PECO ENERGY COMPANY
STATEMENT NO. 1-R

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION
v.
PECO ENERGY COMPANY

DOCKET NO. R-2018-3000164

REBUTTAL TESTIMONY

WITNESS: JOHN E. MCDONALD

SUBJECTS: PECO'S OVERALL MANAGEMENT PERFORMANCE; VEGETATION MANAGEMENT; TRAFFIC CONTROL SERVICES; AND PUBLIC INPUT HEARINGS

DATED: JULY 24, 2018

TABLE OF CONTENTS

Page

REBUTTAL TESTIMONY
OF
JOHN E. MCDONALD

I. INTRODUCTION AND PURPOSE OF TESTIMONY

1. Q. Please state your name, professional position and business address.

A. My name is John E. McDonald. I am employed by PECO Energy Company ("PECO" or the "Company") as Senior Vice President and Chief Operating Officer. My business address is PECO Energy Company, 2301 Market Street, Philadelphia, Pennsylvania 19103.

2. Q. What are your responsibilities as Chief Operating Officer?

A. I lead PECO's electric and natural gas distribution and transmission operations. These operations include customer service, construction and maintenance, engineering and technical services, investment strategy, safety, environmental, training, fleet, supply operations, real estate and facilities, new business and human resources. These functions, in turn, are staffed by approximately 2,200 craft, professional and support employees. I also ensure that the operating groups are well integrated and focused on safety, reliability, customer satisfaction, and diversity and inclusion.

3. Q. Please describe your educational background.

A. I received a Bachelor of Science Degree in Electric Engineering from Drexel University in 1980 and a Masters Degree in Business Administration, also from Drexel University, in 1987.

4. Q. Please describe your professional experience.

A. My career with PECO spans more than 38 years. I have held various positions of increasing responsibility within PECO in the areas of distribution, transmission and human resources. Previously, I served as the Director of the Bucks County/Montgomery County Region (2000-2003), Director of Distribution System Operations (2004-2006) and Vice President of Technical Services (2007-2016). After the merger of Exelon Corporation and PHI in 2016, I became Vice President, Utility Integration at Pepco Holdings. I was promoted to Chief Operating Officer of PECO on March 31, 2018, after Michael Innocenzo became Chief Executive Officer of the Company.

5. Q. Have you previously submitted testimony in this proceeding?

A. No, but I am adopting the direct testimony and interrogatory responses of Mr. Innocenzo in this proceeding as my own testimony and responses in all respects.

6. Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to: (1) the testimony of Office of Consumer Advocate ("OCA") witness David S. Habr and Bureau of Investigation & Enforcement ("I&E") witness Anthony Spadaccio concerning the appropriateness of granting PECO a rate of return on equity ("ROE") near the upper end of Mr. Moul's recommended range of ROEs to reflect PECO's superior management effectiveness; (2) the testimony of I&E witness Christine Wilson concerning the Company's claim for vegetation management expenses; (3) the testimony of Esteban Vera, Jr. of

Laborers Local 57 regarding traffic control services on PECO construction projects; and (4) the testimony of several PECO customers at recent public input hearings conducted by the Pennsylvania Public Utility Commission (the "Commission") as part of these proceedings.

II. THE PERFORMANCE OF PECO'S MANAGEMENT

7. Q. Messrs. Habr and Spadaccio recommend that the Commission give no consideration to PECO's superior management effectiveness in determining the ROE to be granted to PECO in this case. Please comment.

A. Both Mr. Habr and Mr. Spadaccio contend that PECO's level of performance is legally required and therefore no recognition of its management effectiveness is necessary. Mr. Habr also asserts that there is no "dollar value" for PECO's performance, while Mr. Spadaccio claims that any basis adjustment is inappropriate because the savings resulting from PECO's management are available to be passed onto the Company's shareholders.

8. Q. Has PECO provided evidence of exemplary management performance in this proceeding?

A. Yes, and neither Mr. Habr nor Mr. Spadaccio dispute my testimony or the testimony of other PECO witnesses regarding our performance. As explained in my direct testimony, PECO's performance has been superior: we have outperformed the Commission's reliability targets, delivered on a variety of new customer service programs, implemented multiple initiatives to support distributed generation ("DG") and enhance retail competition, and deployed new technology based on our advanced metering infrastructure ("AMI"). We have achieved industry recognition for our leadership in energy efficiency programs and continue to be recognized for our long-standing commitments to economic growth and diversity in the communities we serve.

