

COMMONWEALTH OF PENNSYLVANIA



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July 24, 2018

The Honorable Christopher P. Pell
The Honorable F. Joseph Brady
Administrative Law Judges
Commonwealth of Pennsylvania
Pennsylvania Public Utility Commission
801 Market Street, Suite 4063
Philadelphia, PA 19107

Re: Pennsylvania Public Utility Commission v.
PECO Energy Company – Electric Division
Docket No. R-2018-3000164

Dear Judge Pell and Judge Brady:

Enclosed please find a copy of the Rebuttal Testimony of Clarence Johnson Statement No. 3R being submitted on behalf of the Office of Consumer Advocate in the above proceeding.

Copies have been served on the parties as indicated on the enclosed Certificate of Service.

Respectfully Submitted,

A handwritten signature in blue ink that reads "Christy M. Appleby".

Christy M. Appleby
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Enclosures

cc: Rosemary Chiavetta, Secretary (Certificate of Service)
Certificate of Service

CERTIFICATE OF SERVICE

Pennsylvania Public Utility Commission :
 :
 v. : Docket No. R-2018-3000164
 :
 PECO Energy Company :

I hereby certify that I have this day served a true copy of the following document, the Office of Consumer Advocate’s Rebuttal Testimony of Clarence Johnson Statement No. 3R, upon parties of record in this processing in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 24th day of July.

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*254366

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2018-3000164
	:	
PECO Energy Company—Electric Division	:	

REBUTTAL TESTIMONY OF

CLARENCE L. JOHNSON

ON BEHALF OF

OFFICE OF CONSUMER ADVOCATE

June 24, 2018

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1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Clarence L. Johnson. My business address is 3707 Robinson Ave, Austin,
4 Texas 78722.

5 **Q. ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS**
6 **PROCEEDING?**

7 A. I am presenting testimony on behalf of the Pennsylvania Office of Consumer Advocate
8 (“OCA”).

9 **Q. WHAT IS YOUR CURRENT EMPLOYMENT?**

10 A. I am self-employed as a consultant providing technical analysis, advice, and testimony
11 regarding energy and utility regulatory issues.

12
13 **Q. ARE YOU THE SAME CLARENCE JOHNSON WHO PREVIOUSLY**
14 **PROVIDED TESTIMONY IN THIS PROCEEDING?**

15 A. Yes.

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

17 A. My testimony will rebut testimony presented by other parties on cost allocation and rate
18 design issues pertaining to PECO’s (“Company”) base rate increase requested in this
19 docket. In particular, I will rebut the testimony of NRG witness Peterson, Pennsylvania
20 Industrial Energy Users Group (PAIEUG) witness Pollock, and Office of Small Business
21 Advocate (OSBA) witness Kalcic. To the extent that my rebuttal testimony does not

1 address the positions of a witness, that should not be construed as agreement with the
2 witness' testimony on that subject.

3 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

4 A. My recommendations are as follows:

- 5 • NRG witness Peterson's proposal to allocate a portion of indirect costs to default
6 generation service should be rejected. His proposal is not consistent with the policy
7 underlying default service and is inconsistent with the allocation practices normally
8 applied to an electric utility class cost of service study (CCOSS).
- 9 • I disagree with PAIEUG witness Pollock's recommendation to shift allocated distribution
10 costs from the High Voltage (HV) class to other classes. I also object to Mr. Pollock's
11 proposal to change the allocation of conservation advertising expense in FERC Account
12 908.
- 13 • OSBA witness Kalcic's recommended class revenue distribution should be rejected. His
14 recommendation accepts the Company's CCOSS without any changes, which leads to an
15 excessive revenue increase for residential customers.

16 **II. ALLOCATION OF INDIRECT COSTS**

17
18 **Q. WHAT IS THE POSITION OF NRG WITNESS PETERSON?**

19
20 A. Mr. Peterson contends that \$101 million of indirect expense in PECO's class cost of
21 service study (CCOSS) should be allocated to default generation service. The result of
22 his recommendation is to reduce the distribution expense allocated to Residential (R) and

1 Residential Heating (RH) classes, accompanied by a concomitant increase in the cost of
2 default service purchased by customers in those classes. As a result of his
3 recommendation, the Price to Compare would increase by 1.25 cents per kWh, or 17.5%
4 from 7.11 cents per kWh to 8.40 cents per kWh. Based on his recommendation, the
5 Company's proposed distribution energy rate would decrease by 0.7 cents per kWh, an
6 11% reduction in the Company's requested kWh charge.

