PECO ENERGY COMPANY
STATEMENT NO. 9-R

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION
v.
PECO ENERGY COMPANY

DOCKET NO. R-2018-3000164

REBUTTAL TESTIMONY

WITNESS: ALAN B. COHN

SUBJECTS: DEFAULT SERVICE AND ALLOCATION OF INDIRECT COSTS

DATED: JULY 24, 2018

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REBUTTAL TESTIMONY
OF
ALAN B. COHN

I. INTRODUCTION AND PURPOSE OF TESTIMONY

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

A. My name is Alan B. Cohn. I am employed by PECO Energy Company as Manager of Regulatory Strategy. My business address is PECO Energy Company, 2301 Market Street, Philadelphia, Pennsylvania 19103.

2. Q. Please describe your educational background.

A. I received a Bachelor of Science Degree in Commerce and Engineering from Drexel University in 1980. In 1985, I received a Master's Degree in Business Administration from Drexel. In addition, I have completed the American Gas Association ("AGA") Gas Rate Fundamentals Course at the University of Wisconsin and the AGA Advanced Gas Rate Course at the University of Maryland.

3. Q. Please describe your work experience with PECO.

A. Upon graduation from college in 1980, I was hired by PECO as a Rate Analyst in the Cost and Load Analysis Section of the Rate Division. In 1987, I was appointed Supervisor of the Economic Analysis Section in PECO's Rates and Regulatory Affairs Division. Since that time, I have held various management positions in PECO's Rates and Regulatory Affairs Department and Strategic Planning Department with responsibility for managing base rate case filings, cost of service studies and financial and economic analyses.

4. Q. Have you previously testified before this Commission or other regulatory bodies?

A. Yes. I have testified in regulatory proceedings before the Pennsylvania Public Utility Commission ("Commission"), the Federal Energy Regulatory Commission and the Maryland Public Service Commission. A listing of the cases in which I have submitted testimony is attached hereto as Exhibit ABC-1.

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

A. No, I have not.

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

A. The purpose of my rebuttal testimony is to respond to the testimony of NRG Energy ("NRG") witness Chris Peterson, who asserts that PECO has improperly allocated over $100 million in distribution service costs for residential customers. Mr. Peterson believes that these costs should be re-allocated to PECO's default service obligations and recovered from residential customers who receive default service from PECO.

After providing a brief overview of PECO's default service obligations, I explain how Mr. Peterson's testimony reflects a misunderstanding of PECO's default service program as well as utility cost accounting principles applied by this Commission and does not support any reallocation of distribution service costs.

II. PECO'S PROVISION OF DEFAULT SERVICE

7. Q. Mr. Cohn, what is PECO's default service obligation?

A. PECO is obligated to provide electric generation service to all distribution service customers within its service territory who do not select an electric generation supplier ("EGS") or who return to default service after being served by an EGS which becomes unable or unwilling to serve its customers. Every customer who receives default service from PECO is a distribution service customer, and PECO provides distribution service without regard to whether a customer also receives default service.

As default service provider, PECO is required to file a plan with the Commission which sets forth how PECO will meet its default service obligations, including a strategy for procuring generation supply and a rate design to recover the costs of providing default service. The Commission reviews PECO's default service plans and approves a plan if it is consistent with the Public Utility Code and the Commission's regulations. To date, the Commission has approved four PECO default service plans, with the current plan in effect until May 31, 2021.

8. Q. How does PECO meet its default service obligation?

A. In accordance with the default service plans approved by the Commission, PECO conducts competitive procurements and enters into wholesale power contracts and associated services for three different default service customer classes: Residential, Small Commercial (up to 100 kW annual peak demand and lighting customers), and Medium/Large Commercial (>100 kW annual peak demand).

