PECO ENERGY COMPANY
STATEMENT NO. 7

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

DOCKET NO. R-2022-3031113

DIRECT TESTIMONY

WITNESS: JOSEPH A. BISTI

SUBJECT: REVENUE ALLOCATION; RATE DESIGN; DEVELOPMENT OF PROPOSED NEW RATES; NEGOTIATED GAS CONTRACTS

DATED: MARCH 31, 2022

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DIRECT TESTIMONY
OF
JOSEPH A. BISTI

I. INTRODUCTION AND PURPOSE OF TESTIMONY

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

A. My name is Joseph A. Bisti. 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 a Principal Regulatory and Rates Specialist. I am responsible for tariff administration, financial analysis, project management and regulatory affairs relating to PECO's gas and electric operations.

3. Q. Please describe your educational background and professional experience.

A. I received a Bachelor of Science in Economics from The College of New Jersey in 2000, a Master of Science in Training and Organizational Development from Saint Joseph's University in 2009, and a Graduate Certificate in Utility Management from Willamette University in 2012. In 2015, I earned a certification as a Project Management Institute Professional in Business Analysis. In February of 2019, I was promoted to my current position within Regulatory Policy and Strategy. Prior to that, I served as a Senior Rate Administrator at PECO for approximately three years and a Senior Analyst in PECO's Energy Acquisition department for approximately nine years.

4. Q. Have you previously submitted testimony in proceedings before the Commission?

A. Yes. I submitted testimony on behalf of the Company in the following proceedings before the Commission:

Docket No. R-2021-3024601 – *Pa. P.U.C v. PECO Energy Company – Electric Division*

Docket No. R-2020-3018929 – *Pa. P.U.C v. PECO Energy Company – Gas Division*

Docket No. P-2020-3019290 – *Petition of PECO Energy Company for Approval of its Default Service Program For the Period From June 1, 2020 Through May 31, 2025*

Docket Nos. C-2008-2058320 and C-2009-2089694 – *Rama Construction Inc. T/A Ramada Inn Int'l Airport v. PECO Energy Company*

Docket Nos. M-2018-3005860 et al. – *Office of Consumer Advocate v. PECO Energy Company*

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

A. The purpose of my testimony is to describe: (1) how PECO proposes to allocate its claimed revenue increase among rate classes and the principles that guided PECO in developing its proposed revenue allocation; and (2) the changes PECO is proposing in the rate design for certain rate classes, why PECO is proposing these changes, and how the proposed new rates were developed. In addition, I will also describe the Company's negotiated gas contracts with customers and respond to the Commission's requirement that PECO provide updates to the competitive alternative analyses for customers with negotiated rates who have not had their competitive alternatives verified for a period of five years or more as of the filing date of this proceeding.1

6. Q. Please identify the exhibits you are sponsoring.

A. I am sponsoring the following exhibits:

Exhibit JAB-1	Proposed Revenue Allocation, Proposed Increases by Class and Class Rates of Return and Relative Rates of Return under Proposed Rates
Exhibit JAB-2	Relevant Gas Service Tariff Pages (Blacklined to Show Changes)
Exhibit JAB-3	Comparison of Residential Customer Charges for Pennsylvania Natural Gas Distribution Utilities
Exhibit JAB-4	Proof of Revenue at Present and Proposed Rates

II. REVENUE ALLOCATION

7. Q. Please state the principles that guided PECO in developing its proposed revenue allocation.

A. The proposed revenue allocation reflects a reasonable balance of accepted principles for designing utility rates. Specifically, PECO considered the following four principles in developing its proposed revenue allocation:

1. The results of the class cost-of-service study ("COSS") prepared by Ms. Jiang Ding and discussed in PECO Statement No. 6 should be used as a guide in allocating the proposed revenue increase among rate classes;

2. The overall proposed revenue allocation should produce reasonable movement toward the cost of service indicated by the COSS.

[1] *See Pa. P.U.C. v. PECO Energy Co. – Gas Division*, Docket No. R-2020-3018929 (Opinion and Order entered June 22, 2021) ("2020 Gas Rate Case Order"), p. 297.