In addition, the direct testimony of Phillip S. Barnett (PECO Statement No. 2, pp. 5-6) explains that the Company has limited compound annual growth in O&M expenses (when adjusted for major storms) to less than 0.4% from 2016 through the end of the fully projected future test year. For all these reasons, PECO's claim that its exemplary management effectiveness should be reflected by an ROE near the upper end of Mr. Moul's recommended range has been fully supported, is appropriate and should therefore be approved.

9. Q. Do you agree that the value of PECO's performance has not been established or that the savings PECO realized in O&M expense eliminates the need to recognize management performance?

A. No. While Mr. Moul will address this issue in more detail, I want to point out what it is that PECO is proposing. As Mr. Moul explains in his direct testimony, he has determined a range of reasonable ROEs from 10.16% to 11.25%. He is recommending a specific ROE to be adopted in this case of 10.95% – that is, near the top of his range – to "reflect the exemplary performance of the Company's management" (PECO Statement No. 5, p. 7).

III. PECO'S VEGETATION MANAGEMENT CLAIM

10. Q. Ms. Wilson has proposed to reduce PECO's $47 million allowance for vegetation management by $6.5 million based upon a three-year average of PECO's vegetation management expense in 2015-2017. Do you believe this is appropriate?

A. No. Ms. Wilson's reliance upon a three-year historical average that includes the year 2015 fails to properly reflect a $7 million incremental increase in annual vegetation management expense that became effective for years after 2015 pursuant to the Joint Petition for Settlement in PECO's 2015 base rate case. Under the terms of the Settlement, PECO was allowed to recover an additional $7 million annually but was required to specifically identify and account for that spending to demonstrate those additional expenditures were used to address pockets of "customers experiencing multiple interruptions" or "CEMI" by enhancing its vegetation management in those areas.

Adding $7 million to the three-year average calculated by Ms. Wilson will reduce her proposed $6.5 million adjustment by $2.5 million. More importantly, however, even the corrected three-year average substantially understates the amounts that PECO will need to spend to address the Emerald Ash Borer ("EAB") infestation that is ravaging its service area.

11. Q. What is the EAB infestation?

A. The EAB is an exotic, invasive insect pest that infests ash trees and kills the trees it infests. The EAB has now spread throughout the Commonwealth, including PECO's service territory, and will kill all or nearly all mature ash trees in that area.[1] Dying and dead trees on or near PECO's rights-of-way are a hazard because trees in this condition are structurally weakened. The risk of the trees themselves (or tree limbs and branches) falling is exponentially increased, particularly during adverse weather events marked by wind, snow accumulation or heavy rain.

Once a tree is weakened by the EAB infestation, it is not possible for workers to safely climb a tree to cut branches and/or remove the tree from the top down. That means PECO would have to bring in heavy equipment (cranes and bucket trucks) to dismember and fell these trees. If a tree is in an area inaccessible to that equipment, however, prophylactic and preventative measures are not possible and PECO must wait and address the consequences of a line strike if (or more likely, when) that occurs. For that reason, and given the virtual certainty that all ash trees will be destroyed by the EAB, it is important to preemptively remove live and (for the time being) un-infested ash trees that, because of their location, will be a hazard to PECO's facilities when the EAB attacks them.

PECO's five-year EAB program was designed to address these conditions because the only prudent course is to substantially increase, above historic levels, the number of ash trees removed in hazardous locations relative to PECO's distribution facilities.

[1] A map of the EAB infestation is available on the website of the Pennsylvania Department of Conservation and Natural Resources. *See* http://www.docs.dcnr.pa.gov/cs/groups/public/documents/document/dcnr_20033390.pdf.

12. Q. How does Ms. Wilson propose that the Company address the additional cost of the EAB infestation?

A. Ms. Wilson believes that the EAB infestation is a "limited time event" and PECO should petition the Commission for deferral of costs for accounting purposes if it is faced with "extraordinary circumstances".

13. Q. Do you believe this approach is appropriate in terms of cost and potential effects on reliability?

A. No. The infestation is already here, and addressing its consequences is a priority for PECO. Weakened trees are a threat to system reliability, and we are incurring costs that are already known and measurable. We know that it is more cost effective to proactively remove ash trees before they become infested to reduce the impact of potential line strikes and mitigate the additional costs of repairing damaged equipment.