The principal procurement features of PECO's wholesale power contracts for residential customers receiving default service (who are the focus of Mr. Peterson's testimony) is the use of fixed-price, full requirements supply contracts. Under these contracts, winning bidders in PECO's competitive procurements are responsible for assuming, managing, and covering the financial costs and risks associated with electricity supply for a percentage of residential customers, including all required energy, capacity, and ancillary services, as well as alternative energy credits required for compliance with Pennsylvania's Alternative Energy Portfolio Standards ("AEPS") Act. The wholesale power supplier must satisfy this obligation, regardless of how much market prices or generation costs may increase during the delivery period and regardless of the default service load level (since the supplier is serving a percentage of whatever the default service load is at any given time).

9. Q. Does PECO earn a profit in providing default service?

A. No, it does not. Under the Pennsylvania Public Utility Code, PECO is entitled to recover all reasonable costs of providing default service under its approved procurement plan. The Commission has not authorized PECO (or any other electric distribution company ("EDC")) to earn a profit on the provision of default service.

10. Q. How does PECO recover its default service costs?

A. PECO recovers the costs of default service for each customer class through a class-specific generation supply adjustment ("GSA") charge and a transmission service charge ("TSC") set forth in its electric tariff. The price per kilowatt-hour charged under each GSA and the TSC is the "Price to Compare," or "PTC," for the applicable class and is updated at least quarterly as required by the Commission.

11. Q. What types of costs are included in the PTC?

A. In a Policy Statement regarding default service and retail electric markets (52 Pa. Code § 69.1808), the Commission identified the types of costs that should be recovered from default service customers. As the Policy Statement explains:

> (a) The PTC should be designed to recover all generation, transmission and other related costs of default service. These cost elements include:
>
> > (1) Wholesale energy, capacity, ancillary, applicable RTO or ISO administrative and transmission costs,
> >
> > (2) Congestion costs will ultimately be recovered from ratepayers. Congestion costs should be reflected in the fixed price bids submitted by wholesale energy suppliers.
> >
> > (3) Supply management costs, including supply bidding, contracting, hedging, risk management costs, any scheduling and forecasting services provided exclusively for default service by the EDC, and applicable administrative and general expenses related to these activities.
> >
> > (4) Administrative costs, including billing, collection, education, regulatory, litigation, tariff filings, working capital, information system and associated administrative and general expenses related to default service.
> >
> > (5) Applicable taxes, excluding Sales Tax.
> >
> > (6) Costs for alternative energy portfolio standard compliance.

12. Q. Does PECO's PTC include each of these types of costs?

A. Yes, it does. All of the costs of the wholesale power supply contracts I have described, including the costs of energy, transmission, congestion, and AEPS compliance are included in the PTC in accordance with 52 Pa. Code § 69.1808(a)(1), (2), (5), and (6). To the extent that a supplier chooses to engage in hedging, risk management, or similar activities as part of providing energy and other services under its wholesale power contract, the costs of those supplier activities must be borne by the supplier and included in its wholesale contract price, as well as any supplier administrative costs. Supply procurement and administrative costs that are associated with the wholesale power supply contracts, which include the costs of a default service independent evaluator to oversee the procurement process and a charge for working capital, are also included in the PTC as permitted by Section 69.1808(a)(3) and (4). Regulatory costs and litigation costs associated with PECO's default service plans are also recovered through the PTC.

13. Q. Are information technology costs included in the PTC?

A. Yes, when the information technology ("IT") costs relate specifically to the provision of default service. For example, as part of PECO's second default service plan, PECO sought – and the Commission approved – recovery of the capital costs for IT upgrades necessary to implement the plan and those costs were included in the PTC.

14. Q. Are any billing or collection costs included in the GSA?

A. No, since all customers receiving default service are also PECO distribution customers and already receive a PECO bill.[1]

[1] I note that Mr. Peterson does not seek to allocate billing and collection costs to default service customers in light of the fact that many EGSs participate in PECO's purchase-of-receivables ("POR") program. *See* NRG St. No. 1, p. 23. Under this program, PECO purchases the amounts owed to EGSs by customers for electric generation service at full value and assumes responsibility for billing and collecting those amounts.