3. The proposed revenue allocation should adjust certain class distribution revenues based on proposed changes to both PECO's Gas Procurement Charge ("GPC") rate and Merchant Function Charge ("MFC") uncollectible write-off factors; and

4. Customer impacts should be considered, and PECO should attempt to avoid increases in revenue for major rate classes that, on a percentage basis, exceed two times the proposed system average increase.

8. Q. Has an exhibit been prepared showing the cost of service by rate class?

A. Yes, a summary of class cost-of-service data is provided in PECO Exhibit JD-1, sponsored by Ms. Ding, and accompanies her direct testimony (PECO Statement No. 6). PECO Exhibit JD-1 shows, at page 1, line 26, the overall and class rates of return produced by the Company's current gas distribution base rates based on its supporting data for the twelve months ending December 31, 2023, which is the Fully Projected Future Test Year ("FPFTY") in this case. PECO Exhibit JD-1 also shows, at page 2, lines 83-84, the increase or decrease (in dollars and as a percentage of class gas distribution revenues under current rates, respectively) that each rate class would have to receive for its revenues to equal its indicated class cost of service. As indicated by the guiding principles I summarized above, while the results of the Company's COSS are an important guide in evaluating its proposed revenue allocation, they are not the only factor that must be considered.

9. Q. Please discuss the principle of gradualism and how it influenced PECO's proposed revenue allocation.

A. The ratemaking principle of gradualism, as traditionally applied in Pennsylvania, guides utilities to avoid abruptly increasing rates in favor of slower adjustments that incrementally move rates toward the actual cost of service over time.

PECO's proposed revenue allocation in this case attempts to balance gradualism and other ratemaking principles, and at the same time, also more closely align the class rates of return with the proposed system average rate of return while recognizing the degree to which rates for other classes diverge from their indicated cost of service. Under PECO's proposed revenue allocation and rate structure, the maximum increase for any rate class is 2.0 times the system average to prevent rate shock.

10. Q. What is the revenue allocation that PECO determined to be appropriate in this case?

A. PECO's proposed revenue allocation is presented in PECO Exhibit JAB-1.

11. Q. Will there be any adjustment to proposed base rates resulting from the Commission-approved Gas Procurement Charge?

A. Yes. To ensure a comparison between present and proposed distribution revenues on an "apples-to-apples" basis, PECO must adjust proposed distribution revenues to properly separate and account for proposed changes to both its GPC and its MFC uncollectible write-off factors. To this end, PECO Exhibit JAB-1 shows these adjustments as reductions to distribution revenues at proposed rates for each rate class, as well as the proposed net revenue increase for each rate class. In 2013, PECO reached a settlement in Docket No. P-2012-2328614 to unbundle certain annual procurement costs from base rates and include those costs in its Price to Compare. In compliance with that settlement and the regulations set forth at 52 Pa. Code §§ 62.221-62.225, PECO unbundled certain procurement costs from its base rates for non-shopping participants in its Low Volume Transportation ("LVT") program, which consists primarily of residential and small business customers who are eligible for PECO's Supplier of Last Resort service.

PECO uses the projected default service sales volume for the FPFTY to calculate the GPC and the projected annual distribution sales volume for the FPFTY to calculate the associated distribution base rate reduction. PECO then allocates these costs as corresponding reductions to distribution revenues for non-shopping LVT customers served under rate schedules GR – General Service - Residential, GC – General Service - Commercial and Industrial, OL – Outdoor Lighting Service, L – Large High Load Factor Service and MV-F – Motor Vehicle Service-Firm.

As I explained previously, PECO's proposed distribution rates must be adjusted accordingly to reflect GPC-related reductions based on procurement-related costs. The product of PECO's procurement-related costs and projected sales for the FPFTY yields a distribution base rate reduction of $0.0269/Mcf, as identified by PECO witness Benjamin S. Yin in his direct testimony (PECO Statement No. 8) and PECO Exhibit BSY-2. PECO has applied this rate reduction to proposed distribution revenues for rate schedules GR (including PECO's Customer Assistance Program ("CAP") customers), GC, OL, L and MV-F as shown in PECO Exhibit JAB-1.

