PECO ENERGY COMPANY
STATEMENT NO. 7

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

DOCKET NO. R-2020-3018929

DIRECT TESTIMONY

WITNESS: JOSEPH A. BISTI

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

DATED: SEPTEMBER 30, 2020

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DIRECT TESTIMONY
OF
JOSEPH A. BISTI

I. INTRODUCTION AND PURPOSE OF TESTIMONY

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

A. My name is Joseph A. Bisti. 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 Rates Specialist. I am responsible for tariff administration, financial analysis, project management and regulatory affairs relating to PECO's gas and electric operations.

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

A. I received a Bachelor of Science in Economics from The College of New Jersey in 2000, a Master of Science in Training and Organizational Development from Saint Joseph's University in 2009, and a Graduate Certificate in Utility Management from Willamette University in 2012. In 2015, I earned a certification as a Project Management Institute Professional in Business Analysis. Prior to my current position, I was a Senior Rate Administrator at PECO for over three years. In that position, my responsibilities included analyzing and applying PECO's tariffs to retail customers and coordinating and preparing testimony and comments in several proceedings before the Commission. For approximately nine years prior to my role as a Senior Rate Administrator, I was a Senior Analyst in PECO's Energy Acquisition department.

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

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

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

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

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

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

A. The purpose of my testimony is to describe: (1) how PECO proposes to allocate its claimed revenue increase among rate classes and explain the principles that guided PECO in developing its proposed revenue allocation; and (2) the changes PECO is proposing in the rate design for certain rate classes, why PECO is proposing these changes, and how the proposed new rates were developed.

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

A. I am sponsoring the following exhibits:

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

Exhibit JAB-2	Relevant Gas Service Tariff Pages (Blacklined to Show Changes)
Exhibit JAB-3	Comparison of Residential Customer Charges for Pennsylvania Natural Gas Distribution Utilities
Exhibit JAB-4	Proof of Revenue at Present and Proposed Rates

II. REVENUE ALLOCATION

7. Q. Please state the principles that guided PECO in developing its proposed revenue allocation.

A. The proposed revenue allocation reflects a reasonable balance of accepted principles for designing utility rates. Specifically, PECO considered the following four principles in developing its proposed revenue allocation:

1. The results of the class cost-of-service study ("COSS") prepared by Ms. Jiang Ding and discussed in PECO Statement No. 6 should be used as a guide in allocating the proposed revenue increase among rate classes;

2. The proposed revenue allocation should move all rate classes closer to the cost of service indicated by the COSS and, in this case, eliminate the remaining difference between the class rates of return for Rates GC – General Service - Commercial and Industrial and L – Large High Load Factor Service and the system average rate of return, as required by the terms of the Joint Petition for Settlement of PECO's 2008 gas base rate case;

3. The proposed revenue allocation should adjust certain class distribution revenues based on proposed changes to both PECO's Gas Procurement Charge ("GPC") rate and Merchant Function Charge ("MFC") uncollectible write-off factors; and

4. Customer impacts should be considered, and PECO should attempt to avoid increases in revenue for major rate classes that, on a percentage basis, are disproportionate relative to the system average increase.

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

A. Yes, a summary of class cost-of-service data is provided in PECO Exhibit JD-1, sponsored by Ms. Ding, and accompanies her direct testimony (PECO Statement No. 6). PECO Exhibit JD-1 shows, at page 1, line 26, the overall and class rates of return produced by the Company's current gas distribution base rates based on its supporting data for the twelve months ending June 30, 2022, which is the Fully Projected Future Test Year ("FPFTY") in this case. PECO Exhibit JD-1 also shows, at page 2, lines 83-84, the increase or decrease (in dollars and as a percentage of class gas distribution revenues under current rates, respectively) that each rate class would have to receive in order for its revenues to equal its indicated class cost of service. As indicated by the guiding principles I summarized above, while the results of the Company's COSS are an important guide in evaluating its proposed revenue allocation, they are not the only factor that must be considered.