15. Q. What type of education costs are included in the PTC?

A. Costs associated with educating customers about retail market enhancements not paid for by EGSs may be included in the PTC. The PTC does not include costs associated with educating customers about the benefits of shopping for electricity, which are recovered from all distribution service customers.

16. Q. Are any costs recovered for generation owned by PECO?

A. No. PECO does not own any generation.

17. Q. Mr. Peterson notes (p. 13) that the Commission's Policy Statement includes a provision stating that "EDC rates should be scrutinized for any generation related costs that remain embedded in distribution rates." Has the Commission scrutinized PECO's rates?

A. Yes. When the Policy Statement was issued, most Pennsylvania EDCs were in transition periods under the Electricity Generation Customer Choice and Competition Act (the "Competition Act") with rates established during the restructuring of Pennsylvania's electric industry. The full provision of the Policy Statement (52 Pa. Code § 69.1808(b)) makes this clear:

> (b) EDC rates should be scrutinized for any generation related costs that remain embedded in distribution rates. This review should occur no later than the next distribution rate case for each EDC filed after September 15, 2007. The Commission may initiate a cost allocation case for an EDC on its own motion if such a case is not initiated by December 31, 2007. Changes to rates resulting from the examination would take effect after the expiration of Commission-approved rate caps.

Consistent with the Policy Statement, the Commission has reviewed PECO's distribution rates twice – once in 2010 and again in 2015 – and determined that those distribution rates were just and reasonable. In addition, the Commission has considered PECO's default service rate design (including the costs that would be recovered in the PTC) four separate times in its approvals of PECO's default service programs.

18. Q. Were you involved in any of those proceedings?

A. Yes. As set forth on Exhibit ABC-1, I testified regarding PECO's distribution rates and cost allocation in both the 2010 and 2015 PECO rate cases as well as on default service rate design in each of PECO's four default service program proceedings.

19. Q. Do you believe PECO's allocation of default service costs to the PTC is consistent with Commission requirements, including the most recent orders approving PECO's distribution rates and default service plan?

A. Yes, I do.

III. ALLOCATION OF INDIRECT COSTS

20. Q. Mr. Cohn, please summarize Mr. Peterson's contentions regarding default service and his proposals regarding indirect cost allocation.

A. In his direct testimony, Mr. Peterson asserts (pp. 4-5) that there is more than $100 million of "disproportionate" costs allocated by PECO to residential distribution service customers which he believes should be allocated to those residential customers receiving default service. Mr. Peterson's assertion rests primarily on his claim that a "significant portion" of PECO's expenses "reasonably support" residential default service since PECO provides default service to approximately 66 percent of its residential customers and those costs would be incurred if default service was provided through a division of PECO separate from its distribution operations (pp. 17-18). The remainder of Mr. Peterson's testimony (and the "utility rate study" he attaches to his testimony) largely consist of his re-allocation of distribution expenses in PECO's fully projected future test year ("FPFTY") to default service customers using the ratio of residential default service revenues to total distribution service revenues, the ratio of residential customers receiving default service to all residential customers, and a ratio that is a hybrid of the revenue-based and customer-based ratios. Based on his recommended re-allocations, he calculates a PTC that he contends will assist customers in making "apples-to-apples" decisions in shopping for electricity and avoid "overcharging" customers for distribution service.[2] In addition, Mr. Peterson speculates (p. 6) that PECO may want a lower PTC to "gain an unfair competitive advantage in the marketplace" through an ability to "attract and retain residential default service customers."

21. Q. Let's first address Mr. Peterson's speculation that PECO has an interest in a lower PTC as an "unfair competitive advantage" in attracting and retaining default service customers. Is he correct?

