PECO ENERGY COMPANY
STATEMENT NO. 4

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

DOCKET NO. R-2020-3018929

DIRECT TESTIMONY

WITNESS: CAROLINE FULGINITI

SUBJECT: OVERVIEW OF PECO ENERGY COMPANY'S ACCOUNTING PROCESSES; ALLOCATION OF COSTS BETWEEN ELECTRIC AND GAS OPERATIONS; GAS DIVISION DEPRECIATION CLAIMS

DATED: SEPTEMBER 30, 2020

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DIRECT TESTIMONY
OF
CAROLINE FULGINITI

I. INTRODUCTION AND PURPOSE OF TESTIMONY

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

A. My name is Caroline Fulginiti. 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 the Director of Accounting. In that capacity, I am responsible for maintaining PECO's accounting books and records under United States Generally Accepted Accounting Principles ("GAAP") and the Federal Energy Regulatory Commission's ("FERC") *Uniform System of Accounts Prescribed for Public Utilities and Licensees* and *Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Federal Power Act* ("Uniform System of Accounts"). In addition, I am responsible for PECO's financial reporting to the U.S. Securities and Exchange Commission ("SEC"), the FERC and the Pennsylvania Public Utility Commission ("PUC" or "Commission").

3. Q. Please describe your educational background.

A. I received a Bachelor of Business Administration from James Madison University and Master of Professional Accountancy from Indiana University.

4. Q. Please describe your professional experience.

A. Upon graduation, I was hired as an audit associate for PricewaterhouseCoopers, LLP in Chicago. After 7 years at PricewaterhouseCoopers, I began employment with Exelon Corporation in 2007. I held various roles at Exelon, including Manager of Accounting Policy & Research, Manager of Power Team Accounting and Manager of PECO Accounting prior to being promoted to Director of Property Accounting and Project Controls in 2014. In 2016, I became Director of Financial Operations for PECO, overseeing the Company's capital and operations and maintenance budgeting process. I assumed my current responsibilities as the Director of Accounting for PECO in January 2020.

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

A. I will provide a general overview of PECO's accounting processes. I will then describe how PECO allocates common costs between its natural gas and electric operations. Finally, I will present and explain PECO's claims for accrued and annual depreciation related to the utility plant in service of PECO's Gas Division as of the end of the historic test year (June 30, 2020) ("HTY"), future test year (June 30, 2021) ("FTY") and the fully projected future test year (June 30, 2022) ("FPFTY").

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

A. I am sponsoring PECO Exhibits CF-1, CF-2 and CF-3, which include, respectively, the results of the depreciation studies related to the original cost of PECO's gas and common plant in service at June 30, 2020 and estimated to be in service at June 30, 2021 and June 30, 2022. I am also sponsoring PECO Exhibit CF-4, which is a service-life-study performed by Gannett Fleming based upon plant balances at December 31, 2018.

II. OVERVIEW OF PECO'S ACCOUNTING PROCESSES

7. Q. How are PECO's accounting records maintained?

A. The Company's accounting records are kept in accordance with GAAP and FERC's Uniform System of Accounts, as required by the PUC's regulations at 52 Pa. Code § 57.42(a). In addition, PECO maintains a continuing property records system in accordance with PUC and FERC requirements.

8. Q. Do PECO's continuing property records accurately reflect the original cost of the property in question?

A. Yes, they do. A determination of the original cost of PECO's gas plant was made in the 1940s with the approval of the PUC. Subsequent plant additions, retirements and adjustments have been recorded on an original cost basis in accordance with GAAP, the PUC's regulations and the Uniform System of Accounts.

9. Q. Are PECO's books and records audited?

A. Yes, PECO's books and records are audited. Exelon Corporation, PECO's parent, maintains Exelon Audit Services ("EAS")[1] that routinely audits various aspects of

[1] Prior to 2018, EAS was referred to as the Internal Audit Department, or "IA."

PECO's operations. In addition, PECO's books and records are audited annually by its outside auditors.

In 2014, the PUC completed a Focused Management and Operations Audit of PECO, which included a review of the Company's internal audit process.[2] The PUC's report made note that "the IA department is responsible for evaluating the design and effectiveness of internal control systems and governance processes throughout the Exelon organization by performing risk based audits on activities affecting the financial, legal, reputational and operational aspects of the Company." The PUC's review of the internal audit process resulted in no findings or recommendations.