14. Q. Has PECO analyzed the scope of the problem its must deal with because of the EAB infestation?

A. Yes, it has. In 2014, PECO completed an internally-performed survey of 26 circuits to identify ash trees located in proximity to PECO's aerial distribution lines. This survey, covering 172 circuit miles of aerial lines, showed that there were 1,452 ash trees, or an average of 8.5 trees per mile, located near the Company's facilities. Based on reasonable assumptions about the number of ash trees identified in the survey that would probably be removed by owners and the number of trees that would not pose an imminent threat of impact with PECO's facilities, PECO determined that it will need to remove 25,000 ash trees at a cost of approximately $1,000 per tree, which is incremental to PECO's non-EAB related vegetation management expenditures. These expenditures will help avoid the higher costs of removing infested trees, which can rise to $6,000-$10,000 due to the cost of heavy equipment required for safe removal. Ms. Wilson's averaging approach fails to account for this expense and, therefore, her proposed adjustment should be rejected in its entirety

IV. TRAFFIC CONTROL SERVICES

15. Q. Mr. Vera contends that contractor Flagger Force provides traffic control services for PECO's electric operations and that Local 57 members provide traffic control services for PECO's gas operations. Please respond.

A. Mr. Vera is not correct. The selection of a vendor for traffic control services does not depend upon whether the work is for PECO's gas or electric operations; it depends upon whether the work is being performed by PECO or a contractor.

When PECO is performing its own distribution work, on the gas or electric side, traffic control services are provided by Flagger Force pursuant to a competitively-procured contract between PECO and Flagger Force. When distribution work is being performed by contractors, on the gas or electric side, the contractor selects the provider of traffic control services. On the gas side, a contractor's bid must include a proposal for traffic control services, which the contractor may decide to handle internally or subcontract out. On the electric side, a contractor's bid may include a proposal for traffic control services or a proposal to pass through to PECO the charges of a separate traffic control services vendor.

16. Q. Was PECO's contract with Flagger Force competitively procured?

A. Yes. PECO used Exelon's competitive sourcing procedures in procuring the Flagger Force contract.

17. Q. Mr. Vera raises a variety of safety concerns related to Flagger Force, including OSHA violations. Does PECO's contract with Flagger Force address safety?

A. Absolutely. Detailed safety requirements, such as the use of personal protective equipment and safety evaluation procedures, such as apparent cause evaluations and root cause investigations, are part of PECO's contract with Flagger Force. PECO also carefully monitors Flagger Force's performance through a variety of mechanisms and requirements.

18. Q. Has Flagger Force met its safety-related obligations under the contract?

A. Yes. Flagger Force has complied with the Company's safety process requirements and met PECO's safety standards. In terms of process, Flagger Force has provided its monthly performance data and has worked with PECO through informal meetings and scheduled monthly meetings to address performance concerns. Regarding safety standards, Flagger Force has met the Company's expectations for key safety metrics, including the OSHA Recordable Rate.[2]

[2] The OSHA Recordable Rate is a mathematical calculation used by OSHA that describes the number of employees per 100 full-time employees that have been involved in an OSHA-recordable injury or illness.

19. Q. Mr. Vera also raises concerns about the employment practices of Flagger Force, including the adequacy of employee wages and benefits. Does PECO's contract with Flagger Force detail the wages and benefits that Flagger Force must provide to its employees?

A. No. PECO's contract details the price that PECO will pay Flagger Force for various traffic control services. I note that PECO takes the issues of equitable wages seriously, and requires Flagger Force and all other contractors to follow the applicable wage and benefit laws for the workers they employ.

20. Q. Mr. Vera recommends that PECO adopt a traffic control services policy "so that Local 57 members are used on the electric side of operations like they are on the gas side of the operations." He also contends that the performance of Local 57 members would be better than the performance of Flagger Force. Please respond.

A. As I explained earlier, Mr. Vera appears to misunderstand how and when PECO procures traffic control services. When contractors are performing distribution system work, gas or electric, they decide what vendor, if any, to use for traffic control. Regardless of who the contractor chooses for flagging, PECO's contractors are required to follow the Company's safety and quality standards. We also conduct periodic audits and quality inspections to ensure that work is being performed in a safe and reliable manner.

When PECO performs its own distribution work, gas or electric, it uses Flagger Force because Flagger Force was the winning bidder in a competitive procurement for such services. The Company has been satisfied with the performance of Flagger Force under the contract to date.

V. PUBLIC INPUT HEARINGS

21. Q. Concerns were expressed about the extent of PECO's engagement with customers in Abington Township.[3] Please respond.

