PECO ENERGY COMPANY
STATEMENT NO. 3

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

DOCKET NO. R-2018-3000164

DIRECT TESTIMONY

WITNESS: BENJAMIN S. YIN

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

DATED: MARCH 29, 2018

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DIRECT TESTIMONY
OF
BENJAMIN S. YIN

I. INTRODUCTION AND PURPOSE OF TESTIMONY

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

A. My name is Benjamin S. Yin, and my business address is PECO Energy Company, 2301 Market Street, Philadelphia, Pennsylvania 19103.

2. Q. By whom are you employed and in what capacity?

A. I am employed by PECO Energy Company ("PECO" or the "Company") as Manager of Revenue Policy. In that capacity, I am responsible for managing certain regulatory filings, audits and specific segments of larger regulatory proceedings, including evaluating, analyzing and supporting the Company's requests for changes in revenue related to its regulated electric distribution and transmission businesses and its gas distribution business. I am also responsible for providing expert testimony and coordinating the preparation of testimony by other witnesses on behalf of the Company with respect to various regulatory issues.

3. Q. Please describe your educational background.

A. I received a Bachelor of Economics degree in International Trading from South-western University of Economics and Finance, Chengdu, China in 1995 and an MBA, with dual concentrations in Finance and Management Information Systems, from Drexel University in 2001.

4. Q. Please describe your work experience in the energy industry.

A. Upon graduation from Drexel in 2001, I was hired by PECO as a Senior Financial Analyst in the Finance Department. Thereafter, I was promoted to Principal Financial Analyst in 2007. I assumed my current position in 2009.

5. Q. What is the purpose of your direct testimony in this proceeding?

A. The principal purpose of my direct testimony is to explain the preparation and presentation of data supporting PECO's request for a general base rate increase for its electric distribution operations. More specifically, I explain how the components of the Company's overall revenue requirement were developed. This includes certain portions of the claimed measures of value and the pro forma ratemaking adjustments that were made to calculate the Company's revenue requirement based on data for a fully projected future test year ending December 31, 2019 ("FPFTY"), a future test year ending December 31, 2018 ("FTY") and an historic test year ended December 31, 2017 ("HTY"). For purposes of supporting PECO's proposed increase in base rate distribution operating revenue under its proposed rates, the Company is relying principally upon data for the FPFTY. In addition, I am sponsoring the Company's calculation of the revenue requirement effect for 2018 of the changes in the federal income tax law made by the Tax Cuts and Jobs Act ("TCJA").

6. Q. Are you sponsoring all or portions of any exhibits in this proceeding?

A. Yes. I am sponsoring PECO Exhibits BSY-1, BSY-2, BSY-3 and BSY-4.

PECO Exhibits BSY-1, BSY-2 and BSY-3 comprise PECO's principal accounting exhibits for the FPFTY, the FTY and the HTY, respectively. As explained by Mr. Phillip S. Barnett (PECO Statement No. 2), PECO's Chief Financial Officer and Treasurer, the base data for the FPFTY that I used to develop PECO Exhibit BSY-1 were derived, for the most part, from PECO's capital and operating budgets for the twelve months ending December 31, 2019, while the corresponding data for the FTY used to develop PECO Exhibit BSY-2 were derived from PECO's capital and operating budgets for the twelve months ending December 31, 2018. The data for the HTY used to develop PECO Exhibit BSY-3 are the data actually recorded in PECO's books of account for the twelve months ended December 31, 2017.

PECO Exhibit BSY-4 shows the calculation of the effects of the TCJA on PECO's revenue requirement for 2018.

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

7. Q. Will you discuss separately PECO Exhibit BSY-1, PECO Exhibit BSY-2 and PECO Exhibit BSY-3?

A. Yes, I will. However, because PECO is basing its proposed rate increase on the adjusted FPFTY data, most of my direct testimony is devoted to explaining PECO Exhibit BSY-1. My testimony regarding PECO Exhibits BSY-2 and BSY-3, which are essentially identical in format to PECO Exhibit BSY-1, will briefly address the pro forma adjustments that were made to 2018 budget data and historic actual data, respectively, because the nature of those adjustments is the same or similar to adjustments that I will have already discussed in the context of PECO Exhibit BSY-1. However, I will specifically address any additional adjustments or other differences among those exhibits.

8. Q. How is the balance of your testimony structured?

A. In Section II, I present an overview of PECO's FPFTY revenue requirement and explain, in summary fashion, how the claimed measures of value, pro forma present rate revenues, operating expenses, depreciation and taxes were determined. Section III of my testimony provides a more detailed description of the individual components comprising PECO's requested measures of value for the FPFTY, while Section IV discusses the derivation, including appropriate ratemaking adjustments, of PECO's revenue and expense claims for the FPFTY. Section V briefly describes the FTY and the HTY data. Section VI introduces, and explains the content of, PECO Exhibit BSY-4.

II. OVERVIEW OF PECO'S FULLY PROJECTED FUTURE TEST YEAR REVENUE REQUIREMENT

9. Q. Please provide an overview of how the Company's FPFTY measures of value were determined.

A. PECO's measures of value, as presented in PECO Exhibit BSY-1, consist of eight principal components: (1) the depreciated original cost of utility plant in service (original cost less accumulated depreciation); (2) accumulated deferred income taxes ("ADIT"); (3) the unamortized balance of Automated Meter Reading ("AMR") investment related to legacy meters that are being retired and replaced with advanced metering infrastructure ("AMI") meters, pursuant to Commission-approved plans developed to comply with Act 129 of 2008; (4) a pension asset, which I will discuss hereafter; (5) customer deposits; (6) customer advances for construction; (7) material and supplies; and (8) cash working capital. Each is described briefly below.

Depreciated Original Cost of Utility Plant in Service. To determine utility plant in service as of the end of the FTY, I began with the closing plant balances actually recorded on the Company's books of account at December 31, 2017, including allocated common plant. To those balances, I added the budgeted capital expenditures for PECO projects that are scheduled to close to plant in service during the FTY and subtracted the anticipated plant retirements. The same process was used to develop utility plant in service balances as of the end of the FPFTY, beginning with the projected balances of plant in service at December 31, 2018, adding projected capital expenditures projected to be closed to plant in service by the end of the FPFTY and subtracting anticipated retirements. The Company's claim for accumulated depreciation was determined in a similar fashion, starting with the accumulated depreciation at December 31, 2017 assigned to each plant account, and bringing those data forward to reflect additional depreciation accruals, plant retirements, and cost of removal net of salvage for 2018 and 2019. Accumulated depreciation at December 31, 2019, was then deducted from the projected balance of utility plant as of that date to derive the Company's claimed FPFTY year-end net utility plant of $ 5.2 billion.

ADIT. The credit balance of ADIT includes the liability for deferred federal income taxes, net of an offset (debit) for the ADIT assets related to federal income tax paid by the Company in advance of recognizing the associated tax determinants for financial reporting purposes, which consist principally of contributions-in-aid-of-construction ("CIAC") recognized as income for income tax purposes and cash contributions to other post-employment benefit ("OPEB") trusts in excess of the amount deductible for federal income tax purposes. Due to the reduction in the Federal corporate tax rate that became effective on January 1, 2018, pursuant to the TCJA, there is "excess ADIT." "Excess ADIT" represents taxes that were deferred prior to January 1, 2018 at the then-applicable 35% tax rate but will be paid to the Federal government, after January 1, 2018, at the current 21% tax rate. The "excess ADIT" is to be returned to customers over periods that correspond to the periods over which the ADIT would have been paid to the government if the Federal corporate tax rate had not been reduced. To reflect that obligation, the Company has transferred its "excess ADIT" from the Company's ADIT account to a new regulatory liability account. The sum of the Company's ADIT account and its regulatory liability for "excess ADIT" at December 31, 2019 is deducted from the Company's measures of value.

Unamortized AMR Investment. By its final Order at Docket No. M-2009-2123944, the Commission approved a ten-year amortization, commencing

January 1, 2011, of PECO's investment in legacy AMR meters. To determine the balance of PECO's unamortized AMR investment as of the end of the FPFTY, I started with the balance of unrecovered AMR investment at December 31, 2017 and deducted the annual amortization amounts for the FTY and FPFTY.

Pension Asset. As I will explain in more detail hereafter, PECO has included a pension asset in measures of value that consists of the portion of PECO's actual historic cash pension contributions that it neither recovered as an operating expense nor capitalized to utility plant because the capitalized amounts are based on costs determined pursuant to Financial Accounting Standards Codification Topic 715 ("ASC 715"), which was formerly Statement of Financial Accounting Standards 87 or "SFAS 87".

Customer Deposits, Customer Advances for Construction and Material and Supplies. The claimed levels of customer deposits and customer advances for construction (both are deducted in determining the measures of value) and material and supplies (which are added) are based on 13-month historic averages for the period ended December 31, 2017, consistent with Commission precedent.

Cash Working Capital. Cash working capital was calculated using a lead-lag study and includes elements that are consistent with past practice and Commission precedent.

The components of the measure of value described above are shown in PECO Exhibit BSY-1 on Schedule A-1 at lines 1 to 13 and are discussed in more detail in Section III of my testimony.

10. Q. How were the revenues at present rates derived?

A. Revenues at present rates were developed by adjusting the budgeted revenues for PECO's electric operations for the FPFTY to: (1) remove revenues related to portions of the Company's business that are not subject to the jurisdiction of the Commission; (2) remove revenues billed under the surcharge (i.e., non-base rate revenue) that recovers the cost of implementing the Company's energy efficiency and conservation programs pursuant to Act 129; (3) reverse the revenue credit associated with the Company's tax repair allowance catch-up adjustment, which is being provided pursuant to the terms of the settlement of PECO's 2010 electric base rate case; (4) annualize revenues related to changes in number of customers to reflect year-end levels as of the end of the FPFTY; (5) normalize revenues to reflect 365.25 days; and (6) reflect various pro forma revenue adjustments, which are summarized on Schedule D-5 of PECO Exhibit BSY-1 and are discussed in more detail later in my testimony.

11. Q. How were PECO's claimed operating expenses for the FPFTY determined?

A. The pro forma FPFTY expenses were determined using PECO's 2019 budget as a starting point. Budgeted expenses, which were prepared based on business activities and related cost elements such as payroll, employee benefits, etc., were distributed to FERC accounts based upon the distribution experienced by the

Company during the HTY. The budget data were then annualized or normalized in accordance with established Commission ratemaking practices, and other appropriate adjustments were made, all of which are included in Schedule D of PECO Exhibit BSY-1. The necessary adjustments were made to the appropriate FERC accounts.

12. Q. Please describe how the taxes-other-than-income were determined for the FPFTY.

A. Those amounts were determined using budgeted amounts for the FPFTY, with pro forma adjustments to payroll taxes to reflect the impact of the increase to FPFTY salaries and wages and other adjustments to reflect known and measurable changes, as shown on Schedule D-16 of PECO Exhibit BSY-1.

13. Q. Please describe the calculation of depreciation expense for the FPFTY.

A. The development of annual depreciation for electric and common plant is set forth on pages 1 and 2 of Schedule D-17 of PECO Exhibit BSY-1. With respect to electric distribution plant annual depreciation shown on page 1, the annual depreciation expense budgeted by the Company of $209.2 million, shown in column 4 by plant account, was developed by Scott A. Bailey and is shown in PECO Exhibit SAB-3. The budgeted depreciation expense includes depreciation expense related to utility plant that will be in service at December 31, 2018, as shown in column 2, and the depreciation expense related to 2019 plant additions, as shown in column 3.

As Mr. Bailey explains (PECO Statement No. 4), the budgeted annual depreciation amounts for both plant in service at December 31, 2018 and for 2019 additions were calculated using depreciation rates that reflect the service life parameters developed in the Company's most recent service life study (PECO Exhibit SAB-4). The annual depreciation for 2019 plant additions is based on their expected actual in-service dates and, therefore, reflects less than twelve months of depreciation for that plant. Accordingly, column 5 adjusts the total in column 4 to annualize the annual depreciation on 2019 additions.

