

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

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May 7, 2015

Rosemary Chiavetta, Secretary  
PA Public Utility Commission  
Commonwealth Keystone Bldg.  
400 North Street  
Harrisburg, PA 17120

Re: Pa. Public Utility Commission  
v.  
PECO Energy Company  
Docket No. R-2015-2468981

Dear Secretary Chiavetta:

Enclosed please find the Office of Consumer Advocate's Prehearing Memorandum in the above-referenced proceeding.

Copies have been served per the attached Certificate of Service.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Brandon J. Pierce', written over a horizontal line.

Brandon J. Pierce  
Assistant Consumer Advocate  
PA Attorney I.D. #307665  
E-Mail: BPierce@paoca.org

Attachment

cc: Honorable Angela T. Jones  
Certificate of Service

206374

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket Nos. R-2015-2468981
	:	C-2015-2475585
	:	
PECO Energy Company	:	

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PREHEARING MEMORANDUM  
OF THE  
OFFICE OF CONSUMER ADVOCATE

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Pursuant to Section 333 of the Public Utility Code, 66 Pa. C.S. Section 333, and in response to the Prehearing Conference Order issued by Administrative Law Judge (ALJ) Angela T. Jones in the above-captioned matter, the Office of Consumer Advocate (OCA) provides the following information:

**I. INTRODUCTION**

On March 27, 2015, PECO Energy Company (PECO or the Company) filed proposed Tariff Electric - Pa. P.U.C. No. 5 (Tariff No. 5) at Docket No. R-2015-2468981. PECO proposes that Tariff No. 5 supersede Tariff Electric Pa. P.U.C. No. 4 and all supplements thereto. Through Tariff No. 5, the Company proposes to increase Distribution rates to produce additional annual operating revenues of \$190.1 million, or 15.6% above existing Distribution revenues. The proposed increase represents a 4.4% over PECO's total present revenues (distribution, transmission and default service generation). The Company proposed that the rate increase become effective on May 26, 2015. PECO is engaged in the business of providing electric

distribution service to approximately 1.6 million residential, commercial, and industrial customers in Philadelphia, Bucks, Chester, Delaware, Montgomery, and York Counties.

The OCA filed a Formal Complaint and Public Statement against the proposed revenue increase on April 6, 2015. On April 7, 2015, the Commission's Bureau of Investigation and Enforcement (I&E) entered a Notice of Appearance. A Petition to Intervene was filed by the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA) on April 9, 2015. The Office of Small Business Advocate (OSBA) filed a Formal Complaint on April 16, 2015 and a Notice of Appearance on April 17, 2015. The Tenant Union Representative Network (TURN) and the Action Alliance of Senior Citizens of Greater Philadelphia (Action Alliance) filed a Petition to Intervene on April 20, 2015. On April 23, 2015, the City of Philadelphia filed a Petition to Intervene. The Clean Air Council filed a Petition to Intervene on May 1, 2015. On May 6, 2015, the Philadelphia Area Industrial Energy Users Group (PAIEUG) filed a Formal Complaint.

On April 23, 2015, the Commission entered an Order initiating an investigation into the lawfulness, justness, and reasonableness of the proposed rate increase in this filing, and suspended the effective date of Tariff No. 5 until December 26, 2015, by operation of law. The case was assigned to ALJ Jones, who issued a Prehearing Conference Order on April 28, 2015. A Prehearing Conference is scheduled for May 11, 2015.

## **II. ISSUES AND SUB-ISSUES**

Based upon a preliminary analysis of PECO's base rate increase filing, the OCA has compiled a list of issues which it anticipates will be included in its investigation of this rate request. It is anticipated that other issues may arise and may be pursued once the answers to all of the OCA's interrogatories have been received and analyzed.

The OCA has served six sets of interrogatories to date. Upon receipt of the answers to those interrogatories, the OCA may then be able to narrow the scope of additional information requests. Once the discovery process has been completed, the OCA will file direct testimony which will set forth the specific issues that the OCA will address in this proceeding. At that time, the OCA will also be able to make and to quantify its specific recommendations.

The following list sets forth the issues, that at this time, the OCA anticipates it may raise:

A. Rate of Return

- Cost of Common Equity: The OCA will perform a detailed analysis of the cost of common equity claimed by PECO. Also, the OCA will carefully examine the Company's methodologies and supporting data used to develop its final cost of common equity claim.
- Capital Structure: The OCA will examine whether the capital structure claimed by PECO is representative of the period in which rates will be in effect and is otherwise appropriate for ratemaking purposes.
- Leverage Adjustment: The OCA will examine the methodologies used by the Company to derive its cost of capital.
- Embedded Cost of Debt and Preferred Stock: The OCA will examine the embedded cost of debt and preferred stock.