A. PECO has been actively engaged with the residents of Abington Township as well as the Abington Board of Commissioners. For example, PECO conducted an Open House on May 23, 2018, where Abington customers had an opportunity to talk to PECO about any concerns and learn about topics such as storm impacts, restoration strategy, and electric investments specific to Abington Township. The Open House was staffed by approximately 40 PECO employees and was attended by customers from Abington Township and several governmental representatives, including Abington Township commissioners.

The Company has also engaged directly with the Abington Board of Commissioners. During storms in March of 2018, for example, PECO maintained communication with the Abington Board of Commissioners throughout the course of restoration activities. PECO also met with the Abington Board of Commissioners on April 11, 2018, to share information about PECO's operations and reliability investments in Abington Township.

[3] Montgomery County Hearing Tr. 83.

22. Q. Has PECO also taken steps to improve communications with customers during storm events in Abington and other areas?

A. Yes. PECO already provides updates on outages and service restoration to customers through a variety of means, including text messaging. The ability to predict restoration of service can vary depending upon the nature of the outage, particularly when “nested” outages are involved (where PECO addresses the cause of an outage affecting a large area but a small group of customers remain without service for an entirely different cause). PECO has enhanced visual displays of outage information in its storm center to facilitate tracking of outages and is also consulting with peer utilities regarding additional enhancements to its text messaging and on-line outage reporting tools.

23. Q. Mr. Lawrence Spielvogel[4] stated that PECO does not provide notice of rate filings in bill stuffers. Please respond.

A. In accordance with the Commission’s regulations at 52 Pa. Code § 53.45, PECO placed a bill insert in the monthly bill of each customer, between April 2 and April 30, 2018, notifying them of the filing, as well as printing a message on the billing envelope highlighting that rate filing information is contained in the bill. PECO also provided notice to the public of its proposed distribution rate increase by: (1) posting notice of the filing in its District Office; (2) publishing a notice of the proposed rate request in the major newspapers serving PECO’s service territory, and

[4] Bucks County Hearing Tr. 150-51.

(3) distributing a news release that described the proposed rate changes to the major newspapers, radio and television stations serving PECO's service territory.

24. Q. Mr. Spielvogel also expressed concern of PECO's release of his contact information to electric generation suppliers ("EGSs"). Please respond.

A. The Commission requires PECO to solicit its entire customer base every three years regarding their Release of Information ("ROI") preference with respect to EGSs.[5] The last solicitation occurred in February and March of 2018. PECO provided multiple means through which a customer could change its ROI preference, including: (1) a bill insert with tear-off to return with bill payment; (2) a "pop-up" message to those customers who access their account using "My Account" at peco.com; and (3) for larger commercial & industrial accounts and customers with an electronic bill delivery method, a letter providing notice of the opportunity to change its ROI preference.

PECO has checked Mr. Spielvogel's account in our Customer Information System, and, as of July 17, 2018, Mr. Spielvogel's account does not indicate that he has requested to have his customer information withheld from EGSs. Mr. Spielvogel may request a change at any time by calling PECO or placing a request through the "My Account" page at peco.com or PECO's mobile phone app.

[5] *Interim Guidelines For Eligible Customer Lists*, Docket No. M-2010-2183412 (Order entered Sept. 23, 2014).

25. Q. Two customers[6] stated that notice of the Company's public input hearings was inadequate. Please respond.

A. The Commission, which organizes and conducts public input hearings, issued two press releases regarding the times and locations of the input hearings for PECO's 2018 electric distribution rate case. The first press release was issued on May 22, 2018 informing the public of the times, dates and locations for five input hearings that were to occur between June 6, 2018 and June 14, 2018 at various locations within the PECO electric distribution service territory. The Commission issued a reminder press release about the hearings on June 4, 2018. In addition, there was a sixth public input hearing added for June 18, 2018 for which the Commission issued a press release on June 12, 2018. All of these press releases were published on the Commission's website. In addition, several of the newspapers servicing PECO's electric distribution territory published articles based on the press releases to inform the public of the hearings. The Commission also utilized different social media platforms to publicize the hearings, including Facebook and Twitter, with information from those platforms subsequently shared by elected officials with their constituents.

PECO's required bill inserts notifying customers of the proposed electric distribution rate increase contained, among other things, language indicating that the Commission would likely be holding public input hearings. The inserts also included the phone number of the Commission which customers could call to be notified of the public input hearings once they were scheduled.

[6] Northeast Philadelphia Hearing Tr. 356; Bucks County Hearing Tr. 198.

