PECO ENERGY COMPANY
STATEMENT NO. 8

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

DOCKET NO. R-2020-3018929

DIRECT TESTIMONY

WITNESS: RICHARD A. SCHLESINGER

SUBJECT: PROPOSED CHANGES TO PECO'S
GAS SERVICE AND SUPPLIER
COORDINATION TARIFFS

DATED: SEPTEMBER 30, 2020

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DIRECT TESTIMONY
OF
RICHARD A. SCHLESINGER

I. INTRODUCTION AND PURPOSE OF TESTIMONY

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

A. My name is Richard A. Schlesinger. 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 as Manager, Retail Rates. In that capacity, I am responsible for the management and oversight of PECO's gas and electric retail and supplier service tariffs and oversee numerous filings with the Commission.

3. Q. Please describe your educational background.

A. I have a Bachelor of Science Degree in Engineering from Widener University and an MBA from Saint Joseph's University.

4. Q. Please describe your professional experience.

A. I was hired in 1986 by PECO as a System Engineer in the Plant Operations group supporting the Limerick Nuclear Generating Station. From 1988 to 1991, I held several positions of increasing responsibility supporting plant operations, management, and quality assurance. In 1992, I transferred into the position of Rate Engineer in the Rates and Regulatory Affairs Group. In 1997, I was appointed to the position of Project Manager, Customer Choice Implementation, and was responsible for many regulatory activities related to the phase-in of gas and electric retail choice for all of PECO's two million gas and electric distribution customers. In 2000, I transferred to the Company's Customer and Marketing Services Department and served as e-Commerce Manager and then as Project Manager, overseeing various Business/Information Technology system implementations. In 2004, I returned to the Regulatory and External Affairs Department, where I served as Principal Rate Administrator. In 2009, I was promoted to my current position of Manager of Retail Rates.

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

A. My testimony will explain proposed revisions to PECO's Tariff Gas – Pa. P.U.C. No. 3 ("Tariff No. 3") that have been incorporated in the Company's proposed Tariff Gas – Pa. P.U.C. No. 4 ("Tariff No. 4") filed in this case, as well as several relevant changes to PECO's Gas Choice Supplier Coordination Tariff. My testimony divides the proposed changes into the following categories: (1) rules and regulations; (2) tariff rates and riders; (3) Section 1307 surcharges; and (4) various miscellaneous provisions.

6. Q. Mr. Schlesinger, have you submitted testimony previously before the Commission?

A. Yes. I submitted testimony in support of PECO's Phase I, Phase II and Phase III Energy Efficiency and Conservation ("EE&C") Plans (P-2008-2062740, M-2009-2093215, M-2015-2515691). In addition, I submitted testimony in support of the Company's Market Rate Transition Energy Efficiency Package (P-2008-2062740) and its Residential Real-Time Pricing Program (P-2008-2032333). Finally, I submitted testimony in PECO's 2015 and 2018 electric base rate cases at Docket Nos. R-2015-2468981 and R-2018-3000164, respectively.

7. Q. Are you sponsoring any exhibits in this case?

A. Yes. I am sponsoring the following PECO Exhibits:

PECO Exhibit RAS-1	Relevant Gas Supplier Coordination Tariff Pages (Including a Blackline to Show Proposed Changes)
PECO Exhibit RAS-2	Calculation of the Gas Procurement Charge ("GPC")
PECO Exhibit RAS-3	Components and Calculation of the Merchant Function Charge ("MFC")

In addition, as explained by Mr. Joseph A. Bisti in PECO Statement No. 7, the various retail tariff changes that I am discussing are shown in PECO Exhibit JAB-2, the Company's proposed Tariff No. 4 in blackline format. Accordingly, I will refer to PECO Exhibit JAB-2 in certain points in my testimony.

II. RULES AND REGULATIONS

8. Q. Please explain the proposed revision to Rule 10.2 – Customer's Responsibility.

A. Rule 10.2 specifies the customer's responsibility for safekeeping Company property located on the customer's premises, including underground gas facilities. PECO is proposing to expand the scope of the rule to address customers with privately-owned or operated underground utility facilities on their premises, such as water, sewer, and gas lines. These customers may have obligations as facility owners under the Pennsylvania Underground Utility Line Protection Law (Act 287) to participate in Pennsylvania One Call and provide approximate locations of such facilities with temporary markings in response to related One Call notifications. During the Company's repair and replacement work on its own underground facilities, PECO has discovered that some customers are either unwilling or unable to comply with these obligations and, as a result, fail to locate these privately-owned facilities in a manner that safeguards Company property. As a result, PECO incurs additional expense to locate and mark the privately-owned or operated facilities to ensure safe excavation and complete the required underground work on the Company's facilities.

