PECO ENERGY COMPANY
STATEMENT NO. 2

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

DOCKET NO. R-2020-3018929

DIRECT TESTIMONY

WITNESS: ROBERT J. STEFANI

SUBJECT: PECO'S NEED FOR RATE RELIEF; OPERATIONS AND MAINTENANCE COSTS; OVERVIEW OF PECO'S ACCOUNTING EXHIBITS AND BUDGETING PROCESS; GAS SALES FORECAST; AFFILIATED SERVICES

DATED: SEPTEMBER 30, 2020

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DIRECT TESTIMONY
OF
ROBERT J. STEFANI

I. INTRODUCTION AND PURPOSE OF TESTIMONY

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

A. My name is Robert J. Stefani. My business address is 2301 Market Street, Philadelphia, PA 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 Senior Vice President, Chief Financial Officer and Treasurer. I am responsible for PECO's financial function, including budgeting, long-range financial planning, financial analysis and reporting, project evaluation and financings. I also conduct oversight and coordination of PECO's accounting, tax, treasury, investor relations and risk management activities.

3. Q. Please brief describe your educational background and professional experience.

A. I received a bachelor's degree in accounting from the University of Notre Dame and an MBA from the University of Texas at Austin. Prior to joining PECO, I was Vice President of Corporate Development at Exelon, responsible for identification and execution of merger, acquisition, and divestiture opportunities. Before joining Exelon, I led strategic investments in North America, Europe and South Africa for Caterpillar's Corporate Development Group. Prior to my work at Caterpillar, I was an investment banker at Citigroup and then Marathon Capital where I provided strategic and capital markets advisory services to major corporations. I also previously served as an Officer in the United States Navy and was on active duty from 1996 to 2003.

4. Q. What is the purpose of your direct testimony?

The purpose of my direct testimony is to: (1) briefly explain PECO's need for rate relief; (2) summarize PECO's efforts to control operating and maintenance ("O&M") costs since its last approved base rate increase in 2010; (3) provide an overview of PECO's accounting exhibits and its budgeting process; (4) explain the derivation of PECO's gas sales forecast; and (5) describe the nature and allocation of costs for services that PECO receives from Exelon Business Service Company ("EBSC"). Please note that all amounts shown for 2020 and beyond are for the 12-month period ending June 30 of that year unless otherwise noted.

II. NEED FOR RATE RELIEF

5. Q. Why is PECO seeking a rate increase at this time?

A. PECO last requested a base rate increase in 2010. Since the Company's current base rates became effective on January 1, 2011, PECO has continued to invest in new and replacement gas utility plant, and materials and contracting costs have escalated as a result of general inflationary trends and rising labor and material costs in the utility industry over the past decade. Usage per residential customer also remains below 2011 levels and has generally declined year-over-year. In addition, PECO has continued to provide its employees with reasonable increases in wages and salaries and incur increasing employee health care costs. As a result of these factors, PECO has been unable to achieve a fair return on its investment in its Gas Division.

PECO also plans to make significant investments in new and replacement gas utility plant designed to maintain and/or enhance the safety and reliability of the Company's distribution system. PECO recognizes that it is imperative, for the continued provision of safe and reliable service to its customers, to continually invest in its distribution infrastructure. To that end, PECO projects that it will need to invest approximately $1.2 billion in new and replacement gas utility plant between July 1, 2020 and June 30, 2024 as follows:

Year	Capital Expenditures (in $ millions)
July 1, 2020 – June 30 2021	$338
July 1, 2021 – June 30, 2022	$313
July 1, 2022 – June 30, 2023	$294
July 1, 2023 – June 30, 2024	$282

These amounts include both Accelerated Gas Infrastructure Modernization Plan ("AGIMP") and non-AGIMP related capital expenditures. While some portion of the AGIMP costs are recoverable through PECO's Commission-authorized Distribution System Improvement Charge ("DSIC"), the Company anticipates that it will need to obtain external financing for the remainder of these costs. PECO will endeavor to obtain such financing at the most favorable terms possible.

6. Q. Please elaborate as to why PECO's current base rates are insufficient to support its current and planned operations.

A. Without an increase in revenues, PECO's gas operations are projected to produce an overall return on investment capital of 5.73%, and a return on common equity of 7.26%, during the twelve months ending June 30, 2022.