26. Q. Several customers expressed concern about the impact of the proposed rate increase on residential customers, with some expressing particular concern about the Company's proposal to increase the residential customer charge.[7] Please respond.

A. PECO has an assistance program for low-income, residential customers which may help mitigate the impact of the proposed rate increase. In particular, PECO's Customer Assistance Program ("CAP") provides a fixed credit to enrolled low-income customers, based on their household income and usage, to make their utility bill affordable. Customers enrolled in CAP will continue to receive an affordable bill because the Company will adjust the fixed credits given to CAP customers to reflect the rate increase. I urge low-income customers who are not enrolled in CAP to submit an application. Mr. Kehl specifically addresses concerns regarding the proposed increase in the residential customer charge in his rebuttal testimony (PECO Statement No. 7-R).

27. Q. Several customers requested that PECO support solar power, including a commitment to purchase 20% of power for solar in low-income areas of the Company's service territory.[8] Please respond.

A. PECO has been actively promoting solar energy on a variety of fronts. As described in detail in PECO Statement No. 1, the Company has implemented multiple initiatives to streamline the interconnection process, educate developers and potential solar/DG

[7] *See*, *e.g.*, Testimony of Ms. Beverly Sotterthwaite, Center City Philadelphia Hearing Tr. 228-30; Testimony of Mr. John Magee, Bucks County Hearing Tr. 160.

[8] *See, e.g.*, Testimony of Mr. John Magee, Bucks County Hearing Tr. 160.

customers and improve the overall experience for solar/DG customers. In addition, PECO has been a vocal supporter of legislation promoting solar development, actively participates in a Pennsylvania Department of Environmental Protection effort to examine strategies for solar deployment, and supports local solar job training.

Recommendations concerning PECO's purchase of electric generation supply are more appropriately addressed in the Company's default service plan proceedings. Any purchase of supply by PECO must be consistent with its statutory and regulatory obligations as a default service supplier, including use of a Commission-approved competitive procurement process to acquire a "prudent mix" of supply contracts designed to produce the least cost to customers over time. PECO cannot simply "buy" electricity from customers.

I note that PECO already obtains a portion of its supply from alternative energy sources, including solar, in compliance with Pennsylvania's Alternative Energy Portfolio Standards Act ("AEPS Act"). The AEPS Act includes increasing requirements for solar energy, reaching 0.5% of PECO's default service load by AEPS compliance year 2020-2021. Purchasing 20% of PECO's default service supply from solar energy projects located within the City of Philadelphia would not be consistent with those requirements and would likely lead to a much higher price for default service for all customers (including low-income customers).

28. Q. Mr. Sujan Ghosh expressed concern that his street was not included in an ongoing reliability project and stated that he has experienced at least twenty

summer outages each year for the past six years, regardless of storm activity. [9] **Please respond.**

A. We take Mr. Ghosh's reliability concerns seriously and followed up with him immediately after the public hearing and later by telephone after we researched Mr. Ghosh's outage and reliability history and the ongoing reliability improvements in his area. According to the Company's records, the number of outages was significantly below twenty per year. We discussed this information with Mr. Ghosh and he generally agreed with our outage data. We also explained to Mr. Ghosh that the outages he experienced were not related to underground cable failures along his street but to targeted work in the area to improve overall reliability.

29. Q. Mr. Richard Adams expressed concern about PECO's reliability work in Yardley and stated that the Company's vegetation management improvements ignored customers that had their service in their backyard. He also stated that vegetation caused all the outages for rear service customers in his area.[10] **Please respond.**

A. We believe the Company has made significant reliability investments in the Yardley area, including appropriate vegetation management activities. Since 2014, PECO has spent $26.1 million on regional reliability and storm hardening projects in areas such as Lower Makefield, Yardley Borough, Newton Borough, Newtown Township and Morrisville. A portion of this investment was for the retirement of older 4 kV

[9] Bucks County Hearing Tr. 205-09.

[10] Bucks County Hearing Tr. 173.

substations and the transition of customers, including Mr. Adams,[11] from 4 kV distribution circuits to more reliable 34 kV distribution circuits. As part of this transition, the Company completed additional tree trimming and removal. In addition, Mr. Adams' most recent outages were associated with the large March storm this year and, in 2017, were primarily related to scheduled PECO work.

VI. CONCLUSION

30. Q. Does that complete your rebuttal testimony?

A. Yes.

---

[11] Mr. Adams refers to the "Circuit Morgan 002" in his testimony. PECO notes that Mr. Adams was transitioned to the 34 kV Linton 341 Circuit in October of 2017.