

**PECO ENERGY COMPANY
STATEMENT NO. 6-R**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION
v.
PECO ENERGY COMPANY

DOCKET NO. R-2018-3000164

REBUTTAL TESTIMONY

WITNESS: JIANG DING

SUBJECTS: CLASS COST OF SERVICE STUDY;
CUSTOMER CHARGE; CAPACITY
RESERVATION RIDER; ALLOCATION
OF DISTRIBUTION COSTS; ENERGY
CONSERVATION AND GENERAL
MARKETING EXPENSES; AND
DISTRIBUTION SYSTEM
IMPROVEMENT CHARGE

DATED: JULY 24, 2018

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**REBUTTAL TESTIMONY
OF
JIANG DING**

1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

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

3 A. My name is Jiang Ding. I am employed by PECO Energy Company (“PECO”
4 or the “Company”) as Principal Regulatory & Rates Specialist. My business
5 address is PECO Energy Company, 2301 Market Street, Philadelphia,
6 Pennsylvania 19103.

7 2. **Q. Have you previously submitted testimony in this proceeding?**

8 A. Yes. I submitted direct testimony that is marked as PECO Statement No. 6.
9 My background and qualifications are set forth in that statement.

10 3. **Q. What is the purpose of your rebuttal testimony?**

11 A. The purpose of my rebuttal testimony is to respond to: (1) Office of
12 Consumer Advocate (“OCA”) witness Clarence Johnson regarding the cost of
13 service study; (2) Bureau of Investigation & Enforcement (“I&E”) witness
14 Joseph Kubas regarding PECO’s proposed customer charge and Capacity
15 Reservation Rider; and (3) Philadelphia Area Industrial Energy Users Group
16 (“PAIEUG”) witness Jeffrey Pollock regarding distribution costs allocated to
17 customers taking service at 69 kV or higher, energy conservation and
18 marketing expenses, and modifications to PECO’s Distribution System
19 Improvement Charge (“DSIC”) tariff.

1 4. Q. **Have you prepared exhibits to accompany your rebuttal testimony?**

2 A. Yes, I have prepared the following exhibits:

- PECO Exhibit JD-11 OCA’s response to PECO-OCA-II-19
- PECO Exhibit JD-12 FERC Accounts 364-367 – Allocation between customer and demand by other Pennsylvania utilities
- PECO Exhibit JD-13 PECO’s response to OCA-I-3
- PECO Exhibit JD-14 Attachment IE-I-RS-12-D(a) to PECO’s response to IE-I-RS-12-D
- PECO Exhibit JD-15 I&E’s response to PECO-IE-II-25
- PECO Exhibit JD-16 Calculation of Rate R customer charge adjusted to remove items questioned by I&E witness Kubas
- PECO Exhibit JD-17 PECO’s response to IE-VII-RS-20 including Attachments IE-VII-RS-20(a) through (e)

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II. THE COMPANY’S CLASS COST OF SERVICE STUDY

6 5. Q. **What issues raised by Mr. Johnson concerning the class cost of service**
7 **study will you address?**

8 A. I will address the following issues raised by Mr. Johnson: (1) the Company’s
9 customer-based allocation of secondary voltage distribution plant; (2) the
10 allocation of “Other Revenues;” (3) the allocation of expenses for the
11 Company’s large customer account employees; and (4) whether Rates R and
12 RH should be consolidated for cost of service and revenue-increase
13 distribution purposes.

1 **6. Q. Mr. Johnson contends that it is more appropriate to allocate secondary**
2 **voltage distribution plant, including secondary poles, overhead**
3 **conductors, and underground conductors/conduit, on the basis of**
4 **demand only. Do you concur with his analysis?**

5 A. No, I do not. Allocating secondary voltage distribution plant on a customer-
6 related basis is more appropriate because it accurately captures the costs
7 associated with the sizing and design of PECO's distribution system.
8 Consider the example of two developments each with 100 kW of demand.
9 One has 50 homes, while the other has 20 homes. The total cost of running
10 wires to and throughout the first development would be greater because of the
11 need to extend PECO's lines to more homes over a larger area. A customer-
12 based allocator is, therefore, more reasonable than a demand-based allocator.
13 Mr. Johnson also suggests that his proposal for a purely demand-related
14 allocation is the prevailing regulatory treatment for secondary distribution
15 plant.¹ To support this claim, Mr. Johnson references a NARUC study that
16 describes the "basic customer method" (i.e., classifying all wires, poles, and
17 transformers as demand-related) as a "general approach . . . used by more than
18 30 states." In my opinion, this, too, is incorrect because it ignores the
19 diversity of regulatory treatment for secondary distribution plant and fails to
20 consider other important cost drivers. First, Mr. Johnson clarified that he was
21 unaware of which utilities within those 30 states, other than Texas, actually

¹ OCA Statement No. 3, pp. 12-13.

