PECO ENERGY COMPANY
STATEMENT NO. 3

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

DOCKET NO. R-2020-3018929

DIRECT TESTIMONY

WITNESS: MICHAEL J. TRZASKA

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

DATED: SEPTEMBER 30, 2020

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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 natural gas operations. 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 June 30, 2022 ("FPFTY"), a future test year ending June 30, 2021 ("FTY") and an historic test year ended June 30, 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, 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.[1] As explained by

[1] PECO Exhibits MJT-1, MJT-2 and MJT-3 each contain multiple schedules and each page of the exhibit is numbered on a continuous sequential basis. Specific schedule pages will be cited to using the applicable exhibit pagination. For example, the second page of Schedule B-1, which is the third page of Exhibit MJT-1, will be cited as "Exhibit MJT-1, Schedule B-1, page 3."

Mr. Robert J. Stefani, Senior Vice President and PECO's Chief Financial Officer and Treasurer (PECO Statement No. 2), 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 June 30, 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 June 30, 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 June 30, 2020.

In addition to sponsoring the exhibits described above, I am responsible for responses to certain standard data filing requirements of the Pennsylvania Public Utility Commission (the "Commission").

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 budget data for the twelve months ending June 30, 2021 and historic actual data for the twelve months ended June 30, 2020, 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. Section V briefly describes the FTY and the HTY data.

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 nine principal components: (1) the depreciated original cost of utility plant in service (original cost less accumulated depreciation); (2) cash working capital; (3) a pension asset; (4) accumulated deferred income taxes ("ADIT"); (5) customer deposits; (6) customer advances for construction; (7) materials and supplies; (8) the regulatory liability for excess ADIT; and (9) gas storage inventory. Each is described briefly below.

Depreciated Original Cost of Utility Plant in Service. To determine utility plant in service at the end of the FTY, I began with the closing plant balances actually recorded on the Company's books of account at June 30, 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 during the FTY and subtracted the anticipated plant retirements. The same process was used to develop utility plant in service balances at the end of the FPFTY, beginning with the projected balances of plant in service at June 30, 2021, adding 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 June 30, 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 the period through June 30, 2021. Accumulated depreciation at June 30, 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 $2.78 billion.

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.

Pension Asset. PECO has included a pension asset in measures of value that consists of the portion of PECO's cash pension contributions that it will have 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".

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.

Customer Deposits, Customer Advances for Construction, Gas Storage Inventory and Material and Supplies. The claimed levels of customer deposits and customer advances for construction are deducted in determining the measures of value. The claimed levels of gas storage inventory and material and supplies are added in determining the measures of value. All of the claimed levels are based on thirteen-month historic averages for the period ended June 30, 2020, consistent with Commission precedent.

Regulatory Liability for Excess ADIT. 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 "excess" ADIT. Excess ADIT 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 excess ADIT 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 excess ADIT 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 excess ADIT is deducted from the Company's measures of value.

The components of the measures of value described above are shown in PECO Exhibit MJT-1 on Schedule A-1 at lines 1 to 14 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 based on the budgeted revenues for PECO's gas operations for the FPFTY. Adjustments were made to: (1) remove revenues relating to PECO's portion of off-system gas sales and the margin on sales under PECO Rate IS – Interruptible Service; (2) annualize revenues related to changes in number of customers, including customers on PECO's Customer Assistance Plan ("CAP"), to reflect levels at the end of the FPFTY; and (3) normalize revenues to reflect 365.25 days. These adjustments 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 budget for the twelve-month period ending June 30, 2022 as a starting point. Budgeted expenses, which were prepared based on business activities and related cost elements such as payroll, employee benefits, and outside contracting costs, were distributed to FERC accounts based upon the actual distribution experienced by the Company during calendar year-ended December 31, 2019. 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 FPFTY salary and wage adjustments, 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 gas and common plant is set forth on Schedule D-17 of PECO Exhibit MJT-1. Each of pages 79 through 82 have columns numbered 1 through 5. Each of pages 83 through 86 have columns numbered 6 through 11. Each of pages 87 through 90 have columns numbered 12 through 17. Columns 1 through 5 show the annual depreciation for gas distribution and common plant. Column 6 shows the allocation factors used to allocate annual depreciation to the Gas Division. The allocation factor is 100%

for gas distribution plant. For common plant, the allocation factor is 23.03%, which is the portion of common plant allocated to the Gas Division. Columns 7 through 11 show the annual depreciation allocated to the Gas Division. These figures are the same as those in columns 1 through 6 for gas distribution plant because it is allocated entirely to the Gas 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 23.03%. Column 12 is designed to allocate utility costs between Commission jurisdictional service and non-Commission jurisdictional service. However, because PECO's Gas Division furnishes only Commission-jurisdictional service, the Functional Allocation Factor shown in column 12 is 100%. Accordingly, the amounts shown in columns 13 through 17 represent the amounts properly allocated in their entirety to Commission-jurisdictional service for the Gas Division. For all of the columns, the total for FERC Account 403 Depreciation Expense is shown on line 65 and the total for FERC Account 404 Amortization of Limited-Term Plant is shown on line 140.

