

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
v.	:	DOCKET NO. R-2018-3000164
	:	
PECO ENERGY COMPANY	:	

**PREHEARING MEMORANDUM
OF
PECO ENERGY COMPANY**

This memorandum is submitted in response to the Prehearing Conference Order issued by Deputy Chief Administrative Law Judge Christopher P. Pell and Administrative Law Judge F. Joseph Brady dated April 20, 2018.

I. INTRODUCTION

On March 29, 2018, PECO Energy Company (“PECO” or “the Company”) filed with the Pennsylvania Public Utility Commission (“Commission”) Tariff Electric – Pa. P.U.C. No. 6 (“Tariff No. 6”). Tariff No. 6 reflects an increase in annual distribution revenue of approximately \$82 million, or 2.2% of PECO’s total Pennsylvania jurisdictional operating revenues. The Company submitted a detailed Statement of Reasons supporting its requested rate increase with its initial filing, attached as Exhibit “A” hereto. By Order issued April 19, 2018, the Commission instituted a formal investigation to determine the lawfulness, justness and reasonableness of PECO’s existing and proposed rates, rules and regulations. Accordingly, Tariff No. 6 was suspended by operation of law until December 28, 2018.¹

¹ Order, *Pa. P.U.C. v. PECO Energy Company*, Docket No. R-2018-3000164 (Order entered April 19, 2018). In accordance with the Commission’s April 19th Order and Section 53.71 of the Commission’s regulations, 52 Pa. Code § 53.71, PECO filed a tariff supplement suspending Tariff No. 6. *See*

PECO's proposed rate increase reflects \$71 million savings in 2019 from changes in federal income tax law made by the Tax Cuts and Jobs Act ("TCJA"), which became effective on January 1, 2018.² PECO is also proposing to refund the amount of PECO's reduced tax expense in 2018 which PECO projects to be approximately \$68 million under its existing rates.³ The 2018 refund would be returned to customers expeditiously through a reconcilable surcharge mechanism (the Federal Tax Adjustment Credit ("FTAC")) proposed as part of these proceedings.⁴

Accompanying its tariff filing, PECO submitted extensive and detailed supporting information, including the prepared written testimony and exhibits of its eight initial witnesses. During the course of this case, PECO may submit additional testimony and exhibits in response to presentations of, or cross-examination by, other parties and with respect to any specific issues that might be raised by such parties. In addition, certain testimony and exhibits will be updated, as necessary, to reflect known changes that should be considered in this proceeding.

In support of its proposed rate increase, PECO has presented complete and separate data for the historic test year ("HTY") ended December 31, 2017, the future test year ("FTY") ending

Supplement No. 1 to Tariff Electric – Pa. PUC No. 6 Suspending Original Tariff No. 6 Until December 28, 2018, Docket No. R-2018-3000164 (filed April 27, 2018).

² Tax Cuts and Jobs Act of 2017, Pub. L. No. 115-97 (2017).

³ The savings of \$71 million in 2019 and \$68 million in 2018 are the net effect of the TCJA's reduction in the federal income tax rate from 35% to 21%, the amortization of a regulatory asset established to reflect excess accumulated deferred income taxes created by the tax rate reduction, and the elimination of bonus depreciation for public utilities.

⁴ PECO described the customer refunds proposed in this proceeding in comments filed in response to the Commission's Secretarial Letter directing Pennsylvania utilities to address the TCJA. *See* Comments of PECO Energy and Responses to Data Requests, *Re: Tax Cuts and Jobs Act of 2017*, Docket No. M-2018-2641242 (filed March 8, 2018). Subsequently, PECO designated its current rates and riders as temporary in accordance with the directives of the Commission to Pennsylvania utilities. *See* Temporary Rates Order, *Re: Tax Cuts and Jobs Act of 2017*, Docket No. M-2018-2641242 (Order entered March 15, 2018) & Supplement No. 60 to Tariff Electric – Pa. PUC No. 5 (filed March 16, 2018) (declaring current rates and riders as temporary pursuant to 66 Pa. C.S. § 1310(d)).

December 31, 2018 and the fully projected future test year (“FPFTY”) ending December 31, 2019. PECO intends, however, to rely primarily on the FPFTY data. PECO submits that the record at the close of this proceeding will fully demonstrate that the proposed rates are just, reasonable and lawful and should be approved in full by the Commission.

On April 4, 2018, Carrie B. Wright, Esq., entered a Notice of Appearance on behalf of the Commission’s Bureau of Investigation and Enforcement (“I&E”). On April 9, 2018, the Office of Small Business Advocate (“OSBA”) filed a formal Complaint, Public Statement, Verification, and a Notice of Appearance on behalf of Elizabeth Rose Triscari, Esq. On April 12, 2018, the Office of Consumer Advocate (“OCA”) filed a formal Complaint, Public Statement, and Notices of Appearance on behalf of Christy M. Appleby, Esq., Hayley Dunn, Esq., and Aron J. Beatty, Esq. Complaints were also filed by the Philadelphia Area Industrial Energy Users Group (“PAIEUG”) on April 26, 2018, and by the Trustees of the University of Pennsylvania (“UPenn”) on May 2, 2018.