As explained by Mr. Paul R. Moul (PECO Statement No. 5), such levels of return are inadequate under any reasonable standard and below the rates of return generally afforded to public utilities. Absent a rate increase, the erosion to PECO's projected returns would jeopardize the Company's ability to make all of the reasonable and prudent investments in gas infrastructure that are currently planned through June 30, 2024, and which are necessary to maintain and enhance the provision of safe, reliable, and resilient natural gas service to its customers. Inadequate returns would also negatively impact PECO's credit coverage ratios and its ability to maintain or improve its investment grade credit ratings, thereby increasing the Company's financing costs.

7. Q. Why is it important that PECO maintain and/or possibly improve its credit ratings?

A. Maintaining or improving PECO's credit ratings is important to reducing customer costs. As previously stated, the Company needs to make significant investments in its system to ensure the continued provision of safe and reliable service. PECO projects that it will need to invest approximately $1.2 billion in new and replacement gas distribution plant by June 30, 2024. A meaningful portion of these planned investments will be financed with debt and other forms of capital. The Company's credit ratings will impact the cost it will need to pay to attract such capital, and ultimately, such costs will be borne by PECO's gas customers. Therefore, it is important that the Company maintain its favorable credit metrics in order to minimize customer costs.

8. Q. What steps, if any, has PECO taken to minimize its costs of borrowing?

A. PECO has leveraged the recent low interest rate environment and its strong credit ratings to reduce its weighted average long-term debt rate of 4.10% in 2019 to approximately 4.00% as projected for 2021, which remains below its 2010 long-term debt rate of 5.81%. PECO has also taken steps to obtain debt financing at favorable terms to the Company and its customers. On June 1, 2020, PECO successfully priced a $350,000,000, 30-year bond offering at a spread of 135 basis points over the 30-year U.S. Treasury for an all-in coupon rate of 2.80%. The 2.80% coupon rate is 20 basis points lower than PECO's previous all-time lowest coupon rate and at the time of issuance was one of the lowest coupon rates ever issued in conjunction with a 30-year U.S. utility corporate bond.

III. PECO'S EFFORTS TO CONTROL OPERATING AND MAINTENANCE COSTS PROCESS

9. Q. Please describe PECO's efforts to control its O&M expenses since its current base rates became effective on January 1, 2011.

A. PECO projects that the compound annual growth rate ("CAGR") in O&M expense from 2010 through the end of the fully projected future test year

("FPFTY") will be 1.9%. When the Company's projected 2010- June 30, 2022 CAGR is adjusted for increases in gas mapping and locate expense since 2010, the projected CAGR in O&M decreases further to 1.3%, which is well below the expected inflation CAGR for the same period. Notwithstanding the increase in gas mapping[1] and locate[2] expenses since 2010, the Company has taken reasonable and prudent steps to minimize such costs to the extent possible.

In addition, PECO has taken concrete action to control its O&M expenditures including reducing bad debt expense and effectively managing pension and other post-employment benefits ("OPEB"). The Company's O&M expenditures may be impacted by COVID-19 and the Company is still evaluating these impacts, as discussed in Section VII of my testimony.

10. Q. Please describe the actions PECO has taken relative to reducing its bad debt expense.

A. PECO reduced its bad debt expense significantly from $7 million in 2010 to projecting only $2.1 million and $2.7 million of bad debt expense in 2020 and 2021, respectively. PECO is achieving these reductions through a variety of

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[1] PECO's gas mapping project started in 2017 as a result of the settlement agreed to in P.U.C. Docket No. C-2015-2479970. The Company is in the process of implementing mapping system enhancements that will allow it to map and locate its facilities with sub-foot accuracy. The mapping project includes: (i) converting legacy maps into a Geographic Information System; (ii) completing a "Visualization Tool" that will enable the Company to visualize what is connected to mains via service points and incorporate service record information and drawings; (iii) retiring legacy maps; and (iv) capturing X, Y, and Z coordinates on legacy pipe and validating service line information.

[2] The Company's locate expense has grown significantly since 2010 due to an increase in PA One Call locate requests. The Company is required, pursuant to the Underground Utility Line Protection Law, to respond to One Call requests seeking information regarding the location and type of its underground lines and mark, stake, locate, or otherwise provide the position of its underground lines at work sites. *See* 73 P.S. § 177.

initiatives, which include increasing oversight of high balance accounts, requiring down payments for most types of payment arrangements, and mandating deposits for delinquent accounts.