The total pro forma depreciation expense for electric operations is reduced by depreciation expense attributable to transmission operations, as shown on lines 43 to 45. Depreciation expense does not include Asset Retirement Obligations ("AROs"). The resulting pro forma FPFTY depreciation expense of $184.2 million related to electric distribution plant is shown on line 48 in column 6. To that amount must be added the electric distribution operations' allocable share of depreciation on common plant of $36.2 million as shown on line 49 of page 1 (column 6) and detailed on page 2 of Schedule D-17 (column 6). The resulting figure, $220.4 million, is shown on line 50, in column 6, and on Schedule D-2, in column 3.

14. Q. How were income taxes calculated?

A. Income taxes were calculated using procedures normally followed by the Commission. Federal income tax expense was calculated at the 21% Federal corporate tax rate that became effective on January 1, 2018, pursuant to the TCJA.

To maintain a consistent presentation across all of the test periods, the currently-applicable 21% tax rate was used to calculate PECO's revenue requirement for the HTY as well. The interest expense deduction was synchronized with the Company's measures of value and claimed weighted average cost of long-term debt. The normalization method was used to reflect the tax-book timing differences associated with the use of accelerated methods of tax depreciation to the extent permitted by the Commission and appellate precedent. Tax expense was reduced to reflect the amortization of the unamortized investment tax credits. Tax expense was also reduced to reflect the flow-back of "excess" ADIT that results from the TCJA's reduction of the Federal corporate tax rate. The income tax expense claims for the FPFTY at present rate and proposed rate revenue levels are shown on PECO Exhibit BSY-1, Schedule D-18.

15. Q. Please describe how the pro forma revenue increase and revenues at proposed rates were established.

A. Schedule A-1 of PECO Exhibit BSY-1 shows the calculation of PECO's claimed revenue requirement and its requested rate increase. Column 3, lines 1 to 13, summarize the pro forma measures of value.

Column 3, line 14a, shows the Company's electric distribution base rate revenue at present rates. Column 4, line 14a, shows the increase over revenues at present rates needed to recover the Company's FPFTY revenue requirement, which is $71.9 million. However, the Company's present base rates do not reflect the effects of the TCJA for 2018, which the Company is proposing to return to customers through a reconcilable Federal Tax Adjustment Credit ("FTAC"). The amount of the reduction in PECO's revenue requirement for 2018 attributable to the TCJA is set forth in PECO Exhibit BSY-4. The FTAC is explained by Richard A. Schlesinger in PECO Statement No. 8. The tax effects of the TCJA for 2019 have been fully incorporated in the development of the Company's revenue requirement for the FPFTY. Therefore, to compare the results of current operations to the pro forma FPFTY revenue requirement on a consistent basis, revenues at present base rates were adjusted by $70.6 million to reflect the effects of the TCJA. That adjustment is shown in columns 3 and 4 on line 14b. As shown in column 4, on line 14, the difference between present rate revenue adjusted for the effects of the TCJA and pro forma revenue at proposed rates is $142.5 million.

Lines to 17 to 31 of column 3 set forth the calculation of the increase above present rate revenue required to provide the Company the opportunity to earn the overall rate of return of 7.79 percent calculated on Schedule B-7, and supported by Mr. Moul (PECO Statement No. 5). The resulting required increase in net operating income on line 27 was increased by the Gross Revenue Conversion Factor ("GRCF"), shown on line 28, to provide for Late Payment Charge ("LPC") revenue, uncollectible accounts expenses, gross receipts taxes, regulatory fees and income taxes on the increased revenues requested. The revenue increase shown on line 29 of column 3 is the difference between present rate revenue adjusted for the effects of the TCJA and revenues at proposed rates. Line 30 reverses the TCJA-related adjustment to present rate revenue. The increase in unadjusted present rate revenue of $71.9 million is shown on line 31 of column 3 and line

14a of column 4. Column 4, lines 14a through 22, also contain the calculation of the revenue and expenses related to the proposed revenue increase.

Measures of value, revenues and expenses at proposed rates are shown in column 5, with the resulting overall rate of return of 7.79 percent shown on line 23 of column 5.

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

A. As shown on line 14 of PECO Exhibit BSY-1, Schedule A-1, the proposed increase in annual operating revenues is approximately $142.5 million reflecting the effects of the TCJA on a consistent basis for both present and proposed rate revenue. When that figure is adjusted to remove the pro forma adjustment to present rate revenue for the effects of the TCJA and to remove $10 million of additional 2019 Distribution System Improvement Charge ("DSIC") revenue that was also included on a pro forma basis in present rate revenue, the increase is approximately $82 million.

17. Q. What is contained in Schedule B?

A. Schedule B consists of a balance sheet for the total Company at December 31, 2019 reflecting the Company's budget for 2019 (Schedule B-1); a statement of Pennsylvania jurisdictional net operating income for the year ending December 31, 2019 (Schedule B-2); a statement of Pennsylvania jurisdictional operating revenue for the year ending December 31, 2019 (Schedule B-3); a statement of Pennsylvania jurisdictional operating and maintenance expense for the year ending December 31, 2019 (Schedule B-4); a detailed breakdown of Pennsylvania jurisdictional taxes other than income for the year ending December 31, 2019 (Schedule B-5); PECO's projected composite cost of long-term debt at December 31, 2019 (Schedule B-6); and the calculation of PECO's claimed overall rate of return for the FPFTY (Schedule B-7). Schedules B-6 and B-7 reflect information derived from the exhibits sponsored by PECO's rate of return witness, Paul R. Moul (PECO Statement No. 5).

III. MEASURES OF VALUE

A. Summary Of Measures Of Value

18. Q. Please describe Schedule C-1 of PECO Exhibit BSY-1.

A. Schedule C-1 summarizes the measures of value for the FPFTY for the Company's total Electric Division and its Pennsylvania jurisdictional operations. Column 2 identifies the schedule where each of the measures of value elements is derived, and columns 3 to 5 show the Company's total Electric Division, non-Pennsylvania and Pennsylvania jurisdictional amounts, respectively. The Company's claimed measures of value for the FPFTY, as shown in column 5, on line 13, is approximately $4.8 billion.

B. Plant In Service

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

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

20. Q. What is shown on Schedule C-2, page 1?

A. Schedule C-2, page 1, is a summary of estimated year-end plant in service balances for the FPFTY by functional plant category. Column 2 shows the total-Company electric plant in service balance, and column 3 reflects the removal of transmission-related plant. Column 4 reflects the Company's estimated electric distribution plant in service at the end of the FPFTY of $7.2 billion (line 10), which is shown on PECO Exhibit BSY-1, Schedule A-1, at column 3, line 1.

21. Q. How was total utility plant in service for the Electric Division of $9.0 billion, shown on Schedule C-2, page 1, column 2, line 10, determined?

A. The amount of $9.0 billion represents the estimated plant in service balance at December 31, 2019 for the Electric Division, including distribution and transmission plant, and is based on utility plant in service at December 31, 2017, including distribution and transmission, plus budgeted capital expenditures estimated to be closed to plant in service the FTY and FPFTY, less the estimated retirements in the FTY and FPFTY.

22. Q. Please describe Schedule C-2, page 2.

A. Page 2, column 2, shows the plant in service balances budgeted as of the end of the FPFTY by FERC account for the total Electric Division. Column 3 sets forth the adjustments needed to remove intangible plant assigned to transmission (line 3), transmission plant included in the transmission accounts (line 14), and the portion of general plant allocated to transmission operations (line 41). The calculation of the intangible plant and general plant allocated to transmission is described in connection with page 5 of Schedule C-2.

23. Q. What is shown on page 3 of Schedule C-2?

A. Page 3 sets forth the Company's estimated additions to be closed to plant in service during the FTY and FPFTY. These data were developed based on the FTY and FPFTY capital budgets. The total-Company additions of $514.0 million and $586.2 million are shown on line 42, columns 6 and 7, respectively.

24. Q. What is shown on Schedule C-2, page 4?

A. Page 4 of Schedule C-2 presents the estimated plant retirements for the FTY and the FPFTY, based on the average of actual retirements for the years 2015 – 2017.

25. Q. What is contained on page 5 of Schedule C-2?

A. Page 5 details the adjustments necessary to remove all transmission-related intangible, general and transmission plant recorded in transmission accounts under FERC jurisdiction from the account balances, as shown in columns 2 and 3. As shown in column 3, 11.31% of intangible (FERC Account 302) and general plant was allocated to the transmission function. The allocation factor is based on salaries and wages actually recorded in PECO's transmission accounts as a percentage of its total actual salaries and wages in 2016. Most of the intangible plant recorded in FERC account 303 was directly assigned to the transmission and distribution functions, with the balance being allocated using the same salaries and wages factor discussed above.

C. Accumulated Depreciation

26. Q. What is the purpose of Schedule C-3 of PECO Exhibit BSY-1?

A. This schedule, consisting of 4 pages, presents the provision for accumulated depreciation at December 31, 2019 by FERC account, as developed by Mr. Bailey (PECO Statement No. 4), and adjustments related to transmission plant and cost of removal net of salvage, as explained more fully below. PECO's accumulated depreciation of approximately $2.0 billion is summarized on page 1 of Schedule C-3 and then carried forward to line 2 of Schedule A-1.

27. Q. Please describe page 1 of Schedule C-3.

A. This page shows the accumulated depreciation balance for the FPFTY by account category, including the accumulated depreciation balance for total electric operations, as shown in column 2, and the adjustments, as shown in column 3, to remove the transmission-related accumulated depreciation, in order to derive the Pennsylvania jurisdictional pro forma accumulated depreciation, as shown in column 4.

28. Q. What is contained on pages 2 and 3 of Schedule C-3?

A. Page 2 shows the accumulated depreciation balance by FERC account at the end of the FPFTY, including the accumulated depreciation balance for total electric operations, as shown in column 2, and the adjustments, as shown in column 3, to remove the transmission-related accumulated depreciation, in order to derive the Pennsylvania jurisdictional pro forma accumulated depreciation shown in column 4. To determine the accumulated depreciation balance at the end of FPFTY, the

Company started with the accumulated depreciation balance at December 31, 2017 and added depreciation expense, less retirements and cost of removal net of salvage, for the FTY and FPFTY. Page 3 of Schedule C-3 shows the cost of removal net of salvage included in the FPFTY accumulated depreciation calculations.

29. Q. What is contained on page 4 of Schedule C-3?

A. Page 4 details the adjustments necessary to remove all transmission-related intangible and general plant and plant recorded in transmission accounts under FERC jurisdiction from the account balances. As shown in column 3, 11.31% of accumulated depreciation for intangible (FERC account 302) and general plant was allocated to the transmission function. The allocation factor was developed in the same manner as the allocation factor I described in connection with Schedule C-2 (i.e., salaries and wages actually recorded in PECO's transmission accounts as a percentage of its total actual salaries and wages in 2016). Consistent with Schedule C-2, most of the intangible plant recorded in FERC account 303 was directly assigned to the transmission and distribution functions, with the balance being allocated using the same salaries and wages factor discussed above.

D. Cash Working Capital

30. Q. What is set forth on Schedule C-4, page 1, of PECO Exhibit BSY-1?

A. This is a summary of the Cash Working Capital ("CWC") calculations, which are detailed on pages 2 to 10 of this schedule. The total of $149.1 million shown on line 5 is included in PECO's claimed measures of value as shown on PECO Exhibit BSY-1, Schedule A-1, columns 3 and 5, line 4.