PECO is therefore proposing to add language to Rule 10.2 to identify Act 287 obligations that may apply to customers and to permit the Company to charge a customer for any incremental costs incurred by the Company as a result of the customer's failure to comply with Act 287 obligations. The proposed additions also provide that the Company shall not be liable to customers or any other third parties for any damages to private utility facilities if: (1) the facilities are insufficiently marked prior to the lawful start date of any Company excavation or construction work, or (2) the Company is unable to notify a facility owner of its intent for excavation or similar work covered under Act 287 because the facility owner is not a member of the Pennsylvania One Call system. These changes are consistent with wording in the Company's Electric Service Tariff (Rule 10.2) that was approved by the Commission in Docket No. R-2018-3000164, effective January 1, 2019.

9. Q. Please describe the revisions that PECO is proposing to Rule 10.7 – Relocation of Company Facilities Requested by Non-Residential Property Owners.

A. Rule 10.7 specifies the terms under which a non-residential customer must compensate PECO for the cost of relocating PECO's facilities. When commercial developers plan projects, they usually must go through local zoning and planning approval. Often, municipalities will require the developer to make changes to local roadways, such as road widening or installation of deceleration lanes, that require PECO to move its facilities to a new location. PECO considers the cost of that facility relocation to be a cost of the developer's project that is properly recovered from the developer. The alternative is to have the facility relocation funded by PECO capital in the short run and then later have that capital expenditure included in PECO's base rates and paid for by its other customers. PECO's current tariff recognizes that such costs are properly treated as developer project costs.

The existing tariff language, however, also allows for the possibility of a developer avoiding cost responsibility by having a municipal entity make the relocation request on the developer's behalf. The proposed revision to Rule 10.7 makes it clear that these facility relocation costs remain the responsibility of the developer regardless of what entity requests the relocation. The revision also clarifies the meaning of relocation cost. The proposed language is consistent with wording in the Company's Electric Service Tariff (Rule 10.8) that was approved by the Commission at Docket No. R-2018-3000164, effective January 1, 2019.

10. Q. Please describe the revisions that PECO is proposing to Rule 12.3 of its Rules and Regulations.

A. Rule 12.3 sets forth limitations on PECO's liability for utility service provided to its natural gas utility customers. PECO is proposing three changes to this language. First, Rule 12.3 currently contains a list of events outside of the Company's control -- typically known as "force majeure" events -- for which PECO has very limited or no liability. PECO proposes to add "weather" to that list of events. This change is consistent with the existing list of force majeure events in PECO's Electric Service Tariff.

Second, PECO proposes to add language limiting its liability to $1,000 (or, if greater, an amount equal to two times the charge to the customer for the service affected by the interruption) for events that are not force majeure events -- that is, for events that are within PECO's control -- unless the damage is caused by PECO's willful and/or wanton misconduct, in which case the $1,000 limit will not apply. This provision is also consistent with language in the Company's Electric Service Tariff and similar to language in Peoples Natural Gas Company LLC's ("Peoples") Natural Gas Tariff for its Peoples and Equitable Divisions.[1]

Finally, PECO proposes to add language related to product liability. In 2012, the Pennsylvania Superior Court held that, if certain specified language was included in a utility tariff, the utility would not be exposed to product liability claims;

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[1] *See* Peoples Natural Gas Company LLC Supplement No. 2 to Gas – PA PUC No. 47, First Revised Page No. 22; *see also* Docket No. R-2018-3006818 (Order entered October 3, 2019).

conversely, in the absence of such language the utility would be exposed to certain product liability claims.[2] In 2013, in Docket No. R-2013-2361111, the Commission approved inclusion of specific product liability limiting language in PECO's Electric Service Tariff. PECO now proposes to include that same language in its Natural Gas Service Tariff.[3]

11. Q. Please explain the Company's proposal to add a Rule 14.6 to the Measurement section of its Rules and Regulations.

A. The Company is proposing to add a new provision to require Gas Transportation Service customers under PECO's High Volume Transportation ("HVT") program who are using PECO's telemetry equipment to remotely read PECO's meters (i.e., the Metretek system) to maintain either a single dedicated non-digital phone line or use a digital line in conjunction with telemetry equipment that converts the signal to analog to ensure that PECO can receive daily usage data for proper gas supplier balancing. The Metrotek system can only accept data via an analog signal, therefore, a non-digital line or conversion equipment is needed.