B. Rate Base/Measure of Value

The OCA will examine the reasonableness of the Company's filing as it relates to rate base/measures of values, including the following areas:

- The Company's plant in service claims in order to determine whether the plant claimed is used and useful in providing utility service;

- The Company's application of the Fully Projected Future Test Year (FPFTY) in this proceeding;
- The Company's pension asset claim; and
- The Company's claim for cash working capital.

C. Revenue and Expenses

The OCA will examine the reasonableness of the Company's filing as it relates to revenues and expenses, including the following areas:

- The sales forecast utilized by the Company in order to project future test year sales and revenues;
- The Company's miscellaneous revenues;
- The Company's treatment of uncollectible expense (including the impact of PECO's in-program arrearage forgiveness proposal);
- The Company's proposed depreciation expense;
- The Company's rate case expense, labor expense, pension expense, vegetation management expense, and advertising expense;
- The Company's income tax expense and consolidated tax savings; and
- Salaries of PECO's employees, including executive compensation.

D. Rate Structure/Cost of Service/Rate Design

The OCA will examine the following issues:

- The cost of service study, including the methodology used and the reasonableness of the allocations;
- The Company's proposed customer charge;
- Whether the rate design proposed by the Company is reasonable and appropriate;

- The Company's proposed distribution of the revenue increase among customer classes; and
- The reasonableness and appropriateness of the Company's proposed tariff changes.

E. Universal Service Programs

The OCA will examine the following issues:

- The Company's Customer Assistance Program (CAP) to ensure that the budget amount is reasonable and that costs are recovered appropriately;
- The Company's proposal to establish a CAP in-program arrearage forgiveness program (IPA) to address the arrearages that have accumulated since a CAP customer entered the CAP program;
- The Company's Low-Income Usage Reduction Program to ensure that the budget amount is reasonable and that costs are recovered appropriately; and
- The cost recovery mechanism to ensure that the Company recovers only those costs permitted to be recovered.

### **III. WITNESSES**

The OCA intends to present the direct, rebuttal, and surrebuttal testimony, as may be necessary, of the following witnesses in this proceeding. The witnesses will present testimony in written form and will also attach various exhibits, documents, and explanatory information which will assist in the presentation of the OCA's case. In order to expedite the resolution of this proceeding, the OCA requests that copies of all interrogatories, testimony, and answers to interrogatories be mailed directly to the expert witnesses responsible for the area of the case, as well as mailing a copy to counsel for the OCA.

A. Rate Base, Revenues, Expenses, and General Accounting

David J. Effron  
Berkshire Consulting Services  
12 Pond Path  
North Hampton, NH 03862  
Telephone: 603-964-6526  
E-mail: [djeffron@aol.com](mailto:djeffron@aol.com)

B. Rate Structure and Cost Allocation

Glenn Watkins  
Technical Associates, Inc.  
9030 Stony Point Parkway  
Suite 580  
Richmond, VA 23235  
  
Telephone: 804-272-5363  
Fax: 804-272-3598  
E-mail: [watkinsg@tai-econ.com](mailto:watkinsg@tai-econ.com)

C. Rate of Return

David C. Parcell  
Technical Associates, Inc.  
9030 Stony Point Parkway  
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Richmond, VA 23235  
  
Telephone: 804-272-5363  
Fax: 804-272-3598  
E-mail: [david.parcell@tai-econ.com](mailto:david.parcell@tai-econ.com)

D. Universal Service/CAP

Roger Colton  
Fisher, Sheehan and Colton  
34 Warwick Road  
Belmont, MA 02478  
  
Telephone: 617-484-0597  
E-mail: [roger@fsconline.com](mailto:roger@fsconline.com)

The OCA specifically reserves the right to call additional witnesses, as necessary. As soon as the OCA has determined whether an additional witness or witnesses will be necessary for any portion of its case, the OCA will promptly notify ALJ Jones and all parties of record.

