers prior to assessing a security deposit; (2) within 30 days of a final order in this proceeding, review all prior security deposit collections from low-income customers, issue refunds and continue the monthly review moving forward; and (3) issue refunds directly to the customer, with an account credit used only if a customer provides explicit and informed consent. *See* TURN/CAUSE-PA St. 1, p. 81.

OCA made recommendations concerning security deposit and termination processes, including that: (1) PECO should conduct a root cause analysis to determine and address the cause of an alleged “disproportionate” level of disconnections in certain zip codes with relatively greater numbers of Black households; (2) PECO’s risk analysis methodology underlying its disconnection of service and cash security deposits should be subject to a public review by the Bureau of Consumer Services and stakeholders; and (3) PECO’s electric tariff be modified to state that its credit scoring methodology “does not directly, or have the effect of, discriminating based on a protected class as set forth in the federal Equal Credit Opportunity Act.” *See* OCA St. 4, pp. 60-69.

In response to the TURN/CAUSE-PA proposals, PECO witness Golden explained that PECO’s existing security deposit processes are appropriate and already provide for customer refunds or credits upon income verification. Ms. Golden further stated that OCA’s recommendations were not warranted because PECO’s termination procedures, credit scoring, and other processes are applied equally to all customers and the Company does not target

specific zip codes or classes of individuals or even track customer demographics such as race for purposes of disconnection. *See* PECO St. 10-R, pp. 6-8, 31-33.

Under the Settlement, PECO has agreed to implement several measures related to security deposit and termination policies to address the concerns and proposals of other parties, including that: (1) PECO will, by April 1, 2025 and then moving forward on a quarterly basis, review all accounts where a security deposit was previously collected from a customer with verified income less than or equal to 250% of the Federal Poverty Level (“FPL”) and if PECO determines it is holding a security deposit for a confirmed low-income customer (less than or equal to 150% FPL), refund that amount unless the customer has given explicit and informed consent for the deposit to be applied to the customer’s account; (2) PECO will, by April 1, 2025, update its security deposit letter to include information about the low-income security deposit waiver; and (3) within 12 months from the date rates go into effect, PECO will conduct an assessment of the disconnection of service and cash security deposits issues raised by OCA witness Roger Colton in his Direct Testimony (OCA Statement No. 4, pp. 65-69) and meet with the OCA, CAUSE-PA, and TURN to discuss PECO’s efforts to ensure that Environmental Justice communities are not inadvertently disproportionately impacted by terminations of service or requests for security deposits. Joint Petition, ¶¶ 43-45.

3. Language Access (Joint Petition, Paragraph 46)

TURN/CAUSE-PA made several recommendations related to language access, including that PECO should: (1) track the primary language of its customers as part of its customer information system; (2) send residential bills (or key portions thereof) and residential termination notices in English and Spanish to all households; and (3) include a tagline about interpretation

service in five languages on residential customer bills and termination notices. *See* TURN/CAUSE-PA St. 1, pp. 72-77.

In response to the TURN/CAUSE-PA proposals, PECO witness Golden explained how PECO's existing processes to address language access issues are appropriate and meet or exceed Commission requirements. For example, PECO's termination notices and bills already include a sentence in Spanish explaining how to contact the Company for assistance, PECO's website can be translated into Spanish and Simplified Chinese, customers who call PECO have access to translation services in over 100 languages, and outreach events are held with PECO representatives fluent in Spanish or with interpreters if requested. *See* PECO St. 10-R, pp. 29-30.

Under the Settlement, PECO agreed to: (1) continue its Limited English Proficiency stakeholder meetings as agreed to in the Joint Petition for Settlement at Docket No. R-2021-3024601 until the later of its next electric or gas base rate case filing; and (2) discuss, at the first of such meetings, issues for consideration in any proposal to: (a) add taglines to residential customer bills; and (b) send shutoff notices that are in both English and Spanish. Joint Petition, ¶ 46.