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

A. The ratemaking principle of gradualism, as traditionally applied in Pennsylvania, guides utilities to avoid abruptly increasing rates in favor of slower adjustments that incrementally move rates toward the actual cost of service over time. PECO's proposed revenue allocation aims to balance application of this and other ratemaking principles with the terms of the Joint Settlement Petition in PECO's 2008 gas base rate case requiring PECO to eliminate the difference between the system average rate of return and the class rates of return for Rates GC – General Service - Commercial and Industrial and L – Large High Load Factor Service. The proposed revenue allocation in this case attempts to achieve this balance by more closely aligning the class rates of return for these two rate classes with the proposed system average rate of return while limiting the degree to which rates for other classes diverge from their indicated cost of service.

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

A. PECO's proposed revenue allocation is presented in PECO Exhibit JAB-1. PECO's current gas distribution base rates are properly structured to separate costs between the Company's distribution function and its Supplier of Last Resort ("SOLR") function.

11. Q. Will there be any adjustment to proposed base rates resulting from the Commission-approved Gas Procurement Charge?

A. Yes. To ensure a comparison between present and proposed distribution revenues on an "apples-to-apples" basis, PECO must adjust proposed distribution revenues to properly separate and account for proposed changes to both its GPC and its MFC uncollectible write-off factors. To this end, PECO Exhibit JAB-1 shows the aforementioned adjustments as reductions to distribution revenues at proposed rates for each rate class, as well as the proposed net revenue increase for each rate class. PECO Exhibit JAB-1 also shows class rates of return and relative rates of return[1] at present and proposed rates.

In 2013, PECO reached a settlement in Docket No. P-2012-2328614 to unbundle certain annual procurement costs from base rates and include those costs in its Price to Compare. In compliance with that settlement and the regulations set forth at 52 Pa. Code Sections 62.221-62.225, PECO unbundled certain procurement costs from its base rates for non-shopping participants in its Low Volume Transportation ("LVT") program, which consists primarily of residential and small business customers who are eligible for PECO's SOLR service. The settlement specified that PECO would utilize an annual default service sales volume of 47,121,013 Mcf to calculate the GPC and an annual distribution sales volume of 59,083,864 Mcf to calculate the associated base rate reduction. The parties to the settlement also agreed that the annual costs and sales components of the GPC would remain constant until PECO's next distribution rate case filing. This resulted in a base rate reduction of $0.0320 per Mcf. PECO allocated these costs as corresponding reductions to distribution revenues for non-shopping LVT customers served under rate schedules GR – General Service - Residential, GC – General Service - Commercial and Industrial, OL – Outdoor Lighting Service, L – Large High Load Factor Service and MV-F – Motor Vehicle Service-Firm.[2]

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[1] A relative rate of return is the ratio of the rate of return for a rate class to the system average rate of return. See Question 15, below.

[2] No costs were allocated to the Excess Off-Peak Rider because PECO is proposing to eliminate that Rider in this case as explained in the direct testimony of Mr. Richard A. Schlesinger.

As I explained previously, PECO's proposed distribution rates must be adjusted accordingly to reflect GPC-related reductions based on procurement-related costs. The product of PECO's procurement-related costs and sales yields the updated distribution base rate reduction of $0.0165/Mcf, as identified by Mr. Richard A. Schlesinger in his direct testimony (PECO Statement No. 8) and PECO Exhibit RAS-2. PECO has applied this rate reduction to proposed distribution revenues for rate schedules GR (including CAP), GC, OL, L and MV-F as shown in PECO Exhibit JAB-1.

12. Q. Will there be any adjustment to base rates resulting from the Commission-approved MFC?

A. Yes. Consistent with the settlement of PECO's 2010 gas rate case, PECO was authorized in Docket No. P-2012-2328614 to implement a MFC to recover uncollectible accounts expenses related to gas supply from LVT customers who procure their gas supply from PECO. The MFC is currently based on write-off factors of 1.07% for Rate GR (including CAP) and 0.30% for Rate GC and the Excess Off-Peak Use Rider, as further described in the direct testimony of Mr. Schlesinger.