31. Q. Please describe page 2 of Schedule C-4.

A. Page 2 summarizes the derivation of PECO's revenue collection lag and overall operating expense payment lag. The revenue lag of 47.25 days is shown on line 1. The expense lag days for each of the components of operating and maintenance expenses appear on lines 2 to 8 and are totaled on line 9. Line 10 shows the lag associated with payments to electric generation suppliers ("EGSs") for the purchase of receivables ("POR") from EGSs pursuant to the Company's Commission-approved POR program. The composite operating and maintenance expense and POR lag of 33.17 days is shown on line 12. The net lag of 14.08 days (47.25 – 33.17) shown on line 13 is multiplied by the average daily operating expense balance on line 14 to arrive at the base CWC amount of $93.7 million for operating expenses shown on line 15. The average daily operating expense balance of $6.7 million on line 14 was determined by dividing the total pro forma annual operating expenses, excluding uncollectible accounts expense, of $2.4 billion on line 11, column 2, by the number of days in a year, 365. The other components of CWC are shown on lines 16 to 18 and will be described in connection with my discussion of related supporting schedules.

32. Q. Please describe the revenue lag calculation shown on Schedule C-4, page 3.

A. The total revenue lag days shown on line 21 of 47.25 days consist of three parts. First, the average of the month-end accounts receivable balances for the thirteen months ended December 31, 2017 (shown in column 2 on line 17) was divided into the annual revenue billed during the twelve months ended December 31, 2017, (column 3 on line 17) to calculate the accounts receivable turnover rate of 11.76 (column 4, line 17). A turnover rate of 11.76 is equivalent to 31.04 revenue lag days (365 days divided by 11.76 accounts receivable turnover rate), as shown in column 5 on line 17. This is referred to as the collection lag or the payment portion of the revenue lag. The payment portion of the revenue lag is added to: (1) the 1.0-day lag between the meter reading date and the day bills are recorded as revenue and accounts receivable by the Company; and (2) the 15.21 day period from the mid-point of the service period until the meter reading date, to calculate the total revenue lag of 47.25 days, as shown on line 21.

33. Q. How does the total revenue lag of 47.25 days compare to the total revenue lag presented in the Company's 2015 base rate proceeding?

A. The Company's total revenue lag has decreased significantly since its 2015 base rate filing. In that case, the Company's total revenue lag was 52.89 days. The reduction to 47.25 days is primarily attributable to the full deployment of Advanced Metering Infrastructure. This reduction in revenue lag days translates into a reduction in cash working capital in this case of approximately $37.5 million.

34. Q. How was the mid-point of the service period calculated?

A. The mid-point of the service period is equal to the days in an average month (365 days divided by 12, or 30.42 days) divided by 2, or 15.21 days.

36. Q. Please describe page 4 of Schedule C-4.

A. Schedule C-4, page 4, shows the calculation of the expense lags used in the CWC calculation. Lines 1 to 4 reflect the payroll expense lag. The payroll amounts for the FPFTY are developed on Schedule D-6. The lag periods for the payment of union and non-union payroll are combined because all employees are paid on the same schedule. The lag days reflect PECO's actual payment cycles. Lines 5 to 8 show the lag in the payment of pension costs during the FPFTY. The lag period is calculated using a mid-point of July 1 and the payment dates shown in column 1. This results in an average payment lead of 167 days, which was applied to the pro forma pension expense derived from Schedule D-9, line 12 and shown on Schedule C-4, page 2, line 3.

37. Q. How did you develop the lag days associated with the purchased energy costs shown on line 13 of Schedule C-4, page 4?

A. Effective January 1, 2011, PECO started to purchase power for its default service customers through a Supply Master Agreement. To calculate its CWC requirements, the Company determined, on a monthly basis for the FPFTY, the number of days between the midpoint of the applicable service month and the payment date, which is estimated to be the first business day after the 19th calendar day of the following month. This procedure yields a composite expense lag of 35.71 days as shown on Schedule C-4, page 10, line 13.

38. Q. Does the Company plan to purchase 100 percent of its energy requirements from contract suppliers?

A. No, it does not. Based on the Commission's final Order in the Company's most recent default service proceeding (Docket No. P-2016-2534980), the Company purchases 0.8 percent of the energy requirements of its residential default service customers on the spot market and will continue to do so through May 31, 2021.

39. Q. Have you calculated a separate expense lag for spot market purchases?

A. Yes. The spot market purchases will be paid weekly, on Friday, for purchases made through the week ended the previous Tuesday. This results in a payment lag of 12.5 days, consisting of 3.5 days from the mid-point to the end of the seven-day service period, and 9 days for the period between the end of the service period and the payment date. Since the payments will be made by wire transfer, the total lag days will be 12.5 as calculated on page 10, lines 16 to 17.

40. Q. Please address the transmission service charges paid to the PJM Interconnection LLC ("PJM") for transmission service provided by PJM.

A. PJM transmission service charges are paid on the same schedule as the spot market purchases. Consequently, the total lag days for PJM transmission service charges are also 12.5 days.

41. Q. How was the expense lag of 38.21 days for POR payments determined?

A. PECO pays EGSs 20 days after the billing date for commercial and industrial accounts and 25 days after the billing date for residential accounts. The weighted average payment lag for all accounts is 22.00 days as shown on page 10, line 20. Bill processing takes one day (page 10, line 21), and there is an average of 15.21 days from the midpoint of a service period to the meter reading date (page 10, line 22). The total payment lag, therefore, is 38.21 days (page 10, line 23).

42. Q. Please describe how you determined the payment lag associated with other operating and maintenance expenses.

A. The average payment lag for all remaining expenses, as set forth on lines 12 to 15 of page 4 of Schedule C-4, was derived from data for the four months shown in detail on page 5 of Schedule C-4. More specifically, the Company obtained a listing of all cash disbursements during each of the four months displayed in a format that shows the payee, the date of service or the invoice receipt date, the amount of the disbursement, the date the payment cleared the bank, the account to which the disbursement was charged and certain other data. Each month contains thousands of cash disbursements.

43. Q. How did you utilize the data?

A. I used the data in the column showing the number of days it took each disbursement to clear the bank from the invoice receipt date or service date to calculate the dollar days (the amount of the disbursement times the number of days the payment took to clear the bank) and sorted the disbursements by amount.

I then eliminated disbursements that should not be included in a CWC calculation or that are included elsewhere in the CWC calculation.

44. Q. What disbursements did you eliminate from the balances used on page 5 of Schedule C-4?

A. First, I eliminated all disbursements related to capital charges because they are not part of the Company's claimed operating expenses. Second, I eliminated all disbursements under $1,000 since those amounts, while significant in number, would not have a meaningful impact on the overall lag-day calculation. Third, I removed all commodity purchases since those are reflected in separate CWC calculations, as I previously described. Fourth, I removed all amounts charged to non-expense accounts and any charitable contributions. This process was completed for each of the four months shown on page 5, lines 1 to 9. The total cash disbursements for all four months of $69.4 million, as shown in column 2, on line 9, of page 5 of Schedule C-4, and the related dollar-days of $2.6 billion, shown in column 3, were used to calculate the payment lag for general expenses of 37.63 days shown in column 4. The 37.63 lag days for Other Disbursements were then brought forward to Schedule C-4, page 2, line 16.

45. Q. Please explain how the average prepayments of $7.0 million shown on line 16 of Schedule C-4, page 2, were determined.

A. That amount is calculated on page 9 of Schedule C-4 and represents the thirteen-month average of actual amounts at the end of each month from December 2016 to December 2017. As shown on page 9, the prepayments in question comprise 10 different items.

46. Q. How did you determine the lag days for the tax expense component of working capital shown on page 6 of Schedule C-4 and brought forward to page 2 on line 17?

A. The calculations on page 6 of Schedule C-4 use the pro forma tax expense at proposed rates shown in column 2 and the net revenue lag days for each tax as shown in column 3. The product of multiplying those components is shown in column 4 and is used as the working capital related to the taxes paid by the Company. The net payment lag days for each of the taxes are calculated on page 7 of Schedule C-4.

47. Q. Describe what is shown on page 7 of Schedule C-4.

A. As noted previously, this page provides the calculations of the net payment lag days for the tax expense components of PECO's CWC allowance. The type of tax and the payment schedule for that tax are shown in the description column. The payment dates are reflected in column 1. The payment lead or (lag) from the midpoint of the year is shown in column 3. The pro forma amount of the payment for each tax is shown in column 4 on the line with the name of the tax and payment date. For example, the pro forma federal income tax amount at proposed revenue levels of $57.8 million is shown on line 1 in column 4. The payment amounts required are reflected for each tax on the dates shown in column 1, and the weighted lead (lag) amount for each payment is calculated in column 5 for each tax. The payment lead (lag) days are calculated and shown on the total line in column 6 for each tax. These days are netted against the revenue lag days shown in column 7, and the net payment lag is shown in column 8 and reflected on page 6 of Schedule C-4.

48. Q. Why are separate calculations made for the various categories of tax expense?

A. This is necessary because each of the tax expense items has separate payment dates. For example, as shown on page 7 of Schedule C-4, 25 percent of the estimated federal income tax liability is due on April 15, June 15, September 15 and December 15 of each year. The tax payment dates and percent due for other tax expense items are not the same. Using a separate calculation for each tax expense matches the cash requirement for payment of those expenses with the anticipated cash from revenues for the equivalent service period.

49. Q. Please describe the calculation of the interest expense lag shown on page 8 and included on page 2 of Schedule C-4.

A. This calculation measures the lag associated with the semi-annual payment of interest on outstanding debt. The pro forma interest expense is the amount resulting from the synchronized interest calculation using the pro forma measures of value and the weighted cost of debt included in PECO's requested rate of return. The daily interest expense amount, calculated on line 5, is multiplied by the net payment lag of 44 days for a reduction to the working capital allowance of $11.3 million, as shown on line 9 and on page 2 at line 18.

50. Q. What is shown on Schedule C-4, page 9?

A. This page shows the calculation of the average prepaid expenses included in the CWC. The Company reviewed its prepaid accounts and selected only those prepaid expenses that were related, in whole or in part, to its electric delivery operations. The resulting prepaid accounts are shown in columns 2 to 13. The monthly totals are shown in column 1. Note that the EPRI dues shown in column 2 are related to electric operations, and the total and average monthly amounts were allocated to eliminate the portion related to electric transmission. Where items related entirely to the electric operations, such as the PUC Assessment in column 5, the total and average monthly amount were charged entirely to electric distribution, as shown on line 15 in columns 3 to 6. Where the account related to both electric and gas operations, the total and average were distributed using an appropriate allocation factor that eliminates both gas-related expenses and non-jurisdictional expenses, as shown on line 15 in columns 7 to 10. Finally, where the prepaid expense is related to electric distribution and gas operations, a factor was used to isolate only electric distribution operations, as shown on line 15 in columns 11 to 13. The thirteen-month average for prepaid expenses for the electric distribution operations is $7.0 million as shown on line 19 of Schedule C-4, page 9 and on Schedule C-4, page 1, line 4.

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

A. That amount is the $149.1 million shown on Schedule C-4, page 1, line 5 and on Schedule A-1, page 1, line 4.

E. Pension Asset

52. Q. Please describe Schedule C-5.

A. Schedule C-5 shows the calculation of the pension asset of $95.2 million (column 4, line 6) that the Company has included in measures of value. The asset represents the portion of the Company's net aggregate total of pension costs incurred to date, calculated in the manner required for ratemaking purposes, that was not recovered in operating expenses and was also not capitalized to its plant accounts. This asset represents the difference between the manner in which pension expense is calculated for ratemaking purposes and the manner in which pension costs are determined for purposes of calculating the labor loading rate used to capitalize a portion of pension costs under applicable Generally Accepted Accounting Principles ("GAAP"). Specifically, for ratemaking purposes, consistent with Commission policy and practice, PECO has historically claimed for recovery its actual cash contributions to its pension fund. However, also consistent with Commission policy and practice, the amount of the total cash contribution included in operating and maintenance expenses was determined by reducing the total cash contribution by the capitalization rate used for ratemaking purposes to separate labor-related costs between amounts that are expensed and amounts assigned, on a pro forma basis, to capital. Using 2019 as an example, as shown on Schedule D-9, PECO's total pension cash contribution will be $23.8 million, of which 72.98% is attributable to electric distribution. PECO's capitalization rate is 36.74%. Therefore, $6.4 million ($23.8 million * 72.98% * 36.74%) was assumed to be capitalized and included in applicable plant accounts.