A. No. As I have explained, PECO makes no profit from providing default service to its distribution customers or standing ready to serve those customers who return to

[2] NRG St. No. 1, p. 7 & Exhibit CP-3, p. N15.

default service after shopping with an EGS. The Company is required to be able to provide default service to **<u>all</u>** of its distribution customers under Pennsylvania law and the Orders of this Commission, regardless of whether the customer shops or does not shop for electricity. Default service is not an area in which PECO seeks to "compete" with EGSs or any other entity.

22. Q. Do you believe Mr. Peterson otherwise portrays PECO's provision of default service correctly?

A. No, I do not. Mr. Peterson refers to PECO's distribution service and default service as two "operating divisions" (p. 29) and "business lines" (Ex. CP-3, p. N13), which is fundamentally wrong. PECO is an electric distribution company in the business of distributing electricity to its customers. Default service is not a separate "operating division," but a service to distribution customers in the form of electric generation provided by wholesale suppliers under Commission-approved contracts with PECO to meet the electricity needs of those customers who have not chosen an EGS or whose EGS decides to cease providing service to such customers. PECO customers are not distribution customers **<u>or</u>** default service customers; they are distribution customers who may or may not receive default service, which PECO provides at its cost and without profit in accordance with the requirements of the Commission.

23. Q. Do you agree with Mr. Peterson's contention that the provision of default service should be treated as a separate operating division of PECO for purposes of cost allocation?

A. No. In fact, Mr. Peterson cannot identify a single U.S. electric utility that provides residential default service through a separate default service division, nor can he identify any electric utility that allocates indirect expenses associated with residential default service using any of the approaches he has recommended in this proceeding.[3]

24. Q. Does Mr. Peterson cite any decisions of this Commission that he believes support treatment of the provision of default service as a separate division of PECO?

A. Yes. Mr. Peterson relies upon a decision of the Commission during PECO's 1997 restructuring proceedings in which the Commission rejected a proposal by PECO to "unbundle" its generation, distribution and transmission rates.[4] As Mr. Peterson notes, the Commission at the time agreed with testimony of a witness for the Office of Consumer Advocate ("OCA") that the unbundling of generation, transmission and distribution rates in restructuring "should produce results that should look like what functional costs would be if PECO were to separate itself into functionally separate divisions."[5]

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[3] *See* Response to PECO-NRG-II-12 and PECO-NRG-II-14, attached as Exhibit ABC-2.

[4] Opinion and Order, *Application of PECO Energy Company for Approval of its Restructuring Plan Under Section 2806 of the Public Utility Code and Joint Petition for Partial Settlement*, R-00971265 (Order entered Dec. 29, 1997) ("1997 Restructuring Order").

[5] *Id.*, pp. 57-58.

25. Q. Do you believe that this 1997 decision supports Mr. Peterson's views of default service as a separate (or separable) business line and is "as valid today as [it was] over twenty years ago," as he contends (p. 10)?

A. No, I do not. What Mr. Peterson ignores in his discussion of the 1997 Restructuring Order is that at the time, PECO was a very different company – one that included generation operations with twice the employees of its distribution operations.[6] The 1997 Restructuring Order reflects Commission concern regarding the allocation of administrative expense between two different business groups with significant administrative requirements. Notably, the allocator adopted by the Commission to address the administrative expense of PECO's generation and distribution operations was neither revenues nor customers, nor some hybrid of the two, as Mr. Peterson proposes in this proceeding; instead, the Commission allocated administrative expense based upon the number of employees working in generation and distribution operations.[7]

Twenty years later, PECO does not have a generation business and is no longer at the beginning of the restructuring era. And PECO's rates and those of other EDCs have been subject to scrutiny in both default service proceedings and in distribution rate proceedings where the Commission has "strived to address" the need to ensure that the PTC reflects all costs of default service.[8]

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[6] *Id.*, p. 60.

[7] *Id.*, pp. 60-61.