11. Q. What steps has PECO taken to manage its pension and OPEB?

A. PECO's overall employee benefits costs have decreased, even as underlying health care costs have generally increased by approximately 5% annually in recent years. PECO actively manages its employee benefit costs by evaluating trends in benefits and identifying and implementing cost reduction measures while maintaining competitive compensation packages for its employees. As part of this cost management strategy, PECO has implemented changes to the design of its OPEB plans to reduce their overall cost. PECO previously provided eligible retirees a company-sponsored medical plan with a traditional premium cost-sharing arrangement. In 2015, PECO began to provide eligible retirees a defined contribution credit that can be used to purchase coverage in the individual Medicare marketplace. The change capped the Company's exposure to future medical inflation and leveraged Medicare subsidies available in the individual marketplace. As a result of PECO's changes in the design of its OPEB plan, PECO's OPEB expenses decreased from $3.6 million in 2010 to $1.3 million budgeted for 2021, while still providing eligible retirees with comparable benefits. The expensed portion of PECO's pension cash contribution increased from $9.9 million in 2010 to an expected cash contribution of $15.7 million in 2021 due to a combination of factors, including implementation of a modified investment strategy in 2010 to reduce the volatility of the Company's pension assets relative to its pension liabilities.

IV. OVERVIEW OF PECO'S PRINCIPAL ACCOUNTING EXHIBITS AND BUDGETING PROCESS

12. Q. Please provide an overview of PECO's principal accounting exhibits.

A. PECO's principal accounting exhibits are MJT-1, MJT-2, and MJT-3, which represent PECO's revenue requirement for the FPFTY, future test year ("FTY"), and historical test year ("HTY"), respectively, and which are sponsored by Mr. Michael J. Trzaska (PECO Statement No. 3). As explained by Mr. Trzaska, these exhibits are based, in part, upon data provided by other PECO witnesses. Exhibit MJT-1, which represents PECO's revenue requirement for the FPFTY ending June 30, 2022, is comprised of five sections, as follows:

Section I consists of a summary schedule setting forth PECO's claimed measures of value (i.e., rate base) and the derivation of the Company's requested rate increase.

Section II contains basic accounting data, primarily extracted from the Company's financial records, including a FPFTY-end balance sheet; statements of net operating income and FPFTY revenues; a schedule of expense items by primary account; and a calculation of PECO's tax expenses. Also included are schedules developing PECO's embedded costs of debt and stock, its FPFTY capital structure, and the Company's overall claimed rate of return.

Section III provides a detailed development of the major components of the Company's rate base claim. The section includes summaries of the original cost and accumulated depreciation at FPFTY-end of the various categories of utility plant, including allocated common plant, and calculations of PECO's working capital, gas inventories, materials and supplies, accumulated deferred income taxes, and customer deposits and advances.

Section IV contains detailed adjustments required to place FPFTY revenues and expenses on a ratemaking basis. These adjustments are summarized on Schedules D-3 to D-17, and, together with certain tax adjustments, are carried forward to Schedule D-1 to derive PECO's pro forma operating income at present and proposed rates.

Section V briefly describes the FTY and HTY data.

Exhibits MJT-2 and MJT-3 are essentially identical in format. As explained by Mr. Trzaska, adjustments were made to budgeted data, where necessary, to ensure that the Company's claimed revenue, expenses, and taxes are representative of the levels that the Company expects to experience on a normalized, ongoing basis, and in accordance with the Commission's established ratemaking precedent.

Because PECO is basing its requested rate increase on FPFTY data, Exhibit MJT-1 is key to understanding and evaluating the derivation of the Company's claimed revenue requirement. For that reason, Mr. Trzaska devotes most of his testimony to a discussion of PECO Exhibit MJT-1.

13. Q. What is contained in PECO Exhibit MJT-2?

A. PECO Exhibit MJT-2 follows the same format as PECO Exhibit MJT-1, but presents information for the FTY ending on June 30, 2021.

14. Q. What is contained in PECO Exhibit MJT-3?

A. PECO Exhibit MJT-3 follows the same format as PECO Exhibits MJT-1 and MJT-2, but presents information for the HTY, which ended on June 30, 2020. This information is being furnished in accordance with the Commission's filing requirements and provides a basis for comparing PECO's FPFTY claims to the actual results of historic operations, adjusted for rate making purposes, for the HTY.

