

**PECO ENERGY COMPANY
STATEMENT NO. 7**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

DOCKET NO. R-2021-3024601

DIRECT TESTIMONY

WITNESS: JOSEPH A. BISTI

SUBJECT: REVENUE ALLOCATION; RATE DESIGN;
DEVELOPMENT OF PROPOSED NEW RATES

DATED: MARCH 30, 2021

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**DIRECT TESTIMONY
OF
JOSEPH A. BISTI**

4
I. INTRODUCTION AND PURPOSE OF TESTIMONY

5
1. **Q. Please state your full name and business address.**

6 A. My name is Joseph A. Bisti. My business address is PECO Energy Company,
7 2301 Market Street, Philadelphia, Pennsylvania 19103.

8
2. **Q. By whom are you employed and in what capacity?**

9 A. I am employed by PECO Energy Company (“PECO” or the “Company”) as a
10 Principal Regulatory and Rates Specialist. I am responsible for tariff
11 administration, financial analysis, project management, and regulatory affairs
12 relating to PECO’s gas and electric operations.

13
3. **Q. Please describe your educational background and professional experience.**

14 A. I received a Bachelor of Science in Economics from The College of New Jersey
15 in 2000, a Master of Science in Training and Organizational Development from
16 Saint Joseph’s University in 2009, and a Graduate Certificate in Utility
17 Management from Willamette University in 2012. In 2015, I earned a
18 certification as a Project Management Institute Professional in Business Analysis.
19 In February of 2019, I was promoted to my current position within Regulatory
20 Policy and Strategy. Prior to that, I served as a Senior Rate Administrator at
21 PECO for approximately three years and a Senior Analyst in PECO’s Energy
22 Acquisition department for approximately nine years.

1 **4. Q. Have you previously submitted testimony in proceedings before the**
2 **Commission?**

3 A. Yes. I have submitted testimony on behalf of the Company in the following
4 proceedings before the Commission:

5 Docket No. R-2020-3018929 – *Pa. P.U.C. v. PECO Energy Company*

6 Docket No. P-2020-3019290 – *Petition of PECO Energy Company for Approval*
7 *of its Default Service Program For the Period From June 1, 2020 Through May*
8 *31, 2025*

9 Docket Nos. C-2008-2058320 and C-2009-2089694 – *Rama Construction Inc.*
10 *T/A Ramada Inn Int’l Airport v. PECO Energy Company*

11 Docket Nos. M-2018-3005860 et al. – *Office of Consumer Advocate v. PECO*
12 *Energy Company*

13 **5. Q. What is the purpose of your testimony?**

14 A. The purpose of my testimony is to describe: (1) how PECO proposes to allocate
15 its claimed revenue increase among rate classes and explain the principles that
16 guided PECO in developing its proposed revenue allocation; and (2) the changes
17 PECO is proposing in the rate design for certain rate classes, why PECO is
18 proposing these changes, and how the proposed new rates were developed. As
19 part of that discussion, I will also describe changes to existing rates and riders that
20 PECO is proposing.

21 **6. Q. Please identify the exhibits you are sponsoring.**

22 A. I am sponsoring the following exhibits:

23 Exhibit JAB-1 Proposed Revenue Allocation, Proposed Increases by Class
24 and Class Rates of Return and Relative Rates of Return
25 under Proposed Rates

1		
2	Exhibit JAB-2	PECO Energy Company Tariff Electric-Pa. P.U.C. No. 7
3		(Blacklined to Show Changes)
4		
5	Exhibit JAB-3	Comparison of Residential Customer Charges for
6		Pennsylvania Electric Distribution Utilities
7		
8	Exhibit JAB-4	Proof of Revenue at Present and Proposed Rates
9		

10

11 **II. REVENUE ALLOCATION**

12 **7. Q. Please state the principles that guided PECO in developing its proposed**

13 **revenue allocation.**

14 A. The proposed revenue allocation reflects a reasonable balance of accepted

15 principles for designing utility rates. Specifically, PECO considered the

16 following principles in developing its proposed revenue allocation:

- 17 1. The results of the class cost-of-service study (“COSS”) prepared by Ms.
- 18 Tamara Jamison and discussed in PECO Statement No. 6 should be used as
- 19 a guide in allocating the proposed revenue increase among rate classes by
- 20 moving all rate classes closer to their cost of service; and
- 21
- 22 2. Customer impacts should be considered, and PECO should attempt to avoid
- 23 increases in revenue for major rate classes that, on a percentage basis, are
- 24 disproportionate relative to the system average increase.

25 **8. Q. Has an exhibit been prepared showing the cost of service by rate class?**

26 A. Yes, a summary of class cost-of-service data is provided in PECO Exhibit TJJ-1,

27 sponsored by Ms. Jamison, and accompanies her direct testimony (PECO

28 Statement No. 6). PECO Exhibit TJJ-1 shows, at page 1, line 25, the overall and

29 class rates of return produced by the Company’s current electric distribution base

30 rates based on its supporting data for the twelve months ending December 31,

31 2022, which is the Fully Projected Future Test Year (“FPFTY”) in this case.