1 use the basic customer method, or whether those utilities were ordered to do
2 so by their respective state regulatory bodies.² Second, in Pennsylvania alone,
3 utilities allocated approximately 55% to 67% of secondary distribution plant
4 on a customer-basis.³ This range is more reflective of the regulatory treatment
5 for secondary distribution plant in the region, and the Commission’s own
6 guidance identifies customer costs as including “the cost of meters, meter
7 reading, billing, *and some portion of the distribution system.*”⁴ Third, Mr.
8 Johnson’s conclusion ignores the principal cost drivers for some secondary
9 distribution plant. For example, the principal cost driver for secondary
10 conductors is the labor cost component of installation costs, which correlates
11 much more closely with the length of the installed conductors and, therefore,
12 to the number of customer locations that those conductors connect to the
13 primary voltage system.

14 **7. Q. Mr. Johnson also avers that distribution plant is correlated with load**
15 **density, but is not significantly impacted by the number of secondary**
16 **voltage customers on the system. Do you agree?**

17 A. No, Mr. Johnson’s premise regarding load density is also incorrect. Just
18 because secondary voltage distribution facilities may be used by more

² See PECO Exhibit JD-11 (OCA Response PECO-OCA-II-19).

³ Pennsylvania utilities also allocated approximately 0.1% to 66% of primary distribution plant on a customer-basis. PECO, on the other hand, allocates primary distribution plant based on demand only. See PECO Exhibit JD-12.

⁴ Cawley, James H. and Kennard, Norman J., *A Guide to Utility Ratemaking Before the Pennsylvania Public Utility Commission*, at p. 144 (2018) (emphasis added).

1 customers in a densely populated area as compared to a less densely
2 populated area does not alter the fact that those facilities are customer-related.
3 The distribution system has to be built to serve all customers without regard
4 to their spatial distribution, and the fact remains that, because facilities are
5 built to physically connect all secondary voltage customers to each other and
6 to the primary voltage system, the costs of those facilities are customer-
7 related.

8 Mr. Johnson contends that potential economies of scale may reduce the cost of
9 building and maintaining distribution facilities in more densely populated
10 areas. However, there is no evidence that his hypothesis is correct in real-
11 world conditions. Costs are not the same in densely populated and less
12 densely populated areas. In fact, costs may be – and frequently are – higher
13 on a per-customer basis in densely-populated areas because of the higher costs
14 to perform work in those locations. Thus, the fundamental proposition
15 underlying Mr. Johnson’s argument should not be assumed to be correct.

16 Moreover, even if the economies of scale Mr. Johnson alleges did exist, they
17 would not demonstrate that there is a tighter correlation (or any correlation at
18 all) between the cost of secondary distribution facilities and *demand*. Stated
19 another way, merely criticizing the degree of correlation that exists between
20 number of customers and secondary system costs does not provide affirmative
21 evidence that the costs of those facilities actually correlate with demand, as
22 Mr. Johnson hypothesizes. In short, nitpicking the customer-based
23 correlation, which clearly exists, does not justify abandoning a customer-

1 based allocation for a demand-based allocation, which Mr. Johnson has not
2 demonstrated is supported by any, let alone a similar, degree of correlation.

3 To reiterate, PECO must install facilities to physically connect all secondary-
4 voltage distribution customers, and it incurs the costs to do so notwithstanding
5 the level of demand those facilities carry. (This concept applies equally to
6 ducts and underground cabling, as well.) In other words, because secondary
7 voltage facilities must be installed regardless of their planned usage, and
8 because they must physically connect all secondary-voltage customers to each
9 other as well as to the primary voltage system, those facilities clearly are a
10 customer-correlated cost.