7 **Q. DO YOU AGREE WITH HIS RECOMMENDATION?**

8 A. No. My conclusion is based on assessing whether his proposal is consistent with (a)
9 default service policy in Pennsylvania, and (b) the logic of the CCOSS. His
10 recommendation is deficient on both counts.

11 **Q. WHY IS HIS PROPOSAL INCONSISTENT WITH THE POLICY UNDERLYING**
12 **DEFAULT SERVICE IN PENNSYLVANIA?**

13 A. Mr. Peterson contends that corporate overhead costs should be allocated to default
14 service in order to make the service comparable to offerings by competitive electric
15 generation suppliers (EGS). He argues that PECO's current method does not provide a
16 fair comparison of EGS rates with the Price to Compare. However, his analysis ignores
17 the policy and requirements of the default service. By law, the default service provider
18 (PECO) must meet a set of standards with the goal of providing "adequate, reliable,
19 affordable, efficient and environmentally sustainable electric service at the least cost,
20 taking into account any benefits of price stability over time and the impact on the
21 economy."¹ In its role as default service provider, PECO must be prepared to meet the

¹ Act 129 of 2008, Preamble.

1 requirements of serving 100% of residential customers at any time. As such, PECO's
2 costs are not avoidable as PECO must stand ready to serve at all times.

3 In addition, the default service provider acquires power through open auctions, is
4 required to procure a diverse set of long and short term power, may not advertise default
5 service or include value added services, or earn a profit on providing the service. PECO
6 does not own or operate the generation which provides default service, but instead
7 acquires power through Commission approved solicitations. The law permits PECO to
8 recover its reasonable costs of providing default service. EGS rate offerings are not
9 subject to these requirements, nor does the law provide for regulated recovery of the
10 EGS' costs. Moreover, the notion that default service should be assigned costs it would
11 have incurred as a separate affiliate or division of PECO is an artificial concept. No such
12 requirement has been placed on default service providers. The default service price
13 provides a benchmark in the form of the Price to Compare for consumers who desire to
14 shop for power. But the default service provider's obligations are not the same as EGS
15 providers, and it is not reasonable to "force" the default service cost to be comparable to
16 EGS costs.

17 **Q. DOES PECO QUANTIFY AND COLLECT FROM DEFAULT CUSTOMERS**
18 **THE DIRECT EXPENSE OF PROVIDING DEFAULT SERVICE?**

19 A. Yes. These costs include the acquired power cost, the cost of compliance with the law,
20 transmission and ancillary service costs, and the administrative costs of operating the
21 solicitation process. Mr. Peterson has not identified any avoidable costs of providing

1 default service which are improperly recovered from customers of competitive EGS
2 providers.

3 **Q. PLEASE EXPLAIN WHY MR. PETERSON'S RECOMMENDATION IS**
4 **INCONSISTENT WITH THE STRUCTURE OF THE CCOSS.**

5 A. First, Mr. Peterson limits his allocation recommendation to only the R and RH classes.
6 The CCOSS is based on fully allocated costs. PECO's default service has commercial
7 and industrial customers, but Mr. Peterson does not explain why the re-allocation of
8 indirect costs is limited to residential customers. Second, Mr. Peterson's allocation
9 process is not consistent with the classification of indirect costs in the CCOSS. The
10 classification procedure is an intermediate step for determining whether costs should
11 allocated based on demand, energy, customers, or an internal composition of factors.

12 **Q. PLEASE ELABORATE ON HIS RECOMMENDATION'S INCONSISTENCY**
13 **WITH THE CCOSS CLASSIFICATION OF INDIRECT COSTS.**

14 A. Administrative & General (A&G) expense is the largest component of indirect cost which
15 Mr. Peterson re-allocates to default service. A&G expense, by definition, is not directly
16 allocable to any particular corporate function. A&G includes upper management salary,
17 general consulting and legal costs, pension and benefits, injuries and damages, and
18 regulatory activities. Most of the A&G expense accounts are classified by PECO's
19 CCOSS as salary and wage (S&W) related, and are therefore, allocated on the basis of
20 salary and wages incurred for direct activities within the CCOSS. For example, A&G
21 costs are assigned to customer accounting based on customer accounting salaries as a
22 percent of total direct wage and salary expense. The A&G costs assigned in this manner

1 to customer accounting are then allocated on the customer accounting allocation factor
2 (*i.e.*, customer allocation). Mr. Peterson reallocates A&G expense to residential default
3 service without any consideration of the classification of the A&G costs as S&W-related.
4 Based on the logic of PECO's CCOSS, any allocation of this A&G expense to the
5 generation function should follow S&W incurred for the direct costs of providing default
6 service. Because the bulk of direct costs of acquiring default power consists of actual
7 power expense and consultant expense, it is not clear that any direct S&W expense is
8 incurred in the provision of default service,² meaning that no S&W-related A&G expense
9 is allocable to the default service program function. Moreover, Mr. Peterson's procedure
10 for re-allocating A&G expense based on customers or revenues assumes a fixed
11 allocation to Rate R and RH which is unaffected by the change in allocation basis. If Mr.
12 Peterson seeks to replace the S&W classification with a hybrid customers-revenue
13 classification, the amount of A&G expense allocated to each customer class should
14 change—but it does not under his method.