12. Q. Will there be any adjustment to base rates resulting from the Commission-approved MFC?

A. Yes. Consistent with the settlement of PECO's 2010 gas rate case, PECO was authorized in Docket No. P-2012-2328614 to implement a MFC to recover uncollectible accounts expenses related to gas supply. PECO proposes to utilize the updated write-off factors described in detail in Mr. Yin's testimony and shown in PECO Exhibit BSY-3.

PECO has applied the total distribution revenue reductions resulting from these updated factors to its proposed distribution revenues for each impacted class as shown in PECO Exhibit JAB-1. The proposed tariff changes associated with the MFC are identified in Mr. Yin's direct testimony.

13. Q. Is PECO proposing any change to its discount rate for Gas Purchases of Receivables ("POR") from Natural Gas Suppliers ("NGSs")?

A. Yes. As described by Mr. Yin in his direct testimony, PECO is proposing to revise its POR discounts to reflect the updated MFC write-off factors that I discussed in response to the previous question. Under PECO's Commission-approved POR program, the Company purchases each shopping LVT customer's accounts receivable from NGSs and recovers the associated unbundled uncollectible commodity write-offs from NGSs through PECO's corresponding POR discount rate.

The current POR discounts were last revised by PECO pursuant to Docket No. R-2020-3018929. Since PECO currently expects no additional costs beyond the aforementioned write-offs to require recovery under the POR discount, PECO proposes to maintain POR discount rates by class that are identical to the MFC write-off factors in PECO Exhibit BSY-3 and, as such, to update POR discount rates to the same levels as the proposed MFC write-off factors described above.

The proposed supplier tariff changes associated with the POR discounts are identified in PECO Exhibit BSY-4 sponsored by Mr. Yin.

14. Q. Why is the proposed revenue allocation reasonable?

A. The proposed revenue allocation in PECO Exhibit JAB-1 is reasonable because it appropriately reflects the principles discussed previously:

1. The COSS prepared by Ms. Ding guided its development;
2. It produces reasonable movement of rate classes closer to their indicated cost of service.
3. It adjusts certain class distribution revenues based on proposed changes to both PECO's GPC rate and MFC uncollectible write-off factors; and
4. It moderates the impact on each major rate class and supports the principle of gradualism by avoiding rate increases exceeding two times the proposed system average increase.

The class rates of return and relative rates of return[2] at present and proposed rates in PECO Exhibit JAB-1 are provided in Table 1 below.

[2] A relative rate of return is the ratio of the rate of return for a rate class to the system average rate of return. See Question 15, below.

Table 1: Relative Rates of Return Under Company's Proposal

Rate Class	Under Present Rates	Under Proposed Rates
GR	0.93	0.99
GC & OL	1.11	1.00
L	3.09	2.80
MV-F	1.14	1.00
MV-I	2.47	2.14
IS	1.43	1.02
TCS	5.15	4.93
TS-I	1.73	1.40
TS-F	0.99	1.00

15. Q. Please explain the significance of the relative rates of return shown in PECO Exhibit JAB-1 to which you previously referred.

A. The relative rate of return is the ratio of the rate of return for a rate class to the system average rate of return. Relative rates of return are commonly used to test whether a proposed revenue allocation moves each rate class closer to, or at least no further from, the system average rate of return. A relative rate of return of 1.00 would mean the class rate of return equals the system average rate of return and, therefore, class revenues equal the class cost of service. Conversely, relative rates of return that depart from 1.00 indicate that the class rates of return are higher or lower than the system average rate of return and, therefore, the classes are providing revenues higher or lower than their indicated cost of service.

III. RATE DESIGN

16. Q. Explain in general how PECO proposes to change the charges within each rate schedule to recover the revenue allocated to each rate class.

A. PECO proposes to increase or decrease each of the charges within each rate schedule in proportion to the revenue increase or decrease allocated to that rate class, subject to certain rate design changes, discussed below. PECO Exhibit JAB-2 is a copy of the Company's Tariff Gas-Pa. P.U.C. No. 5 ("Tariff No. 5") that shows, by strike-out and blacklining, the proposed rate changes I discuss below, as well as the proposed changes in rules, regulations, rate schedules and riders discussed by Mr. Yin in PECO Statement No. 8. Tariff No. 5 is being filed with the Secretary of the Pennsylvania Public Utility Commission ("PUC" or the "Commission") as part of PECO's base rate filing.