[8] *See* Final Order, *Investigation of Pennsylvania's Retail Electricity Market: End State of Default Service*, Docket No. I-2011-2237952 (Order entered Feb. 15, 2013), p. 21.

26. Q. Turning to Mr. Peterson's actual allocation methods, can you please explain his approach?

A. Certainly. Mr. Peterson proposes to allocate costs associated with PECO's distribution operations that he believes either "reasonably support" or "necessarily support" PECO's provision of default service and would be incurred if default service was operated as a separate PECO division (pp. 17-18). After identifying various categories of costs, he reallocates the costs based on residential customer revenue, number of residential customers, and a "hybrid" allocation of both residential customer revenue and number of residential customers (which he refers to as "Allocation Methods" A, B, and C, respectively) (p. 24).

27. Q. What costs does Mr. Peterson believe should be re-allocated to customers receiving default service?

A. Mr. Peterson proposes to re-allocate the following costs to distribution customers:

- Customer Service Expenses, including:
    - Customer Assistance
    - Information Advertisement
    - Miscellaneous Customer Service
- Sales Expenses, including:
    - Demonstrating & Selling
- A&G Expenses, including:
    - Administrative Salaries
    - Office Supplies & Expense

  - o Outside Services Employed
  - o Property Insurance
  - o Injuries & Damages
  - o Employees Pensions & Benefits
  - o Regulatory Commission
  - o Duplicate Charges — Credit
  - o Miscellaneous General
  - o Maintenance of General Plant
- Depreciation & Amortization Expense relating to:
  - o Intangible Plant
  - o General Plant
  - o Common Plant

28. Q. Do you believe these are appropriate costs for reallocation to default service customers?

A. No, I do not. PECO witness Jiang Ding explains in her direct testimony how each of the above costs was properly functionalized and assigned to distribution customers.[9] As I have explained, all PECO customers – whether they receive electric generation supply from EGSs or from PECO – are distribution customers, and responsibility for distribution business costs should not vary based upon receipt of default service.

In effect, Mr. Peterson is assuming that a separate default service division is appropriate and that it would have many of the same costs PECO has as a distribution company without determining the costs PECO actually incurs in providing default

[9] *See* PECO Statement No. 6, pp. 14-25.

service. By choosing to then allocate the hypothetical costs of a separate default service division based on default service revenue and number of default service customers, he creates an artificially high PTC.

29. Q. Why do you believe default service revenue is an improper factor for cost allocation?

A. Let me provide an example to illustrate. Under Mr. Peterson's analysis, PECO's FPFTY residential default service revenues total $636 million. Of that amount, 93.4% ($594.2 million) is paid to wholesale suppliers for residential default service supply and to the PJM Interconnection, L.L.C. ("PJM") for default-service related transmission expense and another almost 6% to the state for gross receipts tax.[10] By using a ratio of residential default service revenues to total residential sales ($1.5 billion), Mr. Peterson concludes that $61 million of $136 million in administrative expenses currently allocated to residential distribution service customers should be re-allocated to residential default service customers.[11]

In discussing his re-allocation of administrative employee salary expense based on default service revenues, Mr. Peterson asserts (p. 29) that this re-allocation is proper because "administrative employees are clearly needed to maintain the levels of revenue achieved by both default service and distribution service operating

[10] Mr. Peterson's analysis does not properly reflect the fact that some of PECO's transmission expense is collected from customers on a non-bypassable basis. *See* Opinion and Order, *Petition of PECO Energy Company for Approval of its Default Service Program for the period from June 1, 2015 through May 31, 2017*, Docket No. P-2014-2409362 (Order entered Dec. 4, 2014). In light of the lack of merit to Mr. Peterson's proposals, I have not recalculated his analysis to reflect this error.