PECO is also proposing that a customer who fails to maintain a working non-digital phone line may be switched to the General Service Commercial and Industrial rate ("GC"), or under certain circumstances, disconnected from service. The proposed Rule 14.6 would clarify telemetry requirements and is consistent

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[2] *State Farm v. PECO*, 54 A. 3d 921 (Pa. Super. 2012).

[3] A similar provision is also found in the Peoples Natural Gas Tariff for its Peoples and Equitable Divisons. *See* Peoples Natural Gas Company LLC Supplement No. 2 to Gas – PA PUC No. 47, First Revised Page No. 22.

with the requirement contained in the Company's gas transportation services contract.

12. Q. Please explain the proposed revision to Rule 15.6 – Testing Service.

A. Rule 15.6 allows PECO to charge customers who request tests to provide special information regarding their use of service. The current rule requires customers to pay PECO in advance for such special tests. PECO is proposing to revise the rule by deleting the term "in advance" and adding "at the Company's discretion." The revision will provide PECO with greater flexibility when charging customers for special testing based on specific customer circumstances.

13. Q. Please describe the changes PECO is proposing with regard to reconnection fees (Rule 17.6).

A. Rule 17.6 establishes reconnection fees for terminations associated with non-payment, as well as fees for investigation and remediation of theft or fraud. PECO proposes to separate these two fees into distinct tariff rules. Rule 17.6 will continue to address reconnection fees for terminations associated with non-payment at the same levels set forth in PECO's existing Natural Gas Service Tariff. A new Rule 17.7 will be created to separately address fees for investigation and remediation of theft or fraud.

Under Rule 17.7, PECO is proposing a $460 fee for reconnection, which is consistent with the average cost that PECO incurs for field personnel to investigate and remediate theft or fraud. In addition, PECO believes that a $460 charge creates a proper balance between on the one hand, deterring theft and fraud and, on the other hand, allowing customers a reasonable opportunity to rehabilitate themselves through payment of the $460 charge and, thus, obtain legal, safe service going forward. Finally, PECO believes that it will achieve savings in information technology ("IT") costs if PECO is able to have charges of the same amount for gas theft or fraud and for electric theft or fraud. To that end, PECO currently expects that, in its next electric base rate case, it will propose similar changes to its Electric Service Tariff, including the same fees.

14. Q. Please describe the proposed change to Rule 18.3 - Temporary Suspension of Service.

A. Rule 18.3 establishes a $30 reconnection charge following a temporary suspension of service. The reconnection charge amount has not been updated since 1991. PECO is proposing to increase this charge to $115 to reflect an updated analysis of the O&M costs associated with suspending a customer's service and the cost to reconnect the service. In addition, PECO is proposing to expand this rule to commercial customers because the analysis has shown that over 60% of the temporary suspension requests received are from commercial customers.

III. TARIFF RATES AND RIDERS

15. Q. Please explain the changes that PECO is proposing to Rate L - Large High Load Factor Service.

A. PECO is proposing two changes to Rate L. First, PECO proposes to change the Variable Distribution Charge ("VDC") structure for Rate L to align with current business practice and ensure that Transportation Service customers who use Rate L in accordance with PECO's Standby Sales Service ("SSS") continue to receive favorable billing provisions. PECO's current practice provides that usage under Rate L is billed at 100% Load Factor (i.e., 50% of the customer's usage is billed in the 1st price block and the remaining 50% in the 2nd price block) and, for that reason, customers see more usage billed at the lower 2nd block pricing. This practice will be incorporated in the terms of the proposed Rate L. Second, the section dealing with the determination of billing demand under Rate L will be eliminated, and the minimum charge section will be revised to also align with current business practice.

16. Q. Please describe the change the Company is proposing to Rate CGS – City Gate Sales Service.

A. PECO is proposing to eliminate Rate CGS and all references to CGS stated in the PECO Retail Gas Tariff (*see* PECO Exhibit JAB-2). The CGS rate was established in May of 1992 to allow HVT service customers to buy gas from PECO rather than from a competitive gas supplier. The Company believes the rate is now obsolete because large and small customers may now directly access the competitive gas supply market. The single customer that was on Rate CGS agreed to switch to Rate TS-I (Gas Transportation Service – Interruptible) effective November 2019. As a result of the switch, the customer is no longer required to pay an additional CGS service charge, which has resulted in a monthly bill savings for that customer.

17. Q. Please describe any other tariff changes that are required as a result of eliminating Rate CGS.

A. PECO is also proposing to remove all references to Rate CGS that are contained in the Company's Gas Supplier Coordination Tariff, as shown in PECO Exhibit RAS-1.