The annual depreciation expense budgeted by the Company for gas distribution plant and total-Company common plant is $127.0 million, which is the sum of the amounts shown in column 1, lines 65 and 140. 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 June 30, 2021 (as shown in Schedule D-17, column 3) and utility plant additions that will be in service at June 30, 2022 (as shown in Schedule D-17, column 2). As Ms. Fulginiti explains, the budgeted annual depreciation amounts for both plant in service at June 30, 2021 and for additions during the twelve months ending June 30, 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 June 30, 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 June 30, 2022. Depreciation expense does not include Asset Retirement Obligations ("AROs").

The resulting pro forma FPFTY depreciation expense of $136.5 million related to gas distribution plant and common plant is shown in column 5. The resulting pro forma FPFTY depreciation expense for gas distribution and common plant allocable to the Gas Division's Commission-jurisdictional service is $86.1, as shown in column 17. That amount is the sum of $75.8 million shown on line 65 and $10.3 million shown on line 140.

14. Q. How were income taxes calculated?

A. Income taxes were calculated using procedures normally followed by the Commission. 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 appellate 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 excess ADIT that results from the TCJA's reduction of the Federal corporate tax rate. The income tax claimed for the FPFTY at present rate and proposed rate revenue levels is 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 16, summarize the pro forma measures of value.

Column 2, line 19, shows the Company's gas distribution base rate revenue at present rates. Column 3, line 19, shows the increase over revenues at present rates needed to recover the Company's FPFTY revenue requirement, which is $68.7 million.

Lines to 24 to 46 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 7.70% calculated on Schedule B-7, and supported by Mr. Paul R. Moul (PECO Statement No. 5). The resulting required increase in net operating income on line 42 was increased by the Gross Revenue Conversion Factor ("GRCF"), shown on line 44, to provide for revenue from forfeited discounts, uncollectible accounts expenses, regulatory fees and income taxes on the increased revenues requested. The revenue increase shown on line 46 of column 2 is the difference between present rate revenue adjusted for the effects of the TCJA and revenues at proposed rates. The increase in unadjusted present rate revenue of $68.7 million is shown on line 46 of column 2 and line 19 of column 3. Column 3, lines 19 through 31, 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 7.70% shown on line 33 of column 4.

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

A. As shown on line 46 of PECO Exhibit MJT-1, Schedule A-1, the proposed increase in annual operating revenues is approximately $68.7 million.

17. Q. What is contained in Schedule B?

A. Schedule B consists of a balance sheet for the total Company at June 30, 2022 reflecting the Company's budget for the twelve months ending June 30, 2022 (Schedule B-1); a statement of Pennsylvania jurisdictional net operating income for the twelve months ending June 30, 2022 (Schedule B-2); a statement of Pennsylvania jurisdictional operating revenue for the twelve months ending June 30, 2022 (Schedule B-3); a statement of Pennsylvania jurisdictional operating and maintenance expense for the twelve months ending June 30, 2022 (Schedule B-4);

a detailed breakdown of Pennsylvania jurisdictional taxes other than income for the twelve months ending June 30, 2022 (Schedule B-5); PECO's projected composite cost of long-term debt at June 30, 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, Mr. Paul R. Moul.

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 summarizes the measures of value for the FPFTY for the Company's total Gas Division. 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 Gas Division amounts. The Company's claimed measures of value for the FPFTY, as shown in column 4, on line 14, is approximately $2.5 billion.

B. Plant In Service

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

A. Schedule C-2 contains 5 pages and presents the Company's claimed FPFTY utility plant in service.

20. Q. What is shown on Schedule C-2, page 15?

A. Schedule C-2, page 15, is a summary of estimated year-end plant in service balances for the FPFTY by functional plant category. Column 4 reflects the Company's estimated gas distribution plant in service at the end of the FPFTY of $3.5 billion (line 35), which is shown on PECO Exhibit MJT-1, Schedule A-1, at column 2, line 2.

21. Q. How was total utility plant in service for the Gas Division of $3.5 billion, shown on Schedule C-2, page 15, column 4, line 35, determined?

A. The amount of $3.5 billion represents the estimated plant in service balance at June 30, 2022 for the Gas Division, exclusive of allocated common plant, and is based on utility plant in service at June 30, 2020, plus budgeted capital expenditures estimated to be closed to plant in service in the FTY and FPFTY, less the estimated retirements in the FTY and FPFTY.

22. Q. What is shown on Schedule C-2, page 16?

A. Page 16 sets forth the Company's estimated additions to be closed to plant in service during the FPFTY. These data were developed based on the FPFTY capital budget. The total-Company additions of $322.1 million are shown on line 32, column 1.

23. Q. What is shown on Schedule C-2, page 17?

A. Page 17 of Schedule C-2 presents the estimated plant retirements for the FPFTY, based on the average of actual retirements for the July 2017 through June 2020.

C. Accumulated Depreciation

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

A. This schedule, consisting of 3 pages, presents the provision for accumulated depreciation at June 30, 2022 by FERC account, as developed by Ms. Fulginiti, and cost of removal net of salvage, as explained more fully below. PECO's accumulated depreciation of approximately $893.4 million is summarized on Schedule C-3, page 20, and carried forward to Schedule A-1, line 3.

