PECO ENERGY COMPANY
STATEMENT NO. 3

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION
v.
PECO ENERGY COMPANY – ELECTRIC DIVISION

DOCKET NO. R-2021-3024601

DIRECT TESTIMONY

WITNESS: MICHAEL J. TRZASKA

SUBJECT: PRESENTING PECO'S OVERALL REVENUE REQUIREMENT AND SUPPORTING CERTAIN RATEMAKING ADJUSTMENTS

DATED: MARCH 30, 2021

TABLE OF CONTENTS

DIRECT TESTIMONY
OF
MICHAEL J. TRZASKA

I. INTRODUCTION AND PURPOSE OF TESTIMONY

1. Q. Please state your full name and business address.

A. My name is Michael J. Trzaska, and my business address is PECO Energy Company, 2301 Market Street, Philadelphia, Pennsylvania 19103.

2. Q. By whom are you employed and in what capacity?

A. I am employed by PECO Energy Company ("PECO" or the "Company") as a Principal Regulatory and Rate Specialist in the Regulatory Policy and Strategy Department. My duties and responsibilities in that capacity include performing financial analysis, project management and regulatory strategy for gas and electric operations throughout the Company's service territory. I am responsible for providing expert testimony on behalf of the Company with respect to various regulatory issues.

3. Q. Please describe your educational background.

A. I received a Bachelor of Science degree in Accounting from Drexel University in 1987 and a Master of Science in Finance degree from LaSalle University in 1996.

4. Q. Please describe your work experience in the energy industry.

A. Upon graduation from Drexel University in 1987, I was hired by PECO and have been with the Company since that time in various positions of increasing responsibility.

5. Q. What is the purpose of your direct testimony in this proceeding?

A. The principal purpose of my direct testimony is to explain the preparation and presentation of data supporting PECO's request for a general base rate increase for its electric distribution operations. More specifically, I explain how the components of the Company's overall revenue requirement were developed. This includes certain portions of the claimed measures of value and the pro forma ratemaking adjustments that were made to calculate the Company's revenue requirement based on data for a fully projected future test year ending December 31, 2022 ("FPFTY"), a future test year ending December 31, 2021 ("FTY"), and a historic test year ended December 31, 2020 ("HTY"). For purposes of supporting PECO's proposed increase in base rate distribution operating revenue under its proposed rates, the Company is relying principally upon data for the FPFTY.

6. Q. Are you sponsoring all or portions of any exhibits in this proceeding?

A. Yes. I am sponsoring PECO Exhibits MJT-1, MJT-2, and MJT-3. PECO Exhibits MJT-1, MJT-2, and MJT-3 comprise PECO's principal accounting exhibits for the FPFTY, the FTY, and the HTY, respectively. As explained by Mr. Robert J. Stefani (PECO Statement No. 2), PECO's Vice President, Chief Financial Officer and Treasurer, the base data for the FPFTY that I used to develop PECO Exhibit MJT-1 were derived, for the most part, from PECO's capital and operating budgets for the twelve months ending December 31, 2022, while the corresponding data for the FTY used to develop PECO Exhibit MJT-2 were derived from PECO's capital and operating budgets for the twelve months ending December 31, 2021. The data for the HTY used to develop PECO Exhibit MJT-3 are the data actually recorded in PECO's books of account for the twelve months ended December 31, 2020. In addition to sponsoring the exhibits described above, I am responsible for responses to certain Pennsylvania Public Utility Commission ("Commission") standard data filing requirements.

7. Q. Will you discuss separately PECO Exhibit MJT-1, PECO Exhibit MJT-2, and PECO Exhibit MJT-3?

A. Yes, I will. However, because PECO is basing its proposed rate increase on the adjusted FPFTY data, most of my direct testimony is devoted to explaining PECO Exhibit MJT-1. My testimony regarding PECO Exhibits MJT-2 and MJT-3, which are essentially identical in format to PECO Exhibit MJT-1, will briefly address the pro forma adjustments that were made to 2021 budget data and historic actual data, respectively, because the nature of those adjustments is the same or similar to adjustments that I will have already discussed in the context of PECO Exhibit MJT-1. However, I will specifically address any additional adjustments or other differences among those exhibits.

8. Q. How is the balance of your testimony structured?

A. In Section II, I present an overview of PECO's FPFTY revenue requirement and explain, in summary fashion, how the claimed measures of value, pro forma present rate revenues, operating expenses, depreciation, and taxes were determined. Section III of my testimony provides a more detailed description of the individual components comprising PECO's requested measures of value for the FPFTY, while Section IV discusses the derivation, including appropriate ratemaking adjustments, of PECO's revenue and expense claims for the FPFTY.

II. OVERVIEW OF PECO'S FULLY PROJECTED FUTURE TEST YEAR REVENUE REQUIREMENT

9. Q. Please provide an overview of how the Company's FPFTY measures of value were determined.

A. PECO's measures of value, as presented in PECO Exhibit MJT-1, consist of eight principal components: (1) the depreciated original cost of utility plant in service (original cost less accumulated depreciation); (2) accumulated deferred income taxes ("ADIT"); (3) a pension asset, which I will discuss hereafter; (4) customer deposits; (5) customer advances for construction; (6) material and supplies; (7) the regulatory liability for excess ADIT ("EADIT"); and (8) cash working capital. Each is described briefly below.

Depreciated Original Cost of Utility Plant in Service. To determine utility plant in service as of the end of the FTY, I began with the closing plant balances actually recorded on the Company's books of account at December 31, 2020, including allocated common plant. To those balances, I added the budgeted capital expenditures for PECO projects that are scheduled to close to plant in service (i.e., be placed into service) during the FTY and subtracted the anticipated plant retirements. The same process was used to develop utility plant in service balances as of the end of the FPFTY, beginning with the projected balances of plant in service at December 31, 2021, adding projected capital expenditures projected to be closed to plant in service by the end of the FPFTY, and subtracting anticipated retirements. The Company's claim for accumulated depreciation was determined in a similar fashion, starting with the accumulated depreciation at December 31, 2020 assigned to each plant account, and bringing those data forward to reflect additional depreciation accruals, plant retirements, and cost of removal net of salvage for 2021 and 2022. Accumulated depreciation at December 31, 2022 was then deducted from the projected balance of utility plant as of that date to derive the Company's claimed FPFTY year-end net utility plant of $7.1 billion.

ADIT. The credit balance of ADIT includes the liability for deferred federal income taxes, net of an offset (debit) for the ADIT assets related to federal income tax paid by the Company in advance of recognizing the associated tax determinants for financial reporting purposes, which consist principally of contributions-in-aid-of-construction ("CIAC") recognized as income for income tax purposes.

Pension Asset. As I will explain in more detail hereafter, PECO has included a pension asset in its measures of value that consists of the portion of PECO's actual historic cash pension contributions that it neither recovered as an operating expense nor capitalized to utility plant because the capitalized amounts are based on costs determined pursuant to Financial Accounting Standards Codification Topic 715 ("ASC 715"), which was formerly Statement of Financial Accounting Standards 87 or "SFAS 87".

Customer Deposits, Customer Advances for Construction, and Material and Supplies. The claimed levels of customer deposits and customer advances for construction (both are deducted in determining the measures of value) and material and supplies (which are added) are based on 13-month historic averages for the period ended December 31, 2020, consistent with Commission precedent.

Regulatory Liability for EADIT. Due to the reduction in the Federal corporate tax rate that became effective on January 1, 2018, pursuant to the Tax Cuts And Jobs Act ("TCJA"), there is EADIT. EADIT represents taxes that were deferred prior to January 1, 2018 at the then-applicable 35% tax rate but will be paid to the Federal government, after January 1, 2018, at the current 21% tax rate. The EADIT is to be returned to customers over periods that correspond to the periods over which the ADIT would have been paid to the government if the Federal corporate tax rate had not been reduced. To reflect that obligation, the Company has transferred its EADIT from the Company's ADIT account to a new regulatory liability account. The sum of the Company's ADIT account and its regulatory liability for EADIT at December 31, 2022 is deducted from the Company's measures of value.

Cash Working Capital. Cash working capital was calculated using a lead-lag study and includes elements that are consistent with past practice and Commission precedent. The components of the measure of value described above are shown in PECO Exhibit MJT-1 on Schedule A-1 at lines 1 to 13 and are discussed in more detail in Section III of my testimony.

10. Q. How were the revenues at present rates derived?

A. Revenues at present rates were developed by adjusting the budgeted revenues for PECO's electric operations for the FPFTY to: (1) remove revenues related to portions of the Company's business that are not subject to the jurisdiction of the Commission; (2) remove revenues billed under the surcharge (i.e., non-base rate revenue) that recovers the cost of implementing the Company's energy efficiency and conservation programs pursuant to Act 129; (3) annualize revenues related to changes in the number of customers to reflect year-end levels as of the end of the FPFTY; (4) normalize revenues to reflect 365.25 days; and (5) reflect various pro forma revenue adjustments, which are summarized on Schedule D-5 of PECO Exhibit MJT-1 and are discussed in more detail later in my testimony.

11. Q. How were PECO's claimed operating expenses for the FPFTY determined?

A. The pro forma FPFTY expenses were determined using PECO's 2022 budget as a starting point. Budgeted expenses, which were prepared based on business activities and related cost elements such as payroll, employee benefits, etc., were distributed to FERC accounts based upon the distribution experienced by the Company during the HTY. The budget data were then annualized or normalized in accordance with established Commission ratemaking practices and other appropriate adjustments were made, all of which are included in Schedule D of PECO Exhibit MJT-1. The necessary adjustments were made to the appropriate FERC accounts.

12. Q. Please describe how the taxes-other-than-income were determined for the FPFTY.

A. Those amounts were determined using budgeted amounts for the FPFTY, with pro forma adjustments to payroll taxes to reflect the impact of the increase to FPFTY salaries and wages and other adjustments to reflect known and measurable changes, as shown on Schedule D-16 of PECO Exhibit MJT-1.

13. Q. Please describe the calculation of depreciation expense for the FPFTY.

A. The development of annual depreciation for electric and common plant is set forth on Schedule D-17 of PECO Exhibit MJT-1. Each of pages 84 through 87 have columns numbered 1 through 5. Each of pages 88 through 91 have columns numbered 6 through 11. Each of pages 92 through 95 have columns numbered 12 through 17. Columns 1 through 5 show the annual depreciation for electric distribution, transmission, and common plant. Column 6 shows the allocation factors used to allocate annual depreciation to the Electric Division. The allocation factor is 100% for electric distribution plant. For common plant, the allocation factor is 76.97%, which is the portion of common plant allocated to the Electric Division. Columns 7 through 11 show the annual depreciation allocated to the Electric Division. The figures in columns 7 through 11 for common plant reflect the amounts in columns 1 through 6 multiplied by the allocation factor of 76.97%. Column 12 is designed to allocate utility costs between Commission jurisdictional service and non-Commission jurisdictional service. Accordingly, the amounts shown in columns 13 through 17 represent the amounts properly allocated in their entirety to Commission-jurisdictional service for the Electric Division. For all of the columns, the total for FERC Account 403 Depreciation Expense is shown on line 91 and the total for FERC Account 404 Amortization of Limited-Term Plant is shown on line 148.