15 **Q. IS DEFAULT PURCHASE POWER A PURE PASS THROUGH EXPENSE?**

16 A. Yes. PECO does not generate the power or own the facilities that produce the power.
17 PECO conducts auctions to procure the power and passes the power costs through to
18 default service customers. Typically, such pass through costs are not included in the
19 calculation of allocation factors for most A&G expense items in the CCOSS. If O&M
20 expense is utilized as the A&G classifier instead of S&W, the O&M allocator generally
21 excludes purchase power and fuel. Mr. Peterson's recommendation allocates over one-

² PECO Petition to Provide Default Service Program (June 2017 – May 2019) (DSP-IV), Docket No. P-2016 2534980, PECO St. No. 5, Ex. ABC-5.

1 half of the residential share of indirect costs to default service. Given that most of the
2 default service cost is a pure pass through of purchased power, the magnitude of this re-
3 allocation appears to be unreasonable.

4 **Q. MR. PETERSON REFERS TO THE COMMISSION UNBUNDLING ORDER**
5 **FOR PECO (NRG EX. CP-4), AS WELL AS OCA'S TESTIMONY IN THAT**
6 **PROCEEDING, TO SUPPORT HIS RECOMMENDATION. DO YOU AGREE**
7 **THAT THE UNBUNDLING PROCEEDING SUPPORTS HIS POSITION?**

8 A. No. First, the unbundling proceeding did not pertain to, or set, default service rates. The
9 proceeding unbundled the utility's unregulated generation service from regulated
10 transmission and distribution service. The purpose of the proceeding was unrelated to
11 Mr. Peterson's objective of allocating distribution costs to the default service rate.
12 Second, PECO was unbundling the full cost of its generation plants for stranded cost
13 determination and an eventual transfer to an unregulated affiliate. Unlike purchase power
14 acquired for default service, these generation plants incurred significant labor costs,
15 which in turn requires significant indirect costs for employee benefits and supervision.
16 The OCA's testimony in that case proposed a labor allocation for A&G expense, which is
17 comparable to the S&W allocation method used for most A&G expense in the current
18 CCOSS. Because the generation plants were labor intensive, 66% of direct labor expense
19 was associated with generation at the time.³ However, as previously noted, little if any
20 direct salary and wage cost is incurred for default service.

³ NRG Ex. CP-4 at 60.

1 **Q. PLEASE COMMENT ON MR. PETERSON'S CONTENTION THAT THE**
2 **ENERGY EFFICIENCY & CONSERVATION (EE&C) MARKETING**
3 **PROGRAM MAY PROVIDE PECO WITH AN UNFAIR BRANDING**
4 **OPPORTUNITY.**

5 A. It is unclear how this contention supports his indirect allocation recommendation. This
6 appears to be speculation on his part, since he did not provide examples of any
7 informational material or advertisements which unfairly promote PECO's image. If
8 PECO has expenditures which unfairly promote the Company's image, the remedy
9 should be disallowance of the cost rather than adding the expense to the default rate.
10 Moreover, PECO is required by Act 129 to market the statutory conservation programs.
11 The law requires the distribution company to implement the EE&C program. For that
12 reason, inclusion of the cost within the distribution function is justified.

13 **Q. WHAT IS YOUR RECOMMENDATION?**

14 A. Mr. Peterson has not identified any avoidable distribution costs that should be unbundled
15 from PECO's distribution rates. His methodology is inconsistent with class cost of
16 service and other ratemaking principles. Mr. Peterson's proposal should be denied.

1 **III. HIGH VOLTAGE CLASS ALLOCATION**

2

3 **Q. DOES PAIEUG WITNESS MR. POLLOCK PROPOSE CHANGES TO THE**
4 **COSTS ALLOCATED TO THE HIGH VOLTAGE CLASS?**

5 A. Yes. Mr. Pollock proposes to reduce the allocation of distribution costs to the HV
6 class by: (1) separating re-functionalized transmission plant from the distribution
7 allocation; (2) removing loads of customers who own substations from the substation
8 allocation factors applied to the HV class; and (3) removing loads of customers who take
9 service at 69 kV or higher from the allocation of distribution costs to the HV class. Mr.
10 Pollock's direct testimony does not quantify the revenue requirements which would be
11 shifted to other classes as a result of this recommendation.