18. Q. Please explain the Company's proposal to align interruption starting and ending times for Rate TCS – Temperature Controlled Service with Rate TS-I – Gas Transportation Service – Interruptible, Rate IS -Interruptible Service, and Rate MV-I – Motor Vehicle Service-Interruptible.

A. Although Rates TCS, TS-I, IS and MV-I are all interruptible rates, under PECO's current operating practice, TCS has an interruption time period that differs from the others. The 24-hour period for Rate TCS runs from 12 noon to 12 noon, while the TS-I, IS and MV-I interruptible 24-hour periods run from 10:00 a.m. to 10:00 a.m. The different interruption start times can cause confusion and non-compliance for customers with accounts under two or more of these rates. PECO is proposing to change the Rate TCS interruptible period to 10:00 a.m. to 10:00

a.m. (the "gas day") and to identify the interruption time period in the Quality of Service section of each of the interruptible rates for clarity and consistency.

19. Q. Please describe the proposed changes to Transportation Service Rule 2.7 – Operational Pooling and Balancing Service.

A. PECO is proposing to eliminate the Operational Pooling and Balancing Service in order to align its Natural Gas Service Tariff with current business practices. Since the Pooling Program was initiated in 1994 as part of the HVT program, no supplier has ever requested operational pooling and balancing service. Therefore, PECO has never implemented an Operational Pooling and Balancing Agreement as provided for under Rule 2.7. PECO attributes the lack of supplier participation to the greater amount of flexibility offered to the customers, and thus utilized by their suppliers, under Section 1.5, Service Agreement, and Section 2.4, Allowable Daily Variation, of the Gas Transportation General Terms and Conditions. Considering the lack of supplier participation and the flexibility afforded elsewhere in the tariff, PECO believes that eliminating the service will not degrade functionality or result in a cost increase for suppliers or TS-I and TS-F customers participating in the HVT program.

20. Q. Please explain the change PECO is proposing for the Excess Off-Peak Use Rider.

A. PECO is proposing to eliminate the Rider, which is restricted to customers and installations that were served under the Rider's provisions as of June 2, 1975. The Rider was first established in 1932 and provides a reduced VDC for usage in off-peak months (defined as April 16 through November 15) that exceeds gas used during any on-peak month (November 16 through April 15). A single customer account takes service under the Rider, and that account is manually billed. The same customer has a second gas account served under Rate GC that is billed automatically by PECO's billing system. The Company is proposing to move the account billed under the Rider to Rate GC so that both customer accounts will be automatically billed.

21. Q. Please describe any other tariff changes that are required as a result of eliminating the Excess Off-Peak Use Rider.

A. PECO is also proposing to remove all references to the Excess Off-Peak Use Rider that are contained in the Company's Gas Supplier Coordination Tariff, as shown in PECO Exhibit RAS-1.

22. Q. Please describe the revisions that PECO is proposing to the Neighborhood Gas Pilot Rider ("NGPR").

A. As explained by Ms. Doreen L. Masalta in PECO Statement No. 9, the Company is proposing to continue the gas main extension pilot program for an additional five years as well as revise the calculation of the NGPR Charge to provide the first 40 feet of main extension at no cost for each prospective customer in the pilot project area. During the five-year pilot extension, the Company's total investment would not exceed $37.5 million.

23. Q. When would these proposed revisions to the NGPR be effective?

A. PECO proposes the revisions to the NGPR be effective on July 1, 2021 at the same time as all the other proposed tariff changes. However, since the current NGPR expires on March 31, 2021, PECO intends to seek an extension of the current pilot program through June 30, 2021 as a "bridge" to prevent the program from "going dark" from April 1, 2021 through June 30, 2021.

IV. SECTION 1307 SURCHARGES

24. Q. What is a Section 1307 surcharge mechanism?

A. Section 1307 of the Public Utility Code, 66 Pa. C.S. § 1307, authorizes utilities to establish automatic adjustment clauses that allow them to recover, outside of a base rate proceeding, specific, designated categories of costs. Cost recovery is subject to annual review and reconciliation, such that over - or under-recoveries of actual costs are refunded to customers or recouped, as applicable. The operation of Section 1307 clauses is also subject to annual public hearings and periodic audits by the Commission.

25. Q. Is PECO proposing changes to any Section 1307 surcharge mechanisms?

A. Yes, the Company is proposing to revise its Tax Cuts and Jobs Act Voluntary Surcharge ("TCJA Surcharge"), Universal Service Fund Charge ("USFC"), Gas Procurement Charge ("GPC"), Merchant Function Charge ("MFC"), and Distribution System Improvement Charge ("DSIC").