The annual depreciation expense budgeted by the Company for electric plant and total-Company common plant is $313.2 million, which is the sum of the amounts shown in column 1, lines 91 and 148. This amount is the annual depreciation developed by Ms. Caroline Fulginiti (PECO Statement No. 4) based on utility plant that will be in service at December 31, 2021 (as shown in Schedule D-17, column 3) and utility plant additions that will be in service at December 31, 2022 (as shown in Schedule D-17, column 2). As Ms. Fulginiti explains, the budgeted annual depreciation amounts for both plant in service at December 31, 2021 and for additions during the twelve months ending December 31, 2022 were calculated using depreciation rates that reflect the service life parameters developed in the Company's 2018 service life study. The annual depreciation for plant additions made during the twelve-month period ending December 31, 2022 is based on their expected actual in-service dates and, therefore, reflects less than twelve months of depreciation for that plant. Accordingly, Schedule D-17, column 4, adjusts the amounts in column 1 to annualize the annual depreciation on plant additions made during the twelve-month period ending December 31, 2022. Depreciation expense does not include Asset Retirement Obligations ("AROs").

The resulting pro forma FPFTY depreciation expense of $328.1 million related to electric plant and common plant is shown in column 5. The resulting pro forma FPFTY depreciation expense for electric distribution and common plant allocable to the Electric Division's Commission-jurisdictional service is $271.9 million, as shown in column 17. That amount is the sum of $225.6 million shown on line 91 and $46.3 million shown on line 148.

14. Q. How were income taxes calculated?

A. Income taxes were calculated using procedures consistent with Commission practice. Federal income tax expense was calculated at the 21% Federal corporate tax rate that became effective on January 1, 2018, pursuant to the TCJA.

The interest expense deduction was synchronized with the Company's measures of value and claimed weighted average cost of long-term debt. The normalization method was used to reflect the tax-book timing differences associated with the use of accelerated methods of tax depreciation to the extent permitted by the Commission and legal precedent. Tax expense was reduced to reflect the amortization of the unamortized investment tax credits. Tax expense was also reduced to reflect the flow-back of EADIT that results from the TCJA's reduction of the Federal corporate tax rate. The income tax expense claims for the FPFTY at present rate and proposed rate revenue levels are shown on PECO Exhibit MJT-1, Schedule D-18.

15. Q. Please describe how the pro forma revenue increase and revenues at proposed rates were established.

A. Schedule A-1 of PECO Exhibit MJT-1 shows the calculation of PECO's claimed revenue requirement and its requested revenue increase. Column 2, lines 1 to 15, summarize the pro forma measures of value.

Column 2, line 18, shows the Company's electric distribution base rate revenue at present rates. Column 3, line 18, shows the increase over revenues at present rates needed to recover the Company's FPFTY revenue requirement, which is $246.0 million.

Lines 23 to 45 of column 2 set forth the calculation of the increase above present rate revenue required to provide the Company the opportunity to earn the overall rate of return of 7.68 percent calculated on Schedule B-7, and supported by Mr. Moul (PECO Statement No. 5). The resulting required increase in net operating income on line 41 was increased by the Gross Revenue Conversion Factor ("GRCF"), shown on line 43, to provide for Late Payment Charge ("LPC") revenue, uncollectible accounts expenses, gross receipts taxes, regulatory fees and income taxes on the increased revenues requested. The revenue increase shown on line 45 of column 2 is the difference between present rate revenue and revenues at proposed rates. The increase in unadjusted present rate revenue of $246.0 million is shown on line 45 of column 2 and line 18 of column 3. Column 3, lines 18 through 30, also contain the calculation of the revenue and expenses related to the proposed revenue increase.

Measures of value, revenues, and expenses at proposed rates are shown in column 4, with the resulting overall rate of return of 7.68 percent shown on line 32 of column 4.

16. Q. What is the overall required increase in annual revenues for the Company's jurisdictional distribution operations for the FPFTY?

A. As shown on line 45 of PECO Exhibit MJT-1, Schedule A-1, the proposed increase in annual operating revenues is approximately $246.0 million.

17. Q. What is contained in Schedule B?

A. Schedule B consists of a balance sheet for the total Company at December 31, 2022 reflecting the Company's budget for 2022 (Schedule B-1); a statement of Pennsylvania jurisdictional net operating income for the year ending December 31, 2022 (Schedule B-2); a statement of Pennsylvania jurisdictional operating revenue for the year ending December 31, 2022 (Schedule B-3); a statement of Pennsylvania jurisdictional operating and maintenance expense for the year ending December 31, 2022 (Schedule B-4); a detailed breakdown of Pennsylvania jurisdictional taxes other than income for the year ending December 31, 2022 (Schedule B-5); PECO's projected composite cost of long-term debt at December 31, 2022 (Schedule B-6); and the calculation of PECO's claimed overall rate of return for the FPFTY (Schedule B-7). Schedules B-6 and B-7 reflect information derived from the exhibits sponsored by PECO's rate of return witness, Paul R. Moul (PECO Statement No. 5).

III. MEASURES OF VALUE

A. Summary Of Measures Of Value

18. Q. Please describe Schedule C-1 of PECO Exhibit MJT-1.

A. Schedule C-1, page 17, summarizes the measures of value for the FPFTY for the Company's total Electric Division and its Pennsylvania jurisdictional operations. Column 1 identifies the schedule where each of the measures of value elements is derived, and columns 2 to 4 show the Company's total Electric Division, non-Pennsylvania, and Pennsylvania jurisdictional amounts, respectively. The Company's claimed measures of value for the FPFTY, as shown in column 4, on line 13, is approximately $6.4 billion.

B. Plant In Service

19. Q. Please describe Schedule C-2 of PECO Exhibit MJT-1.

A. Schedule C-2 contains 6 pages and presents the Company's claimed FPFTY utility plant in service.

20. Q. What is shown on Schedule C-2, page 18?

A. Schedule C-2, page 18, is a summary of estimated year-end plant in service balances for the FPFTY by functional plant category. Column 2 shows the total-Company electric plant in service balance, and column 3 reflects the removal of transmission-related plant. Column 4 reflects the Company's estimated electric distribution plant in service at the end of the FPFTY of $8.9 billion (line 47), which is shown on PECO Exhibit MJT-1, Schedule A-1, at column 4, line 2.

21. Q. How was total utility plant in service for electric distribution operations of $8.9 billion, shown on Schedule C-2, page 18, column 4, line 47, determined?

A. The amount of $11.0 billion shown on Schedule C-2, page 18, column 2, line 47 represents the estimated plant in service balance at December 31, 2022 for the Company's Electric Division, including distribution and transmission plant, and is based on utility plant in service at December 31, 2020, including distribution and transmission, plus budgeted capital expenditures estimated to be closed to plant in service during the FTY or FPFTY, less the estimated retirements in the FTY and FPFTY.

Page 18, column 3 sets forth the adjustments needed to remove intangible plant assigned to transmission, transmission plant included in the transmission accounts, and the portion of general plant allocated to transmission operations. The calculation of the intangible plant and general plant allocated to transmission is described in connection with pages 21 to 23 of Schedule C-2. Column 4 reflects the Company's estimated electric distribution plant in service at the end of the FPFTY.

22. Q. What is shown on page 19 of Schedule C-2?

A. Page 19 sets forth the Company's estimated additions to be closed to plant in service during the FTY and FPFTY. These data were developed based on the FTY and FPFTY capital budgets. The total-Company additions of $843.2 million are shown on line 34, column 1.

23. Q. What is shown on Schedule C-2, page 20?

A. Page 20 of Schedule C-2 presents the estimated plant retirements for the FPFTY, based on the average of actual retirements for the years 2018 – 2020.

24. Q. What is contained on pages 21 to 23 of Schedule C-2?

A. Pages 21 to 23 detail the adjustments necessary to remove all transmission-related intangible, general, and transmission plant recorded in transmission accounts under FERC jurisdiction from the account balances, as shown in column 5. As shown in column 4, 90.55% of intangible (FERC Account 302) and general plant was allocated to the distribution function. The allocation factor is based on salaries and wages actually recorded in PECO's transmission accounts as a percentage of its total actual salaries and wages in 2019. Most of the intangible plant recorded in FERC account 303 was directly assigned to the transmission and distribution functions, with the balance being allocated using the same salaries and wages factor discussed above.

C. Accumulated Depreciation

25. Q. What is the purpose of Schedule C-3 of PECO Exhibit MJT-1?

A. This schedule, consisting of 5 pages, presents the provision for accumulated depreciation at December 31, 2022 by FERC account, as developed by Ms. Fulginiti (PECO Statement No. 4), and adjustments related to transmission plant and cost of removal net of salvage, as explained more fully below. PECO's accumulated depreciation of approximately $2.3 billion is summarized on page 24 of Schedule C-3 and then carried forward to line 3 of Schedule A-1.

26. Q. Please describe page 24 of Schedule C-3.

A. This page shows the accumulated depreciation balance for the FPFTY by account category, including the accumulated depreciation balance for total electric operations, as shown in column 2, and the adjustments, as shown in column 3, to remove the transmission-related accumulated depreciation, in order to derive the Pennsylvania jurisdictional pro forma accumulated depreciation, as shown in column 4.

27. Q. What is contained on pages 25 to 27 of Schedule C-3?

A. Pages 25 to 27 show the accumulated depreciation balance by FERC account at the end of the FPFTY, including the accumulated depreciation balance for total electric operations, as shown in column 1, and the adjustments, as shown in column 6, to remove the transmission-related accumulated depreciation, in order to derive the Pennsylvania jurisdictional pro forma accumulated depreciation shown in column 5. To determine the accumulated depreciation balance at the end of FPFTY, the Company started with the accumulated depreciation balance at December 31, 2020 and added depreciation expense, less retirements and cost of removal net of salvage, for the FTY and FPFTY. Page 28 of Schedule C-3 shows the cost of removal net of salvage included in the FPFTY accumulated depreciation calculations.

As shown in column 4, 90.55% of accumulated depreciation for intangible (FERC account 302) and general plant was allocated to the distribution function. The allocation factor was developed in the same manner as the allocation factor I described in connection with Schedule C-2 (i.e., salaries and wages actually recorded in PECO's transmission accounts as a percentage of its total actual salaries and wages in 2019). Consistent with Schedule C-2, most of the intangible plant recorded in FERC account 303 was directly assigned to the transmission and distribution functions, with the balance being allocated using the same salaries and wages factor discussed above. Schedule C-3, page 28 shows the cost of removal net of salvage included in the FPFTY accumulated depreciation calculations, based on the average of actual cost of removal net of salvage for the years 2018 - 2020.

D. Cash Working Capital

28. Q. What is set forth on Schedule C-4, page 29, of PECO Exhibit MJT-1?

A. This is a summary of the Cash Working Capital ("CWC") calculations, which are detailed on pages 30 to 37 of this schedule. The total of $155.5 million shown on line 33 is included in PECO's claimed measures of value as shown on PECO Exhibit MJT-1, Schedule A-1, columns 2 and 4, line 7.

29. Q. Please describe page 29 of Schedule C-4.

A. Page 29 summarizes the derivation of PECO's revenue collection lag and overall operating expense payment lag. The revenue lag of 48.30 days is shown on line 3. The expense lag days for each of the components of operating and maintenance expenses appear on lines 6 to 12. Line 15 shows the lag associated with payments to electric generation suppliers ("EGSs") for the purchase of receivables ("POR") from EGSs pursuant to the Company's Commission-approved POR program. The composite operating and maintenance expense and POR lag of 33.80 days is shown on line 19. The net lag of 14.50 days (48.30 - 33.80) shown on line 21 is multiplied by the average daily operating expense balance on line 25 to arrive at the base CWC amount of $101.3 million for operating expenses shown on line 27. The average daily operating expense balance of $7.0 million on line 25 was determined by dividing the total pro forma annual operating expenses, excluding uncollectible accounts expense, of $2.6 billion on line 17, column 2, by the number of days in a year, 365. The other components of CWC are shown on lines 29 to 31 and will be described in connection with my discussion of related supporting schedules.