PECO proposes to utilize the updated write-off factors described in detail in Mr. Schlesinger's testimony and shown in PECO Exhibit RAS-3 as reductions to annual proposed distribution revenues for Rates GR (including CAP), GC, L, OL, and MV-F, as shown in PECO Exhibit JAB-1.

PECO has applied the distribution revenue reductions resulting from these updated factors to its proposed distribution revenues for each impacted class as shown in PECO Exhibit JAB-1. PECO calculates these adjustments by applying the updated MFC write-off factors to total projected commodity write-offs by rate class for non-shopping customers under the impacted rate schedules. The proposed tariff changes associated with the MFC are identified in Mr. Schlesinger's direct testimony.

13. Q. Is PECO proposing any change to its discount rate for Gas Purchases of Receivables ("POR") from Natural Gas Suppliers ("NGSs")?

A. Yes. As described by Mr. Schlesinger in his direct testimony, PECO is proposing to revise its POR discounts to reflect the updated MFC write-off factors that I discussed in response to the previous question. Under PECO's Commission-approved POR program, the Company purchases each shopping LVT customer's accounts receivable from NGSs and recovers the associated unbundled uncollectible commodity write-offs from NGSs through PECO's corresponding POR discount rate.

The current POR discounts were last revised by PECO pursuant to Docket No. M-2017-2631325. Since PECO currently expects no additional costs beyond the aforementioned write-offs to require recovery under the POR discount, PECO proposes to maintain POR discount rates by class that are identical to the MFC write-off factors for non-shopping customers and, as such, to update POR discount rates to the same levels as the proposed MFC write-off factors described above.

The proposed supplier tariff changes associated with the POR discounts are identified in PECO Exhibit RAS-1 sponsored by Mr. Schlesinger.

14. Q. Why is the proposed revenue allocation reasonable?

A. The proposed revenue allocation in PECO Exhibit JAB-1 is reasonable because it appropriately reflects the four principles discussed previously:

1. The COSS prepared by Ms. Ding guided its development;
2. It reasonably balances the objectives of: (a) eliminating the difference between the system average rate of return and the class rates of return for Rates GC – General Service - Commercial and Industrial and L – Large High Load Factor Service; and (b) making limited but meaningful movement of other rate classes closer to their indicated cost of service;
3. It adjusts certain class distribution revenues based on proposed changes to both PECO's GPC rate and MFC uncollectible write-off factors; and
4. It moderates the impact on each major rate class while still making meaningful movement toward each class' cost of service.

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

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

16. Q. Please explain why revenue produced by Rate IS – Interruptible Service remains the same under proposed rates as under existing rates.

A. Rate IS – Interruptible Service is an interruptible gas sales rate keyed to a customer's cost of alternative fuel. Each month, the customer is charged a customer charge (i.e., a fixed distribution charge) plus a rate per Mcf that is: (1) no less than PECO's commodity cost of gas for the month plus three cents; and (2) no more than the price, on an equivalent BTU basis, of the alternative fuel the customer is capable of consuming. From the price determined in the manner described above, PECO subtracts its weighted average cost of flowing gas. The remainder, which is PECO's gross margin, is divided between PGC customers and shareholders: 75% is credited to purchased gas costs and returned to PGC customers and 25% is retained by the Company. Because the revenue produced by Rate IS – Interruptible Service will not change based on rate changes made in this case, the Rate IS – Interruptible Service revenue is the same under existing and proposed rates.

17. Q. Please explain why the Company is not proposing to completely eliminate the differences between the Rate GC and L class rates of return and the system average rate of return.

A. As I explained previously, PECO's proposed revenue allocation attempts to balance various objectives and ratemaking principles, including the commitment made in its 2008 gas base rate case settlement to propose to completely eliminate these differences as part of this rate case. In considering the potential impacts of eliminating the differences between the Rate GC and L class rates of return and the system average rate of return on customers in other rate classes, as well as the more abrupt increase in proposed rates that would result for Rate L customers, the Company believes that moving further towards eliminating these differences as part of this gas base rate case, and completely eliminating any remaining differences in the Company's next gas base rate case is the most reasonable approach.