However, in 2019 – in fact, every year – the amount PECO included in applicable plant accounts for capitalized pension costs was calculated on the basis of ASC 715, as GAAP and applicable financial reporting mandates require. For 2019, the amount of pension cost actually capitalized would be only $3.3 million. As a consequence, there was a gap of $3.1 million of pension costs. As shown on Schedule C-5, the pension asset balance at the end of the FPFTY will be $95.2 million for electric distribution.

F. ADIT and Regulatory Liability for Excess ADIT

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

A. Schedule C-6 shows the December 31, 2019 balances of ADIT and of the regulatory liability for "excess ADIT" that are deducted in determining the measures of value. The ADIT shown on line 20 of $537.4 million reflects the federal income tax that must be deferred in compliance with the normalization provisions pertaining to the use of accelerated tax depreciation for federal income tax purposes on test year plant balances and other tax/book timing differences that have been normalized. The accelerated tax depreciation used in the determination of taxable income for federal and state income tax expense calculations is reflected on Schedule D-18. The regulatory liability shown on line 8 of $336.5 million is the "excess ADIT" that is being returned to customers and reflects the difference between taxes deferred prior to January 1, 2018 at the Federal corporate tax rate of 35% and what those deferred taxes would have been at the current Federal corporate tax rate of 21%. As I previously explained, "excess ADIT" was transferred from the Company's ADIT account to the regulatory liability for "excess ADIT." "Excess ADIT" recorded in the regulatory liability account that is related to utility plant for which tax/book timing differences are subject to a normalization requirement will be amortized, and the balance of the regulatory liability will be ratably reduced, over a period determined in accordance with the Average Rate Assumption Method ("ARAM") set forth in the Internal Revenue Service's ("IRS") regulations.

54. Q. Have you made an adjustment for the federal income tax on CIAC?

A. It was not necessary to make a separate adjustment for CIAC. CIAC is treated as a capital contribution for ratemaking purposes, but is treated as taxable income for federal income tax purposes. PECO pays the federal income tax due on CIAC in the year the CIAC is received and included in taxable income. The associated tax payment is recorded as a debit to the ADIT account, which normally carries a credit balance. Consequently, the net effect of the calculation of ADIT properly reflects the tax-book timing difference related to taxes paid on CIAC as shown on line 16.

55. Q. Please describe ADIT related to OPEB contributions shown on lines 7, 11, and 15?

A. The Company's actual cash contributions to OPEB trusts are based on OPEB expense. PECO's actual cash contributions (equal to its OPEB costs) have exceeded the amounts it was entitled to deduct for federal income taxes purposes in each year. Consequently, PECO established a deferred tax asset related to its OPEB contributions in excess of the tax-deductible amounts, as shown on Schedule C-6.

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

A. The amount for electric distribution operations is $537.4 million, as shown on line 20 of Schedule C-6 and on line 6 of Schedule A-1, in columns 3 and 5.

G. Customer Deposits

57. Q. Please explain how you determined the amount of customer deposits on Schedule C-7 that was deducted from the claimed measures of value on Schedule A-1.

A. The customer deposits shown in column 1 (lines 1-13) reflect the average of the month-end balances for the thirteen months ended December 2017. The Company maintains a joint customer deposit account because many of its customers use both its electric and natural gas services. Total Company customer deposits were allocated between electric and gas operations based on electric and gas customer class revenues. Schedule C-7 shows the customer deposits related solely to the Company's electric distribution operations.

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

A. The total of customer deposits for all classes of electric distribution customers is a deduction to measures of value of $50.6 million, as shown on line 20 of Schedule C-7 and on Schedule A-1, line 7 columns 3 and 5. The calculated interest expense related to these customer deposits of $1.3 million, as shown in Schedule D-12, is included in the Company's operating expenses as shown on PECO Exhibit BSY-1, Schedule D-3, page 2, column 11, line 62.

H. Common Plant

59. Q. Please describe Schedule C-8.

A. Schedule C-8 shows the calculation of the amount of common plant and related accumulated depreciation that are properly allocated to PECO's electric distribution operations. Lines 1 to 8 reflect the components of the common plant balances at December 31, 2019, and lines 9 to 15 reflect the associated components of accumulated depreciation on such plant as of that date. Total common plant and accumulated depreciation are presented in column 1, and the percent allocated to electric distribution operations is shown in column 2. The net common plant amount shown on line 18, in column 3, of $326.1 million is included in the Company's measures of value on Schedule A-1, line 8, columns 3 and 5. The total common plant amount reflects the original cost of plant used in both electric and gas operations. The accumulated depreciation and amortization reflect the use of the Company's depreciation and amortization procedures and appropriate depreciation rates, as I previously explained. As discussed by Mr. Bailey (PECO Statement No. 4), the allocation between electric distribution, electric transmission and gas operations is based on recorded data for three factors, consisting of Plant in Service, Total Revenue and Total Customers. This three-factor method is frequently used to distribute common costs between utility services.

I. Customer Advances For Construction

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

A. This schedule shows the average monthly balance of customer advances for construction of $1.0 million on line 15, which is deducted in calculating the measures of value on Schedule A-1, line 9, columns 3 and 5.

61. Q. How were the monthly balances determined?

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

J. Unamortized AMR Investment

62. Q. Please describe Schedule C-10.

A. Schedule C-10 shows the unamortized AMR investment at the end of the FPFTY of $11.6 million, which is included in the determination of measures of value. In accordance with the final order in PECO's Smart Meter Technology Procurement and Installment Plan at Docket M-2009-2123944, the Company was allowed to recover its unamortized AMR investment over a 10-year period ending December 31, 2020. The unamortized investment amount as of the end of 2017 is $34.7 million, as shown on line 1. The remaining amortization period is 3 years (from 2018 to 2020), and the associated annual amortization is $11.6 million, as shown on lines 3 and 5. The resulting unamortized AMR investment balance is $23.1 million at the end of FTY, as shown on line 4 and $11.6 million at the end of FPFTY, as shown in line 6. The amount of $11.6 million is brought forward to Schedule A-1 line 10.

K. Materials And Supplies

63. Q. Please describe Schedule C-11.

A. Schedule C-11 shows the derivation of PECO's claim for materials and supplies and undistributed stores expense. The materials and supplies balances in column 1 were specifically identified as electric distribution-related amounts and, therefore, 100 percent of those amounts is shown on line 17 in column 1. The undistributed stores expense shown in column 2 reflects amounts attributable to PECO's total utility operations and, therefore, the electric distribution allocation factor of 69.9% was applied to determine the thirteen-month average of monthly balances, as shown on line 17, in column 2. The claimed amount of $15.9 million reflected in column 3 is based on the thirteen-month average for the period ended December 31, 2017 and is shown on line 17, columns 3 and 5, of the measures of value on Schedule A-1.

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

A. PECO's claimed measures of value, or rate base, equals $4.8 billion, as shown on line 13 of Schedule A-1.

IV. REVENUES AND EXPENSES

65. Q. What is shown on Schedule D-1 of PECO Exhibit BSY-1?

A. Schedule D-1 is a summary income statement that depicts PECO's claimed electric revenues, expenses and taxes at present and proposed rate levels. The derivation of most of the individual line items will be discussed in connection with the remaining schedules in Section D. Schedule D-1 also shows the revenue increase of $142.5 million on line 3 in column 2.

66. Q. What is the indicated net operating income at proposed rates?

A. As shown on line 29, column 3, of Schedule D-1, and also on Schedule A-1, line 22, column 5, that amount is $377.3 million.

67. Q. Please describe Schedule D-2.

A. Schedule D-2 shows the derivation of the various line items on Schedule D-1. Lines 15 to 19 adjust for TCJA tax effects by customer class. Schedule D-2 begins with the Company's budgeted revenues and expenses for its Pennsylvania jurisdictional electric operations for the FPFTY, in column 1, and then annualizes and/or normalizes those figures through adjustments summarized in column 2. The pro forma data in column 3 are summarized and brought forward to Schedule D-1 and used in the determination of the required revenue increase. The various revenue adjustments in column 2 are summarized on Schedule D-3 and listed by adjustment on Schedule D-5, and the expense adjustments are summarized on Schedule D-3 and described in more detail on the separate adjustment schedules beginning with Schedule D-6 and continuing through Schedule D-16.

68. Q. Please describe Schedule D-3.

A. Schedule D-3 summarizes the various adjustments that were made to the budgeted revenue and expense data to derive the pro forma amounts at present rates that appear in column 3 of Schedule D-2 and are included in the adjusted amounts that are carried forward to column 1 of Schedule D-1. The FPFTY budgeted amounts are shown in column 1 on page 1 and the revenue adjustment totals are shown in column 2 on page 1. The various expense adjustments are reflected in columns 3 to 8 of page 1 and in columns 11 to 17 of page 2 of Schedule D-3. Each of the pro forma adjustments will be described in connection with the specific schedule supporting the adjustment.

69. Q. Please describe Schedule D-4.

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

A. Revenue Adjustments

70. Q. Please describe Schedule D-5.

A. Schedule D-5 presents a summary of the separate pro forma adjustments to revenue for the FPFTY. Each of these adjustments will be described in detail in connection with the separate calculation of the adjustment shown on Schedules D-5A to D-5F.

71. Q. How did you calculate the revenue adjustment shown on Schedule D-5A?

A. This adjustment annualizes distribution revenues for the projected number of customers at the end of the FPFTY. As shown on lines 1 to 4, for all customer classifications this calculation determines the pro forma test year distribution revenues, excluding reconcilable surcharges, at present rates for the FPFTY. The average distribution revenues on line 4 were divided by the average number of customers for the year included in the 2019 budget on line 5 to determine the average distribution revenue per customer on line 6. The average distribution revenue, or margin, per customer for the FPFTY on line 6 was then multiplied by the difference between the average number of customers (line 5) and the number of customers at the end of the FPFTY (line 7), which difference is shown on line 8, yielding additional revenue of approximately $3.0 million for the residential, residential heating and small C&I customer classes, as shown on line 9 by customer classification. This pro forma adjustment is then reflected on Schedule D-5, column 5 by customer classification.

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

A. This adjustment annualizes the cost of the discounts provided to customers enrolled in PECO's Customer Assistance Program ("CAP") in the form of a bill credit, reflecting the number of CAP customers at the end of the FPFTY. As shown in line 3, the average CAP discount per CAP customer is determined by dividing the total budgeted CAP discount on line 1 by the average number of CAP customers shown on line 2. The average CAP discount per CAP customer is then multiplied by the difference between FPFTY year-end CAP customers on line 4 and the average number of CAP customers shown on line 2. This yields a decrease in the CAP discount of $258,000, which is offset for uncollectible accounts and CWC factors as shown on line 7. Thus, the net decrease of $188,000 is shown on line 8, which is brought forward to column 6 in Schedule D-5.

73. Q. Please describe the adjustment on Schedule D-5C.

A. This adjustment shows the reductions in revenue that the Company expects to experience related to the reductions in load that the Company must achieve in order to comply with the energy efficiency and conservation provisions of Act 129 of 2008. The Company's implementation of its approved programs has yielded considerable benefits for customers by helping them to save energy and, in some cases, to reduce demand. The energy savings, however, have caused and will continue to cause substantial reductions in the Company's distribution revenues. The Company is proposing to recognize those distribution revenue reductions by reducing budgeted FPFTY distribution revenues by the average of the projected incremental revenue losses to be experienced in 2020 and 2021 over revenue losses included in the 2019 budget, as adjusted to normalize the sales reductions for the seven months from June 1 through December 31, 2021. The normalization adjustment is required because PECO plans to implement a new energy efficiency and conservation plan as of June 1, 2021, and, as a result, there will be a "ramp up" period during the first seven months of the new plan before the normal, steady-state level of monthly usage reductions is achieved. The Company's normalization adjustment removes the "ramp-up" reductions projected for each month during the "ramp-up" period and replaces them with the average of the monthly reductions for each corresponding month during the years 2017 to 2020. For example, the adjusted reduction for June 2021 is the average of the monthly reductions for the month of June for the years 2017 through 2020.