30. Q. Please describe the revenue lag calculation shown on Schedule C-4, page 30.

A. The total revenue lag days of 48.30 days is shown on line 21 of page 30 and consists of three parts. First, the average of the month-end accounts receivable balances for the thirteen months ended December 31, 2019 (shown in column 2 on line 21) was divided into the annual revenue billed during the twelve months ended December 31, 2019, (column 3 on line 21) to calculate the accounts receivable turnover rate of 11.37 (column 4, line 21). A turnover rate of 11.37 is equivalent to 32.09 revenue lag days (365 days divided by 11.37 accounts receivable turnover rate), as shown in column 5 on line 21. This is referred to as the collection lag or the payment portion of the revenue lag. The payment portion of the revenue lag is added to: (1) the 1.0-day lag between the meter reading date and the day bills are recorded as revenue and accounts receivable by the Company; and (2) the 15.21 day period from the mid-point of the service period until the meter reading date, to calculate the total revenue lag of 48.30 days, as shown on line 29.

31. Q. Please explain why 2019 data was used in the calculation of revenue lag instead of the data from HTY of 2020?

A. Typically, a revenue lag days factor is developed based on the HTY actual accounts receivable balances and actual billed revenues. Due to the extended termination moratorium in place since mid-March of 2020, the accounts receivable balances in the HTY (2020) increased significantly above the Company's normal levels. Given that the HTY (2020) accounts receivable balances do not reflect normal levels, the Company utilized accounts receivable balances and total billed revenues from 2019, which are at normal level, to estimate its CWC claim. The Company also included an adjustment in its claim to account for the impact of incremental CWC in 2020 to 2022 related to COVID-19. This adjustment will be discussed further in my testimony regarding Schedule D-14.

32. Q. How was the mid-point of the service period calculated?

A. The mid-point of the service period is equal to the days in an average month (365 days divided by 12, or 30.42 days) divided by 2, or 15.21 days.

33. Q. Please describe page 31 of Schedule C-4.

A. Schedule C-4, page 31, shows the calculation of the expense lags used in the CWC calculation. Lines 1 to 5 reflect the payroll expense lag. The payroll amounts for the FPFTY are developed on Schedule D-6. The lag periods for the payment of union and non-union payroll are combined because all employees are paid on the same schedule. The lag days reflect PECO's actual payment cycles. Lines 7 to 15 show the lag in the payment of pension costs during the FPFTY. The lag period is calculated using a mid-point of July 1 and the payment dates shown in column 2. This results in an average payment lead of 167 days, which was applied to the pro forma pension expense derived from Schedule D-9, page 74, line 13 and shown on Schedule C-4, page 29, line 7.

34. Q. How did you develop the lag days associated with the purchased energy costs shown on line 14 of Schedule C-4, page 37?

A. Effective January 1, 2011, PECO started to purchase power for its default service customers through a Supply Master Agreement. To calculate its CWC requirements, the Company determined, on a monthly basis for the FPFTY, the number of days between the midpoint of the applicable service month and the payment date, which is estimated to be the first business day after the 19th calendar day of the following month. This procedure yields a composite expense lag of 35.63 days as shown on Schedule C-4, page 37, line 14.

35. Q. Does the Company plan to purchase 100 percent of its energy requirements from contract suppliers?

A. No, it does not. Based on the Commission's final Order in the Company's most recent default service proceeding (Docket No. P-2020-3019290), the Company purchases 0.8 percent of the energy requirements of its residential default service customers on the spot market and will continue to do so through May 31, 2025.

36. Q. Have you calculated a separate expense lag for spot market purchases?

A. Yes. The spot market purchases will be paid weekly, on Friday, for purchases made through the week ended the previous Tuesday. This results in a payment lag of 12.5 days, consisting of 3.5 days from the mid-point to the end of the seven-day service period, and 9 days for the period between the end of the service period and the payment date. Since the payments will be made by wire transfer, the total lag days will be 12.5 as calculated on page 37, lines 16 to 24.

37. Q. Please address the transmission service charges paid to the PJM Interconnection LLC ("PJM") for transmission service provided by PJM.

A. PJM transmission service charges are paid on the same schedule as the spot market purchases. Consequently, the total lag days for PJM transmission service charges are also 12.5 days.

38. Q. How was the expense lag of 38.16 days for POR payments determined?

A. PECO pays electric generation suppliers ("EGSs") 20 days after the billing date for commercial and industrial accounts and 25 days after the billing date for residential accounts. The weighted average payment lag for all accounts is 21.96 days as shown on page 37, line 31. Bill processing takes one day (page 37, line 33), and there is an average of 15.21 days from the midpoint of a service period to the meter reading date (page 37, line 35). The total payment lag, therefore, is 38.16 days (page 37, line 37).

39. Q. Please describe how you determined the payment lag associated with other operating and maintenance expenses.

A. The average payment lag for all remaining expenses, as set forth on lines 22 to 27 of Schedule C-4, page 31, was derived from data for the four months shown in detail on Schedule C-4, page 32. More specifically, the Company obtained a listing of all cash disbursements during each of the four months displayed in a format that shows the payee, the date of service or the invoice receipt date, the amount of the disbursement, the date the payment cleared the bank, the account to which the disbursement was charged and certain other data. Each month contains thousands of cash disbursements.

40. Q. How did you utilize the data?

A. I used the data in the column showing the number of days it took each disbursement to clear the bank from the invoice receipt date or service date to calculate the dollar days (the amount of the disbursement times the number of days the payment took to clear the bank) and sorted the disbursements by amount. I then eliminated disbursements that should not be included in a CWC calculation or that are included elsewhere in the CWC calculation.

41. Q. What disbursements did you eliminate from the balances used on page 32 of Schedule C-4?

A. First, I eliminated all disbursements related to capital charges because they are not part of the Company's claimed operating expenses. Second, I eliminated all disbursements under $1,000 since those amounts, while significant in number, would not have a meaningful impact on the overall lag-day calculation. Third, I removed all commodity purchases since those are reflected in separate CWC calculations, as I previously described. Fourth, I removed all amounts charged to non-expense accounts and any charitable contributions. This process was completed for each of the four months shown on page 32, lines 1 to 11. The total cash disbursements for all four months of $67.8 million, as shown in column 2, on line 14, of page 32 of Schedule C-4, and the related dollar-days of $2.7 billion, shown in column 3, were used to calculate the payment lag for general expenses of 40.04 days shown in column 4. The 40.04 lag days for Other Disbursements were then brought forward to Schedule C-4, page 29, line 12.

42. Q. Describe what is shown on Schedule C-4, page 33.

A. This page shows the calculation of the net payment lag days for the tax expense components of PECO's CWC allowance. The first two columns, which are not numbered, identify the type of tax and show the applicable payment schedule for each tax. The payment dates are shown in column 1. The payment lead or (lag) from the midpoint of the year is shown in column 3. The pro forma amount of the payment for each tax is shown in column 4. For example, the pro forma Federal income tax amount, based on the Company's proposed revenue level, is $56.0 million, as shown in column 4, line 1 through 4. The required amounts are shown by payment date for each tax in column 6. The weighted lead (lag) amount for each payment for each tax is calculated in column 7. The weighted lead (lag) days are netted against the revenue lag days shown on page 34, column 4. The net payment lag shown on page 34, column 5, is used to calculate the average daily amount for working capital shown on page 34, column 7. The net total of the amounts in column 7 are shown on Schedule C-4, page 29, column 2, line 30.

43. Q. Please describe the calculation of the interest expense lag shown on page 35 and included on page 29 of Schedule C-4.

A. This calculation measures the lag associated with the semi-annual payment of interest on outstanding debt. The pro forma interest expense is the amount resulting from the synchronized interest calculation using the pro forma measures of value and the weighted cost of debt included in PECO's requested rate of return. The daily interest expense amount, calculated on line 6, is multiplied by the net payment lag of 42.95 days for a reduction to the working capital allowance of $13.7 million, as shown on line 10 and on page 29 at line 31.

44. Q. Please explain how the average prepayments of $5.4 million shown on Schedule C-4, page 29, line 29, were determined.

A. Page 36 of Schedule C-4 shows the calculation of the average prepaid expenses included in the CWC. The Company reviewed its prepaid accounts and selected only those prepaid expenses that were related, in whole or in part, to its electric delivery operations. The resulting prepaid accounts are shown in columns 2 to 16. Where items related entirely to the electric operations, such as the PUC Assessment in column 6, the total and average monthly amount were charged entirely to electric distribution, as shown on line 17 in columns 2 to 9. Where the account related to both electric and gas operations, the total and average were distributed using an appropriate allocation factor that eliminates both gas-related expenses and non- jurisdictional expenses, as shown on line 17 in columns 10 to 13. Finally, where the prepaid expense is related to electric distribution and gas operations, a factor was used to isolate only electric distribution operations, as shown on line 17 in columns 14 to 16. The thirteen-month average for prepaid expenses for the electric distribution operations is $5.4 million as shown on line 25 of Schedule C- 4, page 36 and on Schedule C-4, page 29, line 29.

45. Q. What is the total amount of CWC included in the claimed measures of value?

A. That amount is the $155.5 million shown on Schedule C-4, page 29, column 2, line 33 and on Schedule A-1, page 1, column 2, line 7.

E. Pension Asset

46. Q. Please describe Schedule C-5.

A. Schedule C-5 shows the calculation of the pension asset of $129.0 million (column 2, line 8) that the Company has included in measures of value. The asset represents the portion of the Company's net aggregate total of pension costs incurred to date, calculated in the manner required for ratemaking purposes, that was not recovered in operating expenses and was also not capitalized to its plant accounts. This asset represents the difference between the manner in which pension expense is calculated for ratemaking purposes and the manner in which pension costs are determined for purposes of calculating the labor loading rate used to capitalize a portion of pension costs under applicable Generally Accepted Accounting Principles ("GAAP"). Specifically, for ratemaking purposes, consistent with Commission policy and practice, PECO has historically claimed for recovery its actual cash contributions to its pension fund. However, also consistent with Commission policy and practice, the amount of the total cash contribution included in operating and maintenance expenses was determined by reducing the total cash contribution by the capitalization rate used for ratemaking purposes to separate labor-related costs between amounts that are expensed and amounts assigned, on a pro forma basis, to capital. Using 2022 as an example, as shown on Schedule D-9, PECO's total pension cash contribution will be $12.2 million, of which 76.26% is attributable to electric distribution. PECO's capitalization rate is 41.71%. Therefore, $3.9 million ($12.2 million * 76.26% * 41.71%) was assumed to be capitalized and included in applicable plant accounts.

However, in 2022 – in fact, in every year – the amount PECO included in applicable plant accounts for capitalized pension costs was calculated on the basis of ASC 715, as GAAP and applicable financial reporting mandates require. For 2022, there were no pension costs capitalized. As a consequence, there was a gap of $3.9 million of pension costs. As shown on Schedule C-5, the pension asset balance at the end of the FPFTY will be $129.0 million for electric distribution.