12 **Q. DO YOU AGREE WITH HIS RECOMMENDATION?**

13 A. No. The customers who take service at 69 kV or higher in the HV class already receive a
14 credit to compensate them for lower distribution facility costs. The Company has
15 proposed to increase the size of this credit. In addition to this credit, Mr. Pollock
16 proposes to change the CCOSS in a manner that will shift distribution costs onto all of
17 the other classes.

18 **Q. IS THE COMPANY'S CCOSS TREATMENT OF THE HV CLASS**
19 **UNREASONABLE?**

1 A. No. The Company allocates distribution costs to the HV class based on all loads within
2 the class because all of the customers use some portion of the distribution function's
3 costs. The distribution function's costs include radial lines and certain components of
4 substation facilities at voltage in excess of 69 kV. These high voltage facilities were
5 re-functionalized from the transmission system by FERC because they serve a
6 distribution function. PECO reasonably includes these high voltage facilities within the
7 aggregation of distribution lines and stations allocated to the HV class. It is not
8 unreasonable for PECO to use the class' total demand in the allocation process because
9 components of the distribution function are allocable to the HV class' customers. The
10 fact that customers who are allocated distribution costs do not utilize all of the facilities
11 on PECO's system is not unusual. It is inherent in the process of allocating a diverse and
12 widespread distribution system. This is also a characteristic of average cost ratemaking.
13 Analysts can disagree on the level of granularity which should be applied to allocations.
14 But PECO's practice is not unreasonable, particularly given the incorporation of a
15 discount to high voltage customers in the rate design process.

16 **Q. IS THE NOTION OF AVERAGE COST PRICING CONSISTENT WITH**
17 **THE CONCEPT OF AN INTERCONNECTED DISTRIBUTION SYSTEM?**

18 A. Yes. PECO plans its distribution system as an interconnected network. Most electric
19 utilities design substations so that the facilities can provide redundancy and handle
20 additional power flows in the event of an emergency or contingency event elsewhere on
21 the system. It is reasonable to expect that PECO's sizing and siting of distribution
22 facilities was affected by the location of major large loads in the HV class. The

1 interconnected nature of PECO's system supports the Company's allocation of costs to
2 the HV class.

3 **Q. SHOULD THE COMMISSION MAKE THE CHANGES PROPOSED BY MR.**
4 **POLLOCK WITHOUT KNOWING THE COST IMPACT ON OTHER**
5 **CLASSES?**

6 A. No. Mr. Pollock indicates that his CCOSS analysis is "preliminary" because he had not
7 yet received data from the Company to complete his analysis. He states that he will
8 provide additional quantification of his analysis in rebuttal testimony. The impact on
9 other customer classes is an important piece of information for the Commission's
10 evaluation of this issue. I will respond to his testimony, as necessary, in my surrebuttal
11 testimony.

12 **IV. ALLOCATION OF ACCOUNT 908 EXPENSE**

13 **Q. DOES PAIEUG WITNESS MR. POLLOCK RECOMMEND A CHANGE TO THE**
14 **ALLOCATION OF CUSTOMER ASSISTANCE ACCOUNT 908?**

15 A. Mr. Pollock asserts that the Company allocates a portion of FERC Account 908 costs
16 pertaining to conservation advertising and general marketing on the basis of energy
17 (kWh). He disagrees with this allocation and recommends a base rate revenue allocation
18 for that portion of costs instead. Mr. Pollock develops a revised class allocation of FERC
19 Account 908 based on this change.

1 **Q. DO YOU AGREE WITH MR. POLLOCK'S ALLOCATION CHANGE FOR**
2 **CUSTOMER ASSISTANCE ACCOUNT 908?**

3 A. No. Energy is a reasonable allocation basis for conservation advertising and general
4 marketing expense.

5 **Q. IS BASE REVENUE REQUIREMENT A BETTER ALLOCATION METHOD**
6 **FOR THESE COSTS?**

7 A. No. The primary resource benefit of energy conservation is related to the generation
8 function. An allocation based on base revenue requirement in large part reflects
9 distribution costs. Any impact of energy conservation on planning for distribution
10 facilities is clearly secondary to the effect on generation costs. Because distribution
11 facilities are planned based on area and neighborhood loads, energy conservation
12 advertising aimed at the general population likely has little effect on distribution
13 planning. The distribution base revenue requirement included in Mr. Pollock's base
14 revenue requirement allocator incorporates substantial customer allocated costs and
15 general overhead costs which are not an appropriate basis for allocating conservation
16 advertising costs.