11 Finally, I would note that Mr. Johnson tries to rely on an excerpt from Dr.
12 Bonbright to critique the minimum-system concept for identifying customer-
13 related costs of the distribution system. However, Mr. Johnson overlooks Dr.
14 Bonbright's advice that excluding the minimum system component from
15 "demand-related costs" "stands on much firmer ground."⁵

16 **8. Q. Mr. Johnson proposes that two components of "Other Revenues," namely**
17 **connection charges and returned check fees, should be allocated to**
18 **customer classes based on the customer allocator instead of the**
19 **distribution plant allocator. Please respond.**

⁵ James Bonbright et al., *Principles of Public Utility Rates* 491-92 (1988 Ed.).

1 A. I have reviewed Mr. Johnson’s proposal and believe it is reasonable to use the
2 customer allocator instead of the distribution plant allocator. The effect of
3 this change would be to reallocate approximately \$1.1 million in “Other
4 Revenue” to the Rate R and RH classes.

5 **9. Q. Mr. Johnson also asserts that expenses for large customer account**
6 **managers and service representatives should be allocated only to the Rate**
7 **GS, PD, HT, and EP classes based on distribution revenues. Do you**
8 **agree with this allocation adjustment?**

9 A. No, I do not agree. Mr. Johnson’s proposed allocation adjustment is based on
10 his conclusion that Rates GS, PD, and HT are supported in part, and Rate EP
11 is supported in full, by these large customer account employees, and that the
12 allocation to these classes based on distribution revenues is a reasonable proxy
13 for the level of assistance provided by the large customer account personnel.
14 However, the procedure Mr. Johnson used to adjust the allocation of large
15 customer account expenses solely to those classes is flawed. Mr. Johnson
16 explains his method by first stating that PECO recorded the expenses at issue
17 in FERC Accounts 903, 905, 908, 912, and 926. However, he incorrectly
18 assumes that, with the exception of Account 926, all the accounts are allocated
19 on a customer basis. As noted below, Mr. Johnson’s assumptions are
20 incorrect:

21 *Account 903:* This account is not allocated on a customer basis; it is based on
22 a weighted allocator. Refer to PECO Exhibit JD-7, p. 9, line 8. Specifically,

1 “ESO”-related activities (i.e., large customer account services), shown on line
2 6, are exclusively assigned to Primary and HT.

3 *Account 905:* Most of the expenses in this account are IT business service
4 related costs, which reflect services that are provided to all customers and not
5 just commercial and industrial classes.

6 *Account 908:* This account is not allocated on a customer basis; it is based on
7 a weighted allocator. Refer to PECO Exhibit JD-7, p. 10, line 6. Expenses
8 associated with “LIURP” (Low Income Usage Reduction Program) and
9 “Residential Marketing” are assigned to Rates R and RH, while “Marketing-
10 General” and “Conservation” are assigned based on PECO’s Energy @
11 Generation (MWH) allocator to all customers.

12 *Account 912:* This account has a zero balance, and is not included in the cost
13 of service study.

14 Accordingly, the costs in each of these accounts properly reflect the
15 assignment of large customer account employees to large commercial
16 customers in the Company’s filing

17 **10. Q. Mr. Johnson proposes to combine Rate R and Rate RH for purposes of**
18 **the cost of service study. Do you agree with this change?**

19 A. I disagree with the change because it leads to inappropriate cross subsidization
20 between the two residential rate classes and the other rate classes. Mr.
21 Johnson observes that the separate classes, which both consist of residential

1 electric customers who use electricity for domestic purposes, are a remnant of
2 an outdated rate structure in which space heating customers received a
3 differential winter rate. Mr. Johnson argues that the RH tariff should instead
4 be considered a sub-class of the residential class, and that the combination of
5 the two classes recognizes “cost savings which arise when space heating and
6 non-space heating customers reside in the same localized area.”⁶

7 The error in Mr. Johnson’s argument is that customers served on Rate RH and
8 those served only on Rate R are not evenly situated throughout PECO’s
9 service territory in the way he assumes. There are many developments served
10 on PECO’s distribution system that were built entirely with, and retain,
11 electric home heating. In those instances, and others, Rate RH customers are
12 concentrated on specific localized distribution facilities. The non-coincident
13 peaks (“NCPs”) of those Rate RH customers reflect the peaks they impose on
14 the localized facilities that serve them, and those winter peaks are actually
15 driving the need for capacity in those localized areas.