74. Q. What is the total amount of the pro forma revenue adjustment the Company is proposing?

A. As shown on Schedule D-5C, column 6, line 36, the Company is proposing a pro forma revenue adjustment to its FPFTY budgeted revenue of $19.1 million, which will allow the Company to recover its lost revenue for 2020 and 2021 through the rates established in this proceeding.

75. Q. In your opinion, is it reasonable for PECO to request that these energy savings be recognized in the determination of its revenue requirement?

A. Yes, for primarily two reasons. First, Act 129 specifically contemplates that revenue reductions attributable to the mandated energy efficiency programs be taken into account in establishing base rates. My adjustments are designed to achieve that end by setting rates based on sales levels that reflect the incremental lost revenues related to mandatory Act 129 usage reductions in 2020 and 2021. Second, it would be unfair to require PECO to implement these programs, or be subjected to possible penalties for non-compliance with legislatively imposed energy-reduction goals, and then deny it rate recovery of the lost revenues, particularly given the tremendous benefits that inure to customers. This adjustment aligns the customer and Company interests in promoting energy-conservation, providing significant savings to the customers and permitting PECO to recover lost revenues during the same period that the customers are receiving the benefits of reduced bills from the legislatively-mandated and Commission-approved programs.

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

A. This adjustment removes the budgeted revenues associated with the recovery of costs associated with developing and implementing PECO's energy-efficiency and conservation programs. Act 129 allows such costs to be recovered through a separate Section 1307 reconcilable adjustment clause. PECO will continue to utilize its EE&C surcharge mechanism for the recovery of these costs in the future. Therefore, the associated surcharge revenues have been removed from base rate revenue.

77. Q. What is contained in Schedule D-5E?

A. This adjustment eliminates the effect, at the FPFTY budgeted level, of the bill credit provided to flow-through to customers the effect of the tax repair catch-up adjustment. Consistent with the terms of the Commission approved Joint Petition for Partial Settlement of PECO's 2010 electric base rate case,[1] in 2011, PECO notified the Joint Petitioners in that case of its decision to implement the tax repair method change consistent with the IRS' issuance of an Industry Issue Resolution and Industry Directive for the electric industry. As a result of this change, PECO received a one-time tax repair catch-up deduction that reduced its federal income tax liability by $82.6 million. The Company deferred the tax benefit attributable to the catch-up adjustment and commenced refunding the benefit to its customers over a seven-year period through a bill credit that was appropriately adjusted in order to convert the tax amount into revenue requirement. In the settlement of the Company last base rate case, it agreed to accrue interest on the remaining balance of the catch-up deduction beginning January 1, 2016. Consequently, the balance being amortized reflects that accrued interest. The Company will continue the refund through the bill credit and expects that it will be completed in 2018. Because the revenue effect of the credit is occurring apart from base rates, its effect on base rate revenue is appropriately eliminated when determining base rate

[1] The background of this matter is set forth in detail in the Joint Petition for Partial Settlement at Docket No. R-2010-2161575, pp. 7-8.

revenue for this case. Because the revenue effect was not included in the budget, no adjustment is needed for the FPFTY.

78. Q. Please describe the adjustment shown on Schedule D-5F.

A. This adjustment normalizes revenue the Company budgeted for the Residential and Residential Heating classes for the FPFTY by increasing variable distribution service charge revenue (revenue excluding customer charge and non-reconcilable surcharge distribution revenue) to reflect an additional 0.25 days. The Company's budgeted revenue for the FPFTY is based on 365 days, reflecting the 28 calendar days in February 2019. This adjustment normalizes revenue to reflect the average number of days in the month of February over a four-year cycle that includes one leap year. The customer and reconcilable surcharge distribution revenue does not change irrespective of the number of days in a year and, therefore, is not adjusted in this schedule. Additionally, only the Residential and Residential Heating classes have variable distribution service charges that apply to kilowatt hours of usage and, therefore, are sensitive to the number of days of usage in the test year. Column 1 of Schedule D-5F shows the non-customer and non-reconcilable surcharge distribution revenue of the Residential and Residential Heating classes for February 2019. Columns 2 and 3 show the number of days in February 2019 and the normalized number of days in that month over a four-year cycle. The difference is shown in column 4. The adjustment necessary to normalize revenues for 0.25 days is shown, by class and in total, in column 4.

B. Operating Expense Adjustments

79. Q. Does the Company budget its operating expenses by FERC account?

A. No, as I mentioned previously, it does not. Rather, the Company budgets its operating expenses by cost element or business activity, such as payroll, employee benefits, rent, etc.

80. Q. How were the FPFTY data restated by FERC account for purposes of preparing the Company's supporting data in this case?

A. The amounts recorded in FERC accounts as of the end of the HTY were analyzed to develop a chart showing charges for each cost element within each FERC account in the transmission function, the distribution function, the Administration and General ("A&G") transmission function, the A&G distribution function and the A&G general function. After this process was completed, I then distributed the forecasted FPFTY charges by cost elements in those cost categories to the corresponding FERC accounts based upon the ratios experienced in the HTY. For example, I determined how much of the salaries and wages ("S&W") expensed in the HTY was charged to each FERC account in the HTY distribution function and then distributed the FPFTY forecasted distribution S&W to distribution FERC accounts based on those ratios. This process was used for each cost element category of each function to transform the FPFTY expense by cost element forecast to a FERC-based forecast. This FERC-based forecast is brought forward to Schedule B-4 column 1 to eliminate the non-Pennsylvania jurisdictional amounts, as shown in column 2, in order to isolate the Pennsylvania jurisdictional amounts shown in column 3.

81. Q. Why was it necessary to transform the FPFTY cost-category forecast to a FERC-account based forecast?

A. Essentially for two basic reasons. First, the Company's annual reports to the Commission are presented on a FERC-account basis and, therefore, having the FPFTY forecast presented in the same format facilitates a comparison of the FPFTY forecast data to prior years' experience. Second, it was necessary to have the FPFTY data available by FERC account for use by Ms. Ding (PECO Statement No. 6) in her cost of service study.

82. Q. In your opinion, does this process result in a fair presentation of the Company's FPFTY forecast expenses by FERC account?

A. Yes, it does.

83. Q. Were each of the pro forma adjustments reflected on Schedule D-3 also charged to the appropriate FERC accounts?

A. Yes, they were.

84. Q. Are the various pro forma expense adjustments presented on Schedule D-3 shown by the type of expense and also by the FERC account distribution?

A. Yes, they are. The expense categories are identified in the headers of the columns on pages 1 and 2 of Schedule D-3, and each adjustment is described in connection with a separate schedule showing its derivation. These adjustments are shown by FERC expense category on Schedule D-4 and also on the Section D summary schedules.

85. Q. Please describe Schedule D-6.

A. Schedule D-6 consists of two pages and shows the calculation of the FPFTY annualization adjustments for S&W. Page 1 contains the forecasted data for the FPFTY summarized by FERC account categories showing a total to be expensed of $141.7 million on line 14, columns 2 and 4. Column 5 shows the annualization adjustment of $5.1 million distributed to the FERC expense categories, while column 6 lists the pro forma amounts for S&W expense totaling $146.8 million, as shown on line 14, and an annualization adjustment to increase S&W by 3.6 percent as shown on line 15. The adjustment of $5.1 million is reflected on Schedule D-3, column 3, on lines 24 to 29.

86. Q. How was the annualization adjustment derived?

A. The calculation is shown on page 2 of Schedule D-6. In short, the adjustment annualizes budgeted S&W expense to reflect the number of employees at the end of the FPFTY and certain wage increases to become effective during the FPFTY or shortly after the FPFTY. More specifically, I have annualized: (1) the 2.5 percent wage increase forecasted to be effective on March 1, 2019 (lines 5 to 7 in column 3); (2) the projected 2.5 percent wage increase for union employees to be effective on January 1, 2020 (lines 9 to 11 in column 2); and (3) the projected 2.5 percent wage increase for non-union employees to be effective on March 1, 2020 (lines 9 to 11 in column 3).

87. Q. Please explain the adjustment shown on lines 12 to 14.

A. This adjustment normalizes a one-item cash payment to union employees that is made in connection with the ratification of new union contracts on an approximately six-year basis. The portion of the payment that was expensed ($1.1 million) was split between electric distribution, transmission and gas operations, and the amount allocated to electric distribution operations ($822,000) was divided by six to reflect the six-year term of the contract. The resulting amount of $137,000 shown on line 14, column 5, was added to the pro forma adjustment for S&W.

88. Q. Please explain the calculations shown on lines 17-21 of Schedule D-6, page 2.

A. These calculations annualize an increase in the number of employees during the FPFTY. As shown in line 17, column 3, the projected number of Company employees at the FPFTY year-end is 1,898. The average number of employees during the FPFTY is 1,884, and it was the latter figure that the Company included as S&W in its budget as shown on line 4. The detailed calculation of the average number of employees included in the budget expense level is shown on page 1 of Schedule D-8, in lines 7 to 18. The increase in employees of 14 on line 19 was then multiplied by average annual S&W per employee on line 20 to determine the total annualization adjustment to S&W due to the increase in number of employees of $1.1 million as shown on line 21.

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

A. The total amount is $5.1 million, which is an increase of 3.6 percent from the Company's S&W budget for FPFTY, as shown on lines 23 and 24, respectively.

90. Q. Please describe Schedule D-7 of PECO Exhibit BSY-1.

A. Schedule D-7 shows the adjustment to normalize rate case expense. The Company expended approximately $159,000 on this filing during 2017 (line 4) and has budgeted an additional $2.4 million (line 8) during 2018. This total, $2.6 million (line 9), is normalized over a period of three years as shown on line 10, column 1, which results in a total estimated normalized annual cost for this case of approximately $867,000, as shown on line 10, column 4.

91. Q. Please describe Schedule D-8 of PECO Exhibit BSY-1.

A. The top half of Schedule D-8 annualizes the non-pension employee benefits expense to reflect the full year's level of costs associated with the number of employees during the FPFTY. The annualization, reflecting an increase of $144,000 in non-pension benefit expense, was derived by using the increase in the number of employees of 14, on line 4, and the budgeted average non-pension benefit expense per employee of $10,000 on line 3.

92. Q. Please explain how you calculated the change in number of employees to a year-end level on Schedule D-8.

A. I calculated a twelve-month average of employees reflected in the Company's budget (1,884) and compared it to the number of employees reflected in the budget at December 31, 2019 (1,898). The difference of fourteen employees is shown on line 21.

93. Q. What is contained in PECO Exhibit BSY-1 Schedule D-9?

A. Schedule D-9 shows the calculation of the Company's claim for pension expense, which is based on a five-year average of actual contributions to its pension plan. The portion of the pension cost assigned to electric distribution operating expense in the FPFTY is $13.1 million, as shown on line 12. Accordingly, an adjustment of $7.4 has been made to the Company's FPFTY budget amount, as shown on line 14, and the adjustment amount was brought forward to Schedule D-3, column 6, line 29.