25. Q. Please describe Schedule C-3, page 20.

A. This page shows the accumulated depreciation balance for the FPFTY by account category.

26. Q. What is shown on Schedule C-3, page 21?

A. Page 21 shows the accumulated depreciation balance by FERC account at the end of the FPFTY. To determine the accumulated depreciation balance at the end of FPFTY, the Company started with the accumulated depreciation balance at June 30, 2020 and added depreciation expense, less retirements and cost of removal net of salvage, for the FTY and FPFTY. Schedule C-3 page 22 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 period of July 2017 through June 2020.

D. Cash Working Capital

27. Q. What is set forth on Schedule C-4, page 23 of PECO Exhibit MJT-1?

A. This is a summary of the Cash Working Capital ("CWC") calculations, which are detailed on pages 24 to 31. The total of $3.2 million shown on line 27 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. Page 23 summarizes the derivation of PECO's revenue collection lag and overall operating expense payment lag. The revenue lag of 43.17 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 10. Line 9 shows the lag associated with payments to NGSs for the purchase of receivables ("POR") from NGSs pursuant to the Company's Commission-approved POR program. The composite operating and maintenance expense and POR lag of 37.27 days is shown on line 13. The net lag of 5.90 days (43.17 – 37.27) shown on line 15 is multiplied by the average daily operating expense balance on line 19 to arrive at the base CWC amount of $7.0 million for operating expenses shown on line 21. The average daily operating expense balance of $1.18 million on line 19 was determined by dividing the total pro forma annual operating expenses, excluding uncollectible accounts expense, of $432.0 million on line 11, column 2, by the number of days in a year, 365. The other components of CWC are shown on lines 23 to 25 and will be described in connection with my discussion of related supporting schedules.

28. Q. Please describe the revenue lag calculation shown on Schedule C-4, page 24.

A. The total revenue lag days shown on line 29 of 43.17 days consist of three parts. First, the average of the month-end accounts receivable balances for the thirteen months ended June 30, 2020 (shown in column 3 on line 15) was divided by thirteen to calculate an average accounts receivable factor. Annual revenue billed during the twelve months ended June 30, 2020 was then divided by the average accounts receivable balance to calculate an accounts receivable turnover rate of 13.54 (column 4, line 21). A turnover rate of 13.54 is equivalent to 26.96 revenue lag days (365 days divided by 13.54 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-day lag between the meter reading date and the day that bills are recorded as revenue and accounts receivable by the Company; and (2) the 15.21 day period from the midpoint of the service period until the meter reading date, to calculate the total revenue lag of 43.17 days, as shown on line 29.

29. Q. How was the midpoint of the service period calculated?

A. The midpoint 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.

30. Q. Please describe Schedule C-4, page 25.

A. Schedule C-4, page 25, 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 2020 payment cycles, the last full year for which the payment cycles are known. Lines 7 to 15 show the lag in the payment of pension costs during the FPFTY. The lag period is calculated using a midpoint of January 1 and the payment dates shown in column 2. This results in an average payment lag of 14 days, which was applied to the pro forma pension expense derived from Schedule D-9, line 13 and shown on Schedule C-4, page 23, line 7.

31. Q. How did you develop the lag days associated with the purchased gas costs shown on line 8 of Schedule C-4, page 23?

A. The lag in payment of purchased gas costs is based on an analysis of gas payments during the HTY. The total dollar amount of payments during that period was $199.7 million and the average payment lag equaled 36.51 days. The latter figure was calculated using the midpoint of the service period for each of the payments and the payment date for each, averaged for the entire year's worth of data.

32. Q. How was the expense lag of 56.21 days for POR payments determined?

A. PECO pays NGSs 40 days after bill-ready data are provided by the NGSs to the Company for both residential and commercial and industrial accounts. The weighted average payment lag for all accounts is 40 days as shown on page 31, line 3. The NGSs provide bill-ready data (page 31, line 5) to PECO one day after the meter reading date, and there is an average of 15.21 days from the midpoint of a service period to the meter reading date (page 31, line 6). The total payment lag, therefore, is 56.21 days (page 31, line 7).

33. 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 19 to 24 of Schedule C-4, page 25, was derived from data for the four months shown in detail on Schedule C-4, page 26. 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.

34. 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.

35. Q. What disbursements did you eliminate from the balances used on Schedule C-4, page 26?

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, and all non-recoverable expenses and expenses of departments and functions of the Company that do not provide any services to the gas business. Fourth, I removed all amounts charged to non-expense accounts. This process was completed for each of the four months shown on page 26, lines 1 to 11. The total cash disbursements for all four months of $51.3 million, as shown in column 2, on line 14, of page 26 Schedule C-4, and the related dollar-days of $1.9 billion, shown in column 3, were used to calculate the payment lag for general expenses of 37.54 days shown in column 4. The 37.54 lag days for Other Disbursements were then brought forward to page 23 of Schedule C-4, line 10.