III. RATE DESIGN

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

A. PECO proposes to increase or decrease each of the charges within each rate schedule in proportion to the revenue increase or decrease allocated to that rate class, subject to certain rate design changes, discussed below. PECO Exhibit JAB-2 is a copy of the Company's Tariff Gas-Pa. P.U.C. No. 4 ("Tariff No. 4") that shows, by strike-out and blacklining, the proposed rate changes I discuss below, as well as the proposed changes in rules, regulations, rate schedules and riders discussed by Mr. Schlesinger in PECO Statement No. 8. Tariff No. 4 is being filed with the Secretary of the Pennsylvania Public Utility Commission ("PUC" or the "Commission") as part of PECO's base rate filing.

Currently, service is provided under the Company's Tariff Gas-Pa. P.U.C. No. 3 ("Tariff No. 3") and associated supplements. It is anticipated that Tariff No. 4, which was filed as part of this case on 60 days' notice, will be suspended by operation of Section 1308(d) of the Public Utility Code pending an investigation by the Commission. Because it is possible and, in fact, likely, that changes will be made, via subsequently filed supplements, to Tariff No. 3 during the period Tariff No. 4 is suspended, any provisions of the current tariff that will continue beyond the end of the suspension period and have not already been incorporated in Tariff No. 4 will be merged into the tariff that will be filed as part of PECO's compliance filing at the conclusion of this proceeding.

19. Q. Why is PECO proposing to increase customer charges for the residential class by a greater percentage than the proposed overall revenue increase for the class?

A. PECO is proposing to increase the customer charges in this manner to reduce the disparity between its current customer charge and the customer-related costs that should properly be recovered by that charge as reflected by Ms. Ding in PECO Exhibit JD-4. The change is intended to more closely align this charge with the Company's customer-classified costs. As noted in PECO Exhibit JAB-3, the Company's current customer charge is lower than those of all other major gas distribution utilities in Pennsylvania. PECO's proposed customer charge is well within the range of these customer charges.

20. Q. Why is it important to increase customer charges so those charges are closer to customer-classified costs?

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

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

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

21. Q. What residential rate change is PECO proposing?

A. PECO is proposing a residential customer charge of $16.00 per month. As I previously explained, this customer charge will be closer to, but still less than, the customer-related costs identified by Ms. Ding in PECO Exhibit JD-5. Moreover, PECO's current residential customer charge of $11.75 per month is lower than the residential customer charges of all other major gas distribution companies in Pennsylvania, as shown on PECO Exhibit JAB-3.

The revenue to be recovered from this customer charge was deducted from the total revenue target for the residential class to determine the revenue to be recovered in the variable distribution service charge. The variable distribution service charge was changed to recover the balance of the residential class revenue not recovered by the customer charge.

22. Q. What change is PECO proposing to Rate GC – General Service - Commercial and Industrial?

A. PECO is proposing a Rate GC – General Service - Commercial and Industrial customer charge of $40.00 per month. This customer charge will be closer to, but still less than, the customer-related costs identified by Ms. Ding in PECO Exhibit JD-5. The revenue to be recovered from this charge was deducted from the total revenue target for the Rate GC – General Service - Commercial and Industrial class to determine the revenue to be recovered in the variable distribution service charge. As discussed previously, the proposed relative rate of return for customers served under Rate GC – General Service - Commercial and Industrial more closely aligns with the proposed system average rate of return, balancing the Company's 2008 gas base rate case commitment to eliminate this difference with the other guiding principles discussed earlier in my testimony.

23. Q. Is PECO proposing changes to customer charges for other rate classes?

A. Yes, PECO is also proposing increases to customer charges for rate schedules MV-F – Motor Vehicle Service-Firm, MV-I – Motor Vehicle Service-Interruptible, TCS – Temperature Control Service, TS-I – Gas Transportation Service-Interruptible, and TS-F – Gas Transportation Service-Firm as shown in PECO Exhibit JAB-4. As discussed above, customer charges are designed to recover the customer-related fixed costs of providing service and therefore should be established to align with actual customer-related costs of providing those services as evidenced by Ms. Ding in PECO Exhibit JD-4.