26. Q. Is the Company proposing to retain its Federal Tax Adjustment Credit ("FTAC") established under the TCJA Surcharge?

A. Yes. The FTAC has been in place since July 1, 2018 and is designed to refund to customers the amount of PECO's reduced tax expense resulting from the Tax Cuts and Jobs Act of 2017 (the "TCJA") that occurs from January 1, 2018 through June 30, 2021. Pursuant to the terms of the TCJA Surcharge, the FTAC is reconciled at the end of each calendar year period (January 1 through December 31) and will remain in place until new base rates are approved that reflect the effect of the TCJA tax rate changes.

In this proceeding, PECO's fully projected future test year revenue requirement reflects the effect of the TCJA tax rate changes and covers the non-calendar year "stub" period from July 1, 2021 through June 30, 2022. However, the FTAC mechanism, as described above, covers a calendar year period. In order to ensure that the FTAC does not "double refund" benefits after the effects of the TCJA are "rolled into" the new base rates starting on July 1, 2021, the FTAC will need to be set to 0% at the same time. PECO is thus proposing to revise some of the FTAC tariff language to reflect this change in timing. In addition, PECO is proposing to remove some language which applied during the initial application of the FTAC mechanism starting in 2018 but is now obsolete.

The FTAC mechanism will remain in place after July 1, 2021 to address the final reconciliation and refund/recoupment associated with the TCJA tax rate change from January 1, 2018 through June 30, 2021.

27. Q. Please describe the change PECO is proposing to the USFC.

A. The USFC, among other things, is a mechanism by which the Company returns to customers funds collected in base rates for its energy efficiency programs that were not expended. Pursuant to the Company's 2010 gas base rate proceeding, $2,008,000 is collected in base rates each year for energy efficiency programs. If the Company expends less than that amount annually, a credit is provided to customers through the USFC.

In this proceeding, as explained by Ms. Masalta in PECO Statement No. 9, the Company is proposing to expand its residential energy efficiency programs and increase its annual expenditures to $4.5 million. To implement this increase, the gas USFC must be revised to reflect the new energy efficiency spending target.

28. Q. Please describe the update PECO is proposing to the GPC.

A. The GPC is comprised of non-fuel gas procurement costs incurred by the Company on behalf of its Sales Service (default) customers for Rate Schedules GR including CAP, GC, OL, L, and MV-F and the Excess Off-Peak Use Rider.[4] In accordance with the Order entered and compliance filings made in Docket No. P-2012-2328614, the current GPC ($0.0401 per Mcf) has been effective since June 1, 2013. PECO is proposing to update the GPC in this proceeding based on projected costs.

[4] As previously explained, PECO is proposing to eliminate the Excess Off-Peak Rider. Therefore, the Rider is not included in the updated calculation of the GPC.

29. Q. What is the relationship between the costs included in the GPC and distribution base rates?

A. Consistent with current, Commission-approved practice, non-fuel gas procurement costs will be included in the GPC and eliminated from distribution base rates.

30. Q. What procurement costs have been identified?

A. PECO has identified and quantified the following non-fuel natural gas procurement cost categories for inclusion in the GPC: Labor and Benefits, Outside Legal Costs, IT-Related Gas Procurement Costs and Cash Working Capital ("CWC"). In this case, PECO is proposing to continue to exclude these costs from distribution base rates and to recover them through a separate GPC charge, in the same manner approved by the Commission for PECO's 2013 GPC filing.

31. Q. How did the Company calculate procurement-related labor and benefits costs to be recovered in the GPC?

A. The Company's calculation of $705,000 for procurement-related labor and benefits costs is shown on PECO Exhibit RAS-2, pages 1, 2 and 3. The Company determined the procurement-related work hours by Company group and then calculated the associated hourly rate of $97.00 (which includes salaries and wages, other payroll, incentive compensation, pensions, benefits and payroll-related taxes) to derive total procurement-related labor and benefit costs.

32. Q. What Company groups were examined?

A. Procurement-related work hours were determined for Gas Supply, Finance and Accounting, Internal Legal, Regulatory, Risk Management and Management Support. *See* PECO Exhibit RAS-2, page 2.

33. Q. How was the hourly rate of $97.00 per hour determined?

A. This rate is developed in PECO Exhibit RAS-2 at page 3. Projected expenses for salaries and wages, other payroll, incentive compensation, pensions, benefits and payroll-related taxes were determined. These costs were divided by the number of gas operations and maintenance full-time equivalent employees, and that figure was divided by annual hours as adjusted for vacation, holidays and sick time. This calculation produced the hourly rate of $97.00.