Currently, service is provided under the Company's Tariff Gas-Pa. P.U.C. No. 4 ("Tariff No. 4") and associated supplements. It is anticipated that Tariff No. 5, which was filed as part of this case on 60 days' notice, will be suspended by operation of Section 1308(d) of the Public Utility Code pending an investigation by the Commission. Because it is possible and, in fact, likely, that changes will be made, via subsequently filed supplements, to Tariff No. 4 during the period Tariff No. 5 is suspended, any provisions of the current tariff that will continue beyond the end of the suspension period and have not already been incorporated in Tariff No. 5 will be merged into the tariff that will be filed as part of PECO's compliance filing at the conclusion of this proceeding.

17. Q. Why is PECO proposing to increase customer charges for several rate classes by a greater percentage than the proposed overall revenue increase for those classes?

A. PECO is proposing to increase customer charges in this manner to reduce the disparity between its current customer charges and the customer-related costs that should properly be recovered by those customer charges as reflected by Ms. Ding in PECO Exhibit JD-4.

A summary of the proposed customer charge increases is shown in Table 2 below. These changes are intended to align customer charges more closely with the Company's customer-classified costs. In most cases, the proposed modified customer charges will be closer to, but still less than, the customer charges warranted by the customer-related costs identified by Ms. Ding in PECO Exhibit JD-4 at page 4, line 24.

Table 2: Proposed Customer Charge Increases

Rate Class	Present Customer Charge	Cost-Of-Service, $/Month/Customer (Exhibit JD-4)	Proposed Customer Charge	Proposed % Increase
GR	$13.63	$28.01	$18.50	36%
GC	$28.55	$67.52	$38.82	36%
MV-F	$36.65	$293.32	$49.84	36%
MV-I	$36.65	$62.47	$49.84	36%
TCS	$125.00	$147.93	$147.93	18%
TS-I, >=18,000 Mcf	$277.21	$379.36	$379.36	37%
TS-I, <18,000 Mcf	$233.00		$318.86	37%
TS-F >=18,000 Mcf	$221.07	$334.80	$334.80	51%
TS-F <18,000 Mcf	$184.00		$278.66	51%

18. Q. Why is it important to increase customer charges so those charges are closer to customer-classified costs?

A. Customer-classified costs are, by definition, costs that vary based on the number of customers, not usage. Such costs include, principally, but not exclusively, the cost of meters, customer service lines, billing, and meter reading. Consequently, customer-classified costs are, on average, the same amount for each customer within a rate class. Accordingly, customer-classified costs are appropriately recovered in the customer charge, which is the same for each customer served under a given rate schedule. A utility should, to the extent practicable, avoid including customer-classified costs in variable distribution charges because to do so would make the recovery of customer-related costs a function of customers' usage, which they are not. More accurate price signals also offer greater transparency to customers about the fixed costs incurred to connect them to the Company's system.

Misplacing customer costs in variable distribution charges has adverse consequences. First, it can create inappropriate intra-class subsidies because some customers will pay more than their share of customer-classified costs and others less, based on their relative levels of usage each month. Second, because customer costs, which are a fixed amount per customer, would be recovered in a charge that applies to usage, which varies, the Company could recover either too little or too much of its customer-related costs as a consequence of variations in customer usage.

In summary, putting customer costs in the wrong element of a rate can be unfair to both customers and the utility. For these reasons, among others, customer-related costs in a utility's cost of service should be charged to customers in a manner that appropriately reflects the nature of the costs incurred subject to consideration of the principle of gradualism.