F. ADIT

47. Q. What is the purpose of Schedule C-6?

A. Schedule C-6, page 39 shows the December 31, 2022 balances of ADIT that is deducted in determining the measures of value. The ADIT shown in column 6, line 19 of $658.8 million reflects the federal income tax that must be deferred in compliance with the normalization provisions pertaining to the use of accelerated tax depreciation for federal income tax purposes on test year plant balances and other tax/book timing differences that have been normalized. The accelerated tax depreciation used in the determination of taxable income for federal and state income tax expense calculations is reflected on Schedule D-18.

48. Q. Have you made an adjustment for the federal income tax on CIAC?

A. It was not necessary to make a separate adjustment for CIAC. CIAC is treated as a capital contribution for ratemaking purposes but is treated as taxable income for federal income tax purposes. PECO pays the federal income tax due on CIAC in the year the CIAC is received and included in taxable income. The associated tax payment is recorded as a debit to the ADIT account, which normally carries a credit balance. Consequently, the net effect of the calculation of ADIT properly reflects the tax-book timing difference related to taxes paid on CIAC.

49. Q. What is the amount of ADIT used in the measures of value?

A. The amount for electric distribution operations is $658.8 million, as shown in column 6, line 19 of Schedule C-6, page 39 and on line 9 of Schedule A-1, in columns 2 and 4.

G. Customer Deposits

50. Q. Please explain how you determined the amount of customer deposits on Schedule C-7 that was deducted from the claimed measures of value on Schedule A-1.

A. The customer deposits shown on Schedule C-7, page 40, in column 4 (lines 1-13) reflect the month-end balances for the thirteen months ended December 2020. The Company maintains a joint customer deposit account because many of its customers use both its electric and natural gas services. Total Company customer deposits were allocated between electric and gas operations based on electric and gas customer class revenues. Schedule C-7 shows the customer deposits related solely to the Company's electric distribution operations.

51. Q. Where are these amounts of customer deposits and interest shown?

A. The total of customer deposits for all classes of electric distribution customers is a deduction to measures of value of $49.2 million, as shown on Schedule C-7, page 40, line 17 and on Schedule A-1, line 10 columns 2 and 4. The calculated interest expense related to these customer deposits of $1.6 million, as shown in Schedule D-12, is included in the Company's operating expenses as shown on PECO Exhibit MJT-1, Schedule D-3, page 52, column 15, line 94.

H. Common Plant

52. Q. What is shown on Schedule C-8?

A. This schedule shows the common plant, net of accumulated depreciation, included in the measure of value on Schedule A-1.

I. Customer Advances for Construction

53. Q. What is contained on Schedule C-9?

A. This schedule shows the average monthly balance of customer advances for construction of $1.7 million on line 19, which is deducted in calculating the measures of value on Schedule A-1, line 11, columns 2 and 4.

54. Q. How were the monthly balances determined?

A. The Company was able to identify the specific amounts attributable to its electric distribution operations based on a review of its accounting records.

J. Materials and Supplies

55. Q. Please describe Schedule C-11.

A. Schedule C-11 shows the derivation of PECO's claim for materials and supplies and undistributed stores expense. The materials and supplies balances in column 2 were specifically identified as electric distribution-related amounts and, therefore, 100% of those amounts is shown on line 22 in column 2. The undistributed stores expense shown in column 3 reflects amounts attributable to PECO's total utility operations and, therefore, the electric distribution allocation factor of 69.7% was applied to determine the thirteen-month average of monthly balances, as shown on line 22, in column 3. The claimed amount of $19.9 million reflected in column 4 is based on the thirteen-month average for the period ended December 31, 2020 and is shown on line 12, columns 2 and 4, of the measures of value on Schedule A-1.

K. ADIT – Regulatory Liability

56. Q. What is shown on Schedule C-12?

A. Schedule C-12 shows the calculation of EADIT that has been removed from the ADIT account and recorded as a regulatory liability.

57. Q. What is the Company's claimed measures of value in this proceeding?

A. PECO's claimed measures of value, or rate base, equals $6.4 billion, as shown on line 15 of Schedule A-1.

IV. REVENUES AND EXPENSES

58. Q. What is shown on Schedule D-1 of PECO Exhibit MJT-1?

A. Schedule D-1 is a summary income statement that depicts PECO's claimed electric revenues, expenses and taxes at present and proposed rate levels. The derivation of most of the individual line items will be discussed in connection with the remaining schedules in Section D. Schedule D-1 also shows the revenue increase of $246.0 million on line 13 in column 3.

59. Q. What is the indicated net operating income at proposed rates?

A. As shown on Schedule D-1, column 4, line 30 and also on Schedule A-1, column 4, line 25, that amount is $576.4 million.

60. Q. Please describe Schedule D-2.

A. Schedule D-2 shows the derivation of the various line items on Schedule D-1, column 2. Schedule D-2 begins with the Company's budgeted revenues and expenses for its Pennsylvania jurisdictional electric operations for the FPFTY, in column 1, and then annualizes and/or normalizes those figures through adjustments summarized in column 2. The pro forma data in column 3 are summarized and brought forward to Schedule D-1 and used in the determination of the required revenue increase. The various revenue adjustments in column 2 are summarized on Schedule D-3 and listed by adjustment on Schedule D-5, and the expense adjustments are summarized on Schedule D-3 and described in more detail on the separate adjustment schedules beginning with Schedule D-6 and continuing through Schedule D-17.

61. Q. Please describe Schedule D-3.

A. Schedule D-3 summarizes the various adjustments that were made to the budgeted revenue and expense data to derive the pro forma amounts at present rates that appear in column 3 of Schedule D-2 and are included in the adjusted amounts that are carried forward to column 1 of Schedule D-2. The FPFTY budgeted amounts are shown in column 1 and the revenue adjustment totals are shown in columns 2 to 8. The various expense adjustments are reflected in columns 9 to 20. Each of the pro forma adjustments will be described in connection with the specific schedule supporting the adjustment. The pro forma adjusted amounts for the FPFTY are shown in column 22.

62. Q. Please describe Schedule D-4.

A. Schedule D-4 contains four pages and presents a summary of the pro forma operating expenses shown on Schedule D-3 by FERC account.

A. Revenue Adjustments

63. Q. Please describe Schedule D-5.

A. Schedule D-5 presents a summary of the separate pro forma adjustments to revenue for the FPFTY. Each of these adjustments will be described in detail in connection with the separate calculation of the adjustment shown on Schedules D-5A to D-5F.

64. Q. How did you calculate the revenue adjustment shown on Schedule D-5A?

A. This adjustment annualizes distribution revenues for the projected number of customers at the end of the FPFTY. As shown on lines 1 to 5, for all customer classifications this calculation determines the pro forma test year distribution revenues, excluding reconcilable surcharges, at present rates for the FPFTY. The average distribution revenues on line 5 were divided by the average number of customers for the year included in the 2022 budget on line 7 to determine the average distribution revenue per customer on line 9. The average distribution revenue, or margin, per customer for the FPFTY on line 9 was then multiplied by the difference between the average number of customers (line 7) and the number of customers at the end of the FPFTY (line 11), which difference is shown on line 13, yielding additional revenue of approximately $4.1 million for the residential, residential heating and small C&I customer classes, as shown on line 15 by customer classification. This pro forma adjustment is then reflected on Schedule D-5, page 60, column 2 by customer classification.

65. Q. Please describe the adjustment calculated on Schedule D-5B.

A. This adjustment annualizes the cost of the discounts provided to customers enrolled in PECO's Customer Assistance Program ("CAP") in the form of a bill credit, reflecting the number of CAP customers at the end of the FPFTY. As shown in line 8 of columns 2 and 3, the average CAP discount per CAP customer is determined by dividing the total budgeted CAP discount on line 1 by the average number of CAP customers shown on line 7. The average CAP discount per CAP customer is then multiplied by the difference between FPFTY year-end CAP customers on line 10 and the average number of CAP customers shown on line 7. This yields a total decrease in the CAP discount of $1.1 million, which is offset for uncollectible accounts and CWC factors as shown on line 15. Thus, the total net decrease of $0.8 million is shown on line 17, which is brought forward to column 3 in Schedule D-5.

66. Q. Please describe the adjustment on Schedule D-5C.

A. This adjustment shows the reductions in revenue that the Company expects to experience related to the reductions in load that the Company must achieve in order to comply with the energy efficiency and conservation provisions of Act 129 of 2008. The Company's implementation of its approved programs has yielded considerable benefits for customers by helping them to save energy and, in some cases, to reduce demand. The energy savings, however, have caused and will continue to cause substantial reductions in the Company's distribution revenues. The Company is proposing to recognize those distribution revenue reductions by reducing budgeted FPFTY distribution revenues by the average of the projected incremental revenue losses to be experienced in 2023 and 2024 over revenue losses included in the 2022 budget.

67. Q. What is the total amount of the pro forma revenue adjustment the Company is proposing?

A. As shown on Schedule D-5C, page 63, column 5, line 41, the Company is proposing a pro forma revenue adjustment to its FPFTY budgeted revenue of $13.2 million, which will allow the Company to recover its lost revenue for 2023 and 2024 through the rates established in this proceeding.

68. Q. In your opinion, is it reasonable for PECO to request that these energy savings be recognized in the determination of its revenue requirement?

A. Yes, for primarily two reasons. First, Act 129 specifically contemplates that revenue reductions attributable to the mandated energy efficiency programs be taken into account in establishing base rates. My adjustments are designed to achieve that end by setting rates based on sales levels that reflect the incremental lost revenues related to mandatory Act 129 usage reductions in 2023 and 2024. Second, it would be unfair to require PECO to implement these programs, or be subjected to possible penalties for non-compliance with legislatively imposed energy-reduction goals, and then deny it rate recovery of the lost revenues, particularly given the tremendous benefits that inure to customers. This adjustment aligns the customer and Company interests in promoting energy-conservation, providing significant savings to the customers and permitting PECO to recover lost revenues during the same period that the customers are receiving the benefits of reduced bills from the legislatively-mandated and Commission-approved programs.

69. Q. Please describe the adjustment shown on Schedule D-5D.

A. This adjustment removes the budgeted revenues associated with the recovery of costs associated with developing and implementing PECO's energy-efficiency and conservation programs. Act 129 allows such costs to be recovered through a separate Section 1307 reconcilable adjustment clause. PECO will continue to utilize its EE&C surcharge mechanism for the recovery of these costs in the future. Therefore, the associated surcharge revenues have been removed from base rate revenue.

70. Q. Please describe the adjustment shown on Schedule D-5F.

A. This adjustment normalizes revenue the Company budgeted for the FPFTY by increasing variable distribution service charge revenue to reflect an additional 0.25 days. The Company's budgeted revenue for the FPFTY is based on 365 days, reflecting the 28 calendar days in February 2022. This adjustment normalizes revenue to reflect the average number of days in the month of February over a four-year cycle that includes one leap year. The customer charge revenue does not change irrespective of the number of days in a year and, therefore, is not adjusted in this schedule. Additionally, the classes have variable distribution service charges that apply to kilowatt hours of usage and, therefore, are sensitive to the number of days of usage in the test year. Line 1 of Schedule D-5F shows the non-customer and non-reconcilable surcharge distribution revenue for the classes for February 2022. Lines 2 and 4 show the number of days in February 2022 and the normalized number of days in that month over a four-year cycle. The difference is shown in line 5. The adjustment necessary to normalize revenues for 0.25 days is shown, by class on line 7.