17 **Q. HOW ARE GENERATION EXPENSES ALLOCATED IN THE CCOSS?**

18 A. The generation function of the CCOSS is comprised of power procured for default
19 service. The CCOSS allocates purchase power on the ENERGY1 allocation factor.
20 Further, the power which PECO solicits and acquires for default service is priced on a
21 \$/mWh basis.

1 **Q. MR. POLLOCK TESTIFIES THAT ADVERTISING AND MARKETING WHICH**
2 **INDUCES CONSERVATION WILL REDUCE CUSTOMERS' BILLS, THEREBY**
3 **JUSTIFYING THE BASE REVENUE REQUIREMENT ALLOCATOR. IS THAT**
4 **SUFFICIENT REASON TO CHANGE THE COMPANY'S ENERGY**
5 **ALLOCATION OF THE EXPENSE?**

6 A. No. Mr. Pollock implies that the conservation information should be targeted at
7 residential and commercial customers who take default service. He argues that the
8 advertising is unnecessary to influence large customers which shop for power because
9 they are sophisticated and have energy managers who oversee electricity decisions.
10 Default service is priced on an energy basis (cent/kWh). Moreover, the non-generation
11 component of residential bills is priced mostly on a cent/kWh basis. The remaining
12 customer charge component of the residential bill cannot be reduced by conservation
13 activity. Therefore, the bill savings induced by energy conservation for residential
14 customers, and most default service customers will flow through energy charges. Thus,
15 an energy allocation is consistent with Mr. Pollock's bill savings rationale.

16 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATION.**

17 A. Mr. Pollock's recommendation to change the allocation of conservation advertising and
18 general marketing expense should be rejected.

19 **V. OSBA REVENUE DISTRIBUTION**

20 **Q. PLEASE SUMMARIZE OSBA WITNESS MR. KALCIC'S TESTIMONY.**

21 A. Mr. Kalcic reviews the Company's CCSS results and proposes a different class revenue
22 increase which he claims will reduce or eliminate subsidy amounts for each class. He

1 applies a 150% rate moderation cap (18% base revenue increase) to Rate EP and Rate
2 RH. Mr. Kalcic proposes to set Rate R exactly at cost (based on the Company's CCOSS),
3 which results in an 11.8% increase.

4 **Q. DOES MR. KALCIC PROPOSE TO SUBSTANTIALLY INCREASE RATES TO**
5 **RESIDENTIAL CUSTOMERS?**

6 A. Yes. Using the same Company-requested revenue requirement for comparability, Mr.
7 Kalcic proposes to increase Rate R revenues \$20 million more than my recommendation,
8 and Rate RH \$7.6 million more. Altogether for the combined Residential and RH class,
9 Mr. Kalcic increases revenues \$28 million more than my recommendation.

10 **Q. WHAT IS THE CAUSE OF THIS DIFFERENCE IN REVENUE DISTRIBUTION**
11 **PROPOSALS?**

12 A. The difference between the OSBA position and OCA's is due to Mr. Kalcic's acceptance
13 of the Company's CCOSS without any changes. My testimony presents several proposed
14 allocation changes, and this results in a disparity between our class revenue distribution
15 targets. In particular, my recommendation to classify all secondary facilities, except for
16 meters and services, on a demand basis results in the most significant relative impact
17 among the classes. The Company's CCOSS allocates secondary distribution lines, poles,
18 and underground facilities on a 100% customer basis.

19 **Q. DO YOU DISAGREE WITH MR. KALCIC'S RECOMMENDED CLASS**
20 **REVENUE DISTRIBUTION?**

1 A. Yes. As stated in my direct testimony, changes to the Company's CCOSS are warranted.
2 Therefore, I disagree with Mr. Kalcic's revenue distribution proposal because it is
3 premised on acceptance of the Company's CCOSS.

4 **Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

5 A. Yes.

6

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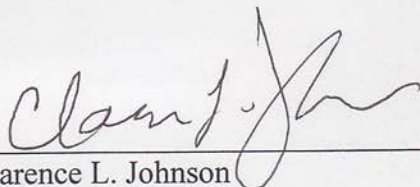
BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :
v. : Docket No. R-2018-3000164
PECO Energy Company :

VERIFICATION

I, Clarence Johnson, hereby state that the facts above set forth in my Rebuttal Testimony OCA Statement No. 3R are true and correct and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

Signature:


Clarence L. Johnson
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DATED: July 24, 2018
*254338