1 PECO Exhibit TJJ-1 also shows, at page 2, lines 84-85, the increase or decrease
2 (in dollars and as a percentage of class electric distribution revenues under current
3 rates, respectively) that each rate class would have to receive in order for its
4 revenues to equal its indicated class cost of service. As indicated by the guiding
5 principles I summarized above, while the results of the Company's COSS are an
6 important guide in evaluating its proposed revenue allocation, they are not the
7 only factor that must be considered.

8 **9. Q. Please discuss the principle of gradualism and how it influenced PECO's**
9 **proposed revenue allocation.**

10 A. The ratemaking principle of gradualism, as traditionally applied in Pennsylvania,
11 guides utilities to avoid abruptly increasing rates in favor of slower adjustments
12 that incrementally move rates toward the actual cost of service over time.
13 PECO's proposed revenue allocation in this case attempts to balance gradualism
14 and other ratemaking principles, while limiting the degree to which rates for
15 classes diverge from their indicated cost of service.

16 **10. Q. What is the revenue allocation that PECO determined to be appropriate in**
17 **this case?**

18 A. PECO's proposed revenue allocation is presented in PECO Exhibit JAB-1.

19 **11. Q. Why is the proposed revenue allocation reasonable?**

20 A. The proposed revenue allocation in PECO Exhibit JAB-1 is reasonable because it
21 appropriately reflects the principles I discussed previously. Using the COSS

1 discussed by Ms. Jamison as a guide, the Company developed the proposed rates
2 to make meaningful movement toward cost of service, as evidenced by the
3 relative rates of return.

4 **12. Q. Please explain the significance of the relative rates of return shown in PECO**
5 **Exhibit JAB-1 to which you previously referred.**

6 A. The relative rate of return is the ratio of the rate of return for a rate class to the
7 system average rate of return. Relative rates of return are commonly used to test
8 whether a proposed revenue allocation moves each rate class closer to, or at least
9 no further from, the system average rate of return. A relative rate of return of
10 1.00 would mean the class rate of return equals the system average rate of return
11 and, therefore, class revenues equal the class cost of service. Conversely, relative
12 rates of return that depart from 1.00 indicate that the class rates of return are
13 higher or lower than the system average rate of return and, therefore, the classes
14 are providing revenues higher or lower than their indicated cost of service.

15 III. RATE DESIGN

16 **13. Q. Explain in general how PECO proposes to change the charges within each**
17 **rate schedule to recover the revenue allocated to each rate class.**

18 A. PECO proposes to increase or decrease each of the charges within each rate
19 schedule in proportion to the revenue increase or decrease allocated to that rate
20 class, subject to certain rate design changes, discussed below. PECO Exhibit
21 JAB-2 is a copy of the Company's Tariff Electric-Pa. P.U.C. No. 7 ("Tariff No.
22 7") that shows, by strike-out and blacklining, the proposed rate changes I discuss

1 below, as well as the proposed changes in rules, regulations, rate schedules and
2 riders discussed by Mr. Schlesinger in PECO Statement No. 8. Tariff No. 7 is
3 being filed with the Secretary of the Pennsylvania Public Utility Commission
4 (“PUC” or the “Commission”) as part of PECO’s base rate filing.

5 Currently, service is provided under the Company’s Tariff Electric-Pa. P.U.C. No.
6 6 (“Tariff No. 6”) and associated supplements. It is anticipated that Tariff No. 7,
7 which was filed as part of this case on 60 days’ notice, will be suspended by
8 operation of Section 1308(d) of the Public Utility Code pending an investigation
9 by the Commission. Because it is possible and, in fact, likely, that changes will
10 be made, via subsequently filed supplements, to Tariff No. 6 during the period
11 Tariff No. 7 is suspended, any provisions of the current tariff that will continue
12 beyond the end of the suspension period and have not already been incorporated
13 in Tariff No. 7 will be merged into the tariff that will be filed as part of PECO’s
14 compliance filing at the conclusion of this proceeding.

15 **14. Q. Why is PECO proposing to increase customer charges for the residential**
16 **class by a greater percentage than the proposed overall revenue increase for**
17 **the class?**

18 A. PECO is proposing to increase the customer charges in this manner to reduce the
19 disparity between its current customer charge and the customer-related costs that
20 should properly be recovered by that charge as reflected by Ms. Jamison in PECO
21 Exhibit TJJ-5. The change is intended to more closely align this charge with the
22 Company’s customer-classified costs. As noted in PECO Exhibit JAB-3, the

1 Company's current customer charge is lower than those of most other major
2 electric distribution utilities in Pennsylvania.

3 **15. Q. Why is it important to increase customer charges so those charges are closer**
4 **to customer-classified costs?**

5 A. Customer-classified costs are, by definition, costs that vary based on the number
6 of customers, not usage. Such costs include, principally, but not exclusively, the
7 cost of meters, customer service lines, billing and meter reading. As a
8 consequence, customer-classified costs are, on average, the same amount for each
9 customer within a rate class. Accordingly, customer-classified costs are
10 appropriately recovered in the customer charge, which is the same for each
11 customer served under a given rate schedule. A utility should, to the extent
12 practicable, avoid including customer-classified costs in variable distribution
13 charges because to do so would make the recovery of customer-related costs a
14 function of customers' usage, which they are not.