B. Operating Expense Adjustments

71. Q. Does the Company budget its operating expenses by FERC account?

A. No, as I mentioned previously, it does not. Rather, the Company budgets its operating expenses by cost element or business activity, such as payroll, employee benefits, rent, etc.

72. Q. How were the FPFTY data restated by FERC account for purposes of preparing the Company's supporting data in this case?

A. The amounts recorded in FERC accounts as of the end of the HTY were analyzed to develop a chart showing charges for each cost element within each FERC account in the transmission function, the distribution function, the Administration and General ("A&G") transmission function, the A&G distribution function and the A&G general function. After this process was completed, I then distributed the forecasted FPFTY charges by cost elements in those cost categories to the corresponding FERC accounts based upon the ratios experienced in the HTY. For example, I determined how much of the salaries and wages ("S&W") expensed in the HTY was charged to each FERC account in the HTY distribution function and then distributed the FPFTY forecasted distribution S&W to distribution FERC accounts based on those ratios. This process was used for each cost category to transform the FPFTY expense forecast by cost element to a FERC-based forecast. This FERC-based forecast is brought forward to Schedule B-4.

73. Q. Why was it necessary to transform the FPFTY cost-category forecast to a FERC-account based forecast?

A. It was done for two reasons. First, the Company's annual reports to the Commission are presented on a FERC-account basis and, therefore, having the FPFTY forecast presented in the same format facilitates a comparison of the FPFTY forecast data to prior years' experience. Second, it was necessary to have the FPFTY data available by FERC account for use by Ms. Jamison (PECO Statement No. 6) in the cost-of-service study.

74. Q. In your opinion, does this process result in a fair presentation of the Company's FPFTY forecast expenses by FERC account?

A. Yes, it does.

75. Q. Were each of the pro forma adjustments reflected on Schedule D-4 also assigned to the appropriate FERC accounts?

A. Yes, they were.

76. Q. Are the various pro forma expense adjustments presented on Schedule D-4 shown by the type of expense and also by the FERC account distribution?

A. Yes, they are. The expense categories are identified in the headers of the columns on Schedule D-4, and each adjustment is described in connection with a separate schedule showing its derivation. These adjustments are shown by FERC expense category on Schedule D-4 and also on the Section D summary schedules.

77. Q. Please describe Schedule D-6.

A. Schedule D-6 consists of four pages and shows the calculation of the FPFTY annualization adjustments for S&W. Pages 68 and 69 show the calculation of the pro forma adjustments for overall S&W. Pages 70 and 71 contain the forecasted data for the FPFTY summarized by FERC account categories showing a total to be expensed of $159.6 million on page 71, column 1, line 72. Column 2 on page

70 shows the annualization adjustment of $12.0 million distributed to the FERC expense categories, while column 3 provides the pro forma amounts for S&W expense, which totals $171.6 million, as shown on line 72. The adjustment of $12.0 million is reflected on Schedule D-4, column 3.

78. Q. How was the annualization adjustment derived?

A. The calculation is shown on Schedule D-6, pages 68 and 69. The adjustment annualizes budgeted S&W expense to reflect the number of employees at the end of the FPFTY and certain wage increases to become effective during the FPFTY or shortly after the FPFTY. More specifically, I have annualized: (1) the 2.5 percent wage increase forecasted to be effective on March 1, 2022 (lines 7 to 9 in column 3); (2) the projected 2.5 percent wage increase for union employees to be effective on January 1, 2023 (lines 13 to 15 in column 2); and (3) the projected 2.5 percent wage increase for non-union employees to be effective on March 1, 2023 (lines 13 to 15 in column 3).

79. Q. Please explain the adjustment shown on lines 6 to 12 of Schedule D-6, page 69.

A. This adjustment estimates the impact of a union contract that is currently being negotiated between the Company and the union. The contract between the Company and union that is currently in effect will expire on March 31, 2021. The Company's adjustment accounts for the potential of a one-time cash payment to union employees in connection with the ratification of the new contract, similar to what occurred following the union's 2014 ratification of the currently effective contract with the Company. The expected payment and amount of the one-time union ratification bonus payment amount is currently unknown, but, if implemented, the Company estimates it will be no less than the payment made in connection with the union's ratification of its currently effective contract. Therefore, in determining the adjustment on lines 6-12 of Schedule D-6, page 69, the Company used the actual expensed portion of the union ratification bonus payout in 2014, as shown in line 6. This amount was split between electric distribution, transmission and gas operations, and the amount allocated to electric distribution operations ($859,000) was divided by six to reflect the expected six-year term of the new contract. The resulting amount of $143,000 shown in column 2, line 10, was added to the pro forma adjustment for S&W. In addition to the one-time payment, a one-time S&W increase for certain union employees for the FPFTY of approximately $3.8 million is estimated as part of the new union contract and is included on line 12 of the Schedule. Once the new contract is finalized, the Company will update the one-time union contract ratification payment and one-time S&W increase accordingly.

80. Q. Please explain the calculations shown on Schedule D-6, page 69, columns 1 and 2, lines 17-21.

A. These calculations annualize an increase in the number of employees during the FPFTY. As shown in line 17, column 2, the projected number of Company employees at the FPFTY year-end is 2,227. The average number of employees during the FPFTY is 2,179, which is the figure that the Company used to develop the S&W in its budget which is shown in line 18, column 2. The detailed calculation of the average number of employees included in the budgeted expense level is shown on Schedule D-8, page 73, in lines 2 to 15. The increase in employees shown on line 16 was then multiplied by average annual S&W per employee shown in Schedule D-6, page 69, line, line 20, to determine the total annualization adjustment to S&W of $3.7 million due to the increase in number of employees, as shown on Schedule D-6, page 69, line 21.

81. Q. What is the total pro forma adjustment for S&W expense for the FPFTY?

A. The total amount is $12.0 million, which is an increase of 7.5 percent from the Company's S&W budget for FPFTY, as shown Schedule D-6, page 69, lines 25 and 27.

82. Q. Please describe Schedule D-7 of PECO Exhibit MJT-1.

A. Schedule D-7 shows the adjustment to normalize rate case expense. The Company expended approximately $12,000 on this filing during 2020 (line 5) and has budgeted an additional $2.388 million (line 11) during 2021. This total, $2.4 million (line 13), is normalized over a period of three years as shown on line 15, column 2, which results in a total estimated normalized annual cost for this case of approximately $800,000, as shown on line 19, column 2.

83. Q. Please describe Schedule D-8 of PECO Exhibit MJT-1.

A. The bottom half of Schedule D-8 annualizes the non-pension employee benefits expense to reflect the full year's level of costs associated with the number of employees during the FPFTY. The annualization, reflecting an increase of $462,000 in non-pension benefit expense, was derived by using the increase in the number of employees, on line 22, and the budgeted average non-pension benefit expense per employee of $10,000 on line 21.

84. Q. Please explain how you calculated the change in number of employees to a year-end level on Schedule D-8.

A. Line 15 shows the twelve-month average of employees that is reflected in the Company's budget. I compared the twelve-month average to the number of employees reflected in the budget to be employed at December 31, 2022. The difference is shown on line 16. Because the average and year-end employee numbers reflect rounding to obtain the levels of full-time equivalent employees, the difference between those figures does not exactly match the figure on line 16.

85. Q. What is contained in PECO Exhibit MJT-1 Schedule D-9?

A. Schedule D-9 shows the calculation of the Company's claim for pension expense, which is based on a five-year average of actual and projected contributions to its pension plan. The portion of the pension cost assigned to electric distribution operating expense in the FPFTY is $8.9 million, as shown on line 13. Accordingly, an adjustment of $11.7 million has been made to the Company's FPFTY budget amount, as shown on line 15, and the adjustment amount was brought forward to Schedule D-3, column 12, line 112.

86. Q. What is presented on Schedule D-10 of PECO Exhibit MJT-1?

A. Schedule D-10 calculates an adjustment to the Company's budgeted uncollectible accounts expenses. Lines 1 to 4 calculate net uncollectible accounts charged off, excluding CAP in-program arrearage write-offs, as a percentage of total tariff revenue, based on an average of annual data for the period 2018-2020. That percentage was used to adjust the amount of uncollectible accounts expense in the budget to conform to the method historically used by the Commission for this expense. The resulting 0.5622% shown on line 4, column 7, of Schedule D-10 is applied to the pro forma revenues at present rates for the FPFTY to calculate the general pro forma uncollectible accounts expense of $18.6 million shown in column 9 on line 14. A three-year average of pre-program arrearages ("PPA") associated with the CAP program, which are not included in other accounts, was added to the general uncollectible accounts expense. The PPA average is $4.3 million, as shown on line 20 in column 9. The total pro forma amount for uncollectible account expenses at present rates for the FPFTY is $22.9 million, which is a net decrease of $12.7 million, as shown on line 26 and brought forward to page 52 of Schedule D-3 (column 13, line 93). In addition, the 0.5622% write-off rate is used in determining the level of uncollectible accounts expense at proposed rates, as shown in column 3 on line 19 of Schedule D-1.

87. Q. How was the level of charge-offs and uncollectible accounts expense impacted by the COVID-19 pandemic in 2020?

A. The COVID-19 pandemic resulted in the termination moratorium being in place from mid-March to December 2020 which, in turn, resulted in significantly lower than normal charge-offs and significantly higher than normal uncollectible accounts expenses during the HTY (i.e., 2020). With the inclusion of the abnormally low charge-offs of 2020 in the historical 3-year average for years

2018 to 2020, the Company maintains consistency with the commonly accepted practice in Pennsylvania for uncollectible account recovery. Combined with the Company's proposed recovery of the regulatory asset for COVID-19 incremental uncollectible expense for 2020 and 2021, this also ensures that there is full recovery, but no over- or under-recovery. The request of regulatory asset recovery for COVID-19 incremental uncollectible expense for years 2020 and 2021 is included as a separate adjustment in the Company's claim.

88. Q. Please describe Schedule D-11.

A. Schedule D-11, page 76 calculates the adjustment for incremental uncollectible expense related to its electric distribution operations that were incurred as a result of the COVID-19 pandemic. The Commission recognized that compliance with its Emergency Order may increase uncollectible expenses for utilities and authorized utilities to create a regulatory asset for any incremental uncollectible expenses incurred since the issuance of the Emergency Order above the amount embedded in rates. The Company established a regulatory asset in the third quarter of 2020 for an incremental uncollectible expense for its HTY (2020) and filed notice with the Commission at that time. The actual regulatory asset the Company booked for 2020 was $37.9 million, as shown page 76, column 2, line 1. In addition, the Company has estimated incremental uncollectible expense for its electric distribution operations of $10.3 million for the FTY, or 2021, as shown on column 2, line 2. The $10.3 million of additional uncollectible expense added for the FTY is based on the end of the termination moratorium on March 31, 2021. The total incremental uncollectible expense regulatory asset of $48.2

million is amortized over 3 years to arrive at the annual amortization amount of $16.1 million as shown on Schedule D-11, page 76, column 2, line 7.

89. Q. Please explain how the Company will ensure that customers are not double-charged between the Company's proposed uncollectible account recovery and incremental uncollectible expense regulatory asset recovery?

A. The termination moratorium will be fully lifted at the end of March 2021. The Company expects that charge-offs in 2021 and 2022 will be much higher than the normal level the Company has experienced in preceding years.[1] This will result in an abnormally high average charge-offs percentage for the period of 2021 to 2023, a period which will likely be used to determine expected charge-offs in the Company's next rate case proceeding. The Company is proposing the incremental uncollectible expense regulatory asset recovery in this rate case proceeding be used in the next rate case proceeding as a deduction to the overall claims. This will smooth out the fluctuation of the combined uncollectible expense recovery and incremental uncollectible expense regulatory asset recovery and ensure that the incremental uncollectible expense regulatory asset recovery is a timing issue only, i.e., the amounts that are recovered through the regulatory asset are not included in the abnormally high charge-off average based upon the 2021-2023 period.