10. Q. How can you be sure that all property reflected in PECO's plant accounts is, in fact, used and useful?

A. As explained in the testimony of Mr. Ronald A. Bradley (PECO Statement No. 1), the assets included in PECO's rate base in this case are, or by the end of the FTY and the FPFTY will be, in service and used by PECO to provide gas service to its customers. Moreover, PECO has a process in place requiring that: (1) a record be made in the field at the time any property unit is added to service or permanently removed from service; and (2) based on the records made in the field, appropriate accounting entries be made to the Company's property accounts to add or remove, respectively, the original cost of any property unit that was added or retired. Individuals with appropriate authority must review and approve the entries that are made to record the

[2] *See* Focused Management and Operations Audit of PECO Energy Company, Docket No. D-2013-2370921 (Issued September 2014).

addition and removal of property units from the Company's plant accounts. Additionally, EAS performed an audit of the controls surrounding PECO's fixed asset process in 2015, which included review of fixed asset accounting records. EAS concluded that the processes and general control environment – which includes those activities necessary to provide reasonable assurance that risks are being managed and objectives met – are effective.

III. ALLOCATION OF COSTS BETWEEN ELECTRIC AND GAS OPERATIONS

11. Q. Does PECO maintain separate books and records for its electric and natural gas operations?

A. Yes. Under applicable PUC and FERC regulations, PECO is required to maintain, separately, certain income statement accounts and to maintain, separately, certain balance sheet accounts for its electric and natural gas operations.

12. Q. How does the Company allocate "common plant" between its two divisions?

A. "Common plant" (i.e., facilities, such as PECO's headquarters office building in Philadelphia, that are used to provide both electric and gas service) is allocated on the basis of a three-part formula, with equal weight given to relative plant investment, total revenue and number of customers. The allocation factors utilized for purposes of this rate filing are set forth in the applicable schedules of PECO Exhibits MJT-1, MJT-2 and MJT-3.

13. Q. Are operating expenses handled in the same fashion?

A. No, a different method is used to allocate operating expenses. The Company develops factors to allocate between gas and electric operations those operating expenses that are not directly assigned. PECO reviews these factors annually and updates them as necessary to reflect the forces driving the costs to which they apply.

14. Q. Please explain the method used to allocate non-assignable Administrative and General (“A&G”) expense.

A. Expenses in this category consist of the labor and other resources of the Company’s A&G departments, such as Finance, Marketing, and Accounting, which provide service to both the gas and electric divisions. Non-assignable expenses in these areas are allocated to gas operations based upon a percentage calculated by dividing: (1) the previous year’s non-fuel Operating & Maintenance (“O&M”) expenses that were directly assigned to gas operations, by (2) the total of all the previous year’s non-fuel O&M expenses that were directly assigned to gas and electric operations.

15. Q. Please explain the method used to allocate non-assignable bad debt expense.

A. Bad debt expense associated with customer accounts receivable is allocated to gas operations based on the ratio of accounts receivable charged off. The ratio is updated annually based on the prior year's actual accounts receivable charge-off experience. Although bad debt expense is allocated for accounting purposes, uncollectible accounts expense included in revenue requirement for ratemaking purposes is calculated based on the net uncollectible accounts charged off expressed as a percentage of total tariff revenue, as explained by Mr. Michael J. Trzaska (PECO Statement No. 3).

IV. PECO GAS DIVISION DEPRECIATION CLAIMS

16. Q. Has a service-life study of PECO's gas utility plant in service been performed?

A. Yes. With the assistance of Gannett Fleming, Inc., a service-life study was performed based on PECO's plant balances at December 31, 2018, which is provided as PECO Exhibit CF-4. The study was filed with the PUC in April 2020 at Docket No. M-2020-3020569. Prior to the Company's 2018 service life study, a service life study was performed in 2014 based on PECO's plant balances at December 31, 2013.

17. Q. Have you prepared exhibits presenting the results of PECO's depreciation studies?

A. Yes. PECO Exhibits CF-1, CF-2 and CF-3 reflect PECO's gas and common plant in service as of June 30, 2020, 2021 and 2022 respectively. Exhibits CF-1, CF-2 and CF-3 rely upon the service lives and depreciation rates developed in the Company's 2018 service life study.

18. Q. What is the purpose of the depreciation study?

A. PECO is relying principally on data for a FPFTY ending June 30, 2022 to support its proposed increase in revenue requirement in this case. Accordingly, the purpose of the depreciation study is to provide the basis to calculate the estimated 2022 annual depreciation accruals related to plant in service for ratemaking purposes and, using procedures approved by the PUC, to estimate PECO's book reserve at June 30, 2022.

PECO uses the remaining life method of depreciation, which calculates depreciation accruals designed to recover the original cost less accrued depreciation of utility plant over the estimated remaining life of that plant, by depreciable group.

19. Q. Please describe PECO Exhibits CF-1, CF-2 and CF-3.

A. PECO Exhibit CF-1 is titled “Annual Depreciation Accruals Related to Utility Plant in Service for 2020.” This exhibit includes the results of the depreciation study related to the original cost of PECO’s plant in service at December 31, 2019. The exhibit also includes the detailed depreciation calculations used to determine 2021 depreciation rates, which are used in calculating the estimated 2021 Annual Depreciation Accruals shown in PECO Exhibit CF-2.