94. Q. What is presented on Schedule D-10 of PECO Exhibit BSY-1?

A. Schedule D-10 calculates an adjustment to the Company's budgeted uncollectible accounts expenses. Lines 1 to 4 calculate net uncollectible accounts charged off, excluding CAP in-program arrearage write-offs, as a percentage of total tariff revenue, based on an average of annual data for the period 2015-2017. That percentage was used to adjust the amount of uncollectible accounts expense in the budget to conform to the method historically used by the Commission for this expense. The resulting 0.89 percent shown on line 4, column 4, of Schedule D-10 is applied to the pro forma revenues at present rates for the FPFTY to calculate the general pro forma uncollectible accounts expense of $28.6 million shown in column 5 on line 8. A three-year average of pre-program arrearages ("PPA") associated with the CAP program, which are not included in other accounts, was added to the general uncollectible accounts expense. The PPA average is $8.2

million, as shown on line 12 in column 5. The total pro forma amount for uncollectible account expenses at present rates for the FPFTY is $36.7 million, which is a net increase of $11.7 million, as shown on line 15 and brought forward to page 1 of Schedule D-3 (column 7, line 26). In addition, the 0.89 percent write-off rate is used in determining the level of uncollectible accounts expense at proposed rates, as shown in the reference column on line 17 of Schedule D-2.

95. Q. Please describe Schedule D-11.

A. Schedule D-11 shows PECO's claim to recover a portion of the in-program arrearage ("IPA") forgiveness approved in the Company's CAP Design Proceeding at Docket No. M-2012-2290911. The amount the Company is claiming for recovery was calculated in accordance with the terms of the settlement of its 2015 base rate case, which provides, in broad summary, that PECO may, in this case, recover from all residential customers one-third of the IPA amounts that are forgiven. The IPA forgiveness program and the formula for calculating the amount PECO may claim for recovery in this case are explained in more detail in the direct testimony of Mark Kehl (PECO Statement No. 7).

96. Q. Please describe the pro forma adjustment on Schedule D-12.

A. The adjustment shown on Schedule D-12 captures the interest expense that the Company must pay on customer deposits. Since the average balance of customer deposits is a reduction to measures of value, the interest expense is included as a pro forma expense for the FPFTY. The interest for residential customer deposits was calculated using an annual rate of interest of 4.0 percent and a monthly rate of 0.33%. An annual rate of 1.41 percent (a monthly rate of 0.12%) was used for commercial and industrial customers. The total pro forma expense of $1.3 million is shown on Schedule D-12, line 29 and brought forward to Schedule D-3, page 2.

97. Q. Please describe the pro forma adjustment on Schedule D-13.

A. This adjustment shown on line 11 reflects an increase of $15.9 million to FPFTY budget expenses for storm damage restoration expenses. PECO is proposing, for ratemaking purposes, to normalize storm damage expense based on a sixty-month rolling average of historic storm damage expense. A sixty-month rolling average includes a period long enough to reflect appropriate levels of expense associated with normal storm events, major storms and extraordinary storms. In both its 2010 and 2015 base rate cases, the Company claimed storm damage expenses that were normalized on the basis of a sixty-month historical average of actual storm expenses.

98. Q. Please explain what is shown on Schedule D-14.

A. This Schedule was left blank intentionally.

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

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

C. Taxes – Other Than Income Taxes

100. Q. Please describe Schedule D-16 of PECO Exhibit BSY-1.

A. Schedule D-16 contains 3 pages. Page 1 is a summary showing the budgeted amounts for the FPFTY (column 2) for the total Company, adjustments to eliminate the non-Pennsylvania jurisdictional amounts (column 3), the total pro forma adjustments (column 5), and the pro forma expenses claimed in this case (column 6). The calculations for payroll-related changes are made on Schedule D-16, page 2, while the changes in the gross receipts tax ("GRT") are shown on page 3. The increase in payroll taxes, shown on page 2, lines 1 to 4, was calculated using the ratio of tax expense to payroll expense in the FPFTY forecast applied to the payroll tax expense for the FPFTY, which is an increase of $364,000, as shown on line 4. This amount is then reflected on page 1 in column 5, line 9. The adjustment to decrease GRT by $7.3 million shown on line 15, in column 5 of page 1, is calculated on page 3. Total pro forma taxes other than income are $140.7 million, as shown on Schedule D-16, page 1, line 12, column 6.

101. Q. Did you make an adjustment to recognize the additional GRT attributable to the revenue increase allowed by the Commission in this proceeding?

A. Yes. As will be described in connection with PECO Exhibit BSY-1, Schedule D-19, the incremental GRT is recovered through the application of the Gross Revenue Conversion Factor ("GRCF") used to determine the amount of revenue required to provide the increase in net income claimed by PECO.

D. Depreciation Expense

102. Q. Please describe PECO Exhibit BSY-1, Schedule D-17, pages 1 to 2.

A. The Company's budgeted depreciation expense was developed and is presented by Mr. Bailey (PECO Statement No. 4). The adjustment set forth on Schedule D-17 annualizes FPFTY depreciation expense levels to reflect a full year's depreciation for plant added during the FPFTY. PECO's total depreciation expense annualization adjustment for electric distribution plant (including allocated general plant) is $11.2 million, as shown on Schedule D-17, page 1, line 50, column 5. Included in that amount is the FPFTY annualization adjustment for the depreciation of common plant of $2.9 million, as shown in column 5 on line 49 of page 1, which is calculated on page 2 of Schedule D-17. The adjustments for the electric distribution plant depreciation and the common plant depreciation are shown on Schedule D-3 page 2, column 17 on line 67. As indicated at the bottom of page 1 of Schedule D-17, lines 43 to 45, I have removed the $1.0 million of the depreciation expense annualization adjustment attributable to transmission operations.

E. Income Taxes

103. Q. Please describe the income tax calculation shown on PECO Exhibit BSY-1, Schedule D-18, page 1.

A. This schedule calculates the pro forma income tax expense for the FPFTY at present and proposed rates, as set forth in columns 3 and 5, respectively. Line 1 shows the revenue at present rates, the revenue increase (with the related late payment charge increase) and revenue at proposed rates. Line 2 shows the total operating expenses at present rates, changes related to the revenue increase and at the proposed rates from Schedule D-1. Line 3 shows the operating income before income taxes. Synchronized interest expense is calculated on lines 4 to 6 using the total measures of value for the FPFTY on line 4 and the weighted cost of debt recommended by Mr. Moul (PECO Statement No. 5) on line 5. The resulting interest expense on line 6 is used to reduce the taxable income to the amount shown on line 7.

In compliance with Commission practice, the difference between accelerated tax depreciation (line 8) and pro forma book depreciation (line 9) is used to adjust the state taxable income as shown on line 10 to reflect the fact that the effects of accelerated depreciation are flowed through for state income tax purposes. In addition, there are adjustments to other tax-book differences and flow-through amounts as shown on lines 11 to 16. These adjustments result in the net reduction of state taxable income from line 7 to line 17. The statutory state income tax rate of 9.99 percent was used to determine the pro forma current state income tax expense shown on line 18. Federal income tax expense is calculated on lines 21 to 31 with a Federal income tax rate of 21%. Line 33 shows the total current State and Federal income tax expense before the amount for deferred income taxes is calculated. Lines 34 to 40 reflect the Federal and State deferred income taxes.

The total income tax expense before other adjustments is shown on line 41 at present and proposed rates in columns 3 and 5 respectively, including the flow-back of "excess" ADIT resulting from the lower Federal corporate income tax rate under the TCJA. The other adjustments include the amortization of the investment tax credit ("ITC") for electric distribution plant and for the electric distribution portion of the common plant, as shown on lines 43 and 44, respectively.

104. Q. Please explain the nature and calculation of the ITC amortization.

A. The ITC reflects tax credits used by the Company in years prior to 1987, the amortization of which will not have been completed by the end of the FPFTY. While the availability of the ITC ended in 1987, the credit has been amortized over the useful lives of the assets that generated it. The amortization for 2019 reduces income tax expense at both present and proposed rates, shown on Schedule D-18, page 4, and brought forward to Schedule D-18, page 1, lines 43 and 44.

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

A. As I previously explained, the TCJA reduced the Federal corporate income tax rate from 35% to 21% effective January 1, 2018, and the Company's ADIT balances as of December 31, 2017 reflect taxes that were deferred at the higher corporate income tax rates in effect prior to January 1, 2018. For ADIT that relates to tax-book timing differences associated with utility plant subject to the normalization requirements of the Internal Revenue Code, PECO is required to flow-back the difference between its ADIT balance and what its ADIT balance would have been if the deferrals had been made at the current 21% corporate tax rate (the so-call "excess" ADIT) over the remaining lives used in its books of account for the property that gave rise to the reserve for deferred taxes. As previously explained, the Company used the ARAM, as defined by applicable IRS regulations, for this purpose. Shorter flow-back periods are permissible for property that is not subject to normalization requirements. As I also explained previously, PECO has recorded "excess ADIT" in a regulatory liability account. Schedule D-18, page 1, line 37, reflects the annual amount of the regulatory liability to be flowed-back.

106. Q. Has PECO included a consolidated income tax adjustment ("CTA") in its calculation of Federal income tax expense?

A. No, it has not, because such an adjustment is no longer authorized under Section 1301.1(a), which was added to the Public Utility Code by Act 40 of 2016. Act 40 became law on June 12, 2016 and was effective sixty days later (August 11, 2016) to "all cases where the final order is entered after the effective date of [Section 1301.1]." Consequently, Section 1301.1 applies to this case. Section 1301.1(a) specifies how the Commission is to compute income tax expense for ratemaking purposes. Section 1301.1(b) states how any incremental internally-generated funds produced by the application of Section 1301.1(a) should be used by an affected utility pending the December 31, 2015 "sunset" of Section 1301.1(b).

107. Q. What does Section 1301.1 direct the Commission to do in calculating income tax expenses for ratemaking purposes?

A. In summary, Section 1301.1(a) provides that current and deferred income taxes of a Pennsylvania utility are to be calculated for ratemaking purposes based only on the income, deductions and credits of the utility itself. Therefore, the Commission may not take into account income, deductions (including taxable losses) or credits of the utility's parent or affiliated companies with which it joins in filing a consolidated Federal income tax return. This is generally referred to as a "stand-alone" computation of income tax expense because it reflects income tax expense of the utility "standing alone" and without regard to taxable income, deductions or credits of other companies in the same consolidated group.

108. Q. How does Section 1301.1(a) change prior Commission practice?

A. Section 1301.1(a) terminates the practice of making a CTA when calculating a utility's Federal income taxes for ratemaking purposes in Pennsylvania. As directed by prior decisions of Pennsylvania appellate courts, the Commission, until Act 40 became effective, was required to calculate CTAs employing the "Modified Effective Tax Rate Method." Under the Modified Effective Tax Rate Method, the consolidated tax savings generated by the non-regulated companies of a corporate group were allocated to the regulated and non-regulated members of the group having positive taxable incomes. CTAs, therefore, captured a portion of the tax benefits of deductions – including taxable losses – of unregulated affiliates of public utilities and gave those benefits to the utilities' customers (as lower income tax expense than the utilities would have on a "stand-alone" basis) even though the utilities' customers did not pay the expenses that gave rise to those tax benefits. With the enactment of Act 40, Pennsylvania joins the majority of other jurisdictions, including the Federal Energy Regulatory Commission, that do not make CTAs for ratemaking purposes.

109. Q. What does Section 1301.1(b) provide?

A. Section 1301.1(b) states as follows:

> If a differential accrues to a public utility resulting from applying the ratemaking methods employed by the commission prior to the effective date of subsection (a) for ratemaking purposes, the differential shall be used as follows:
>
> (1) fifty percent to support reliability or infrastructure related to the rate-base eligible capital investment as determined by the commission; and
>
> (2) fifty percent for general corporate purposes.

Section 1301.1(b) will no longer apply after December 31, 2025.

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

A. Yes, page 3 of Schedule D-18 sets forth the computation of a CTA using the Modified Effective Tax Rate Method and data for tax years 2012 through 2016, which are the most recent five years for which tax returns have been filed. Line 12 shows the "differential" corresponding to the CTA calculated in the manner I described above.