36. Q. Describe what is shown on Schedule C-4, page 27.

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 $2.1 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 28, column 4. The net payment lag shown on page 28, column 5, is used to calculate the average daily amount for working capital shown on page 28, column 7. The net total of the amounts in column 7 are shown on Schedule C-4, page 23, column 2, line 24.

37. Q. Please describe the calculation of the interest expense lag shown on page 29 and included on Schedule C-4, page 23.

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 48.1 days for a reduction to the working capital allowance of $6.0 million, as shown on line 10 and on page 23 at line 25.

38. Q. Please explain how the average prepayments of $2.0 million shown on Schedule C-4, page 30, line 25, were determined.

A. That amount is calculated on Schedule C-4, page 30, and represents the thirteen-month average of actual amounts at the end of each month from June 2019 to June 2020. The Company reviewed its prepaid accounts and selected only those prepaid expenses that were related, in whole or in part, to its gas delivery operations. The resulting prepaid accounts are shown in columns 2 to 15 of page 30. Where the account related to both gas and electric operations, the total and average were distributed using an appropriate allocation factor that eliminates non-gas related expenses, as shown on line 17 in columns 9 to 15. The thirteen-month average for prepaid expenses for the gas distribution operations is $2.0 million as shown on line 25 of Schedule C-4, page 30 and on Schedule C-4, page 23, line 23.

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

A. That amount is the $3.2 million shown on Schedule C-4, page 23, line 27 and on Schedule A-1, page 1, line 7.

E. Pension Asset

40. Q. Please describe Schedule C-5.

A. Schedule C-5 shows the calculation of the pension asset of $35.1 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 to be incurred at the end of the FPFTY, calculated in the manner required for ratemaking purposes, that was not, and will not be, recovered in operating expenses and was also not, and will not be, 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 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. In that way, labor-related costs are separated between amounts that are expensed and amounts assigned, on a pro forma basis, to capital.

Using the FPFTY ending June 30, 2022 as an example, as shown on Schedule D-9, PECO's total pension cash contribution will be $13.0 million, of which 21.25% is attributable to gas distribution. PECO's capitalization rate is 41.62%. Therefore, $1.1 million ($[13.0 million x 21.25% x 41.62%]) was assumed to be capitalized and included in applicable plant accounts. However, in the FPFTY, as in each prior twelve-month period, 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 the FPFTY ending June 30, 2022, the amount of pension cost actually capitalized would be only $0.1 million. As a consequence, there was a gap of $1.0 million of pension costs. As shown on Schedule C-5, the pension asset balance at the end of the FPFTY will be $35.1 million for gas distribution operations.

F. ADIT

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

A. Schedule C-6 shows the June 30, 2022 balance of ADIT that is deducted in determining the measures of value. The ADIT shown on line 16 of $247.6 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.

42. 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.

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

A. The amount for gas distribution operations is $247.6 million, as shown on line 16 of Schedule C-6 and on line 9 of Schedule A-1, in columns 2 and 4.

G. Customer Deposits

44. 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 in column 4 (lines 1-13) reflect the month-end balances for the thirteen months ended June 30, 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 gas distribution operations.

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

A. The total of customer deposits for all classes of gas distribution customers is a deduction to measures of value of $13.4 million, as shown on Schedule C-7, line 25 and on Schedule A-1, line 10, columns 2 and 4. The calculated interest expense related to these customer deposits of $0.4 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 46, column 14, line 79.

H. Common Plant

46. 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

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

A. This schedule shows the average monthly balance of customer advances for construction of $1.3 million on line 19, which is deducted in calculating the measures of value on Schedule A-1, line 11, columns 2 and 4.

48. Q. How were the monthly balances determined?

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

J. Materials and Supplies

49. 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 gas 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 gas distribution allocation factor of 23.03% was applied to determine the thirteen-month average of monthly balances, as shown on line 22, in column 3. The claimed amount of $0.5 million reflected in column 4 is based on the thirteen-month average for the period ended June 30, 2020 and is shown on line 12, columns 2 and 4, of the measures of value on Schedule A-1.

K. ADIT – Regulatory Liability

50. Q. What is shown in Schedule C-12?

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

L. Gas Storage Inventory

51. Q. What is shown on Schedule C-13?

A. This schedule shows the calculation of the gas storage inventory included in the measures of value on Schedule A-1. The Company is using the thirteen-month average balance for the period ended June 30, 2020 for each of the stored underground, LNG and propane components.

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

A. PECO's claimed measures of value, or rate base, equals $2.46 billion, as shown on Schedule A-1, line 16.

IV. REVENUES AND EXPENSES

53. 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 gas 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 proposed revenue increase of $68.7 million in column 3, line 10.

54. Q. What is the indicated net operating income before interest and income taxes at proposed rates?

A. As shown on Schedule D-1, column 4, line 30 and also on Schedule A-1, column 4, line 26, that amount is $190.5 million.

55. 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 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.

56. 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 7. The various expense adjustments are reflected in columns 8 to 19. 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 21.

57. Q. Please describe Schedule D-4.

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

A. Revenue Adjustments

58. 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-5I.