34. Q. Please describe how the Company determined the outside legal cost component of the GPC.

A. These costs represent external legal costs projected for the Company's annual Purchased Gas Cost ("PGC") proceeding. PECO Exhibit RAS-2, pages 1 and 4, show outside legal costs of $60,000.

35. Q. How did the Company determine the applicable GasStar information system cost component of the GPC?

A. PECO's GasStar information system functions as the sub-ledger, transaction manager, scheduler and report generator for all costs and quantities related to the

Company's commodity purchases, pipeline demand and storage costs. Therefore, it has procurement and non-procurement-related functions. Total annual expenses for the twelve months ended June 30, 2022 were $54,000, for maintenance of the GasStar system, as shown on PECO Exhibit RAS-2, page 5. This cost was adjusted to include only the commodity cost-related portion of gas supply costs based on an allocation factor of 66.35% taken from the Company's April 30, 2020 Section 1307(f) Filing for Purchased Gas Costs at Docket No. R-2020-3019661, which was used for the PGC No. 37 rate filing to become effective on December 1, 2020. The resulting allocated cost of $36,000 is reflected on PECO Exhibit RAS-2, pages 1 and 5.

36. Q. Please describe the CWC cost and resulting revenue requirement included in the Company's proposed GPC.

A. CWC costs are associated with the time lag between when the Company incurs its default gas supply costs and when it receives revenue from customers for such costs. That difference, or "net lag" is 6.66 days based on PECO's analysis of the revenue and expense lags. The Company's CWC claim is shown on PECO Exhibit RAS-2, pages 1 and 6, and is based on information from PECO Exhibit MJT-1, Schedule C-4, page 23. Annual commodity and capacity fuel costs of $200,885,000 were split based on a 72.94% allocation to commodity fuel costs obtained from the Company's April 30, 2020 Section 1307(f) Filing for Purchased Gas Costs at Docket No. R-2020-3019661, which was used for the PGC No. 37 rate filing to become effective on December 1, 2020. This results in an annual commodity cost of $146,526,000. The annual commodity cost of $146,526,000 was converted to a daily commodity cost of $401,000. The net lag of 6.66 days was applied to the daily commodity cost to derive an annual CWC cost of $2,671,000.

The associated annual revenue requirement was determined by multiplying the annual CWC ($2,671,000) by PECO's pre-tax overall cost of capital of 10.08% (based on the Company's cost of capital from PECO Exhibit PRM-1, Schedule 1, page 1, the composite federal and state income tax rate of 28.892%, and PECO's gross revenue conversion factor of 1.40631 set forth in PECO Exhibit RAS-2, page 6. The resulting annual revenue requirement of $269,000 is reflected on PECO Exhibit RAS-2, pages 1 and 6.

37. Q. What are the total annual gas procurement costs PECO has included for recovery in the Company's proposed GPC?

A. As summarized on PECO Exhibit RAS-2, page 1, the total annual non-fuel procurement costs included in the Company's GPC are $1,070,000 for labor and benefits, outside legal costs, GasStar costs and CWC costs. These annual non-fuel procurement costs are also eliminated from distribution rates by an associated distribution revenue requirement reduction.

38. Q. How did you determine the GPC and the associated distribution base revenue requirement reduction?

A. The revised GPC was calculated by dividing the non-fuel procurement costs of $1,070,000 by the projected default service volumes of 46,181,931 Mcf for the period July 1, 2021 through June 30, 2022 for Rate Schedules GR, CAP, GC, OL, L and MV-F (see PECO Exhibit RAS-2, page 1). The resulting GPC rate is $0.0232 per Mcf. Consistent with the Commission regulation and current practice, the GPC rate will be included in the Company's PGC rate (See PECO Exhibit JAB-2) and will remain constant until PECO's next gas distribution base rate proceeding.

The purpose of the distribution revenue requirement reduction is to eliminate from distribution rates the procurement-related costs included in the GPC rate. The associated distribution base rate reduction of $0.0165 per Mcf for non-fuel procurement costs was determined by dividing the annual gas procurement costs of $1,070,000 by the projected distribution sales volumes of 64,815,273 Mcf for the period July 1, 2021 through June 30, 2022, as shown on PECO Exhibit RAS-2, page 1. The resulting distribution rate reduction of $0.0165 per Mcf is shown on PECO Exhibit RAS-2, page 1.