19. Q. What residential rate change is PECO proposing?

PECO is proposing a residential customer charge of $18.50 per month, representing approximately a 36% increase above its current customer charge of $13.63. The customer charge under proposed rates will be closer to, but still less than, the customer charge warranted by the customer-related costs identified by Ms. Ding in PECO Exhibit JD-4. PECO's current residential customer charge of $13.63 per month is lower than those of most other major gas distribution companies in Pennsylvania, as shown on PECO Exhibit JAB-3. The revenue to be recovered from this customer charge was deducted from the total revenue target for the residential class to determine the revenue to be recovered in the variable distribution service charge. The variable distribution service charge was adjusted to recover the balance of the residential class revenue not recovered by the customer charge.

20. Q. What rate change is PECO proposing to Rate Schedule GC – General Service - Commercial and Industrial ("Rate GC")?

A. PECO is proposing a Rate GC customer charge of $38.82 per month, representing approximately a 36% increase above its current customer charge of $28.55. This modified customer charge will be closer to, but still less than, the customer-related costs identified by Ms. Ding in PECO Exhibit JD-4. The revenue to be recovered from this charge was deducted from the total revenue target for the Rate GC class to determine the revenue to be recovered in the variable distribution service charge.

21. Q. Please describe PECO's proposed changes to customer charges for its other non-residential rate classes.

A. For other non-residential rate classes which the Company's COSS indicates that customer-related costs have increased, PECO is proposing to set customer charges at or closer to these higher customer-related costs. Customer charges for Rate Schedules TCS – Temperature-Controlled Service, TS-I – Interruptible Gas Transportation Service ("Rate TS-I"), and Rate Schedule TS-F – Firm Gas Transportation Service ("Rate TS-F") are proposed to increase to the full level of their customer-related costs. To prevent rate shock for customers with lower gas consumption, increases to customer charges for Rate Schedules MV-F – Motor Vehicle Firm and MV-I – Motor Vehicle Interruptible were capped at 36%, for parity with Company-proposed increases to customer charges for Rates GR and GC.

IV. REVENUE EFFECT BY RATE SCHEDULE, PROOF OF REVENUES, AND SCALE-BACK

22. Q. Have you prepared a summary of distribution revenues at present and proposed rates for each rate class?

A. Yes. PECO Exhibit JAB-1 shows revenue at both present rates and proposed rates as well as the percentage increases each class will receive on an overall basis.

23. Q. Have you prepared proofs of revenue with respect to PECO's present and proposed rates?

A. Yes. PECO Exhibit JAB-4 is a proof of revenue with respect to PECO's present and proposed rates, based on pro forma billing determinants for the FPFTY. This exhibit is tied to the portion of PECO Exhibit JAB-1 that addresses the increased revenue that would be required.

24. Q. Please explain the adjustment made to the proof of revenues at present rates for the Company's DSIC.

A. The DSIC is a rate adjustment mechanism that permits PECO to recover the fixed costs of DSIC-eligible property between base rate cases through a separate, reconcilable charge established pursuant to Section 1353 of the Public Utility Code. The Commission approved PECO's establishment of a DSIC by its final order entered October 22, 2015, at Docket No. P-2015-2471423. PECO began to charge a DSIC effective with bills rendered on or after July 1 of 2018.

As required by the terms of the DSIC and Section 1358(b) of the Public Utility Code, PECO is currently charging a DSIC of 0.0%, having reset the DSIC to zero as of July 1, 2021 – the effective date of new base rates established by the Commission in the 2020 Gas Rate Case Order. Similarly, PECO's DSIC charge will be set at zero on the effective date of new rates established in this base rate case. The fixed costs of DSIC-eligible property that PECO will continue to recover through the effective date of its new base rates have been included in the Company's claimed rate base and reflected in the revenue requirement used to establish its proposed rates. PECO has filed a DSIC charge effective April 1, 2022 for the sole purpose of reconciling residual over and undercollections experienced from July 1, 2018, through June 30, 2021. Consequently, to properly compare PECO's revenues at present rates to revenues at its proposed base rates, PECO's proof of revenue at present rates has been adjusted by customer class to include the revenues billed under its DSIC.

25. Q. How does PECO propose to scale-back the proposed rates if it is granted less than the revenue increase it requested?