#### **IV. SERVICE ON THE OCA**

The OCA will be represented in this case by Senior Assistant Consumer Advocate Aron J. Beatty and Assistant Consumer Advocates Christy M. Appleby and Brandon J. Pierce. Two copies of all documents should be served on the OCA as follows:

Aron J. Beatty  
Office of Consumer Advocate  
555 Walnut Street  
5th Floor, Forum Place  
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Fax: (717) 783-7152  
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[CApplby@paoca.org](mailto:CApplby@paoca.org)  
[BPierce@paoca.org](mailto:BPierce@paoca.org)

#### **V. DISCOVERY**

The OCA has served six sets of discovery to date. The OCA expects that the Company's responses will trigger follow-up discovery due to the nature and complexity of the myriad issues involved. Because the time period for discovery and preparation of testimony is limited, the OCA supports a shortened discovery response time in this proceeding.<sup>1</sup> The OCA, therefore, requests the following modifications:

- a. Answers to written interrogatories shall be served in-hand within ten (10) calendar days of service. Discovery and discovery-related pleadings propounded after 12:00 noon on a Friday or after 12:00 noon on any business day immediately preceding a state holiday will be deemed served on the next business day for purposes of determining the due date of the responses and responsive pleadings.

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<sup>1</sup> The Company has already informally adhered to a ten-day response time and the OCA appreciates the Company's efforts.



b. Objections to interrogatories shall be communicated orally within three (3) calendar days of service of the interrogatories; unresolved objections shall be served to the ALJ in writing within five (5) days of service of the interrogatories. Objections to interrogatories served on a Friday shall be communicated orally within four (4) calendar days, and unresolved objections shall be served to the ALJ in writing within six (6) days of service of the interrogatories.

c. Motions to dismiss objections and/or direct the answering of interrogatories shall be filed within three (3) calendar days of service of the written objections.

d. Answers to motions to dismiss objections and/or direct the answering of interrogatories shall be filed within three (3) calendar days of service of such motions.

e. Responses to requests for document production, entry for inspection, or other purposes must be served in-hand within ten (10) calendar days.

f. Requests for admissions will be deemed admitted unless answered within ten (10) calendar days or objected to within five (5) calendar days of service.

The Commission approved similar discovery modifications in PECO's 2010 base rate proceeding.<sup>2</sup>

## **VI. PUBLIC INPUT HEARINGS**

The OCA requests that at least five public input hearings be held in the Company's service territory in or near major population centers. The OCA has received requests for a public input hearing through its Customer Call Center for hearings throughout PECO's service territory, as well as a request from Representative W. Curtis Thomas. The schedule proposed by the Company includes provisions for four public input hearings, and the OCA would request that a fifth public input hearing be held in the central portion of PECO's Bucks County service territory. The OCA reserves the right to request additional locations for public input hearings in response to future requests from ratepayers and/or legislators, and will promptly advise ALJ Jones and the parties of any further requests.

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<sup>2</sup> See Docket No. R-2010-2161575, Order (June 15, 2010) at 7-9.

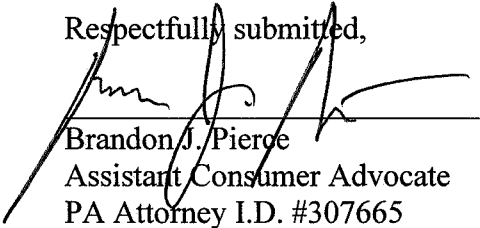
## VII. PROPOSED SCHEDULE

The proposed schedule set forth in the Company's Prehearing Memorandum is acceptable to the OCA, with the clarification that the OCA's request for additional public input hearings in Section VI, *supra*, will be considered.

## VIII. SETTLEMENT

The OCA is willing to participate in settlement discussions at the appropriate time in this proceeding.

Respectfully submitted,



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May 7, 2015

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CERTIFICATE OF SERVICE

Re: Pennsylvania Public Utility Commission :  
v. : Docket No. R-2015-2468981  
PECO Energy Company :

I hereby certify that I have this day served a true copy of the foregoing document, the Office of Consumer Advocate's Prehearing Memorandum, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 7<sup>th</sup> day of May, 2015.

SERVICE BY E-MAIL AND INTER-OFFICE MAIL

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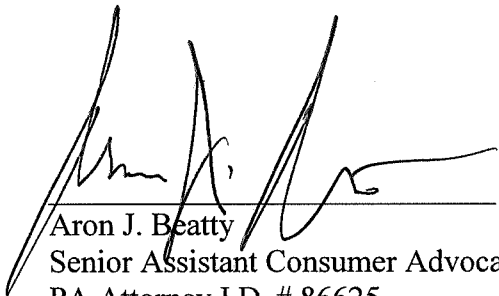
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