16 Combining Rate R and Rate RH into a single customer class for cost of
17 service analysis effectively ignores the Rate RH winter peaks. Doing so also
18 ignores the cost-causation factor that is actually driving capacity needs in
19 those localized areas where Rate RH customers receive service. The result of
20 such an inappropriate class definition is not, as Mr. Johnson contends, “greater
21 diversity in hourly peaks.” Rather, the result is the subsidization of Rate RH.

⁶ OCA Statement No. 3, p. 22.

1 **III. CUSTOMER CHARGE AND CAPACITY RESERVATION RIDER**

2 **11. Q. Mr. Johnson, on behalf of the OCA, testified that PECO’s proposed**
3 **customer charge should only recover costs that “directly” vary with the**
4 **number of customers. Do you agree?**

5 A. I do not agree. The costs included in PECO’s proposed customer charge are
6 consistent with the Commission’s recent guidance in a 2012 PPL Electric
7 Utilities (“PPL”) proceeding and a 2004 Aqua Pennsylvania (“Aqua”) proceeding.⁷ Those cases support the recovery of both direct and certain
8 indirect customer costs and reflect the Commission’s current policy regarding
9 customer charges. PECO’s proposed customer charge is consistent with that
10 guidance. In contrast, Mr. Johnson’s conclusions are based on a superseded
11 Commission policy⁸ that, prior to the Commission’s entry of final orders in
12 the PPL and Aqua cases, limited the customer charge to a narrower subset of
13 direct costs.
14

15 **12. Q. Mr. Johnson has proposed a customer charge of \$7.84 because he believes**
16 **that PECO’s proposed customer charge is too high and reflects costs that**
17 **are not appropriately included in a customer charge that is limited to**
18 **recovering only “direct” customer costs. Have you reviewed Mr.**

⁷ *Pennsylvania Public Utility Commission v. PPL Electric Utilities Corp.*, Docket No. R-2012-2290597 (Order entered Dec. 28, 2012); *Pennsylvania Public Utility Commission v. Aqua Pennsylvania, Inc.*, Docket No. R-00038805 (Order entered Aug. 5, 2004).

⁸ OCA Statement No. 3, p. 29 n.22. Of the decisions cited by Mr. Johnson, only one pertains to an electric utility, and it dates from 1990. The other two decisions that Mr. Johnson cited (both involving gas utilities) also predate the Commission’s PPL decision.

1 **Johnson’s analysis of the customer charge for reasonableness, and do you**
2 **believe it is appropriate?**

3 A. I have reviewed the analysis and conclude that Mr. Johnson, relying on
4 superseded Commission policy, has failed to include all the costs that are
5 permitted by the PPL and Aqua Orders. Mr. Johnson reduces call center costs
6 included in the customer charge by approximately 25% on the basis that those
7 costs should only pertain to residential billing, residential stop/start/transfer,
8 CAP billing assistance, and financial arrangements. All of the call center
9 costs Mr. Johnson proposes to exclude, such as outage and emergency calls,
10 are driven by the number of customers. Mr. Johnson also proposes to exclude
11 uncollectible expense and customer service and sales expense (FERC
12 Accounts 904-910), which he contends are indirect costs largely unrelated to
13 billing. However, all of these costs are directly related to serving customers
14 and vary in proportion to the number of customers. For example, the
15 inclusion of uncollectible expense is appropriate because not every customer
16 pays his or her bill. As new customers are likely to have the same payment
17 pattern, on average, as existing customers, there will be some level of
18 uncollectible accounts expense that is appropriately reflected in the customer
19 charge. Moreover, the addition of new customers increases calls to the PECO
20 call center and inquiries regarding problems with bill payment, for which
21 collection-related services are needed. Each customer service function, such
22 as the call center, credit and collections, and billing functions, requires
23 computers and appropriate IT support. In addition, Account 908 consists of

1 customer assistance expense and the addition of customers drives an increase
2 in the kinds of customer assistance recorded in this account. These are all
3 appropriate inclusions in the customer charge and well within the allowable
4 parameters of the Commission’s current policy defining the kinds of costs that
5 properly may be reflected in a customer charge.