A. In the event PECO is granted less than its requested increase, PECO proposes that:

(1) the revenue increases proposed for all rate classes will be reduced in proportion to the proposed increase for each class; and

(2) the customer charges for all rate classes remain as proposed, and all other rates and charges for all rate schedules be reduced proportionately to produce the revenue target for each rate class.

V. NEGOTIATED GAS CONTRACTS

26. Q. Please describe PECO's Negotiated Gas Service ("NGS") rate.

A. The Commission approved the addition of Rate NGS to the Company's tariff in 2001 under the consolidated Docket Nos. of R-00016200 and R-00016366. Rate NGS permits the Company to offer negotiated, or discounted, gas service to customers who: (1) either have a history of at least 18,000 Mcf of annual billed gas usage or, if a new customer, establish that the facilities to be served are likely to consume at least 18,000 Mcf of annual gas usage; (2) document a viable, currently available competitive alternative to service under rates GC, L, TS-F, or TS-I; and (3) execute an NGS agreement that agrees with all provisions set forth in rate NGS.

The Company requires customers to document their competitive alternative when customers seek service under Rate NGS. This competitive alternative could be an alternative fuel source, a direct connection to a pipeline or producer that bypasses the Company's distribution system, relocation of customer facilities outside of PECO's service territory, or a shutdown of customer facilities. PECO and its customers generally evaluate the potential benefits of a Rate NGS service agreement over a period that is long enough to adequately analyze the impact of the economic conditions that drive the competitive alternative, which can be ten years or more in the case of bypass or facility relocation alternatives.

27. Q. How many customers currently receive service under negotiated rates?

A. Six customers currently receive service under negotiated rate contracts that were executed under Tariff Rule 4.6, Special Contracts prior to Rate NGS approval in 2001.[3] PECO has verified the competitive alternative for two of those six customers within the last five years. In addition, as further discussed below, one customer who previously received Rate NGS service recently transitioned to standard Rate GC service.

28. Q. Has PECO developed a framework to update the competitive alternative analysis for negotiated gas contracts that have not had their competitive alternative verified for a period of five years or more upon filing a new base rate case, as directed by the Commission in the 2020 Gas Rate Case Order?

A. Yes. The Company's updated competitive alternative analysis framework for the four customers with negotiated gas rates who fit this profile includes factors that include, but are not limited to, projected customer costs to pursue the competitive alternative (e.g., initial capital investment and ongoing operating and maintenance costs), the customer's ability to secure the necessary funding for the competitive alternative, the likelihood of the customer to select the alternative if the Company does not continue to offer a negotiated rate, and contributions to fixed costs made by the customer that would offset PECO's total fixed costs recovered from all customers. Other factors, such as the costs of alternative fuels, the ability of the customer to secure proper permitting and rights-of-way for a bypass, the impacts

[3] Five of those customers are served under Rate TS-I and one customer is served under Rate TS-F.

of company investment in additional facilities on cost to serve, and the broader regional impacts of a customer leaving PECO gas service (e.g., reduced employment and diminished purchases from other vendors in PECO's service area) may also be considered based on the type of competitive alternative evaluated.

In the fall of 2021, PECO initiated customer engagement to obtain the underlying data necessary to update the competitive alternatives analysis for the negotiated gas contracts relevant to the 2020 Gas Rate Case Order. As described below, one customer elected to cancel its Rate NGS contract and transition to standard Rate GC rates in February 2022, and PECO has updated competitive alternative analyses for the remaining customers.

29. Q. Please describe the competitive alternative available to Negotiated Gas Customer 1.

A. PECO originally entered a Rate NGS contract with Customer 1 in response to a competitive alternative associated with alternative fuels. This agreement stipulates a contract rate substantially *above* PECO's current variable distribution rate. Since the Rate NGS agreement was executed in 2013, Customer 1 has reached the end of the initial five-year contract term and met its required Rate NGS total minimum usage obligation for billing purposes. Customer 1 therefore had the contractual right to, and elected to, receive gas service under PECO's Rate GC commencing in February of 2022. Accordingly, PECO's proof of revenues in this case reflects standard Rate GC tariff rates for Customer 1.