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

A. PECO's capital budget calls for overall electric plant additions of approximately $514.0 million in 2018 and $586.2 million in 2019. As stated in Mr. Innocenzo's testimony, these investments will target reliability projects and other infrastructure improvements. These infrastructure improvements will support PECO's compliance with Act 40.

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

A. As shown on Schedule D-18, page 1, line 49, column 3, pro forma income tax expense at present rates equals $36.2 million. The increment for income tax expense associated with the proposed revenue increase is shown in column 4, in the amount of $38.4 million, and the total pro forma income tax expense at proposed rates of $62.4 million is shown in column 5.

113. Q. Please explain Schedule D-19.

A. This schedule shows the calculation of the GRCF used on Schedule A-1 to determine the revenues required to achieve the overall rate of return requested by PECO. The conversion factor captures the additional late payment revenue, uncollectible accounts expense, GRT, regulatory fees and Federal and State income taxes attributable to the additional revenues resulting from the proposed rate increase.

V. FUTURE TEST YEAR AND HISTORIC TEST YEAR

114. Q. Please describe the process used to prepare the pro forma FTY and HTY presentations in PECO Exhibit BSY-2 and PECO Exhibit BSY-3, respectively.

A. The basic process was the same as described in connection with PECO Exhibit BSY-1, except I used budgeted data for 2018 for the FTY and actual recorded data for the HTY 2017 as the starting point for each exhibit. As with the FPFTY, I reviewed the budgeted data for the FTY and recorded data for the HTY and, where appropriate, made pro forma adjustments. In addition, I used data from PECO Exhibit BSY-1 as the basis for several of the pro forma amounts used in PECO Exhibits BSY-2 and BSY-3.

115. Q. What assumptions did you make to determine what pro forma adjustments would be necessary for the FTY and HTY?

A. I included pro forma adjustments that reflected the annualization and normalization of FTY and HTY elements and adjustments for future events that have impacted the FPFTY. For example, I have annualized S&W expense for increases and adjusted for the year-end number of employees, as I did in the FPFTY. The pro forma adjustments for the FTY and HTY are numbered consistently with the adjustments for the FPFTY. For example, the adjustment for S&W is on Schedule D-6 in all three test years to facilitate reference between the FPFTY, the FTY and the HTY. Where there is no adjustment required for the

FTY or the HTY, the correlation simply shows that further adjustment is not applicable.

116. Q. Referring now to PECO Exhibit BSY-2, for the FTY, what is contained on Schedule A-1?

A. Schedule A-1 shows a summary of the measures of value on lines 1 to 12, operating revenues and expenses and calculated rates of return at present and proposed rates on lines 14 to 23, and the revenue increase required on lines 24 to 29.

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

A. These schedules contain budgeted financial data for the FTY, with the separation of the total electric operating income statement into non-Pennsylvania and Pennsylvania jurisdictional amounts.

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

A. These two schedules contain the FTY pro forma capital structure and rate of return developed by Mr. Moul (PECO Statement No. 5). As shown on lines 1 to 3 of Schedule B-7, the Company is using its expected capital structure at the end of the FTY and cost rates as shown on Schedule B-7.

119. Q. Please describe Schedule C-1.

A. Schedule C-1 lists the measures of value components which have been adjusted to reflect only the distribution portion of each element. The measures of value total for the FTY is $4.5 billion, as shown on line 13 in column 6.

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

A. Schedule C-2 consists of five pages and shows the utility plant in service balances at December 31, 2018 for the Company's distribution operations, as well as the additions, retirements and adjustments for the FTY. Page 1 contains the summary of pro forma plant in service balances by plant grouping. Page 2 shows the plant in service by FERC accounts. Pages 3 and 4 show the additions to plant and retirements from plant during the FTY. Finally, adjustments to plant are reflected on page 5. The total pro forma plant in service at the end of the FTY is $6.8 billion and is shown on line 10, column 4 of Schedule C-2, page 1.

121. Q. Please describe Schedule C-3.

A. Schedule C-3 contains four pages and presents the accumulated depreciation at December 31, 2015. These pages show the pro forma balances by FERC account developed using the same procedures employed for the FPFTY. The accumulated depreciation at the end of the FTY is $1.9 billion, as shown on page 1, line 11, column 4.

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

A. Schedule C-4 consists of 10 pages that show the calculation of the CWC allowance for the FTY of $148.5 million (line 5). The information for average prepayments on line 4 is the same as utilized in PECO Exhibit BSY-1, because the FPFTY claim is based on the thirteen-month average for the period ended December 31, 2017. In addition to the prepayments, the methodology used to calculate the lag periods for revenue, payroll, pension expense, electric purchases, transmission purchases and other disbursements utilized in PECO Exhibit BSY-1 were also used in the FTY calculation.

123. Q. Please describe page 2 of 10 of Schedule C-4.

A. Page 2 provides a summary of the calculations for each of the elements of the CWC for the FTY. The expenses in column 2 and those included in the determination of the lead-lag amounts for taxes, interest and preferred dividends are the pro forma amounts for the FTY while the prepayment amount is the thirteen-month average of month-end balances through December 31, 2017. The resulting $148.5 million of CWC shown on line 19 is brought forward to Schedule A-1 in the calculation of the measures of value.

124. Q. Please describe pages 3 to 10 of Schedule C-4.

A. These pages show the calculations of various leads and lags and working capital requirements for the FTY following the same procedures used for the FPFTY as described in connection with PECO Exhibit BSY-1, Schedule C-4. While the amounts for the FTY expenses vary from those in the FPFTY, the procedures followed to determine the lead/lag periods applied to those expense levels are the same as those described in connection with the same PECO Exhibit BSY-1 schedules.

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

A. Schedule C-5 shows the Company claimed pension asset to be included in the measures of value. The procedures to determine the asset were the same as those described with respect to PECO Exhibit BSY-1 Schedule C-5, except that the pension asset balance for the FTY reflects data through December 31, 2018, which, on a net aggregate basis, is $90.6 million, as shown on line 5.

126. Q. Please describe the calculations on Schedule C-6.

A. These calculations show the ADIT for the FTY. The procedures followed to determine FTY ADIT were the same as those utilized for the ADIT calculation at the end of the FPFTY except that year-end December 31, 2017 balances were used. The resulting ADIT of $527.8 million for the total of electric distribution utility plant and the electric distribution portion of the common plant for the FTY is shown on line 15.

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

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

128. Q. Please describe the calculation of common plant shown on Schedule C-8.

A. Schedule C-8 shows the electric portion of common plant at the end of December 31, 2018. The gross common plant at December 31, 2018 is $802.8 million, as shown on line 8 in column 1. Of this amount, $561.0 million is allocated to electric distribution operations, as shown in column 3. This gross plant amount is reduced by the accumulated depreciation shown on line 14, yielding the net common plant amount attributable to electric distribution operations at December 31, 2018 of $309.9 million, as shown on line 17.

129. Q. Please describe Schedule C-10.

A. This schedule presents the unamortized AMR balance at the end of the FTY. The procedures followed to determine that amount are the same as those used for the FPFTY except that year-end December 31, 2018 balances were employed.

130. Q. What is presented on Schedule D-1?

A. Schedule D-1, shows the net operating income at present rates for the FTY, the pro forma revenue deficiency and the pro forma required revenue level.

131. Q. Please describe Schedule D-2.

A. Schedule D-2 shows revenue and expenses budgeted for the FTY, pro forma adjustments and the pro forma revenue and expense amounts at present rates. This schedule summarizes the adjustments that are detailed on Schedules D-3 and D-5 and explained in connection with other supporting schedules to be described later in my testimony.

132. Q. Please describe Schedule D-3.

A. Schedule D-3 contains two pages which present a summary of each of the pro forma adjustments made to revenues and operating expenses, including depreciation and taxes-other-than-income taxes. Each of the adjustments will be described in connection with the specific schedule containing the calculation of the adjustment.

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

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

134. Q. Please describe Schedule D-5.

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

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

A. The adjustment shown on Schedule D-5A annualizes revenue for customer growth during the FTY. The process utilized is the same as described in connection with the same adjustment for the FPFTY on PECO Exhibit BSY-1, Schedule D-5A.

136. Q. What is the adjustment shown on Schedule D-5B?

A. The adjustment shown on Schedule D-5B annualizes CAP discounts for the FTY. The process utilized is the same as described in connection with the same adjustment for the FPFTY shown on Schedule D-5B of PECO Exhibit BSY-1.

137. Q. Please describe the adjustment shown on Schedule D-5C.

A. This adjustment reflects the average of the revenue losses associated with the load reductions mandated by Act 129. The Company is using the same calculation for the FTY that was used for the corresponding adjustment for the FPFTY.

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

A. Similar to Schedule D-5D of PECO Exhibit BSY-1, this schedule removes the Energy Efficiency and Conservation program costs and related cost recovery that was included in the Company's FTY budget. The Company will continue to use the approved surcharge mechanism to recover its Energy Efficiency and Conservation program related costs and, as consequence, the costs and revenues related to the surcharge are properly removed from base rate revenue and base rate revenue requirement.

139. Q. Please describe the adjustment on Schedule D-5E.

A. Similar to the corresponding schedule in PECO Exhibit BSY-1, this schedule removes from the Company's FTY budget the effect of the amortization of the Company's tax repair catch-up deduction refund, which is being provided to customers by means of a bill credit separate from base rates. The Company will continue the refund to customers through the bill credit mechanism until all of the revenue effects of the deferred tax repair catch-up deduction are refunded in 2019.

140. Q. Please describe the adjustment shown on Schedule D-5F.

A. This schedule shows the development of a normalized level of distribution revenue based on the average number of days per year in a four-year cycle.

141. Q. Please describe Schedule D-6.

A. Schedule D-6 annualizes S&W for the FTY. Page 1 shows the budgeted amounts in column 2 and the pro forma adjustment in column 5 by FERC expense category.

Page 2 shows the calculation of the annualization adjustments of S&W and the normalization of the union contract ratification payment, which follows the same procedures described in connection with the FPFTY using the data from FTY for the wage increases.

142. Q. What is contained on Schedule D-7?

A. Schedule D-7 normalizes rate case expenses using the same recorded and estimated amounts used in the FPFTY calculation on PECO Exhibit BSY-1, Schedule D-7.

143. Q. Please describe the adjustments shown on Schedule D-8.

A. This adjustment, which annualizes non-pension benefits related to the change in number of employees during the FTY, was calculated using the same procedures used for the comparable adjustment for the FPFTY and described in connection with PECO Exhibit BSY-1, Schedule D-8.

144. Q. Please describe the adjustments shown on Schedule D-9.

A. This adjustment for pension expense and to annualize non-pension benefits follows the same procedures used for the FPFTY and described in connection with PECO Exhibit BSY-1, Schedule D-9.

145. Q. Are the adjustments shown on Schedules D-10 to D-13, D-15 and D-16 similar to the adjustments included in PECO Exhibit BSY-1 and described in connection with the schedules presented in that exhibit?

A. Yes, they are.

146. Q. Please describe Schedule D-17.

A. Schedule D-17 presents the pro forma adjustment for depreciation to annualize depreciation expense for plant amounts at the end of the FTY, similar to the pro forma adjustment described in connection with the pro forma adjustment in PECO Exhibit BSY-1.

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

A. This schedule shows the calculation of the pro forma income tax expense for the FTY reflecting the revenue, expenses and measures of value included in the pro forma present rate data for the Company and a 21% Federal corporate tax rate. In addition to the tax depreciation amounts, the ITC amortization was calculated, as shown on page 4 of Schedule D-18. Because the TCJA's tax rate reduction applies in 2017, the flow-back of "excess" ADIT was reflected in calculating income tax expense. The total calculated income tax expense shown on line 49 was used in the calculation of the overall revenue increase requirement shown on Schedule A-1.