6 **13. Q. Mr. Kubas, on behalf of I&E, testified that there should be no increase to**
7 **customer charges, because PECO did not adequately support its claim**
8 **beyond a “summary of various costs” in PECO Exhibit JD-5. Please**
9 **respond.**

10 A. Mr. Kubas is incorrect. The Company provided multiple documents to
11 support its customer charge analysis, including a breakdown of the
12 components reflected in the summary table in PECO Exhibit JD-5, as
13 summarized below:

14 *PECO Exhibit JD-13 (which consists of PECO’s response and attachment to*
15 *OCA-I-3): Attachment OCA-I-3(a) to the Company’s response to OCA-I-3*
16 *provided a breakdown of the customer costs by FERC plant accounts as a*
17 *component of total Electric Plant in Service. The Company also provided a*
18 *breakdown of O&M expenses by FERC Account. The customer charges are*
19 *calculated at the end of this Attachment on line 192, and tie directly to the*
20 *values listed in PECO Exhibit JD-5 on line 7.*

21 *PECO Exhibit JD-14 (which consists of Attachment IE-I-RS-12-D(a) to*
22 *PECO’s response to IE-I-RS-12-D): In its response and attachment included*

1 in PECO Exhibit JD-14, the Company set forth a robust analysis of customer-
2 related costs and provided a detailed comparison of its analysis to the
3 Commission-approved customer-cost analysis employed in *Pa. P.U.C. v. PPL*
4 *Elec. Util. Corp.*, Docket No. R-2012-2290597. The Company’s comparison
5 demonstrates that the costs included in PECO’s proposed customer charge are
6 consistent with the customer costs identified by the analysis presented by PPL
7 and approved by the Commission in that proceeding. Mr. Kubas avers that
8 the PPL example is inapposite, likely because of the different way in which
9 the costs were classified between the two analyses. However, the key
10 components underlying the customer charge are very similar. For example,
11 PECO’s costs include a Net Plant amount of \$378 million, compared to PPL’s
12 \$333 million. PECO has Other O&M Expenses of \$69 million, while PPL
13 had \$73 million of the same expenses; PECO has “Other A&G Expenses” of
14 \$37 million, while PPL had \$40 million of the same expenses; and PECO has
15 “Employee Benefits” expenses of \$8 million, while PPL had \$15 million of
16 the same expenses. Additionally, PECO has “Customer Service” expenses of
17 \$9 million, while PPL had \$13 million of the same expenses. Further, PECO
18 has “Late Payment Charge” revenue of \$2 million, while PPL had \$3 million
19 of the same type of revenue. Also, in PECO Exhibit JD-15 (which includes
20 Mr. Kubas’s response to PECO-I&E-II-25), Mr. Kubas asserts that “PECO is
21 claiming \$13.3 million in ‘Miscellaneous Distribution Expenses’ while PPL
22 made no claim for “Miscellaneous Distribution Expenses.” The \$13.3 million
23 Mr. Kubas pointed out is for costs related to Meter and Service Investment

1 (refer to FERC Accounts 586 and 588, as shown in Attachment IE-VII-RS-
2 20(a) and Attachment IE-VII-RS-20(b) provided in PECO Exhibit JD-17).
3 Mr. Kubas also asserts that “PECO is claiming over \$158 million in net plant,
4 other rate base items, and over \$11 million of depreciation expense related to
5 customer accounts and customer service while PPL made no rate base or
6 annual depreciation expense claims for customer accounts and customer
7 service.” Mr. Kubas further asserts that PECO is claiming \$685,000 in “PUC
8 Assessment,” while PPL made no such claim. I believe that Mr. Kubas’s
9 assertions are not correct; PPL simply presented its data differently.
10 Nonetheless, I recalculated PECO’s customer costs by removing \$158 million
11 of net plant, \$11 million of depreciation expense and \$685,000 of “PUC
12 Assessment,” which are the amounts Mr. Kubas identified. Even without
13 those items, the customer costs properly recoverable in PECO’s customer
14 charge would be \$13.90 per month for the Residential class. Refer to PECO
15 Exhibit JD-16, Line 31.