59. 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 retail customer classifications this calculation determines the test-year net distribution revenues at present rates for the FPFTY. The net distribution revenues on line 5 were divided by the average number of customers for the budget for the twelve months ending June 30, 2022 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: (1) the average number of customers (line 7); and (2) the number of customers at the end of the FPFTY (line 11). The products of those calculations yield additional revenue of approximately $1.2 million for the residential and C&I customer classes. This pro forma adjustment is then reflected on Schedule D-5, column 2 by customer classification.

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

A. This adjustment annualizes the cost of the discounts that are provided (in the form of a bill credit) to customers enrolled in PECO's CAP to reflect the number of CAP customers at the end of the FPFTY. As shown in line 8, 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 an increase in the CAP discount of $55,000, which is offset by adjustments for uncollectible accounts and CWC factors, as shown on line 15. Thus, the net change of $40,000 is shown on line 17, which is brought forward to column 3 in Schedule D-5.

61. 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 each thousand cubic feet ("Mcf") 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.

62. Q. Please describe the adjustment calculated on Schedule D-5H.

A. This schedule reflects the elimination of asset optimization revenues representing the Company's net margin from off-system sales and capacity release credits. Customers receive their share of the net proceeds from these sales and capacity releases through the operation of the Purchased Gas Cost rate, and the Company retains its appropriate share of the margin, which is recorded below the line for ratemaking purposes.

63. Q. Please describe the adjustment on Schedule D-5I.

A. The adjustment on Schedule D-5I eliminates the Rate IS revenues from the calculation of present rate revenues. In accordance with the terms of this rate, 75% of the Rate IS margin is returned to customers through the Purchased Gas Cost rate and 25% is retained by the Company.

B. Operating Expense Adjustments

64. 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.

65. 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 for calendar year 2019 were analyzed to develop a chart showing charges for each cost element within each FERC account. 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 during calendar year 2019. For example, I determined how much of the salaries and wages ("S&W") expensed during calendar year 2019 was charged to each FERC account and then distributed the FPFTY forecasted S&W to each 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.

66. 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. Jiang Ding (PECO Statement No. 6) in the cost-of-service study.

67. 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.

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

A. Yes, they were.

69. 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.

70. 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 64 and 65 show the calculation of the pro forma adjustments for overall S&W. Pages 66 and 67 contain the forecasted data for the FPFTY summarized by FERC account categories showing a total to be expensed of $41.5 million in column 1, line 72. Column 2 shows the annualization adjustment of $0.7 million distributed to the FERC expense categories, while column 3 provides the pro forma amounts for S&W expense, which totals $42.2 million, as shown on line 72. The adjustment of $0.7 million is reflected on Schedule D-4, column 4.

71. Q. How was the annualization adjustment derived?

A. The calculation is shown on Schedule D-6 pages 64 and 65. 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. More specifically, I have annualized: (1) the 2.5% wage increase for non-union employees forecasted to be effective on March 1, 2022 and the projected 2.5% wage increase for union employees to be effective on January 1, 2022, (columns 2 and 3, line 6).

72. Q. Please explain the adjustment shown on lines 6 to 10 of Schedule D-6, page 65.

A. This adjustment normalizes a one-time cash payment to union employees made in connection with the ratification of current union contracts. The portion of the payment that was expensed ($1.127 million) was split between electric distribution, transmission and gas operations, and the amount allocated to gas distribution operations $241,000 was divided by six to reflect the six-year term of the contract. The resulting amount of $40,000 shown in column 2, line 10, was added to the pro forma adjustment for S&W.

73. Q. Please explain the calculations shown on Schedule D-6, page 65, columns 1 and 2, lines 15-19.

A. These calculations annualize an increase in the number of employees to occur during the FPFTY. As shown in column 2, line 15, the projected number of Company employees at the end of the FPFTY is 639. The average number of employees during the FPFTY is projected to be 638, which is the figure that the Company used to develop the S&W in its budget which is shown on line 1. The detailed calculation of the average number of employees included in the budgeted expense level is shown on Schedule D-8, page 69, in lines 2 to 15. The increase in employees shown on line 17 was multiplied by the average annual S&W per employee shown in Schedule D-6, page 65, line 18, to determine the total annualization adjustment to S&W of $78,000 due to the increase in number of employees, as shown on Schedule D-6, page 65, line 19.

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

A. The total amount is $0.720 million, which is an increase of 1.73% from the Company's S&W budget for FPFTY, as shown on Schedule D-6, page 65, lines 23 and 25.

75. 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 $645,000 on this filing during the twelve months ended June 30, 2020 (line 5) and has budgeted an additional $914,000 (line 11) during the twelve months ending June 30, 2021. This total, $1.6 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 $520,000, as shown on line 19, column 2.

76. 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 $11,000 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 $9,000 on line 21.

77. 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 June 30, 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.

78. 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 gas distribution operating expense in the FPFTY is $2.5 million, as shown on line 13. Accordingly, an adjustment of $2.4 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 11, line 95.