30. Q. Please describe the competitive alternative available to Negotiated Gas Customer 2.

A. Customer 2 has indicated that its lowest-cost competitive alternative to PECO gas service is onsite delivery of Compressed Natural Gas ("CNG") and has engaged an energy management service provider for execution planning. The actual cost for delivery of less than one truck of CNG per day to the customer's facility is variable depending upon market pricing and ultimately the negotiated all-in cost. The customer advised that their full evaluation of a competitive alternative would require consideration of the source of gas in addition to its transportation and distribution, and that a cost fully comparable to PECO's gas transportation rates would only exist once negotiated. Customer 2 has also raised the possibility of other competitive alternatives, including a conversion of their existing facility from natural gas to propane as well as a potential bypass via direct pipeline interconnection, and has indicated that higher gas prices could contribute to possible closure of the facility.

Under standard Rate TS-I variable distribution pricing, and based on 2020 and 2021 gas volumes, PECO estimates Customer 2 would be required to pay an additional $87,430 per year under present rates and an additional $94,396 per year under proposed rates. If this customer elected to terminate PECO gas service, the Company would lose revenues under presently negotiated rates of approximately $12,400 annually.

31. Q. Please describe the competitive alternative available to Negotiated Gas Customer 3.

A. Customer 3 has generating facilities onsite that already directly connect its property to a nearby interstate pipeline for supply purposes. This competitive alternative involves leveraging this existing pipeline connection for distributing gas to the rest of their property, thereby bypassing PECO's gas distribution system. PECO is currently working with Customer 3 to evaluate this alternative and update the related competitive alternative analysis. Customer 3 has requested additional time for its technical experts to review and provide feedback on PECO's analysis.

Under standard Rate TS-I variable distribution pricing, and based primarily on 2021 gas volume, PECO estimates Customer 3 would be required to pay an additional $315,499 per year under present rates and an additional $349,684 per year under proposed rates. If this customer elected to terminate PECO gas service, the Company would lose revenues under presently negotiated rates of approximately $194,400 annually.

32. Q. Please describe the competitive alternative available to Negotiated Gas Customer 4.

A. Customer 4 has analyzed the possibility of a bypass as a competitive alternative, on their own, and has determined it to be too costly. Subsequently, Customer 4 has indicated to PECO that their competitive alternative is to shift production operations to one of their other facilities outside of PECO's service territory, potentially resulting in closure of their existing facility in PECO's territory. The Company's understanding is that Customer 4 intends to evaluate the Company's gas distribution pricing against utility pricing for their other facilities.

Under standard Rate TS-I variable distribution pricing, and based on 2020 and 2021 gas volumes, PECO estimates Customer 4 would be required to pay an additional $196,253 per year under present rates and an additional $222,190 per year under proposed rates. If this customer elected to terminate PECO gas service, the Company would lose revenues under presently negotiated rates of approximately $186,900 annually.

33. Q. Please describe the competitive alternative available to Negotiated Gas Customer 5.

A. Customer 5 has provided a high-level cost estimate for a bypass alternative based on their experience with a recently installed gas lateral and meter/regulating project outside of Pennsylvania that was completed in 2018. The customer indicates that their inflation-adjusted analysis accounts for differences between the two projects including regulatory, environmental, geographical, permitting, and lateral length.

Under standard Rate TS-I variable distribution pricing, and based primarily on 2021 gas volumes, PECO estimates Customer 5 would be required to pay an additional $113,410 per year under present rates and an additional $128,996 per year under proposed rates. If this customer elected to terminate PECO gas service, the Company would lose revenues under presently negotiated rates of approximately $111,900 annually.

VI. CONCLUSION

34. Q. Please summarize your conclusions.

A. PECO's proposed rates reflect a reasonable allocation of the Company's proposed revenue increase and a reasonable rate design for each rate schedule. The proposed rate design changes are consistent with the results of the COSS identified by Ms. Ding and applicable principles of rate structure and rate design, including gradualism. Additionally, PECO has taken reasonable steps to comply with the Commission's requirements in the 2020 Gas Rate Case Order regarding negotiated gas contracts.

35. Q. Does this conclude your direct testimony?

A. Yes, it does.