[11] *See* NRG Exhibit CP-7, p. 2.

divisions," and therefore "percentage of revenues is an appropriate way to allocate these costs." But this assertion underscores Mr. Peterson's apparent misunderstanding of default service: PECO is not seeking to "maintain" the levels of default service "achieved," has no "default service" operating division, and passes virtually all of the revenue received from default service customers to wholesale suppliers under contract with PECO who deliver their energy directly to PJM. In comparison, thousands of PECO employees and contractors are employed in providing distribution service using significant capital assets. Under Mr. Peterson's revenue allocation approach, however, there would be a 45% re-allocation of the associated administrative and general expense of those employees and operations to default service customers.

A further problem with Mr. Peterson's approach is that default service revenue amounts are affected by the price of power. Using default service revenues as a cost allocator would result in an allocation of costs dependent on the price of default service supply without any established causation between the price of default service power and the costs Mr. Peterson seeks to allocate.

In short, default service revenue is clearly a poor cost allocator for administrative expenses generally, and Mr. Peterson's analysis is inconsistent with principles of cost allocation discussed by Ms. Ding.[12] Ms. Ding allocated most administrative general costs and outside services by labor since these costs generally support the operations of a utility performed by employees, and labor is a rational allocator for salaries, the

[12] *See* PECO Statement No. 6, pp. 6-7 (discussing goals in selecting cost allocation factors, including "appropriate recognition of cost causality").

buildings where utility employees work, the tools they use, support services (such as human resources), and costs which are included in common and general plant.[13]

30. Q. Do you have similar concerns with allocations based on the number of default service customers?

A. Yes. Under Mr. Peterson's allocation method, if all customers became default service customers, large amounts of PECO distribution system costs (including depreciation and amortization expense for general, common and intangible plant) would need to be recovered from those customers. Alternatively, if all of PECO's customers decide to shop (which they are free to do), PECO would not recover any distribution business expenses under Mr. Peterson's allocation method that are allocated to default service even though all the costs would still remain with PECO.

31. Q. Mr. Peterson suggests (p. 6) that PECO "may be motivated" to include common or shared costs that should be allocated to default service customers to avoid fluctuations in cost recovery. How do you respond?

A. Mr. Peterson is wrong. PECO manages many varying mechanisms for cost recovery as part of its business, including the fluctuating amounts paid by default service customers and amounts it must pay to default service suppliers. But under principles of utility cost allocation, the result I have described clearly indicates that the distribution business costs Mr. Peterson proposes to allocate to default service

[13] *See id.*, pp. 24-25. As noted earlier, the Commission used labor in allocating administrative and general expense in the 1997 Restructuring Order. *See* 1997 Restructuring Order, pp. 60-61. Despite Mr. Peterson's reliance on that order for his concept of a separate division for default service, he does not explain why he uses a different allocator than the Commission chose for this expense.

customers are not a function of the number of distribution customers that receive default service or the amount such customers pay for default service.[14]

32. Q. Does Mr. Peterson address the real possibility that, if his reallocations were adopted, PECO would not recover its actual distribution system costs?

A. No. Mr. Peterson claims that "[t]he recasting of expenses presented in this study should produce a no net effect on PECO's operations as a whole,"[15] but he does not explain why. In fact, he appears to believe that "[a]s costs are shifted from distribution service to default service, the level of expenses attributable to the distribution service customer base decreases."[16] That is clearly not the case. All of the expense, whether allocated to default service or not, remains with PECO.

33. Q. Does Mr. Peterson's combination of allocation by default service revenues and number of customers in his Allocation C method address your concerns?

A. No. In Allocation C, Mr. Peterson simply reallocates some expenses based on default service revenue, while other expenses are allocated based on number of default service customers. That approach does not change the fact that both are improper allocators for costs that PECO will continue to incur regardless of the level of shopping by distribution system customers.

[14] This is true for customer assistance expense as well the other costs I have described. For example, PECO's customer assistance expense includes significant funding for low-income usage reduction programs that are available to both shopping and non-shopping customers. *See* PECO Exhibit JD-7, p. 10.