15 Misplacing customer costs in variable distribution charges has adverse
16 consequences. First, it can create inappropriate intra-class subsidies, because
17 some customers will pay more than their share of customer-classified costs and
18 others less, based on their relative levels of usage each month. Second, because
19 customer costs, which are a fixed amount per customer, would be recovered in a
20 charge that applies to usage, which varies, the Company could recover either too
21 little or too much of its customer-related costs as a consequence of variations in
22 customer usage.

1 In summary, putting customer costs in the wrong element of a rate can be unfair
2 to both customers and the utility. For these reasons, among others, customer-
3 related costs in a utility's cost of service should be charged to customers in a
4 manner that appropriately reflects the nature of the costs incurred subject to
5 consideration of the principle of gradualism.

6 **16. Q. What residential rate change is PECO proposing?**

7 A. PECO is proposing a residential base customer charge of \$13.49 per month
8 (excluding consumer education surcharges). Ms. Jamison performed the
9 Company's customer-cost analysis in the same manner as the customer-cost
10 analysis presented by PPL Electric Utilities Corporation ("PPL Electric Utilities")
11 in its 2012 electric base rate case, where its analysis was accepted and relied upon
12 by the Administrative Law Judge and the Commission as the basis for the
13 customer charges approved in that case.¹ The Company utilized the same
14 methodology in its 2018 electric base rate case. This customer charge will be
15 closer to, but still less than, the customer-related costs identified by Ms. Jamison
16 in PECO Exhibit TJJ-5.

17 The revenue to be recovered from this customer charge was deducted from the
18 total revenue target for the residential class to determine the revenue to be
19 recovered in the variable distribution service charge. The variable distribution
20

¹ *Pa. P.U.C. v. PPL Elec. Util. Corp.*, Docket No. R-2012-2290597, Recommended Decision (Oct. 19, 2012), pp. 118-120, and Final Order (Dec. 28, 2012), p. 131.

1 service charge was changed to recover the balance of the residential class revenue
2 not recovered by the customer charge.

3 **17. Q. Is PECO proposing changes to customer charges for other rate classes?**

4 A. Yes, PECO is also proposing increases to customer charges for rate schedule GS
5 as shown in PECO Exhibit JAB-4. As discussed above, customer charges are
6 designed to recover the customer-related fixed costs of providing service and
7 therefore should be established to align with actual customer-related costs of
8 providing those services as evidenced by Ms. Jamison in PECO Exhibit TJJ-5.

9 **IV. REVENUE EFFECT BY RATE SCHEDULE,**
10 **PROOF OF REVENUES, AND SCALE-BACK**

11 **18. Q. Have you prepared a summary of distribution revenues at present and**
12 **proposed rates for each rate class?**

13 A. Yes. PECO Exhibit JAB-1 shows revenue at both present rates and proposed
14 rates as well as the percentage increases each class will receive on an overall
15 basis.

16 **19. Q. Have you prepared proofs of revenue with respect to PECO's present and**
17 **proposed rates?**

18 A. Yes. PECO Exhibit JAB-4 is a proof of revenue with respect to PECO's present
19 and proposed rates, based on pro forma billing determinants for the FPFTY. This
20 exhibit is tied to the portion of PECO Exhibit JAB-1 that addresses the increased
21 revenue that would be required.

1 **20. Q. Please explain the adjustment made to the proof of revenues at present rates**
2 **for the Company’s DSIC.**

3 A. The DSIC is a rate adjustment mechanism that permits PECO to recover the fixed
4 costs of DSIC-eligible property between base rate cases through a separate,
5 reconcilable charge established pursuant to Section 1353 of the Public Utility
6 Code. The Commission approved PECO’s establishment of a DSIC by its final
7 order entered October 22, 2015 at Docket No. P-2015-2471423. PECO began to
8 charge a DSIC effective with bills rendered on or after April 1, 2018. The
9 Company is currently charging a DSIC of 0.35%, which the Company will adjust
10 to 0.73% effective with bills rendered on or after April 1, 2021.²

11 As required by the terms of the DSIC, the DSIC charge will be reduced to zero on
12 the effective date of new rates established in this proceeding. The fixed costs of
13 DSIC-eligible property that PECO will continue to recover through the effective
14 date of its new base rates have been included in the Company’s claimed rate base
15 and reflected in the revenue requirement used to establish its proposed rates.
16 Consequently, in order to properly compare PECO’s revenues at present rates to
17 revenues at its proposed base rates, PECO’s proof of revenue at present rates has
18 been adjusted by customer class to include the revenues billed under its DSIC.

² PECO’s second Long Term Infrastructure Improvement Plan (“LTIIIP-II”), a precondition for continuing recovery of eligible property through the DSIC, was approved by the Commission in an Order issued November 19, 2020 in Docket No. P-2020-3020974.