15. Q. Please describe PECO's budgeting process.

A. One of the key goals of the annual budgeting and planning process is to integrate and align PECO's operational, regulatory, and financial plans. As discussed in Mr. Bradley's testimony, the operational plan includes goals focused on achieving best-in-class safety performance at top decile and first quartile performance for both reliability and customer satisfaction. The operational plan is also consistent with statutory and Commission-imposed regulatory requirements. For the financial plan, spending targets are set in order to achieve operational goals, comply with regulatory requirements, and will seek to manage to keep O&M expense increases at a rate lower than the rate of inflation. As explained above, the Company's projected CAGR in O&M expense from 2010 through the FPFTY is well below the expected rate of inflation for that same period.

The planning process starts with a review and update of PECO's operational and regulatory goals and initiatives to determine if changes are required for the future. Any significant changes in such goals and initiatives are taken into consideration when updating the Company's financial Long Range Plan ("LRP"). The LRP is a five-year outlook and is updated with key assumptions (e.g., inflation rates, interest rates) and with detailed input provided by "responsibility areas." Each responsibility area reviews its historic expense levels, current and anticipated employee staffing levels, performance assessments, regulatory requirements, operational goals, specific projects, and other factors.

The individual responsibility areas of LRPs are typically submitted to PECO's finance group in June of each year and are carefully analyzed for consistency, completeness and appropriateness. The responsibility area LRPs are then consolidated and delivered to PECO's senior management (i.e., the Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer) for review and approval in September.

Once the LRP has been updated and approved, data are used to formulate a detailed two-year budget. The two-year budget is "built up" by responsibility area, similar to the LRP process described above. The financing plan is then developed to ensure PECO can maintain investment grade credit ratings. Based on that plan, PECO determines the amount it can borrow to fund its spending plans and the dividend levels that will achieve its targeted capital structure.

The final consolidated budget is then submitted to PECO's senior management for review and approval.

16. Q. When was the last time the Commission reviewed PECO's budgeting process?

A. PECO's budgeting process was reviewed by the Commission during its Focused Management and Operations Audit of PECO in 2014 ("2014 Audit"). The Commission's auditors found no deficiencies or weaknesses in the way PECO prepares its budgets.

17. Q. Do the personnel in each of the responsibility areas develop their budgets by FERC account?

A. No, the responsibility areas do not budget by FERC account. Rather, the responsibility areas budgets are prepared on the basis of business activities and related cost elements, such as payroll, employee benefits, outside services, etc.

18. Q. Mr. Trzaska, in Schedules B-2 and B-4 of PECO Exhibit MJT-1, presents the budgeted data for the twelve months ending June 30, 2022 on a FERC account basis. How were those figures derived?

A. As Mr. Trzaska explains in his testimony, he analyzed PECO's budgeted expenses for the twelve months ending June 30, 2022 to determine their composition (e.g., payroll, benefits, rent) and then distributed the budgeted costs for those months to the appropriate FERC account based on his findings. The results of Mr. Trzaska's proposed distribution of costs were then reviewed and confirmed with members of my staff.

19. Q. Do PECO Exhibits MJT-1, MJT-2, and MJT-3 contain all of the data needed to evaluate PECO's claimed revenue requirement?

A. No. While MJT-1, MJT-2, and MJT-3 present, in considerable detail, the Company's rate base, revenue, expense and tax claims, much of the supporting data are provided in the separately-bound volumes comprising the Company's responses to the Commission's standard rate case filing requirements at 52 Pa. Code §§ 53.52, 53.53, 53.62, and 53.64 and supplemental data requests issued by the Commission's staff. In addition, other PECO witnesses are also sponsoring testimony and specific exhibits in the areas of depreciation, rate of return, energy-efficiency programs, and unbundling of certain costs.

V. GAS SALES FORECAST

20. Q. How does PECO develop its gas sales forecast, generally?

A. The natural gas forecasting process uses multiple regression-analysis models that determine the relationship between monthly gas sales and predictive variables, such as weather, usage trends, and calendar. The modeled results are evaluated using standard statistical criteria (like the Adjusted R-Squared Score, Mean Absolute Percentage Error (MAPE), t-statistics and coefficients) to ensure that there are statistically significant relationships between the dependent and independent variables. Further detail is provided in the Company's responses to Commission filing requirements SDR-RR-9 and SDR-RR-10.