16 *PECO Exhibit JD-17 (which consists of PECO’s response and attachments to*
17 *IE-VII-RS-20):* PECO’s response to part “C” in IE-VII-RS-20 explains the
18 calculation of the customer charges and includes the same four customer
19 charge components reflected in PECO Exhibit JD-5: service line investment,
20 meter investment, customer accounts, and customer services. The Company’s
21 use of these four categories to form the basis of the customer charge is
22 consistent with authoritative guidance on Pennsylvania ratemaking principles,
23 which explains that “[t]he local distribution line, the service drop, and the

1 meter are installed and must be depreciated and earned upon, even if the
2 customer is on vacation that month and uses no services.”⁹

3 Attachments IE-VII-RS-20(a) – (e) provide the detailed cost of service study
4 to support the four customer charge components explained above.

5 Furthermore, Attachment IE-VII-RS-20(e) provides a summary schedule for
6 the customer charges, in which “Total Revenue Requirement” at Schedule S,
7 line 119 (refer to PECO Exhibit JD-17, p. 157), ties to PECO Exhibit JD-5
8 line 5.

9 The documents that were identified and discussed above, together with my
10 direct testimony and accompanying exhibits, including PECO Exhibit JD-5,
11 fully support the Company’s proposed customer charge.

12 **14. Q. Mr. Kubas also recommends that PECO’s proposed wording changes to**
13 **the Capacity Reservation Rider (“CRR”) be approved, but that the**
14 **revenue from the CRR and the cost to provide service under the CRR be**
15 **analyzed separately in the Company’s cost of service study in the next**
16 **base rate case. Do you agree?**

17 A. I think it is reasonable to look for a way to incorporate all CRR costs into the
18 appropriate rate class. However, cost of service is based on rate class
19 allocations, and CRR customers could be in any of PECO’s GS, PD, HT and
20 EP rate classes. As CRR customers do not comprise a particular rate class, it

⁹ Cawley and Kennard, *supra* note 4 at p. 144.

1 is my opinion that they should not be analyzed separately in a cost of service
2 study.

3 **IV. ALLOCATION OF DISTRIBUTION COSTS**

4 **15. Q. Mr. Pollock has focused upon certain investments that formerly had been**
5 **recorded in transmission plant accounts but, applying FERC-approved**
6 **criteria, were determined to be distribution property and, therefore, are**
7 **recorded in the Company's distribution plant accounts. Mr. Pollock**
8 **proposes separating that investment from distribution substation and**
9 **Primary HT investment costs that are allocated to all customers, and to**
10 **also exclude the load served at 69 kV and higher voltages from that**
11 **allocation. Then, he proposes that only the plant reclassified from**
12 **transmission to distribution be allocated to 69 kV and higher voltage**
13 **customers. Do you agree with Mr. Pollock's proposal?**

14 **A.** No, I do not. First, regarding the use and categorization of distribution
15 facilities, under FERC's "Seven-Factor Test,"¹⁰ high-voltage lines that serve
16 specific customers and are radial in nature are properly classified as
17 distribution plant. Because the Company's high-voltage customers are
18 generally served by radial lines, the Company facilities that serve them are
19 distribution plant, not transmission plant. In fact, in 2009, the Company

¹⁰ See *Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities*, Order No. 888, FERC Stats. & Regs. ¶ 31,036, at 31,783-84 (1996), *order on reh'g*, Order No. 888-A, FERC Stats. & Regs. ¶ 31,048, *order on reh'g*, Order No. 888-B, 81 FERC ¶ 61,248 (1997), *order on reh'g*, Order No. 888-C, 82 FERC ¶ 61,046 (1998), *aff'd in relevant part sub nom. Transmission Access Policy Study Group v. FERC*, 225 F.3d 667 (D.C. Cir. 2000), *aff'd sub nom. New York v. FERC*, 535 U.S. 1 (2002).

1 performed an Accounting Reclassification of over \$54 million of transmission
2 plant. The plant was reclassified from its transmission plant accounts to
3 distribution plant accounts and is now recorded in Accounts 360 to 367
4 consistent with the requirements of the FERC Seven-Factor Test. That \$54
5 million represents a substantial amount of distribution plant and fully refutes
6 Mr. Pollock's contention that customers served at voltages of 69 kV and
7 above do not use the distribution system. Moreover, and contrary to Mr.
8 Pollock's assumption, the property reclassified from transmission to
9 distribution is not the only distribution plant used by, and properly allocable
10 to, customers served at voltages of 69 kV and above.