PECO Exhibit CF-2 is titled “Estimated Annual Depreciation Accruals Related to Utility Plant in Service for 2021.” This exhibit includes the results of the depreciation study related to the estimated original cost of PECO’s plant in service at June 30, 2021. PECO Exhibit CF-2 includes PECO’s FTY plant additions for gas and allocated common plant claimed in rate base in this case and reflects the depreciation accruals related to those additions in the column titled “2021 Estimated Annual Depreciation Accrual.”

PECO Exhibit CF-3 is titled “Estimated Annual Depreciation Accruals Related to Utility Plant in Service for 2022.” This exhibit includes the results of the depreciation study related to the estimated original cost of PECO's plant in service at June 30, 2022. PECO Exhibit CF-3 includes PECO's FPFTY plant additions for gas and allocated common plant claimed in rate base in this case and reflects the depreciation accruals related to those additions in the column titled "2022 Estimated Depreciation Accrual."

20. Q. Has the Commission previously approved PECO's use of the remaining-life method of depreciation?

A. Yes. In 1988, in PECO's Gas Division rate proceeding at Docket No. R-870629, the Commission approved PECO's use of the remaining life method and also approved PECO's adjusted book reserve as the measure of accrued depreciation for ratemaking. PECO has employed the remaining-life method in each of the Annual Depreciation Reports filed with the Commission since it adopted the remaining life method.

21. Q. How was the accumulated depreciation recorded in the Company's book reserve ("accumulated depreciation") used in the calculation of annual depreciation?

A. The accumulated depreciation, by account, at June 30, 2020, is one of the factors used in calculating the annual depreciation accruals. The methodology used to calculate the annual depreciation accrual is consistent with the methodology described in the 2018 Depreciation Study (PECO Exhibit CF-4).

22. Q. How was the estimated accumulated depreciation at June 30, 2021 determined?

A. As shown in Exhibit CF-2, the June 30, 2021 estimated accumulated depreciation was developed by: (1) adding the 2021 estimated annual depreciation accruals to the actual accumulated depreciation by account as of July 1, 2020; (2) subtracting the estimated 2021 plant retirements by account; and (3) adding 2021 estimated salvage and subtracting estimated removal costs that are closed to the book reserve, by account. The 2021 annual depreciation accruals are estimated by adding the following three items: (1) the estimated net book value of depreciable plant by account as of June 30, 2020, multiplied by the depreciation rates shown in PECO Exhibit CF-2; (2) the 2021 estimated plant additions multiplied by the depreciation rate (using a half-year convention) for the appropriate accounts; and (3) the 2021 estimated salvage or cost of removal multiplied by the depreciation rate (using a half-year convention) for the appropriate account.

23. Q. How was the estimated accumulated depreciation at June 30, 2022 determined?

A. As shown in PECO Exhibit CF-3, the June 30, 2022 estimated accumulated depreciation was developed by: (1) adding the 2022 estimated annual depreciation accruals to the estimated accumulated depreciation by account as of July 1, 2021; (2) subtracting the 2022 estimated plant retirements by account; and (3) adding 2022 estimated salvage and subtracting estimated removal costs that are closed to the book reserve, by account. The 2022 annual depreciation accruals are estimated by adding the following three items: (1) the estimated net book value balance of depreciable plant by account as of June 30, 2021, multiplied by the depreciation rates shown in PECO Exhibit CF-3; (2) the 2022 estimated plant additions multiplied by the depreciation rate (using a half-year convention) for the appropriate account; and (3) the 2022 estimated salvage or cost of removal multiplied by the depreciation rate (using a half-year convention) for the appropriate account.

24. Q. Have you prepared schedules that summarize the development of the original cost of gross plant, estimated accumulated depreciation, estimated net book value of depreciable plant, and estimated annual depreciation accruals, by property account, for utility plant in service at June 30, 2022?

A. Yes. PECO Exhibit CF-3 provides this information. The original cost of gross plant in service at June 30, 2022 was calculated by adding the estimated plant additions by account for 2022 to, and subtracting the estimated plant retirements for 2022 from, the estimated original cost of gross plant as of June 30, 2021. The estimated net book value of depreciable plant at June 30, 2022 was calculated by subtracting the estimated accumulated depreciation at June 30, 2022 from the estimated original cost of gross plant at June 30, 2022. The 2022 annual depreciation accruals were estimated by adding the following three items: (1) the estimated net book value balance of depreciable plant by account as of June 30, 2021, multiplied by the depreciation rates shown in PECO Exhibit CF-3; (2) the 2022 estimated plant additions multiplied by the depreciation rate (using a half-year convention) for the appropriate accounts; and (3) the 2022 estimated salvage or cost of removal multiplied by the depreciation rate (using a half- year convention) for the appropriate accounts.

V. CONCLUSION

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

A. Yes, it does.