21. Q. How does PECO utilize historical weather data in developing its gas sales forecasts?

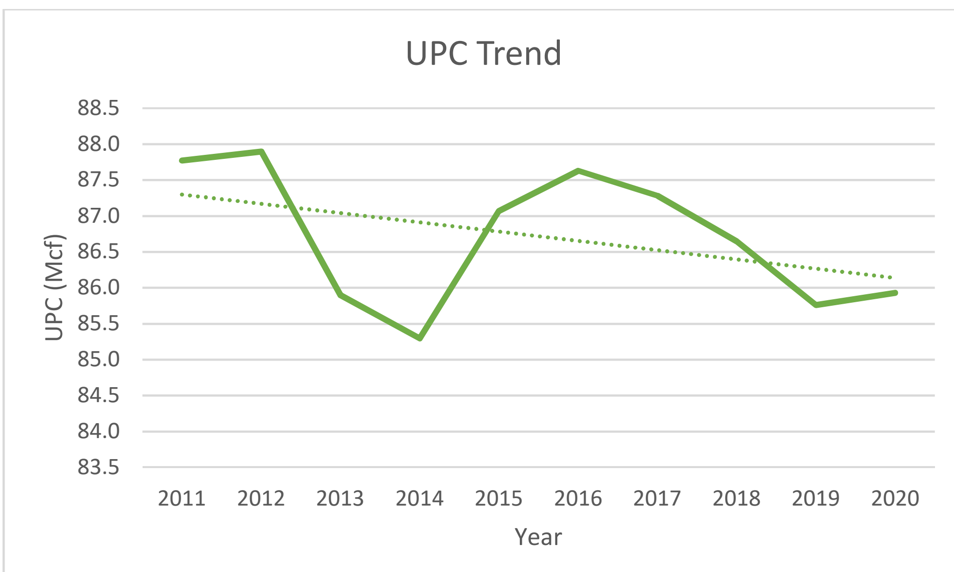
A. PECO's gas forecasts utilize "weather normal" assumptions based on weather averages from the prior 30 years. PECO's weather normal assumptions are re-calculated annually using the latest 30-year period. The Company also utilizes weather normals to normalize historical sales results, which are leveraged to analyze usage trends over time. Out-of-Model adjustments are then made to the modeled forecasts to reflect these trends along with additional impact of gas energy efficiency and gas growth programs. The results of the forecast are then compared to prior forecasts for consistency and reviewed with the Exelon Utilities Manager of Load Forecasting, the PECO Director of Financial Planning and Business Analysis, and other Exelon Utilities and PECO senior management for their approval.

22. Q. You previously observed that PECO had witnessed a general decrease in use per residential customer. Please explain.

A. The average residential Use per Customer ("UPC") remains below 2011 levels and has generally declined year-over-year. This is primarily driven by increases in energy efficiency and declining Heating Degree Day ("HDD") trends in weather normal calculations over time. Weather normalized UPC for residential customers and 30-year moving average of HDDs are displayed in the following table and graph:

Year	UPC (Mcf)	HDD (30 Yr Avg)*
2011	87.8	4,617
2012	87.9	4,584
2013	85.9	4,548
2014	85.3	4,532
2015	87.1	4,522
2016	87.6	4,507
2017	87.3	4,487
2018	86.6	4,462
2019	85.8	4,445
2020	85.9	

* Moving averages are based on 30-year periods that end one year prior (e.g., for 2019, the 30-year period is 1989 to 2018). The averages used for years 2020 to 2024 are all based on the 1989 to 2018 range because that is the current 30-year period used by PECO for its forecasting and weather normalization processes.



23. Q. Has PECO taken this trend into account in calculating its revenue requirement in this case?

A. Yes. As mentioned above, the forecasting process includes an evaluation of historical weather normalized UPC trends. These historical observations are impacted by the change in the Company's weather normal calculations over time. While PECO does not forecast future weather changes, the Company does adjust its forecasts so that they are consistent with UPC trends.