79. 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 Pre-Program Arrearage ("PPA") write-offs, as a percentage of total tariff revenue, based on an average of annual data for the period July 1, 2017 - June 30, 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 0.3472% shown on line 4, column 6, 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 $2.4 million shown in column 8 on line 14. A three-year average of PPA write-offs associated with the CAP program, which are not included in other accounts, was developed on lines 16 to 20 of Schedule D-10 and added to the general uncollectible accounts expense. The PPA average is $0.3 million, as shown on line 20 in column 8. The total pro forma amount for uncollectible account expenses at present rates for the FPFTY is $2.6 million, which is a net decrease of $0.1 million, as shown on line 26 and brought forward to Schedule D-3, (column 12, line 80). In addition, the 0.3472% 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.

80. Q. Please describe the pro forma adjustment on Schedule D-11.

A. This schedule reflects the incremental costs associated with the Company's proposed changes to its energy efficiency program offerings for its customers. It also reflects costs associated with a small business grant program. Accordingly, an adjustment of $3.0 million has been made to the Company's FPFTY budget amount, as shown on line 3, and the adjustment amount was brought forward to Schedule D-3, column 13, line 83.

81. 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% and a monthly rate of 0.417%. An annual rate of 1.66% (a monthly rate of 0.138%) was used for commercial and industrial customers. The total pro forma expense of $0.4 million is shown on Schedule D-12, line 33 and brought forward to Schedule D-3, column 14, line 79.

82. Q. Please explain what is shown on Schedule D-13.

A. Schedule D-13 shows the adjustment needed for PECO to recover costs to remediate former manufactured gas plant ("MGP") sites. The figure of $7.2 million on line 1 reflects the amount PECO will not have recovered for its MGP remediation liability in its current rates as of June 30, 2021 PECO is proposing to recover the regulatory asset for the remaining unrecovered MGP remediation liability over nine years, as shown on line 2 of Schedule D-13 and, therefore, has reflected an annual amortization amount of $804,000 ($7.237 million/9 years) in its operating expense claim in this case, as shown on line 4 of that schedule. Thus, PECO's claim accounts for both its MGP remediation liability at June 30, 2021 and the amount included in rates to recover its MGP liability through the same date, in conformity with the terms of the Joint Petition for Settlement in its last gas base rate case. If PECO's future unrecovered MGP remediation costs exceed the current MGP remediation liability, PECO would be entitled to recover its prudent and reasonably-incurred future MGP remediation costs in excess of its estimate in PECO's next gas base rate case.

83. Q. Please describe the adjustment shown on Schedule D-14.

A. Schedule D-14 is the calculation of the O&M expenses and depreciation expense incurred prior to the FPFTY associated with implementing regulatory programs for which the Commission did not provide full and current recovery. These costs are for: (1) regulatory initiatives to establish and implement a Gas Procurement Charge and Merchant Function Charge pursuant to the Commission's Order at Docket No. P-2012-2328614; and (2) implementation of the Company's Neighborhood Gas Pilot, which was approved by the Commission at Docket No. P-2014-2451772. The aggregate amount developed on Schedule D-14 provides for recovery of O&M and deprecation expenses for each of the regulatory initiatives (as shown on lines 1 and 2), which the Company proposes to amortize over three years. The annual revenue requirement reflected in line 5 is approximately $0.8 million. This adjustment is brought forward to Schedule D-3, column 16, line 79.

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

A. Schedule D-15 shows PECO's claim to amortize over three years its allocable share of the costs to achieve the merger savings that were produced by the merger of PECO's parent, Exelon Corporation, with Pepco Holdings, Inc. in 2016. As explained by Mr. Stefani in PECO Statement No. 2, the merger produced significant savings and PECO received and continues to receive its allocable share of those savings, which are reflected in the budget data that were used to develop its claims in this case. However, costs were also incurred by Exelon to integrate the merged companies in order to produce the merger savings flowing through to PECO. And, as Mr. Stefani also explains, the merger savings substantially exceed the costs to achieve. Because PECO and its customers receive the benefit of PECO's allocable share of merger savings, it is appropriate that PECO should bear (and recover in gas distribution rates) the costs to achieve those savings that were properly allocated to it.

C. Taxes – Other Than Income Taxes

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

A. Schedule D-16 contains two pages. Page 77 is a summary showing the budgeted amounts for the FPFTY (column 1) for the Company's Gas Division, the total pro forma adjustments (column 2), and the pro forma expenses claimed in this case (column 3). The calculations of payroll-related changes are made on Schedule D-16, page 78. The increase in payroll taxes, shown on page 78, 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 $0.1 million. This amount is then reflected on page 77 in column 2, line 6.

D. Depreciation Expense

86. Q. What is shown on PECO Exhibit MJT-1, Schedule D-17, pages 79 to 90.

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 gas distribution and common plant. Schedule D-17 starts with the annual depreciation for gas 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 Gas 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 gas business is $5.5 million, which is the sum of the amounts shown on Schedule D-17, column 16, line 65 and 140.