---

[1] As I described in my response to Question No. 87, the Company's charge-offs level in 2020 was extremely low due to the termination moratorium, resulting in an abnormally low average charge-offs percentage for the period of 2018 – 2020.

90. Q. Please describe the pro forma adjustment on Schedule D-12.

A. The adjustment shown on Schedule D-12 captures the interest expense that the Company must pay on customer deposits. Since the average balance of customer deposits is a reduction to measures of value, the interest expense is included as a pro forma expense for the FPFTY. The interest for residential customer deposits was calculated using an annual rate of interest of 5.0 percent and a monthly rate of 0.417%. An annual rate of 1.66 percent (a monthly rate of 0.138%) was used for commercial and industrial customers. The total pro forma expense of $1.6 million is shown on Schedule D-12, line 33 and brought forward to Schedule D-3, page 52.

91. Q. Please describe the pro forma adjustment on Schedule D-13.

A. This adjustment shown on line 13 reflects an increase of $2.8 million to FPFTY budget expenses for storm damage restoration expenses. PECO is proposing, for ratemaking purposes, to normalize storm damage expense based on a five-year historical storm damage expense. A five-year average includes a period long enough to reflect appropriate levels of expense associated with normal storm events, major storms and extraordinary storms.

92. Q. Please explain what is shown on Schedule D-14.

A. Schedule D-14, page 79 calculates an adjustment for COVID-19-related incremental return on cash working capital ("CWC"). Due to the extended termination moratorium in effect since mid-March 2020, accounts receivable balances in 2020 have increased significantly above the normal level and are not expected to return to normal levels until after the FPFTY. Given that the HTY (2020) accounts receivable balances do not reflect normal levels, the Company utilized accounts receivable balances and total billed revenues from 2019 to estimate its CWC claim. Schedule D-14 reflects the adjustments needed to account for the incremental CWC in 2020 to 2022 related to COVID-19. The total incremental CWC for those years is estimated at $17.3 million and is amortized over 3 years to arrive at the annual amortization amount of $5.8 million shown on Schedule D-14, page 79, column 2, line 8.

93. Q. Please explain what is shown on Schedule D-15.

A. Schedule D-15, page 80 contains costs related to several programs the Company is proposing to offer as part of this proceeding to provide additional needed relief to customers during the pandemic as well as to accelerate the adoption of transportation electrification in its service territory. These programs offer assistance to non-CAP residential customers as well as a small business grant to qualifying commercial customers. The Company is also proposing several transportation electrification initiatives to help deliver public benefits through the elimination of ground level emissions in Clean Air Act non-attainment counties and reduce greenhouse gas emissions. All of the programs included on Schedule D-15 are discussed in greater detail in the direct testimony's of Ms. Jacqueline F. Golden (PECO St. No. 9) and Ms. Lauren Feldhake (PECO St. No. 10). The total costs of all the programs total $5.5 million and are amortized over 3 years to arrive at the annual amortization amount of $1.8 million shown in column 2, line

10. Line 12 reflects an annual cost of $0.6 million for the Company's proposal to waive certain residential convenience fees, which is added to the amortization amount shown on line 10 to arrive at the total annual adjustment of $2.4 million for these customer programs as shown in column 2, line 14.

C. Taxes – Other Than Income Taxes

94. Q. Please describe Schedule D-16 of PECO Exhibit MJT-1.

A. Schedule D-16 contains 3 pages. Page 81 is a summary showing the budgeted amounts for the FPFTY (column 2) for the total Company, adjustments to eliminate the non-Pennsylvania jurisdictional amounts (column 3), the total pro forma adjustments (column 5), and the pro forma expenses claimed in this case (column 6). The calculations for payroll-related changes are made on Schedule D-16, page 82, while the changes in the gross receipts tax ("GRT") are shown on page 83. The increase in payroll taxes, shown on page 82, line 5, was calculated using the ratio of tax expense to payroll expense in the FPFTY forecast applied to the payroll tax expense for the FPFTY, which is an increase of $0.9 million. This amount is then reflected on page 81 in column 5, line 5. The adjustment to decrease GRT by $6.0 million shown on line 8, in column 5 of page 81, is calculated on page 83. Total pro forma taxes other than income are $158.6 million, as shown on Schedule D-16, page 81, line 10, column 6.

95. Q. Did you make an adjustment to recognize the additional GRT attributable to the revenue increase allowed by the Commission in this proceeding?

A. Yes. As will be described in connection with PECO Exhibit MJT-1, Schedule D-19, the incremental GRT is recovered through the application of the Gross Revenue Conversion Factor ("GRCF") used to determine the amount of revenue required to provide the increase in net income claimed by PECO.

D. Depreciation Expense

96. Q. What is shown on PECO Exhibit MJT-1, Schedule D-17, pages 84 to 95.

A. I described Schedule D-17 in detail earlier in my testimony. As I explained, Schedule D-17 shows the development of the Company's claims for annual depreciation for electric distribution and common plant. Schedule D-17 starts with the annual depreciation for electric distribution and common plant developed by Ms. Fulginiti and presented in PECO Exhibit CF-3. The adjustments set forth on Schedule D-17, in addition to allocating a portion of common plant to the Electric Division, annualize depreciation expense related FPFTY additions to reflect a full year's depreciation for that plant. PECO's total depreciation expense annualization adjustment for the Company's electric distribution business is $12.1 million, which is the sum of the amounts shown on Schedule D-17, column 16, lines 91 and 148.

E. Income Taxes

97. Q. Please describe the income tax calculation shown on PECO Exhibit MJT-1, Schedule D-18, page 96.

A. This schedule calculates the pro forma income tax expense for the FPFTY at present and proposed rates, as set forth in columns 1 and 3, respectively. Line 1 shows the revenue at present rates, the revenue increase (with the related late payment charge increase) and revenue at proposed rates. Line 2 shows the total operating expenses at present rates, changes related to the revenue increase and at the proposed rates from Schedule D-1. Line 3 shows the operating income before income taxes. Synchronized interest expense is calculated on lines 5 to 7 using the total measures of value for the FPFTY on line 4 and the weighted cost of debt recommended by Mr. Moul (PECO Statement No. 5) on line 6. The resulting interest expense on line 7 is used to reduce the taxable income to the amount shown on line 8.

In compliance with Commission practice, the difference between accelerated tax depreciation (line 10) and pro forma book depreciation (line 11) is used to adjust the state taxable income as shown on line 8 to reflect the fact that the effects of accelerated depreciation are flowed through for state income tax purposes. In addition, there are adjustments to other tax-book differences and flow-through amounts as shown on lines 13 to 18. These adjustments result in the net reduction of state taxable income from line 8 to line 20. The statutory state income tax rate of 9.99 percent was used to determine the pro forma current state income tax expense shown on line 26. Federal income tax expense is calculated on lines 28 to 38 with a Federal income tax rate of 21%. Line 42 shows the total current State and Federal income tax expense before the amount for deferred income taxes is calculated. Lines 44 to 50 reflect the Federal and State deferred income taxes.

The total income tax expense before other adjustments is shown on line 53 at present and proposed rates in columns 1 and 3 respectively, including the flow-back of EADIT resulting from the lower Federal corporate income tax rate under the TCJA. The other adjustments include the amortization of the investment tax credit ("ITC") for electric distribution plant, including the portion of common plant allocated to electric distribution, as shown on line 56.

98. Q. Please explain the nature and calculation of the ITC amortization.

A. The ITC reflects tax credits used by the Company in years prior to 1987, the amortization of which will not have been completed by the end of the FPFTY. While the availability of the ITC ended in 1987, the credit has been amortized over the useful lives of the assets that generated it. The amortization for the FPFTY ending December 31, 2022 reduces income tax expense at both present and proposed rates, shown on Schedule D-18, page 97.

99. Q. Please explain the adjustment to flow-back EADIT.

A. As I previously explained, the TCJA reduced the Federal corporate income tax rate from 35% to 21% effective January 1, 2018, and the Company's ADIT balances as of December 31, 2017 reflect taxes that were deferred at the higher corporate income tax rates in effect prior to January 1, 2018. PECO has recorded

EADIT in a regulatory liability account. For ADIT that relates to tax-book timing differences associated with utility plant subject to the normalization requirements of the Internal Revenue Code, PECO is required to flow back the difference between its ADIT balance and what its ADIT balance would have been if the deferrals had been made at the current 21% corporate tax rate (i.e., EADIT) over the remaining lives used in its books of account for the property that gave rise to the reserve for deferred taxes. The Company used the Average Rate Adjustment Method ("ARAM"), as defined by applicable IRS regulations, for this purpose. Shorter flow-back periods are permissible for property that is not subject to normalization requirements. Schedule D-18, page 97, line 48, reflects the annual amount of the regulatory liability to be flowed back.

100. Q. Has PECO included a consolidated income tax adjustment ("CTA") in its calculation of Federal income tax expense?

A. No, it has not, because such an adjustment is no longer authorized under Section 1301.1(a), which was added to the Public Utility Code by Act 40 of 2016. Act 40 became law on June 12, 2016 and was effective sixty days later (August 11, 2016) to "all cases where the final order is entered after the effective date of [Section 1301.1]." Consequently, Section 1301.1 applies to this case. Section 1301.1(a) specifies how the Commission is to compute income tax expense for ratemaking purposes. Section 1301.1(b) states how any incremental internally-generated funds produced by the application of Section 1301.1(a) should be used by an affected utility pending the December 31, 2025 "sunset" of Section 1301.1(b).

101. Q. What does Section 1301.1 direct the Commission to do in calculating income tax expenses for ratemaking purposes?

A. In summary, Section 1301.1(a) provides that current and deferred income taxes of a Pennsylvania utility are to be calculated for ratemaking purposes based only on the income, deductions and credits of the utility itself. Therefore, the Commission may not take into account income, deductions (including taxable losses) or credits of the utility's parent or affiliated companies with which it joins in filing a consolidated Federal income tax return. This is generally referred to as a "stand-alone" computation of income tax expense because it reflects income tax expense of the utility "standing alone" and without regard to taxable income, deductions or credits of other companies in the same consolidated group.

102 Q. How does Section 1301.1(a) change prior Commission practice?

A. Section 1301.1(a) terminates the practice of making a CTA when calculating a utility's Federal income taxes for ratemaking purposes in Pennsylvania. As directed by prior decisions of Pennsylvania appellate courts, the Commission, until Act 40 became effective, was required to calculate CTAs employing the "Modified Effective Tax Rate Method." Under the Modified Effective Tax Rate Method, the consolidated tax savings generated by the non-regulated companies of a corporate group were allocated to the regulated and non-regulated members of the group having positive taxable incomes. CTAs, therefore, captured a portion of the tax benefits of deductions – including taxable losses – of unregulated affiliates of public utilities and gave those benefits to the utilities' customers (as lower income tax expense than the utilities would have on a "stand-alone" basis) even though the utilities' customers did not pay the expenses that gave rise to those tax benefits. With the enactment of Act 40, Pennsylvania joins the majority of other jurisdictions, including the Federal Energy Regulatory Commission, that do not make CTAs for ratemaking purposes.