4. Determination of Residential Heating Type (Joint Petition, Paragraphs 47-48)

TURN/CAUSE-PA recommended additional customer touchpoints to determine if a customer is properly on Rate R or Rate RH, such as when a new customer account is opened, during LIURP audits, when a Rate R customer is approaching their CAP credit maximum, and when a Rate R customer has high winter usage. TURN/CAUSE-PA also recommended revisions to tariff language to allow customers to enroll in Rate RH if they rely on electric heating equipment as a primary or supplementary heating source. TURN/CAUSE-PA St. 1, pp. 82-88.

In response to the TURN/CAUSE-PA proposals, PECO witness Golden explained how PECO's existing processes to collect information about heat type are appropriate. For example, customers indicate their heat type when submitting a service and meter application and may contact the Company to switch to Rate RH if they install qualifying primary electric heating equipment. The Company also may collect information during a high bill dispute call to facilitate a switch to Rate RH. *See* PECO St. 10-R, pp. 30-31.

Under the Settlement, no later than April 1, 2025, PECO agreed to make the following changes to increase customer awareness of Rate RH: (1) customers opening a new account will be asked questions to determine whether they use electricity as their primary heating source in accordance with PECO's Tariff and provided with information about the availability of and requirements for switching to Rate RH; and (2) PECO will identify customers who are potentially eligible for Rate RH in accordance with PECO's Tariff when performing a LIURP audit and provide the customer with information about requirements for switching to Rate RH. PECO further agreed to convene a collaborative, no later than December 31, 2025, with interested parties to this proceeding to discuss Rate RH availability to customers, including the equipment specifications identified in the tariff. Joint Petition, ¶¶ 47-48.

5. Payment Processing (Joint Petition, Paragraphs 49-50)

The OCA recommended that PECO eliminate any direct customer fees associated with different bill payment methods, work to negotiate lower third-party processing fees, and include any third-party processing fees in the Company's revenue requirement. OCA further recommended that PECO be required, in its next rate case, to propose the complete elimination of fees for bill payment using credit and debit cards and to present a full cost analysis. *See* OCA St. 5, pp. 20-21; OCA St. 5SR, pp. 14-17.

In response to the OCA's concerns, PECO witness Golden explained that PECO offers multiple no fee payment options (e.g., payments by US mail, electronic payments via MyAccount) and reimburses the fee associated with paying by check or cash at authorized bill payment locations (e.g., large retail stores and drug stores). The fees assessed for payments made outside of PECO's no-fee payment options are primarily associated with the processing of debit and credit card payments and are collected by the third-party processing vendor. PECO's revenue requirement could potentially increase by a minimum of \$5 million annually if the Company included third-party processing vendor fees associated with residential payments. *See* PECO St. 10-R, pp. 48-50.

Under the Settlement, PECO will undertake a good faith effort to negotiate lower payment processing fees with third-party vendors when it negotiates its next contract. In addition, as described in detail in the Settlement, PECO has agreed to do the following in its next base rate filing: (1) provide, for the most recent 24 months available, the monthly number of residential payments by credit card and by debit card and the fee charged for each type of transaction; and (2) propose to eliminate all payment processing fees, or, provide detailed information supporting the Company's decision to not make such a proposal. Joint Petition, ¶¶ 49-50.

6. Large Customer Account Management (Joint Petition, Paragraphs 51-52)

The City/PEA and SEPTA raised concerns relating to PECO's large customer account management and billing issues experienced by these large customers. The City/PEA recommended that PECO establish service-level agreements for requests handled by account managers, for routine billing questions as well as requests surrounding sustainability projects in order to ensure customer needs are met in a timely manner. *See* City/PEA St. 2, pp. 11-13.

SEPTA recommended that PECO resume providing access to Installed Capacity (“ICAP”) and Network Integration Transmission Service (“NITS”) data on the Company’s customer portal.

See SEPTA St. 1, p. 14.

In response to these concerns, PECO witness Golden explained the Company’s existing processes to ensure that large customer needs are being met on a timely and consistent basis. Large customers, such as the City and SEPTA, are assigned an Account Manager (“AM”) who works directly with the customer and is available to receive questions and concerns on a 24/7 basis. The City’s AM, for example, is responsible for a wide range of activities such as: consolidating, reviewing and distributing invoices for each City department; reviewing all new service requests from City departments; collaborating with City teams to resolve customer concerns; serving as the emergency contact for outage-related concerns; and supporting the City’s sustainability efforts through check-in meetings and gathering and providing relevant information. Each large customer also has an assigned “back up” AM and is provided with a toll-free number for the on-duty shift manager in case of urgent after-hours needs. Finally, prior to the implementation of a new billing system in 2024, PECO met regularly with large customers like the City and SEPTA to discuss implementation timeline and related administrative matters. The Company has been in frequent contact through the process. See PECO St. 10-R, pp. 33-41.