24. Q. Has PECO accounted for the impact of COVID-19 on gas sales in the forecast?

A. Yes. The impact of COVID-19 on sales has been noticeable and a challenge to forecast due to the lack of historical precedence. An analysis of April and May 2020 weather normalized gas sales concluded that total actual gas sales had been reduced by approximately 5%. Mandated business closures drove sales to commercial and industrial customers down by approximately 13%, which were partially offset by an approximately 7% increase in residential usage from more residential customers working from home. With the re-opening of businesses starting in June, a gradual return of sales back to normal levels is expected. However, if there is a lingering recession, this recovery could be slowed. While 2020 year-over-year sales declined by 2.7% due to COVID-19 and recession impacts, 2021 and 2022 have forecasted growth rates of 1.0% and 2.2%, respectively.

VI. AFFILIATED SERVICES

25. Q. Does PECO procure certain shared services from an affiliated service company?

A. Yes. Like many other energy holding-company enterprises, Exelon created a service company, the EBSC, following the merger of PECO and the former Unicom Corporation, to house specific support functions that it believed could be staffed more efficiently and economically on a centralized basis.

26. Q. What types of services does the EBSC make available and to whom?

A. The EBSC is designed to provide a range of what would typically be regarded as in-house services in the case of a stand-alone utility. In broad terms, those services fall into the following categories: information technology ("IT"), supply, commercial operations, finance, human resources, government and external affairs and public policy, legal, corporate governance, strategy, and communications.

The EBSC offers its services to PECO and other affiliated members of the Exelon family of companies, including the other Exelon utilities (Atlantic City Electric Company, Baltimore Gas and Electric Company, Commonwealth Edison Company, Delmarva Power & Light Company, and Potomac Electric Power Company).

27. Q. Is PECO required to utilize the EBSC's services?

A. No, PECO is not required to use the EBSC's services. Under the terms of the General Services Agreement ("GSA") between PECO and the EBSC, as approved in the PECO/Unicom merger proceeding at Docket No. A-110550F0147, PECO has the discretion to determine whether and to what extent to utilize the EBSC's services in all areas except corporate governance.

28. Q. What role does the EBSC play in PECO's natural gas distribution operations?

A. PECO's overall approach is to use its own personnel or independent contractors to staff the day-to-day operations of its natural gas delivery system, as well as its customer-service functions (e.g., call taking, billing). Other services, such as employee-benefits administration, mass purchasing, insurance and treasury, to name a few, are provided by the EBSC, and certain highly specialized services, for which it would not be cost-effective to maintain the required expertise at either PECO or the EBSC, are obtained through contracting with outside firms (e.g., paving).

29. Q. What is the principal advantage of the service company structure?

A. The EBSC enables PECO to realize economies of scale and scope that, in my judgment, could be very difficult to achieve on an individual company basis. Indeed, if PECO were to try to maintain a full complement of comparably qualified personnel on its own payroll, the total cost PECO would incur to obtain the same level and quality of service it receives from the EBSC likely would be considerably higher.

30. Q. How does the EBSC price the services it provides to PECO?

A. The GSA provides that the services furnished by the EBSC to PECO are to be billed at the EBSC's cost. Prior to the enactment of the Energy Policy Act of 2005, the Exelon utility companies were subject to the affiliate-transaction and cost-allocation rules prescribed by the United States Securities and Exchange Commission ("SEC") under the Public Utility Holding Company Act of 1935 ("PUHCA"), which generally mandated that service companies, such as the EBSC, offer their services to affiliates at fully distributed cost. The "at cost" rules were incorporated into the GSA, and their continued use in the provision of non-power goods and services has been approved by the FERC, which assumed some of the SEC's oversight responsibilities when PUHCA was repealed, in part, several years ago.

31. Q. How is the cost of those services determined?

A. Direct charges are made for services where possible. Otherwise, costs are allocated on the basis of the allocation factors/methodologies identified in the attachment to the GSA, which were previously reviewed and approved by the SEC. These allocations and methodologies were also reviewed as part of the Commission's 2014 Audit and the Commission's auditors found no issues with respect to PECO's allocations and methodologies.

32. Q. How does PECO satisfy itself that the services it procures from the EBSC are provided at a competitive price?

A. PECO takes several steps to ensure that the services it procures from the EBSC are provided at a competitive price. First, PECO and the management of EBSC work together to identify PECO's needs and to define service priorities and major new initiatives. As a consequence, PECO has meaningful input into the development of the EBSC's budget for the upcoming year, and PECO's Chief

Financial Officer ultimately approves the service level arrangements ("SLAs"). SLAs are annual agreements between the EBSC and Exelon's operating companies (including PECO) entered into under the express authority of the Commission-approved GSA that detail the specific services that the EBSC will provide during the following year, including the scope of services, unit cost expectations and performance measures. Services are grouped by function so that budgeted and actual costs can be tracked.