[15] *Id.*, p. N16.

[16] *Id.*, pp. N12-13.

34. Q. Does Mr. Peterson identify any direct cost among the cost categories he proposes to allocate that he believes is clearly associated with default service and not now included in the PTC?

A. Yes, but he misunderstands the nature of the cost he identifies. In proposing to allocate sales expenses to residential default service customers, he asserts that PECO is "engaging in messaging that is intended to retain customers on default service" and cites (p. 22) to a page on PECO's website that encourages customers to "take the first step in finding how PECO can help save you money and energy."[17] The program Mr. Peterson highlights, however is part of PECO's separately-funded Energy Efficiency and Conservation Program which is available to all distribution customers (both shopping and non-shopping) to help them save by reducing their energy usage. It has nothing to do with default service, which PECO does not market and therefore incurs no related sales expense.

35. Q. In his testimony, Mr. Peterson also asserts that "full absorption costing" provides additional support for his proposed cost allocations. Do you agree?

A. No. Full absorption costing is a cost accounting methodology for allocating fixed and variable costs to a company's products. PECO's "product" is the transmission and distribution of electric energy for its electric operations and the distribution of gas for

[17] *See* NRG St. No. 1, p. 22 n. 31. Mr. Peterson was subsequently unable to identify any other messaging that he believes demonstrates PECO's "intention to retain customers on default service." *See* Interrogatory PECO-NRG-II-16 (attached as Exhibit ABC-3). Mr. Peterson also contends that PECO "may be able to unfairly promote its brand name, and thereby its residential default service, under the guise of marketing its EE&C program" and that "the public may be better served through EE&C program advertising that does not contain references to specific public utilities," but he provides no support for his claim. *See id.*, p. 37 & NRG St. No. 1, Exhibit CP-3, p. N14.

its gas operations, and PECO has applied full absorption costing in its cost of service study to fully allocate its costs (both fixed and variable) to its electric distribution customers across the distribution rate classes. As most costs are fixed, those costs are allocated in the cost of service study to customer classes based on established cost causation principles.

Although Mr. Peterson notes that full absorption costing can use a variety of allocators (p. 18), he does not explain why full absorption costing provides any further support for the allocators he has chosen in his analysis.

36. Q. In his testimony, Mr. Peterson offers "additional rationale" for increasing the PTC, including his belief that customers are unable to accurately compare PECO's PTC to EGS prices on the website administered by the Commission (www.papowerswitch.org) due to "improper price signals" that preclude "apples-to-apples" comparison (p. 33). Do you believe his "additional rationale" have merit?

A. No. Mr. Peterson's "additional rationale" has two components: an assertion that PECO's PTC is inaccurate because PECO's distribution rates include default service costs, and a claim that PECO's PTC may move in a direction opposite to wholesale energy market prices due to the mix of default service contracts which PECO uses to procure default service supply. I have previously explained that PECO already includes in the PTC all of the costs that properly belong there, that Mr. Peterson's proposed reallocation of distribution expenses would create an artificially high PTC and is flawed for various reasons, and, therefore his analysis provides no basis for a claim that PECO's PTC is inaccurate.

With respect to PECO's wholesale contracts, in PECO's most recent default service proceeding, the Commission determined that PECO's "prudent mix" of contracts complies with statutorily-imposed criteria, is appropriate to furnish default service, and is in the public interest. As a result, I do not agree with Mr. Peterson's claims that the PTC includes any improper costs or that PECO's PTC precludes an "apples-to-apples" comparison of EGS offers and default service.

37. Q. In light of your concerns regarding Mr. Peterson's proposed reallocation of distribution costs, do you believe the Commission should adopt Mr. Peterson's recommendations in this proceeding?

A. No, I do not.

IV. CONCLUSION

38. Q. Does this complete your rebuttal testimony?

A. Yes, it does.