E. Income Taxes

87. Q. Please describe the income tax calculation shown on PECO Exhibit MJT-1, Schedule D-18, pages 91 and 92.

A. This schedule calculates the pro forma income tax 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 forfeited discounts 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 interest expense and income taxes. Synchronized interest expense is calculated on lines 5 to 7 using the total measures of value for the FPFTY on line 5 and the weighted cost of debt recommended by Mr. Moul 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% was used to determine the pro forma current state income tax (expense)/credit shown on line 26. Federal income tax is calculated on lines 28 to 38 with a Federal corporate income tax rate of 21%. Line 42 shows the total current state and Federal income tax (expense)/credit before the amount for deferred income taxes is calculated. Lines 44 to 49 reflect the Federal and state deferred income taxes.

The total income tax (expense)/credit before other adjustments is shown on line 53 at present and proposed rates in columns 1 and 3, respectively, including the flow-back of excess ADIT 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 gas distribution plant, including the portion of common plant allocated to gas distribution, as shown on line 56.

88. 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 June 30, 2022 reduces income tax expense at both present and proposed rates, shown on Schedule D-18, page 92.

89. Q. Please explain the adjustment to flow-back excess ADIT.

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 excess ADIT 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 (excess ADIT) 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 92, line 48, reflects the annual amount of the regulatory liability to be flowed back.

90. 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 in setting utilities' base rates. 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).

91. 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.

92. 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 and 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.

93. 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.

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

A. Yes, Schedule D-18, page 93 sets forth the computation of a CTA using the Modified Effective Tax Rate Method and data for tax years 2014 through 2018, 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.

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

A. Yes. PECO's capital budget calls for overall gas distribution plant additions of approximately $292 million during the twelve months ending June 30, 2021 and $322 million during the twelve months ending June 30, 2022. As stated in Mr. Bradley's testimony, these investments will target reliability projects and other infrastructure improvements. These infrastructure improvements will support PECO's compliance with Act 40.

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

A. As shown on Schedule D-18, page 92, line 58, column 1, pro forma income tax credit at present rates equals $18.8 million. The increment for income tax expense associated with the proposed revenue increase is shown in column 2, in the amount of $19.8 million, and the total pro forma income tax credit at proposed rates of $1.0 million is shown in column 3.

97. 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, 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

98. 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 the FTY and actual recorded data for the HTY 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.

99. 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. To illustrate, 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.

100. 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 16, operating revenues and expenses and calculated rates of return at present and proposed rates on lines 18 to 33, and the revenue increase required on lines 35 to 46.

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

A. These schedules contain budgeted financial data for the FTY.

102. 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. As shown on lines 1 to 3 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.

103. 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 $2.2 billion, as shown on column 4, line 14.

104. What is contained in Schedule C-2?

A. Schedule C-2 consists of five pages and shows the utility plant in service balances at June 30, 2021 for the Company's gas operations, as well as the additions, retirements and adjustments for the FTY. Pages 18 and 19 contain the summary of pro forma plant in service balances by plant grouping. Page 15 shows the plant in service by FERC account. Pages 16 and 17 show the additions to plant and retirements from plant during the FTY. Finally, adjustments to plant are reflected on pages 18 and 19. The total pro forma plant in service at the end of the FTY is $3.2 billion and is shown on Schedule C-2, page 15, column 4, line 35.

105. Q. Please describe Schedule C-3.

A. Schedule C-3 contains three pages and shows the accumulated depreciation at June 30, 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 $852 million, as shown on page 20, column 4, line 36.

106. 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 $4.3 million on page 23, line 27. The information for average prepayments on line 23 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 June 30, 2020. In addition to the prepayments, the methodology used to calculate the lag periods for revenue, payroll, pension expense, gas purchases and other disbursements utilized in PECO Exhibit MJT-1 were also used in the FTY calculation.

Page 23 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 June 30, 2020. The resulting $4.3 million of CWC shown on line 27 is brought forward to Schedule A-1 in the calculation of the measures of value.

107. Q. Please describe Schedule C-4, pages 24 to 31.

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 corresponding PECO Exhibit MJT-1 schedules.

108. 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 are 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 June 30, 2021, which, on a net aggregate basis, is $34.2 million, as shown on line 7.

109. 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 balances as of June 30, 2021 were used. The resulting ADIT of $244.1 million for the total of gas distribution utility plant and the gas distribution portion of the common plant for the FTY is shown on line 11.

As shown on Schedule C-12, line 9, $128.4 million of excess ADIT has been removed from the ADIT balance and recorded as a regulatory liability.

110. Q. Please describe the data presented on Schedules C-7, C-9, C-11 and C-13.

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

111. Q. What is 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.

112. 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.

113. Q. Please describe Schedule D-2.

A. Schedule D-2 shows revenues 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.

114. 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.

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

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

116. Q. Please describe Schedule D-5.

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

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

A. The adjustment shown on Schedule D-5A annualizes revenues 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.

118. 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 corresponding adjustment for the FPFTY shown on PECO Exhibit MJT-1, Schedule D-5B.

119. 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.