103. Q. What does Section 1301.1(b) provide?

A. Section 1301.1(b) states as follows:

> If a differential accrues to a public utility resulting from applying the ratemaking methods employed by the commission prior to the effective date of subsection (a) for ratemaking purposes, the differential shall be used as follows:
>
> (1) fifty percent to support reliability or infrastructure related to the rate-base eligible capital investment as determined by the commission; and
>
> (2) fifty percent for general corporate purposes.

Section 1301.1(b) will no longer apply after December 31, 2025.

104. Q. Have you calculated the "differential" in income taxes referenced in Section 1301.1(b)?

A. Yes, Schedule D-18, page 98 sets forth the computation of a CTA using the Modified Effective Tax Rate Method and data for tax years 2015 through 2019, which are the most recent five years for which tax returns have been filed. Column 7, line 28 shows the "differential" corresponding to the CTA calculated in the manner I described above.

105. Q. How does PECO propose to invest 50% of the differential in rate base-eligible reliability projects or other infrastructure improvements?

A. The differential will be used to target reliability projects and other infrastructure improvements described by Mr. McDonald in his testimony.

106. Q. What is PECO's total income tax expense claim in this proceeding?

A. As shown on Schedule D-18, page 97, line 58, column 2, pro forma income tax expense at present rates equals $19.5 million. The increment for income tax expense associated with the proposed revenue increase is shown in column 3, in the amount of $66.5 million, and the total pro forma income tax expense at proposed rates of $86.0 million is shown in column 4.

107. Q. Please explain Schedule D-19.

A. This schedule shows the calculation of the GRCF used on Schedule A-1 to determine the revenues required to achieve the overall rate of return requested by PECO. The conversion factor captures the additional late payment revenue, uncollectible accounts expense, GRT, regulatory fees, and Federal and State income taxes attributable to the additional revenues resulting from the proposed rate increase.

V. FUTURE TEST YEAR AND HISTORIC TEST YEAR

108. Q. Please describe the process used to prepare the pro forma FTY and HTY presentations in PECO Exhibit MJT-2 and PECO Exhibit MJT-3, respectively.

A. The basic process was the same as described in connection with PECO Exhibit MJT-1, except I used budgeted data for 2021 for the FTY and actual recorded data for the HTY 2020 as the starting point for each exhibit. As with the FPFTY, I reviewed the budgeted data for the FTY and recorded data for the HTY and, where appropriate, made pro forma adjustments. In addition, I used data from PECO Exhibit MJT-1 as the basis for several of the pro forma amounts used in PECO Exhibits MJT-2 and MJT-3.

109. Q. What assumptions did you make to determine what pro forma adjustments would be necessary for the FTY and HTY?

A. I included pro forma adjustments that reflected the annualization and normalization of FTY and HTY elements and adjustments for future events that have impacted the FPFTY. For example, I have annualized S&W expense for increases and adjusted for the year-end number of employees, as I did in the FPFTY. The pro forma adjustments for the FTY and HTY are numbered consistently with the adjustments for the FPFTY. For example, the adjustment for S&W is on Schedule D-6 in all three test years to facilitate reference between the FPFTY, the FTY and the HTY. Where there is no adjustment required for the

FTY or the HTY, the correlation simply shows that further adjustment is not applicable.

110. Q. Referring now to PECO Exhibit MJT-2, for the FTY, what is contained on Schedule A-1?

A. Schedule A-1 shows a summary of the measures of value on lines 1 to 13, operating revenues and expenses and calculated rates of return at present and proposed rates on lines 17 to 32, and the revenue increase required on lines 34 to 45.

111. Q. What is contained on Schedules B-1 to B-5?

A. These schedules contain budgeted financial data for the FTY, with the separation of the total electric operating income statement into non-Pennsylvania and Pennsylvania jurisdictional amounts.

112. Q. Please describe Schedules B-6 and B-7.

A. These two schedules contain the FTY pro forma capital structure and rate of return developed by Mr. Moul (PECO Statement No. 5). As shown on lines 1 to 6 of Schedule B-7, the Company is using its expected capital structure at the end of the FTY and cost rates as shown on Schedule B-7.

113. Q. Please describe Schedule C-1.

A. Schedule C-1 lists the measures of value components. The measures of value total for the FTY is $5.9 billion, as shown on column 4, line 13.

114. Q. What is contained in Schedule C-2?

A. Schedule C-2 consists of six pages and shows the utility plant in service balances at December 31, 2021 for the Company's electric distribution operations, as well as the additions, retirements and adjustments for the FTY. Pages 21 to 23 contain the summary of pro forma plant in service balances by plant grouping and reflects adjustment to plant. Page 18 shows the plant in service by FERC accounts. Pages 19 and 20 show the additions to plant and retirements from plant during the FTY. The total pro forma plant in service at the end of the FTY is $8.3 billion and is shown on Schedule C-2, page 18, column 4, line 47.

115. Q. Please describe Schedule C-3.

A. Schedule C-3 contains five pages and shows the accumulated depreciation at December 31, 2021. These pages show the pro forma balances by FERC account developed using the same procedures employed for the FPFTY. The accumulated depreciation at the end of the FTY is $2.1 billion, as shown on page 24, column 4, line 47.

116. Q. What is contained in Schedule C-4?

A. Schedule C-4 consists of nine pages that show the calculation of the CWC allowance for the FTY of $152.2 million on page 29, line 33. The information for average prepayments on line 29 is the same as utilized in PECO Exhibit MJT-1 because the FPFTY claim is based on the thirteen-month average for the period ended December 31, 2020. In addition to the prepayments, the methodology used to calculate the lag periods for revenue, payroll, pension expense, commodity purchases and other disbursements utilized in PECO Exhibit MJT-1 were also used in the FTY calculation.

Page 29 provides a summary of the calculations for each of the elements of the CWC for the FTY. The expenses in column 2 and those included in the determination of the lead-lag amounts for taxes, interest and preferred dividends are the pro forma amounts for the FTY, while the prepayment amount is the thirteen-month average of month-end balances through December 31, 2020. The resulting $152.2 million of CWC shown on line 33 is brought forward to Schedule A-1 in the calculation of the measures of value.

117. Q. Please describe pages 30 to 37 of Schedule C-4.

A. These pages show the calculations of various leads and lags and working capital requirements for the FTY following the same procedures used for the FPFTY as described in connection with PECO Exhibit MJT-1, Schedule C-4. While the amounts for the FTY expenses vary from those in the FPFTY, the procedures followed to determine the lead/lag periods applied to those expense levels are the same as those described in connection with the same PECO Exhibit MJT-1 schedules.

118. Q. What is contained on Schedule C-5?

A. Schedule C-5 shows the Company's claim for a pension asset to be included in the measures of value. The procedures to determine the asset were the same as those described with respect to PECO Exhibit MJT-1, Schedule C-5, except that the pension asset balance for the FTY reflects data through December 31, 2021, which, on a net aggregate basis, is $123.1 million, as shown on line 7.

119. Q. Please describe the calculations on Schedule C-6.

A. These calculations show the ADIT for the FTY. The procedures followed to determine FTY ADIT were the same as those utilized for the ADIT calculation at the end of the FPFTY except that year-end December 31, 2021 balances were used. The resulting ADIT of $647.7 million for the total of electric distribution utility plant and the electric distribution portion of the common plant for the FTY is shown on line 13. As shown on Schedule C-12, line 9, $310.0 million of EADIT has been removed from the ADIT balance and recorded as a regulatory liability.

120. Q. Please describe the data presented on Schedules C-7, C-9, and C-11.

A. The data on these three schedules are the same as the data presented and described in connection with the comparable schedules in PECO Exhibit MJT-1, since the same thirteen-month period was used.

121. Q. Please describe the calculation of common plant shown on Schedule C-8.

A. This schedule shows the common plant, net of accumulated depreciation, included in the measures of value on Schedule A-1 for the FTY.

122. Q. What is presented on Schedule D-1?

A. Schedule D-1 shows the net operating income at present rates for the FTY, the pro forma revenue deficiency, and the pro forma required revenue level.

123. Q. Please describe Schedule D-2.

A. Schedule D-2 shows revenue and expenses budgeted for the FTY, pro forma adjustments, and the pro forma revenue and expense amounts at present rates. This schedule summarizes the adjustments that are detailed on Schedules D-3 and D-5 and explained in connection with other supporting schedules to be described later in my testimony.

124. Q. Please describe Schedule D-3.

A. Schedule D-3 contains nine pages which present a summary of each of the pro forma adjustments made to revenues and operating expenses, including depreciation and taxes-other-than-income taxes. Each of the adjustments will be described in connection with the specific schedule containing the calculation of the adjustment.

125. Q. What is contained in Schedule D-4?

A. This schedule contains four pages and shows the budgeted and pro forma adjustment amounts for the FTY by revenue category and by FERC account for expenses.

126. Q. Please describe Schedule D-5.

A. Schedule D-5 shows the pro forma adjustments to the FTY budgeted revenue. Each of the listed adjustments is discussed in connection with Schedules D-5A to D-5G. All of these adjustments were prepared using the same methodology as described in connection with PECO Exhibit MJT-1.

127. Q. Please describe the adjustment on Schedule D-5A.

A. The adjustment shown on Schedule D-5A annualizes revenue for customer growth during the FTY. The process utilized is the same as described in connection with the same adjustment for the FPFTY on PECO Exhibit MJT-1, Schedule D-5A.

128. Q. What is the adjustment shown on Schedule D-5B?

A. The adjustment shown on Schedule D-5B annualizes CAP discounts for the FTY. The process utilized is the same as described in connection with the same adjustment for the FPFTY shown on Schedule D-5B of PECO Exhibit MJT-1.

129. Q. Please describe the adjustment shown on Schedule D-5C.

A. This adjustment reflects the average of the revenue losses associated with the load reductions mandated by Act 129. The Company is using the same calculation for the FTY that was used for the corresponding adjustment for the FPFTY.

130. Q. Please describe the adjustment shown on Schedule D-5D.

A. Similar to Schedule D-5D of PECO Exhibit MJT-1, this schedule removes the

Energy Efficiency and Conservation program costs and related cost recovery that was included in the Company's FTY budget. The Company will continue to use the approved surcharge mechanism to recover its Energy Efficiency and Conservation program related costs and, as consequence, the costs and revenues related to the surcharge are properly removed from base rate revenue and base rate revenue requirement.

131. Q. Please describe the adjustment shown on Schedule D-5F.

A. This schedule shows the development of a normalized level of distribution revenue based on the average number of days per year in a four-year cycle.

132. Q. Please describe Schedule D-6.

A. Schedule D-6 annualizes S&W for the FTY. Pages 70 and 71 show the budgeted amounts in column 1 and the pro forma adjustment in column 2 by FERC expense category. Pages 68 and 69 show the calculation of the annualization adjustments of S&W, the normalization of the union contract ratification payment and a one-time labor cost increase, which follow the same procedures described in connection with the FPFTY using the data from FTY for the wage increases.

133. Q. What is contained on Schedule D-7?

A. Schedule D-7 normalizes rate case expenses using the same recorded and estimated amounts used in the FPFTY calculation on PECO Exhibit MJT-1, Schedule D-7.

134. Q. Please describe the adjustments shown on Schedule D-8.

A. This adjustment, which annualizes non-pension benefits related to the change in number of employees during the FTY, was calculated using the same procedures used for the comparable adjustment for the FPFTY and described in connection with PECO Exhibit MJT-1, Schedule D-8.