The distribution revenue requirement reduction is determined by applying the distribution base rate reduction of $0.0165 per Mcf to the associated projected distribution service volumes for the applicable classes of service. As noted above, the overall reduction is $1,070,000, as applied to the classes of service shown in PECO Exhibit RAS-2, page 7. This distribution revenue requirement reduction is factored into the Company's overall distribution revenue requirement claim in this case, as discussed by Mr. Bisti in PECO Statement No. 7.

39. Q. Please describe the update PECO is proposing to the MFC.

A. The MFC recovers charge-offs of uncollectible PGC commodity charge revenues billed to sales service (default) customers. The MFC is calculated separately for three groups of customers consisting of: (1) Rate Schedules GR and CAP; (2) Rate Schedule GC; and (3) Rate Schedules L, OL and MV-F. The current write-off factors used to calculate the quarterly MFC rates were determined in PECO's last gas base rate case at Docket No. R-2010-2161592 (1.07% for Rate Schedules GR and CAP and 0.30% for Rate Schedules GC and the Excess Off-Peak Use Rider).[5] PECO is proposing to update the write-off factors in this proceeding based on current costs and use those factors to calculate the update to the MFC, as it did in its previous MFC filing.

40. Q. What are the updated write-off factors from this proceeding that are used to calculate the proposed MFC and the natural gas suppliers' Purchase of Receivables ("POR") discount rates?

A. The updated write-off factors are 0.45% for Rate Schedule GR including CAP; 0.11% for Rate Schedule GC; and 0.06% for Rate Schedules L, OL and MV-F. These factors are based on a three-year weighted average of charge-offs for the 12 months ended June 2018 through June 2020 expressed as a percentage of billed revenues. Refer to PECO Exhibit RAS-3, page 1, for the determination of these

[5] Because PECO is proposing to eliminate the Excess Off-Peak Rider, that Rider is not included in the updated calculation of the MFC.

factors. These factors will remain constant until the Company's next gas distribution base rate proceeding.

41. Q. How is the MFC determined?

A. Write-off factors for each of the applicable groups of rate schedules are multiplied by the Commodity Charge portion of the Company's projected PGC rate to determine the MFC. Upon completion of this proceeding, the approved write-off factors will be applied to the then-existing Commodity Charge portion of the PGC rate to determine the MFC. Thereafter, the MFC will be updated quarterly as the Commodity Charge rate portion of the PGC rate changes, while the approved write-off factors will remain constant until the Company's next gas distribution base rate proceeding.

42. Q. What is the relationship between the costs for charge-offs of uncollectible accounts included in the MFC and the POR discount rates and the expense for uncollectible accounts included for recovery in PECO's gas distribution base rates?

A. In accordance with existing practices, the costs for uncollectible charge-offs for sales service (default) customers reflected in the MFC will be included in the PGC rate as part of the Commodity Charge portion of the PGC. In addition, the costs for uncollectible charge-offs for natural gas suppliers are included as part of the POR discount rates. Therefore, these costs will not be included in PECO's gas distribution base rates.

43. Q. What is the MFC PECO proposes in this proceeding?

A. As shown in PECO Exhibit RAS-3, page 2, the proposed MFC for Rate Schedule GR including CAP is $0.0171 per Mcf; for Rate Schedule GC is $0.0042 per Mcf; and for Rate Schedules L, OL and MV-F is $0.0022 per Mcf.

44. Q. How is the Company's distribution base rate revenue adjusted to account for costs recovered in the MFC?

A. PECO Exhibit RAS-3, page 3, shows the reduction to the overall distribution revenue requirement to reflect costs recovered in the MFC for sales service (default) customers. The applicable MFC revenues of $640,000 will be deducted from the overall distribution revenue requirement for each of Rate Schedule GR including CAP; Rate Schedule GC; and Rate Schedules L, OL and MV-F, as discussed by Mr. Bisti in PECO Statement No. 7.

45. Q. What is the effect of the updated write-off factors on the POR discount rates for natural gas suppliers?

A. The current POR discount rates will be revised to reflect the updated write-off factors. Specifically, the POR discount rates will be equal to the updated write-off factors at this time. Refer to PECO Exhibit RAS-1, page 43 of PECO's Gas Choice Supplier Coordination Tariff, Section 11.11.2.2, Consolidated NGDC Billing with Purchase of Receivables, item h, which shows the updated POR discount rates.

46. Q. How is the distribution base rate revenue adjusted to account for costs associated with uncollectible charge-offs recovered through the POR discount rates from natural gas suppliers for customers who shop for their natural gas?