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

A. This adjustment eliminates revenues associated with asset optimization items.

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

A. This adjustment removes the revenues representing the Company's margin on sales under Rate IS.

122. Q. Please describe Schedule D-6.

A. Schedule D-6 annualizes S&W for the FTY. Pages 66 and 67 show the budgeted amounts in column 1 and the pro forma adjustment in column 2 by FERC expense category. Pages 64 and 65 show the calculation of the annualization adjustments of S&W and the normalization of the union contract ratification payment, which follow the same procedures described in connection with the FPFTY using the data from FTY for the wage increases.

123. 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.

124. Q. Please describe the adjustment 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.

125. Q. Please describe the adjustment shown on Schedule D-9.

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

126. 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.

127. 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.

128. 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 set forth in PECO Exhibit MJT-1.

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

A. This schedule shows the calculation of the pro forma income tax for the FTY reflecting the revenues, 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 91 and 92 of Schedule D-18. The flow-back of excess ADIT 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.

130. 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 16, operating revenues and expenses and calculated rates of return at present and proposed rates on lines 18 to 33, and the revenue increase required on lines 35 to 46.

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

A. These schedules contain recorded financial data for the HTY.

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

A. These two schedules contain the HTY capital structure and rate of return developed by Mr. Moul. As shown on lines 1 to 3 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.

133. 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 $1.9 billion, as shown on column 4, line 14.

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

A. Schedule C-2 consists of five pages and shows the utility plant in service balances at June 30, 2020 for the Company's distribution operations, as well as the adjustments for the HTY. Pages 18 and 19 contain the summary of plant in service balances by plant grouping. Page 15 shows the plant in service by FERC account. Pages 16 and 17 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 18 and 19. The total plant in service at the end of the HTY is $3.0 billion and is shown on Schedule C-2, page 15, column 4, line 35.

135. Q. Please describe Schedule C-3.

A. Schedule C-3 contains three pages and shows the accumulated depreciation at June 30, 2020. These pages reflect the balances by FERC account for the HTY. The accumulated depreciation at the end of the HTY is $819 million, as shown on page 20, column 4, line 36.

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

A. Schedule C-4 contains nine pages that show the calculation of the CWC allowance for the HTY of $4.4 million on page 23, line 27. The information for average prepayments shown on line 23 is the same as that utilized in PECO Exhibit MJT-1 because the FPFTY claim is based on the thirteen-month average for the period ended June 30, 2020. In additional to the prepayments, the methodology used to calculate the lag periods for revenue, payroll, pension expense, gas purchases and other disbursements utilized in PECO Exhibit MJT-1 were also used in the HTY calculation.

Page 23 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 adjusted pro forma amounts for the HTY, while the prepayment amount is the thirteen-month average through June 30, 2020. The resulting $4.4 million of CWC shown on line 27 is brought forward to Schedule A-1 in the calculation of the measures of value.

137. Q. Please describe what is shown on Schedule C-4, pages 24 to 31.

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 corresponding PECO Exhibit MJT-1 schedules.

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

A. Schedule C-5 shows the Company's claim for a pension asset included in the measures of value. The procedures to determine the asset are the same as those described in connection with PECO Exhibit MJT-1, Schedule C-5, except that the pension asset balance for the HTY reflects data through June 30, 2020, which, on a net aggregate basis, is $33.5 million, as shown on line 5.

139. 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 twelve month ended June 30, 2020 balances were used. The resulting ADIT of $238.0 million for the total of gas distribution utility plant and the gas distribution portion of common plant for the HTY is shown on line 4. As shown on Schedule C-12, line 3, $133.1 million of excess

ADIT has been removed from the ADIT balance and recorded as a regulatory liability.

140. Q. Please describe the data presented on Schedules C-7, C-9, C-11 and C-13.

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

141. Q. What is 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 HTY.

142. 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.

143. Q. Please describe Schedule D-2.

A. Schedule D-2 shows revenues 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.

144. 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.

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

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

146. Q. Please describe Schedule D-5.

A. Schedule D-5 shows the pro forma adjustments to the HTY revenues. Each of the listed adjustments is discussed in connection with Schedules D-5A to D-5I. 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 for the twelve months ended June 30, 2020.

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

A. The adjustment shown on Schedule D-5A annualizes revenues for customer growth during the 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.

148. 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 described in connection with the corresponding adjustment for the FPFTY shown on PECO Exhibit MJT-1, Schedule D-5B.

149. 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.

150. 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.

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

A. This adjustment eliminates revenues associated with the asset optimization items.

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

A. This adjustment removes the revenues representing the Company's margin on sales under Rate IS.

153. Q. Please describe Schedule D-6.

A. Schedule D-6 annualizes S&W for the HTY. Pages 66 and 67 show the recorded amounts in column 1, and the pro forma adjustment in column 2 by FERC expense category. Pages 64 and 65 show the calculation of the annualization adjustments of S&W and the normalization of the union contract ratification payment, which follows the same procedures described in connection with the FPFTY using the data from the HTY to calculate the wage increases.

154. 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.

155. 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.

156. 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.

157. 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.

158. 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 HTY.

159. 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 adjustment set forth in PECO Exhibits MJT-1 and MJT-2.

160. 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 HTY reflecting the revenues, 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 91 and 92 of Schedule D-18. The flow-back of excess ADIT 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

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

A. Yes, it does.

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