135. Q. Please describe the adjustments shown on Schedule D-9.

A. This adjustment for pension expense and to annualize non-pension benefits follows the same procedures used for the FPFTY and described in connection with PECO Exhibit MJT-1, Schedule D-9.

136. Q. Are the adjustments shown on Schedules D-10 to D-15 similar to the adjustments included in PECO Exhibit MJT-1 and described in connection with the schedules presented in that exhibit?

A. Yes, they are.

137. Q. Please describe Schedule D-16.

A. Schedule D-16 shows the development of the Company’s claim for taxes other than income taxes for the FTY.

138. Q. Please describe Schedule D-17.

A. Schedule D-17 presents the pro forma adjustment for depreciation to annualize depreciation expense for plant amounts at the end of the FTY, similar to the pro forma adjustment described in connection with the pro forma adjustment in PECO Exhibit MJT-1.

139. Q. Please describe the income tax calculations on Schedule D-18.

A. This schedule shows the calculation of the pro forma income tax expense for the FTY reflecting the revenue, expenses and measures of value included in the pro forma present rate data for the Company and a 21% Federal corporate tax rate. In addition to the tax depreciation amounts, the ITC amortization was calculated, as shown on pages 96 and 97 of Schedule D-18. The flow-back of EADIT was reflected in calculating income tax. The total calculated income tax shown on line 58 was used in the calculation of the overall revenue requirement shown on Schedule A-1.

140. Q. Referring now to PECO Exhibit MJT-3, for the HTY, what is contained on Schedule A-1?

A. Schedule A-1 shows a summary of the measures of value on lines 1 to 13, operating revenue and expenses and calculated rates of return at present and proposed rates on lines 17-32, and the revenue increase required on lines 34-45.

141. Q. What is contained on Schedules B-1 to B-5?

A. These schedules contain recorded financial data for the HTY, with the separation of the total electric operation income into non-Pennsylvania and Pennsylvania jurisdictional amounts.

142. Q. Please describe Schedules B-6 and B-7.

A. These two schedules contain the pro forma capital structure and rate of return used for the HTY, which are supported by Mr. Moul. As shown on lines 1 to 6 of Schedule B-7, the Company is using its capital structure at the end of the HTY and cost rates as shown on Schedule B-7.

143. Q. Please describe Schedule C-1.

A. Schedule C-1 lists the measures of value components. The measures of value total for the HTY is $5.3 billion, as shown on column 4, line 13.

144. Q. What is contained in Schedule C-2?

A. Schedule C-2 consists of six pages and shows the utility plant in service balances at December 31, 2020 for the Company's distribution operations, as well as the adjustments for the HTY. Pages 21 to 23 contain the summary of pro forma plant in service balances by plant grouping. Page 18 shows the plant in service by FERC account. Pages 19 and 20 are left blank intentionally because they reflect schedules that are used for the FTY and FPFTY but are not relevant to the HTY. Finally, adjustments to plant are reflected on pages 21 to 23 of Schedule C-2. The total pro forma plant in service at the end of the HTY is $7.7 billion and is shown Schedule C-2, page 18, column 4, line 47.

145. Q. Please describe Schedule C-3.

A. Schedule C-3 contains five pages and shows the accumulated depreciation at

December 31, 2020. These pages show the pro forma balances by FERC account following the same procedures employed for the FPFTY. The accumulated depreciation at the end of the HTY is $2.0 billion, as shown on page 24, column 4, line 47.

146. Q. What is contained in Schedule C-4?

A. Schedule C-4 consists of nine pages that show the calculation of the CWC allowance for the HTY of $150.9 million on page 29, line 33. The information for average prepayments on line 29 is the same as utilized in PECO Exhibit MJT-1 because the FPFTY claim is based on the thirteen-month average for the period ended December 31, 2020. In addition to the prepayments, the methodology used to calculate the lag periods for revenue, payroll, pension expense, commodity purchases, and other disbursements utilized in PECO Exhibit MJT-1 were also used in the FTY calculation.

Page 29 provides a summary of the calculations for each of the elements of the CWC for the HTY. The expenses in column 2 and those included in the determination of the lead-lag amounts for taxes, interest and preferred dividends are the pro forma amounts for the HTY, while the prepayment amount is the thirteen-month average of month-end balances through December 31, 2020. The resulting $150.9 million of CWC shown on line 33 is brought forward to Schedule A-1 in the calculation of the measures of value.

147. Q. Please describe what is shown on pages 30 to 37 of Schedule C-4.

A. These pages show the calculations of various leads and lags and working capital requirements for the HTY following the same procedures used for the FPFTY as described in connection with PECO Exhibit MJT-1, Schedule C-4. While the amounts for the HTY expenses vary from those in the FPFTY, the procedures followed to determine the lead/lag periods applied to those expense levels are the same and were described in connection with the same schedules in PECO Exhibit MJT-1.

148. Q. What is contained in Schedule C-5?

A. Schedule C-5 shows the Company's claim for a pension asset included in its measures of value. The procedures to determine the asset are the same as described in connection with PECO Exhibit MJT-1, Schedule C-5. The only difference is that the pension asset balance for the HTY reflects data through December 31, 2020 and on a net aggregate basis is $119.4 million, as shown on line 7.

149. Q. Please describe the calculations shown on Schedule C-6.

A. These calculations show the ADIT for the HTY. The procedures followed to determine HTY ADIT were the same as those utilized for the ADIT calculation at the end of the FPFTY, except that year-end December 31, 2020 balances were used. The resulting ADIT of $626 million for the total of electric distribution plant and the electric distribution portion of common plant for the HTY is shown on line 13. As shown on Schedule C-12, line 9, $324 million of EADIT has been removed from the ADIT balance and recorded as a regulatory liability.

150. Q. Please describe the data presented on Schedules C-7, C-9, and C-11.

A. The data on these three schedules are the same as the data presented and described in connection with PECO Exhibit MJT-1, because the same 13-month period was used.

151. Q. Please describe the calculation of common plant shown on Schedule C-8.

A. This schedule shows the common plant, net of accumulated depreciation, included in the measures of value on Schedule A-1 for the FTY.

152. Q. What is presented on Schedule D-1?

A. Schedule D-1 shows the net operating income at present rates for the HTY, the pro forma revenue deficiency and the pro forma required revenue level.

153. Q. Please describe Schedule D-2.

A. Schedule D-2 shows revenue and expenses for the HTY, pro forma adjustments and the pro forma revenue and expense amounts at present rates. This schedule summarizes the adjustments that are detailed on Schedules D-3 and D-5 and explained in connection with other supporting schedules to be described later in my testimony.

154. Q. Please describe Schedule D-3.

A. Schedule D-3 contains nine pages, which provide a summary of each of the pro forma adjustments made to revenues and operating expenses, including depreciation and taxes other than income taxes. Each of the adjustments will be described in connection with the specific schedule containing the calculation of the adjustment.

155. Q. What is contained in Schedule D-4?

A. This schedule contains four pages and shows the recorded amounts and pro forma adjustment amounts for the HTY by revenue category and by FERC account for expenses.

156. Q. Please describe Schedule D-5.

A. Schedule D-5 shows the pro forma adjustments to the HTY revenue. Each of the listed adjustments is discussed in connection with Schedules D-5A to D-5G. All of these adjustments were prepared using the same methodology described in connection with PECO Exhibit MJT-1, except Schedule D-5G, which is the weather normalization adjustment to distribution revenue recorded in 2020.

157. Q. Please describe the adjustment shown on Schedule D-5A.

A. This adjustment on Schedule D-5A annualizes revenue for customer growth during HTY. The process utilized is the same as that described in connection with the same adjustment for the FPFTY on PECO Exhibit MJT-1, Schedule D-5A.

158. Q. What is the adjustment shown on Schedule D-5B?

A. The adjustment shown on Schedule D-5B annualizes CAP discounts for the HTY. The process utilized is the same as that described in connection with the corresponding adjustment for the FPFTY shown on PECO Exhibit MJT-1, Schedule D-5B.

159. Q. Please describe the adjustment shown on Schedule D-5C.

A. This adjustment reflects the average of the revenue losses associated with the load reductions mandated by Act 129. The Company is using the same calculation for the HTY that was used for the corresponding adjustment for the FPFTY.

160. Q. Please describe the adjustment on Schedule D-5D.

A. Similar to the comparable schedule in PECO Exhibit MJT-1, Schedule D-5D removes the Energy Efficiency and Conservation program-related costs and cost recovery that was recorded in the HTY. The Company will continue to use the Commission-approved surcharge mechanism to recover Energy Efficiency and Conservation program related costs.

161. Q. Please describe the adjustment on Schedule D-5F.

A. This schedule shows the development of a normalized level of distribution revenue based on average number of days per year in a four-year cycle, which I previously explained.

162. Q. Please describe the adjustment shown on Schedule D-5G.

A. Schedule D-5G shows the adjustment to normalize HTY distribution revenue to reflect normal weather for weather sensitive load. This adjustment does not apply to the FTY and the FPFTY because the distribution revenue for both of those years was budgeted on the basis of normal weather.

163. Q. Please describe Schedule D-6.

A. Schedule D-6 annualizes S&W for the HTY. Pages 70 and 71 show the budgeted amounts in column 1 and the pro forma adjustment in column 2 by FERC expense category. Pages 68 and 69 show the calculation of the annualization adjustments of S&W, the normalization of the union contract ratification payment and a one-time labor cost increase, which follow the same procedures described in connection with the FPFTY using the data from HTY for the wage increases.

164. Q. What is contained on Schedule D-7?

A. Schedule D-7 normalizes rate case expenses using the same recorded and estimated amounts used in the FPFTY calculation shown on PECO Exhibit MJT-1, Schedule D-7.

165. Q. Please describe the adjustments shown on Schedule D-8.

A. This adjustment, which annualizes non-pension benefits related to the change in number of employees during the HTY, was calculated using the same procedures used for the comparable adjustment for the FPFTY and described in connection with PECO Exhibit MJT-1, Schedule D-8.

166. Q. Please describe the adjustment on Schedule D-9.

A. This adjustment to pension expense in the HTY follows the same procedures used for the FPFTY, which were described in connection with PECO Exhibit MJT-1, Schedule D-9.

167. Q. Are the adjustments on Schedules D-10 to D-15 similar to the adjustments included in PECO Exhibit MJT-1 and described in connection with the schedules presented in that exhibit?

A. Yes, they are.

168. Q. Please describe Schedule D-16.

A. Schedule D-16 shows the development of the Company's claim for taxes other than income taxes for the FTY.

169. Q. Please describe Schedule D-17.

A. Schedule D-17 presents the pro forma adjustment for depreciation to annualize depreciation expense for plant balances at the end of the HTY, similar to the pro forma adjustments described in connection with the comparable schedules in PECO Exhibits MJT-1 and MJT-2.

170. Q. Please describe the income tax cal2culations on Schedule D-18.

A. This schedule shows the calculation of the pro forma income tax expense for the HTY reflecting the Company revenue, expenses and measures of value included in the pro forma present rate data and a 21% Federal corporate tax rate. In addition to the tax depreciation amount, ITCs were calculated for electric operations, as shown on pages 96 and 97 of Schedule D-18. The flow-back of EADIT was reflected in calculating income tax. The total calculated income tax shown on line 58 was used in the calculation of the overall revenue requirement shown on Schedule A-1.

VI. CONCLUSION

171. Q. Does this complete your direct testimony at this time?

A. Yes, it does.