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

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

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

25. Q. Have you prepared proofs of revenue with respect to PECO's present and proposed rates?

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

26. Q. What adjustments have been made to the proof of revenues to properly reflect revenues at present rates currently being billed by the Company?

A. The proof of revenue provided as PECO Exhibit JAB-4 includes adjustments to set forth PECO's gas revenues at present rates reflecting the effects of the Company's Federal Tax Adjustment Credit ("FTAC") and Distribution System Improvement Charge ("DSIC").

27. Q. Please explain the adjustment made to the proof of revenues at present rates for the FTAC.

A. The FTAC became effective on July 1, 2018, under PECO's Commission-approved Tax Cuts and Jobs Act Voluntary Surcharge mechanism ("TCJA Surcharge") to reflect the impact on PECO's gas distribution revenue requirement of changes in the Internal Revenue Code made by the Tax Cuts and Jobs Act ("TCJA") in 2017. The most significant change made by the TCJA was a reduction in the Federal corporate income tax rate from 35% to 21%. Because PECO's base rates were established prior to the enactment of the TCJA, those rates were based on a revenue requirement that reflected the pre-2018 Federal corporate tax rate of 35%, as explained by Mr. Michael J. Trzaska in PECO Statement No. 3. The FTAC accounts for the impact on PECO's base-rate revenue requirement of the reduction in its Federal income tax liability attributable to the net effect of the changes in the tax law made by the TCJA. Accordingly, the Company's proof of revenues includes an adjustment to reflect the effect of the FTAC for each rate class under present rates. No similar adjustment is required to the proof of revenue under proposed rates because the Company's revenue requirement forming the basis for its proposed rates fully reflects all of the changes in the Federal tax law made by the TCJA, as Mr. Trzaska also explains.

28. Q. Please explain the adjustment made to the proof of revenues at present rates for the Company's DSIC.

A. The DSIC is a rate adjustment mechanism that permits PECO to recover the fixed costs of DSIC-eligible property between base rate cases through a separate, reconcilable charge established pursuant to Section 1353 of the Public Utility Code. The Commission approved PECO's establishment of a DSIC by its final order entered October 22, 2015 at Docket No. P-2015-2471423. PECO began to charge a DSIC effective with bills rendered on or after July 1 of 2018, and the Company is currently charging a DSIC of 5.0%. As required by the terms of the DSIC, the DSIC charge will be reduced to zero on the effective date of new rates established in this proceeding. The fixed costs of DSIC-eligible property that PECO will continue to recover through the effective date of its new base rates have been included in the Company's claimed rate base and reflected in the revenue requirement used to establish its proposed rates. Consequently, in order to properly compare PECO's revenues at present rates to revenues at its proposed base rates, PECO's present-rate revenue must include the revenues PECO bills under its DSIC. Accordingly, PECO's proof of revenue at present rates has been adjusted by customer class to properly reflect the revenues billed under PECO's DSIC. No adjustment to the proof of revenue at proposed rates is required because, as I previously explained, the Company's revenue requirement on which proposed rates are based includes the fixed costs of all of its DSIC-eligible property that is or will be in service through the effective date of new rates established in this proceeding.

29. Q. How does PECO propose to scale-back the proposed rates if it is granted less than the revenue increase it requested?

A. In the event PECO is granted less than its requested increase, PECO proposes that:

(1) the revenue increases proposed for all rate classes will be reduced in proportion to the proposed increase for each class; and

(2) the customer charges for all rate classes remain as proposed, and all other rates and charges for all rate schedules be reduced proportionately to produce the revenue target for each rate class.

V. CONCLUSION

30. Q. Please summarize your conclusions.

A. PECO's proposed rates reflect a reasonable allocation of the Company's proposed revenue increase and a reasonable rate design for each rate schedule. The proposed rate design changes are consistent with relevant terms of the settlements of PECO's 2008 and 2010 gas rate cases, the results of the COSS identified by Ms. Ding, and applicable principles of rate structure and rate design, including gradualism. In addition, the proposed customer charge for the residential class is in line with those of other major Pennsylvania gas distribution utilities.

31. Q. Does this conclude your direct testimony?

A. Yes, it does.