Second, the EBSC's monthly billings are carefully scrutinized by PECO personnel. Variances between actual and budgeted charges are reviewed by PECO personnel with their EBSC counterparts to ensure that all costs are properly justified.

In addition, for functions that are not already outsourced, PECO obtains extensive information regarding the composition of the EBSC's costs, which PECO can then review for reasonableness. This "Market Testing Analysis," developed in conjunction with the Commission's management auditors, is a formal approach for evaluating the cost-effectiveness of using the EBSC's shared services. This analysis is performed on an annual basis, which, along with allocation factors and methodologies used for EBSC costs, was reviewed as part of the 2014 Audit. In 2017, the Commission conducted a Management Efficiency Investigation to evaluate PECO's implementation of recommendations from the 2014 Audit.[3] The

[3] *See* PECO Energy Company Management Efficiency Investigation Evaluating the Implementation of Selected Management Audit Recommendations from the 2014 Focused Management and Operations Audit, Docket No. D-2016-2562303 (August 2017).

Commission again examined PECO's affiliated interest and cost allocations processes and concluded that PECO (and EBSC) had taken steps to verify that "shared services are being provided in an efficient and cost-effective manner and/or improvement opportunities are identified to ensure service offerings are fair and reasonable." PECO has also worked to implement recommendations made by the Commission, including those related to its payroll and accounts payable systems and the sharing of benchmarking reviews between EBSC, PECO, and other Exelon companies.

33. Q. What is PECO's claim in this proceeding for EBSC services?

A. PECO has included $22.0 million in its FPFTY expense claim for charges from EBSC. A breakdown of those costs is attached as PECO Exhibit RJS-1.

VII. COVID-19 COSTS

34. Q. Can you please address the Secretarial letter at Docket No. M-2020-3019775 titled *COVID-19 Cost Tracking and Creation of Regulatory Asset* that the Commission issued on May 13, 2020?

A. The Secretarial letter acknowledged that utilities would incur additional costs and experience other financial impacts because of the COVID-19 emergency, including increased uncollectible accounts expense resulting from the service-termination moratorium established by the Commission's Order in *Public Utility Service Termination Moratorium Proclamation of Disaster Emergency-COVID-19*, issued at Docket No. M-2020-3019244 and ratified on March 26, 2020 ("Emergency Order"). The Secretarial letter authorized utilities "to create a regulatory asset for any incremental uncollectible expenses incurred above those embedded in rates since the issuance of the Emergency Order;" directed utilities to notify the Commission upon establishing such a regulatory asset; and stated that it will consider requests for recovery of the regulatory asset in future proceedings if claimed "at [a utility's] first available opportunity." Additionally, the Secretarial letter directed jurisdictional utilities "to track extraordinary, nonrecurring incremental COVID-19 related expenses" and to maintain detailed accounting records of "the incremental expenses incurred for the provisioning of utility services used to maintain the health, safety and welfare of Pennsylvania customers during the COVID-19 pandemic." The Secretarial letter did not authorize utilities to establish a regulatory asset or otherwise defer the expenses that it directed them to "track."

35. Q. Has PECO created a regulatory asset for incremental uncollectible accounts expense as the Secretarial letter has authorized?

A. No. PECO has not created a regulatory asset for these incremental uncollectible accounts for its gas business based on current circumstances, but PECO does plan to file a notice in accordance with the Secretarial letter for its electric distribution business.

36. Q. Is PECO tracking extraordinary, nonrecurring incremental COVID-19 related expenses as directed by the Secretarial letter?

A. Yes, it is. The Company has experienced increases in employee-related costs (including required enhancements to employee sick-leave benefits), increased costs for personal protective equipment, and increased labor and contracting costs due to the impact on productivity of complying with social distancing and other measures designed to protect employees, customers and the general public during the COVID-19 pandemic.

37. Q. Is PECO making a claim in this case to recover incremental COVID-19 related expenses and lost revenues?

A. No. The full impact of COVID-19 is not known at this time and the Company is continuing to evaluate its effects.

VIII. CONCLUSION

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

A. Yes, it does.

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