148. Q. Referring now to PECO Exhibit BSY-3, for the HTY, what is contained on Schedule A-1?

A. Schedule A-1 shows a summary of the measures of value on lines 1 to 13, operating revenue and expenses and calculated rates of return at present and proposed rates on lines 14-23, and the revenue increase required on lines 24-29.

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

A. These schedules contain recorded financial data for the HTY, with the separation of the total electric operation income into non-Pennsylvania and Pennsylvania jurisdictional amounts.

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

A. These two schedules contain the pro forma capital structure and rate of return used for the HTY, which are supported by Mr. Moul. As shown on lines 1 to 3 of Schedule B-7, the Company is using its capital structure at the end of the HTY and cost rates as shown on Schedule B-7.

151. Q. Please describe Schedule C-1.

A. Schedule C-1 lists the measures of value components which have been adjusted to reflect the distribution portion of each element. The measures of value total for the HTY is $4.2 billion, as shown on line 13 in column 6.

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

A. Schedule C-2 consists of five pages and shows the utility plant in service balances at December 31, 2017 for the Company's distribution operations, as well as the adjustments for the HTY. Page 1 contains the summary of pro forma plant in service balances by plant grouping. Page 2 shows the plant in service by FERC account. Pages 3 and 4 are left blank intentionally because they reflect schedules that are used for the FTY and FPFTY but are not relevant to the HTY. Finally, adjustments to plant are reflected on page 5 of Schedule C-2. The total pro forma plant in service at the end of the HTY ($6.4 billion) is shown on line 10 in column 4 of Schedule C-2, page 1.

153. Q. Please describe Schedule C-3.

A. Schedule C-3 contains four pages and shows the accumulated depreciation at December 31, 2017. These pages reflect the pro forma balances by FERC account following the same procedures used in the FPFTY for the HTY. The accumulated depreciation at the end of the HTY is $1.8 billion, as shown on line 42, page 2.

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

A. Schedule C-4 contains ten pages that show the calculation of the CWC allowance for the FTY of $147 million (line 5). The information for average prepayments shown on line 4 is the same as that utilized in PECO Exhibit BSY-1, because the FPFTY claim is based on the thirteen-month average for the period ended December 31, 2017. In additional to the prepayments, the methodology used to calculate the lag periods for revenue, payroll, pension expense, electric purchases, transmission purchases and other disbursements utilized in PECO Exhibit BSY-1 were also used in the HTY calculation.

155. Q. Please describe page 2 of 10 of Schedule C-4.

A. Page 2 provides a summary of the calculations for each of the elements of the CWC for the HTY. The expenses in column 2 and those included in the determination of the lead-lag amounts for taxes, interest and preferred dividends are the adjusted pro forma amounts for the HTY, while the prepayment amount is the thirteen-month average through December 31, 2017. The resulting $147 million of CWC shown on line 19 is brought forward to Schedule A-1 in the calculation of the measures of value.

156. Q. Please describe what is shown on pages 3 to 10 of Schedule C-4.

A. These pages show the calculations of various leads and lags and working capital requirements for the HTY following the same procedures used for the FPFTY as described in connection with PECO Exhibit BSY-1, Schedule C-4. While the amounts for the HTY expenses vary from those in the FPFTY, the procedures followed to determine the lead/lag periods applied to those expense levels are the same and were described in connection with the same schedules in PECO Exhibit BSY-1.

157. Q. What is contained in Schedule C-5?

A. Schedule C-5 shows the Company's claim for a pension asset included in its measures of value. The procedures to determine the asset are the same as described in connection with PECO Exhibit BSY-1, Schedule C-5. The only difference is that the pension asset balance for the HTY reflects data through December 31, 2017 and on a net aggregate basis is $89.7 million, as shown on line 3.

158. Q. Please describe the calculations shown on Schedule C-6.

A. These calculations show the ADIT for the HTY. The procedures followed to determine HTY ADIT were the same as those utilized for the ADIT calculation at the end of the FPFTY, except that year-end December 31, 2017 balances were used. The resulting ADIT of $506 million for the total of electric distribution plant and the electric distribution portion of common plant for the HTY is shown on line9. As shown on line 8, $337 million of “excess ADIT” has been removed from ADIT and recorded as a regulatory liability for the reasons I previously explained in connection with similar accounting for “excess ADIT” for the FPFTY.

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

A. The data on these three schedules are the same as the data presented and described in connection with PECO Exhibit BSY-1, because the same 13-month period was used.

160. Q. Please describe the calculation of common plant shown on Schedule C-8.

A. Schedule C-8 shows the electric portion of common plant at December 31, 2017. The gross common plant at December 31, 2017 is $710 million, as shown on line 6 in column 1. Of this amount, $496 million is allocated to electric distribution operations, as shown in column 3. Electric distribution common plant is reduced by the associated accumulated depreciation as shown on lines 7-10, yielding the net common plant amount attributable to electric distribution operations at December 31, 2017 of $261 million, as shown on line13.

161. Q. Please describe Schedule C-10.

A. This schedule shows the unamortized AMR balance at the end of HTY recorded on the Company’s books of account as of December 31, 2017.

162. Q. What is presented on Schedule D-1?

A. Schedule D-1, shows the net operating income at present rates for the HTY, the pro forma revenue deficiency and the pro forma required revenue level.

163. Q. Please describe Schedule D-2.

A. Schedule D-2 shows revenue and expenses for the HTY, pro forma adjustments and the pro forma revenue and expense amounts at present rates. This schedule summarizes the adjustments that are detailed on Schedules D-3 and D-5 and explained in connection with other supporting schedules to be described later in my testimony.

164. Q. Please describe Schedule D-3.

A. Schedule D-3 contains two pages, which provide a summary of each of the pro forma adjustments made to revenues and operating expenses, including depreciation and taxes other than income taxes. Each of the adjustments will be described in connection with the specific schedule containing the calculation of the adjustment.

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

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

166. Q. Please describe Schedule D-5.

A. Schedule D-5 shows the pro forma adjustments to the HTY revenue. Each of the listed adjustments is discussed in connection with Schedules D-5A to D-5G. All these adjustments were prepared using the same methodology described in connection with PECO Exhibit BSY-1, except Schedule D-5G, which is the weather normalization adjustment to distribution revenue recorded in 2017.

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

A. This adjustment on Schedule D-5A annualizes revenue for customer growth during HTY. The process utilized is the same as that described in connection with the same adjustment for the FPFTY on PECO Exhibit BSY-1, Schedule D-5A.

168. Q. What is the adjustment shown on Schedule D-5B?

A. The adjustment shown on Schedule D-5B annualizes CAP discounts for the HTY. The process utilized is the same as that described in connection with the corresponding adjustment for the FPFTY shown on PECO Exhibit BSY-1, Schedule D-5B,

169. Q. Please describe the adjustment shown on Schedule D-5C.

A. This adjustment reflects the average of the revenue losses associated with the load reductions mandated by Act 129. The Company is using the same calculation for the HTY that was used for the corresponding adjustment for the FPFTY.

170. Q. Please describe the adjustment on Schedule D-5D.

A. Similar to the comparable schedule in PECO Exhibit BSY-1, Schedule D-5D removes the Energy Efficiency and Conservation program-related costs and cost recovery that was recorded in the HTY. The Company will continue to use the Commission-approved surcharge mechanism to recover Energy Efficiency and Conservation program related costs.

171. Q. Please describe the adjustment on Schedule D-5E.

A. Similar to the comparable schedule in PECO Exhibit BSY-1, Schedule D-5E removes from the Company's HTY data the effect of the amortization of Company's tax repair catch-up deduction refund, which is being provided to customers by means of a bill credit separate from base rates. As I previously explained, the Company will continue the refund to customers through the bill credit mechanism until all the of the revenue effects of the deferred tax repair catch-up is refunded in 2018.

172. Q. Please describe the adjustment on Schedule D-5F.

A. This schedule shows the development of a normalized level of distribution revenue based on average number of days per year in a four-year cycle, which I previously explained.

173. Q. Please describe the adjustment shown on Schedule D-5G.

A. Schedule D-5G shows the adjustment to normalize HTY distribution revenue to reflect normal weather for weather sensitive load. This adjustment does not apply to the FTY and the FPFTY because the distribution revenue for both of those years was budgeted on the basis of normal weather.

174. Q. Please describe Schedule D-6.

A. Schedule D-6 annualizes S&W expense for the HTY. Page 1 shows the recorded amounts in column 2. The pro forma adjustment is shown in column 5 by FERC expense category. Page 2 shows the calculation of the annualization adjustments to S&W and the normalization of the union contract ratification payment. These adjustments were prepared using the same procedures described in connection with the FPFTY using the data from the HTY to calculate the wage increases.

175. Q. What is contained on Schedule D-7?

A. Schedule D-7 normalizes rate case expenses using the same recorded and estimated amounts used in the FPFTY calculation shown on PECO Exhibit BSY-1, Schedule D-7.

176. Q. Please describe the adjustments shown on Schedule D-8.

A. This adjustment, which annualizes non-pension benefits related to the change in number of employees during the HTY, was calculated using the same procedures used for the comparable adjustment for the FPFTY and described in connection with PECO Exhibit BSY-1, Schedule D-8.

177. Q. Please describe the adjustment on Schedule D-9.

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

178. Q. Are the adjustments on Schedules D-10 to D-13, D-15 and D-16 similar to the adjustments included in PECO Exhibit BSY-1 and described in connection with the schedules presented in that exhibit?

A. Yes, they are.

179. Q. Please describe Schedule D-17.

A. Schedule D-17 presents the pro forma adjustment for depreciation to annualize depreciation expense for plant balances at the end of the HTY, similar to the pro forma adjustments described in connection with the comparable schedules in PECO Exhibits BSY-1 and BSY-2.

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

A. This schedule shows the calculation of the pro forma income tax expense for the HTY reflecting the Company revenue, expenses and measures of value included in the pro forma present rate data and a 35% Federal corporate tax rate. In addition to the tax depreciation amount, ITCs were calculated for electric operations, as shown on page 4 of Schedule D-18. Because the lower Federal corporate income tax rate provided in the TCJA was not in effect in 2017, no "excess" ADIT existed for the HTY and, therefore, there is no flow-back of "excess" ADIT for the HTY. The calculated income tax expense amount shown in total on line 49 of page 1 was used in the calculation of the overall revenue increase requirement shown on Schedule A-1.

VI. PECO EXHIBIT BSY-4 – ESTIMATE OF THE EFFECTS OF TAX LAW CHANGES FOR 2018

181. Q. Please explain what is shown on PECO Exhibit BSY-4.

A. PECO Exhibit BSY-4 is the Company's calculation of the reduction in its 2018 revenue requirement attributable to changes in the federal tax law made by the TCJA. PECO Exhibit BSY-4 is the same calculation submitted as Exhibit 1 to PECO's Comments and Responses to Data Requests filed on March 9, 2018 pursuant to the Commission's February 12, 2018 Secretarial Letter at Docket No. M-2018-2641242. PECO Exhibit BSY-4 employs pro forma data for 2018 that corresponds to the data presented in PECO Exhibit BSY-2 for the FTY (2018). It also employs a cost rate for common equity equal to the rate of return on common equity set forth in the Bureau of Technical Utility Services' most recent Quarterly Earnings Report for DSIC calculations by electric utilities.

182. Q. What is the change in PECO's 2018 revenue requirement attributable to the changes made by the TCJA?

A. The estimated change in revenue requirement attributable to tax law changes made by the TCJA is a reduction of $68 million, as shown on line 47 of PECO Exhibit BSY-4. However, because that figure is based on forecasted data for 2018, it will likely change over the course of the year based on differences between forecasted and actual data. Such changes will be reconciled in the reconciliation process for the proposed FTAC, as explained by Mr. Schlesinger in PECO Statement No. 8.

VII. CONCLUSION

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

A. Yes, it does.