A. PECO Exhibit RAS-3, page 3 shows the reduction to overall distribution revenue requirements associated with the POR discount rates for shopping customers. These rates, which are equal to the write-off factors at this time, are applied to natural gas supplier revenues to determine the distribution revenue requirement reduction as a result of costs recovered through the POR discount rate. The associated revenue requirement that will be deducted from the overall distribution revenue requirement is $226,000, as shown in PECO Exhibit RAS-3, page 3, and discussed by Mr. Bisti in PECO Statement No. 7.

47. Q. Please describe the revision that PECO is proposing to its DSIC in conjunction with this gas distribution rate case.

A. In accordance with the "New Base Rate" section of PECO's DSIC, which was approved by the Commission's Order at Docket No. P-2015-2471423 entered on October 22, 2015, PECO is required to reset the DSIC to 0% upon the effective date of Commission-approved base rates. Accordingly, the DSIC has will be set to 0%, effective July 1, 2021 as shown in the proposed DSIC (see PECO Exhibit JAB-2).

48. Q. Are there any other matters relating to Section 1307 mechanisms in PECO's Gas Service Tariff that you wish to address?

A. Yes, I would like to address PECO's Tax Accounting Repair Credit ("TARC"), which is a rate adjustment mechanism that became effective January 1, 2013 pursuant to the terms of the Joint Petition for Settlement of Rate Investigation in the Company's 2010 gas rate case at Docket No. R-2010-2161592 ("Settlement"). As I will explain, PECO has fully complied with the terms of the Settlement pertaining to the TARC. (Other PECO witnesses explain PECO's satisfaction of additional commitments it made in the Settlement.) Under the terms of the Settlement, PECO committed to do several things if it subsequently decided to change its method of tax accounting so that property-related expenditures PECO capitalizes per books may be treated for income tax purposes as repair expenses that are deductible in the year incurred. In particular, PECO agreed to notify the Commission if it elected to make such a change and to pass-through to customers, by a seven-year amortization, the revenue requirement effect of a retrospective, one-time "catch-up" deduction permitted under Section 481(a) of the Internal Revenue Code when a tax accounting change like the "repairs" election is made. Following the Settlement, PECO changed its method of tax accounting to expense gas utility "repair" costs for income tax purposes. Therefore, consistent with the terms of the Settlement, PECO notified the Commission of its decision and established the TARC to provide bill credits designed to return $53,828,557 of tax benefits attributable to the "catch-up" repair deduction to customers over the seven-year period from January 1, 2013 through December 31, 2019.

As events turned out, the total tax benefit of the "catch-up" deduction was returned to customers a year earlier than anticipated, however this action resulted in a small over-refund of approximately $170,000. The Company recovered the over-refund from customers via a TARC reconciliation, but this action resulted in a small over-recovery balance of about $60,000 as of June 30, 2020. Approximately $40,000 of the over-recovery is owed to the residential customer class and will be returned through the USFC effective December 1, 2020. About $20,000 of the over-recovery is owed to the commercial customer class. Accordingly, the Company has fully satisfied the requirement of the Settlement regarding the TARC, subject to returning the small of the over-recovery balance to commercial customers.

V. MISCELLANEOUS REVISIONS

49. Q. What miscellaneous revisions are being proposed by PECO and reflected in the proposed tariff?

A. PECO is proposing three miscellaneous revisions. First, PECO has discovered that the last sentence of Rule 17.6 was added due to an administrative error and should be removed. The sentence states that PECO will not condition restoration or reconnection of service on unpaid charges owed to a Natural Gas Supplier. This sentence had been previously removed from Rule 17.6 as part of PECO's Gas POR Program filed at Docket No. P-2009-2143588, which became effective on January 1, 2012. However, when PECO made a subsequent revision to Rule 17.6 in February 2012 at Docket No. L-00060182, the Company used an incorrect version of the tariff that contained the above-described sentence. PECO, therefore, is proposing to delete the sentence**.**

Second, PECO is proposing to add a definition of "master meter system" to the Definitions of Terms and Explanation of Abbreviations section of the gas tariff. Rule 13.1 – Resale of Service uses the term "master meter," but it is currently not defined. Therefore, PECO proposes adding a definition to ensure that there is a common understanding of that term. PECO is proposing to adopt the definition of "master meter system" set forth in the Code of Federal Regulations – Title 49 – Transportation § 191.3.

Finally, PECO proposes to remove from the retail tariff the Gas Account Number Lookup Charge ("GANLC") and all references to the GANLC contained in the Sales Service Costs mechanism and the MFC. The GANLC is no longer needed as PECO has fully recovered the associated costs in accordance with the Commission's Final Order at Docket No. M-2015-2468991.

VI. CONCLUSION

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

A. Yes, it does.

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