Under the Settlement, PECO agreed to establish annual meetings with the City of Philadelphia to review PECO’s next 3-5 year plans for currently identified projects within the city limits that will either (1) retire substations; or (2) involve projects that include conversions to higher primary voltages. PECO also agreed to establish a municipal customer “mailbox” which will notify PECO when municipalities have submitted applications for interconnections and/or incentives for energy efficiency/clean energy projects and will further develop a system

for sharing the status of PECO’s response to those applications. In addition, PECO agreed to: (1) hold semi-annual meetings with key stakeholders at the City to review account management, billing, the City’s transportation electrification plan, and strategic initiatives which impact both the City and PECO; (2) create a shared document for real-time tracking of open customer service and billing issues reported by the City/PEA to PECO; and (3) create a “knowledge book” that will assist the City with understanding PECO’s internal processes and procedures. Joint Petition, ¶¶ 51-52.

I. Electric Vehicle Programs (Joint Petition, Paragraphs 53-55)

In its initial filing, PECO proposed changes to both the EV-FC Pilot Rider and the EV Charging Pilot. *See* PECO St. 9, pp. 2-3 (providing charts summarizing the proposed changes). PECO proposed to extend the EV-FC Pilot Rider through 2030, modify the minimum demand requirement and the calculation of the demand credit to more equitably distribute the benefits of the EV-FC Pilot Rider, and make some clarifying changes to the tariff language. *See* PECO St. 9, pp. 21-31. The Company explained how the extension and modification of the EV-FC Pilot Rider is consistent with the Commission’s proposed Policy Statement for Electric Utility Rate Design for Electric Vehicle Charging (Docket No. M-2023-3040755). *See id.*, pp. 30-31. The Company also proposed to extend the term of the EV Charging Pilot by five years through 2029 and implement several improvements such as simplifying the Level 2 (“L2”) Program incentive process and extending the data provision requirement to include all EV service equipment (“EVSE”) at a participating premise. *See id.*, pp. 11-19.

Several parties generally supported continuation of the pilots and some recommended modifications to pilot components or activities. Walmart recommended that the Commission approve the proposed extension of the EV-FC Pilot Rider. *See* Walmart St. 1, pp. 6, 23. The

OCA stated that PECO's proposals were "reasonable" and a "directional improvement," but recommended that: (1) both the EV Charging Pilot and EV-FC Pilot Rider end on May 31, 2029 to align with the anticipated end of PECO's next default service period; (2) PECO provide more detailed data collection updates within existing work group meetings; (3) PECO evaluate submetering for networked L2 EVSE within the EV Charging Pilot; (4) PECO propose an EV-specific time-of-use rate or other dynamic rate that differentiates both supply and distribution for customers that are able to participate in both proposed EV pilots; (5) PECO develop a standard site evaluation methodology for EV charging sites to determine if Automated Load Management ("ALM") would be appropriate; and (6) PECO develop metrics and targets related to Direct Current Fast Chargers ("DCFCs") to inform decisions about any future customer-funded programming. *See, e.g.,* OCA St. 6, pp. 4-5, 9, 20; OCA St. 6SR, pp. 12-14.

EA found that PECO's proposed modifications to the EV-FC Pilot Rider generally aligned with the Pennsylvania's overall EV policy and both EA and EVgo recommended: (1) removal of any minimum demand provision in the EV-FC Pilot Rider; and (2) extension of the demand credit term under the rider through December 31, 2030. *See* EA St. 1, p. 5; EA St. 2, pp. 4-10; EVgo St. 1-R, pp. 7-8. EVgo further recommended that PECO conduct an evaluation of the modified EV-FC Pilot Rider and put forth a proposal for a permanent EV rate in its next base rate proceeding. EVgo St. 1, pp. 7-8.