11 Mr. Pollock also contends that if higher voltage customers are not using
12 distribution substations, they should not be allocated any of the associated
13 cost. However, PECO has already addressed this concern. Specifically,
14 PECO proposes to increase the high-voltage discount in this proceeding to
15 better account for substation transformation. In addition, I disagree with Mr.
16 Pollock's assertions that higher-voltage customers should be exempted from
17 bearing any portion of substation costs. To the contrary, to the extent these
18 higher-voltage customers are served by radial lines from a substation, a
19 portion of the substation (e.g., the breaker to which the radial line connects) is
20 properly allocated to distribution plant. Once some portion of the substation
21 cost is classified as distribution, a portion of the land on which the substation
22 is located and the substation's structure should also be classified as
23 distribution. From the reclassification of transmission plant to distribution

1 plant required by FERC's Seven-Factor Test, which I previously described,
2 we know that substation facilities and related plant are, in fact, serving a
3 distribution function.

4 **V. ENERGY CONSERVATION AND GENERAL MARKETING EXPENSES**

5 **16. Q. Mr. Pollock proposes to allocate Energy Conservation and General**
6 **Marketing Expenses relative to total base revenue requirements, because**
7 **he contends that PECO's proposed allocation on a kWh basis does not**
8 **benefit all customers equally. Do you agree with this proposal?**

9 A. No. Costs in this account are generally related to information about energy
10 efficiency and conservation programming or new electric technologies. This
11 information, which is shared through "energy at home" or "energy at work"
12 communications or provided by account managers, benefits all customers and
13 energy efficiency will generate more benefits for those with greater usage.
14 Therefore, the kWh allocation is appropriate.

15 **VI. PECO'S DSIC**

16 **17. Q. Mr. Pollock recommends that PECO's DSIC tariff be modified to: (i)**
17 **exclude application to those customers who take service at a higher**
18 **voltage level; and (ii) specify that the DSIC does not apply to facilities**
19 **that were re-functionalized from transmission to distribution plant**
20 **accounts pursuant to FERC's Seven-Factor Test. Do you believe these**
21 **modifications are appropriate?**

1 A. No. Mr. Pollock's proposal should be rejected because it is based on two
2 incorrect assumptions: (1) Rate HT and EP customers who take service at a
3 higher voltage level do not use distribution facilities; and (2) facilities
4 reclassified to distribution under FERC's Seven-Factor Test are not actually
5 distribution facilities.

6 First, high-voltage customers use distribution facilities. As I previously
7 explained, under the FERC Seven-Factor Test, high-voltage lines that serve
8 specific customers and are radial in nature are properly classified as
9 distribution plant. Because the Company's high-voltage customers are
10 generally served by radial lines, the Company's facilities that serve the radial
11 lines are distribution plant, not transmission plant. Radial lines are supported
12 by poles, and it is therefore appropriate to allocate a share of poles to
13 distribution. This substantial amount of distribution plant that serves high-
14 voltage customers directly refutes Mr. Pollock's arguments.

15 Mr. Pollock also contends that if customers served at higher voltage (69 kV
16 and above) are not using distribution substations, they should not be allocated
17 any of the associated cost. As I previously discussed, one cannot simply
18 assume that higher-voltage customers do not use any facilities located at
19 substations. Most of the substations supporting the 69 kV and higher voltage
20 customers are combined transmission and distribution substations. Because
21 high-voltage customers are distribution customers, a portion of the land and
22 structures for substations is appropriately allocated to them. The Company
23 already provides a high-voltage discount (which it is proposing to increase in

1 this case) to account for the way higher-voltage customers use substation
2 transformation. For all these reasons, PECO's DSIC should continue to apply
3 to high-voltage customers.

4 Second, plant that is reclassified from transmission to distribution in
5 accordance with FERC's Seven-Factor Test is properly considered
6 distribution. Mr. Pollock has provided no authority for stripping such
7 facilities of their regulatory status as distribution assets. Therefore, additions
8 to the plant that has been reclassified from transmission to distribution should
9 continue to be eligible for recovery under PECO's DSIC.

10 **VII. CONCLUSION**

11 **18. Q. Does this complete your rebuttal testimony?**

12 A. Yes, it does.

13

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