The City/PEA proposed that large governmental customers be eligible for multiple, individual incentives for up to five departments under the EV Charging Pilot. City/PEA St. 2, p. 10. The City/PEA further recommended more broadly that PECO allow for bundled project documentation submittals for EV chargers. City/PEA St. 2, pp. 4-5.

PECO witness Steven J. DeMott addressed the proposals raised by other parties, including: (1) explaining that complete elimination of a minimum demand provision from the EV-FC Pilot Rider is not consistent with cost-of-service principles; (2) clarifying that data collection challenges are not preventing PECO from collecting EV Charging Pilot data; and (3) explaining that implementation of a potentially burdensome mandatory ALM site-evaluation protocol at an unknown cost is simply not prudent. *See* PECO St. 9-R, pp. 3-19; Tr. 734-740.

Under the Settlement, PECO has agreed to implement several EV-related measures to address the concerns of other parties, including: (1) extending the EV Charging Pilot and EV-FC Pilot Rider through May 31, 2029; (2) calculating the EV-FC Pilot Rider demand credit as 30%, rather than 20%, of the measured demand; and (3) working through PECO's transportation electrification collaborative working group in 2027 to evaluate the modified EV-FC Pilot Rider, determine whether a successor DC-FC rate is warranted, and if warranted, design such a successor rate and propose it to be effective upon the expiration of the EV-FC Pilot Rider. PECO has also agreed to: (1) treat the City, the Philadelphia Department of Aviation, the Philadelphia School District, Philadelphia Gas Works, and Philadelphia Industrial Development Corporation as separate customers from each other for purposes of determining the incentive cap for the EV Charging Pilot; and (2) receive information from the City regarding multiple potential EV charger sites and identify the locations with a high potential for serving the proposed load without a line extension. Joint Petition, ¶¶ 53-55.

J. Assistance with Clean Energy and Sustainability Programs (Joint Petition, Paragraphs 56-61)

The City/PEA raised concerns regarding the Company's support of customer's decarbonization efforts, as well as the Company's coordination with City/PEA programs. *See* City/PEA St. 1, pp. 11-12; City/PEA St. 2, pp. 2-5, 7-9; City/PEA St. 3, pp. 3-4, 14, 18. The

City/PEA recommended that PECO be required to keep a record of, and report publicly to the Commission, all energy transition projects (including, energy efficiency, renewable energy, and electrification projects) for which governmental entities request assistance in the form of financial support, interconnection or planning assistance, including the timing of PECO's response and outcome of the collaboration. *See City/PEA St. 3, p. 14.*

PECO witness Nicole LeVine explained that PECO is engaged in a wide variety of efforts to help customers with goals related to renewable energy, sustainability and decarbonization. For instance, the Company has engaged in a substantial program to convert distribution facilities to operate at higher voltages to facilitate more interconnection of customer-owned distributed generation. PECO has also streamlined interconnection processes for solar facilities, developed an interactive viability map to facilitate solar applications and solar interconnections, and automated the technical analysis for the majority of Level 1 and smaller Level 2 solar applications. The Company has further worked extensively with the City in particular to support the City's electrification efforts, including work to implement EV charging stations, partnering with the City on solar collaborative, and holding bimonthly calls for approximately seven years. *See PECO St. 1-R, pp. 16-27; Tr. 630-32.*

Under the Settlement, PECO agreed to hold annual meetings with PEA to assist with the development of PEA's outreach plan for low and moderate-income customers who are eligible for PEA's Solar for All program. Additionally, PECO will waive or refund the engineering study fee for Solar for All customers in certain instances. In relation to PEA's Built to Last Program, PECO agreed to coordinate with PEA to resolve any identified misalignment with the program and will continue to take referrals from the Built to Last program for possible participation in PECO programs. And finally, PECO agreed to provide further documents to the

City and PEA demonstrating Exelon Corporation's and PECO's planned and actionable progress towards reducing GHG emissions within the Company's service territory. Joint Petition, ¶¶ 56-61.

K. Interconnection Costs (Paragraph 62)

The City/PEA recommended that PECO evaluate the Company's cost-sharing policies for distribution infrastructure upgrades. *See* City/PEA St. 2, pp. 5-7; City/PEA St. 3, p. 10. The City/PEA raised concerns that PECO's current cost-sharing policies may be inequitable, especially to low-income customers, and create barriers to implementing renewable energy resources. *Id.* In her rebuttal testimony and at the evidentiary hearing, Ms. LeVine explained why PECO's current approach to cost sharing for infrastructure upgrades associated with new solar interconnections is equitable. *See* PECO St. 1-R, p. 21; Tr. 631.

Under the Settlement, PECO agrees to initiate collaborative communications with the City, PEA, the OCA, the OSBA, PAIEUG, TURN, and CAUSE-PA, and others if mutually agreed upon, to assess approaches to achieving a more equitable distribution of utility construction costs incurred to enable interconnection of distributed energy resources. If PECO and those parties are successful in developing a consensus approach by December 31, 2025, PECO agrees to propose that approach to the Commission by July 1, 2026. Joint Petition, ¶ 62.

L. Tariff Changes (Joint Petition, Paragraph 63)

Paragraph 63 acknowledges that the changes originally proposed by the Company in PECO Exhibit JAB-2 that were uncontested have been reflected in Appendix A.

M. Effective Date (Joint Petition, Paragraph 13)

The increase in revenues negotiated by the Joint Petitioners reflects their agreement that the Settlement Rates should become effective as of January 1, 2025. Upon the entry of a

Commission Order approving this Joint Petition, the Company will be permitted to file a tariff for electric service, in the form provided in Appendix A, to become effective on January 1, 2025.

III. SUMMARY: THE SETTLEMENT IS IN THE PUBLIC INTEREST

The Settlement, both in its specific terms and viewed holistically, is reasonable, supported by record evidence, and in the public interest for, among others, the following principal reasons:

- The revenue requirement provisions provide for Settlement Rates that are within the “constitutional range of reasonableness”²⁸ and are consistent with the legal standards articulated in the *Bluefield, Hope, and Duquesne Light* decisions, as interpreted and applied by the Pennsylvania Supreme Court in *Pennsylvania Gas & Water*. The Settlement Rates reflect a careful balance of the interests of customers with those of the Company and its investors. As such, the Settlement Rates protect customers from paying excessive rates while allowing the Company and its investors a reasonable opportunity to earn a fair return on their investment in property devoted to public service and to obtain additional capital needed to meet the Company’s service obligations. *See* Section II.A., *supra*.
- The rate structure and rate design provisions of the Settlement resolve a number of contentious issues in a manner that is acceptable to parties representing every major customer class and service classification. While the parties could not agree to a single, specific cost of service methodology, they are in general agreement that the Settlement Rates provide for reasonable progress in moving all major

²⁸ *See Duquesne Light, supra*.

customer classes closer to their cost of service consistent with the Commission-approved principle of gradualism. *See* Section II.C., *supra*.

- The Settlement reasonably resolves various contested issues, including, in particular, those pertaining to low-income customer and customer service issues, electric vehicle programs, and assistance with clean energy and sustainability programs, in a manner that is fair to the various stakeholders involved. *See* Sections II.D. – II.K., *supra*.
- In reaching this Settlement, the Joint Petitioners thoroughly considered all issues, including those raised in the testimony and evidence presented by the parties to this proceeding and during public input hearings. As a result of that consideration, the Joint Petitioners believe that the Settlement meaningfully addresses all such issues and, therefore, should be approved without modification.
- All of the foregoing benefits are achieved while also conserving the time, resources and money that would otherwise have to be expended if this case were to be fully litigated. Customers are direct beneficiaries of these savings.

IV. CONCLUSION

For the reasons set forth above and in the Joint Petition, PECO submits that the Settlement is a fair and reasonable compromise that is fully supported by the record evidence. Accordingly, the Company respectfully requests that the Administrative Law Judges and the Commission (1) approve the Settlement without modification; (2) find that the Settlement Rates are just and reasonable; and (3) grant the Company permission to file the electric tariff attached

to the Joint Petition as Appendix A to become effective for service rendered on and after January 1, 2025.

Respectfully submitted,



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Dated: September 12, 2024

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