As of this date, the Company has been served with Petitions to Intervene of The Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (“CAUSE-PA”), dated April 10, 2018; the International Brotherhood of Electrical Workers, Local 614 (“IBEW”), dated April 17, 2018; the Community Action Association of Pennsylvania (“CAAP”), dated April 23, 2018; the Delaware Valley Regional Planning Commission (“DVRPC”), dated April 27, 2018; the Tenant Union Representative Network and the Action Alliance of Senior Citizens of Greater Philadelphia (“TURN *et al.*”), dated May 3, 2018; Tesla, Inc. (“Tesla”), dated May 3, 2018; Wal-Mart Stores East, LP and Sam’s East, Inc. (“Walmart”), dated May 3, 2018; NRG Energy, Inc. (“NRG”), dated May 4, 2018; and the Retail Energy Supply Association (“RESA”), dated May 4, 2018.

II. ISSUES

Generally, every rate case presents two major issues for resolution: (1) the total amount of the revenue increase to which the utility is entitled; and (2) the allocation of the increased revenues among the utility's rate classifications through a rate structure and rate design that will produce the required revenue. As discussed below, the Company's calculation of its required revenue increase and its proposed allocation of the increase to each customer classification have been developed by applying principles and procedures that the Commission has previously reviewed and approved.

A determination of the total revenue increase to which a utility is entitled involves a number of elements which may be grouped under three headings and characterized as the following major sub-issues herein:

A. Total Return. The total return (utility operating income) required by the utility to provide a fair rate of return on its claimed rate base. Fair rate of return involves the determination of the appropriate cost or return rate for the capital employed by the Company to furnish electric service. Such return must be sufficient to enable the Company to maintain the financial integrity of its existing capital and to attract additional capital on reasonable terms. In addition, the Company must be permitted an opportunity to earn, on the portion of its rate base financed by common equity, a return commensurate with the returns on investments in other enterprises having similar risks. The appropriate rate of return for the Company, and in particular the appropriate return rate for the Company's common equity, is an issue which is critical to the well-being of the Company and its ability to continue to provide the service that its customers have been receiving and are entitled to receive in the future.

B. Operating Expenses. The future or ongoing level of the utility's operating expenses to provide electric distribution service, including depreciation, amortizations and taxes, which must be recovered from customers through rates.

C. Revenues. The electric distribution revenue normally available to the utility under present rates and the level of revenue that will be produced by the proposed rates.

By comparing the electric distribution revenue produced by the utility's present rates with its total required operating income and anticipated electric distribution operating expenses, depreciation, amortizations and taxes, the necessary increase in revenue and rate levels required to provide a fair rate of return is determined.

The allocation of the proposed revenue increase and the Company's proposed rate structure and rate design are explained in Exhibit A and are discussed in detail in the direct testimony of Ms. Ding, Mr. Kehl and Mr. Schlesinger (PECO Statement Nos. 6, 7 & 8, respectively). In developing PECO's rate structure proposal, Mr. Kehl considered the results of a cost of service study performed by Ms. Ding and the principle of gradualism that has traditionally been applied in Pennsylvania. The proposed rates were designed to mitigate the impact of the requested increase on each major rate class, to the extent practicable, while still making meaningful movement toward each class' cost of service. To that end, PECO's proposed revenue allocation moves the rates of return for each major rate class closer to, or at least no further from, the system average rate of return.

PECO is also proposing certain changes in rate design, which include principally: (1) aligning fixed distribution/customer charges with, or closer to, customer-classified costs; and (2) increasing the voltage discounts for customers served at 69 kV or higher to provide an offset to those customers to reflect an appropriate allocation of distribution substation costs. In addition,

PECO is introducing a new street lighting rate to give municipalities and community associations the opportunity to realize savings from innovative “smart” street-light technology, which allows for the control of street lights to further reduce energy use. Certain other changes in rate design and in the rules, regulations and riders set forth in the Company’s tariff are described in the testimony of Mr. Kehl and Mr. Schlesinger.

III. WITNESSES AND EVIDENCE

Listed below are the initial witnesses for PECO, together with a brief summary of the subject matter of their testimony.

1. **Michael A. Innocenzo** (PECO Statement No. 1) is PECO’s President and Chief Executive Officer.⁵ Mr. Innocenzo describes PECO’s electric operations; provides an overview of this rate filing, including an introduction of the other witnesses who present testimony in support of PECO’s case-in-chief; explains PECO’s capital investment process and identifies the types of projects that comprise PECO’s claimed FTY and FPFTY plant additions; describes how the Company has fulfilled its commitments from its 2015 electric base rate proceeding; discusses various measures undertaken by the Company to ensure system safety and reliability and enhance its quality of service; and discusses measures taken by the Company to enhance the communities in which it operates and to promote economic development and support diversity and inclusion.

2. **Phillip S. Barnett** (PECO Statement No. 2) is PECO’s Senior Vice President, Chief Financial Officer and Treasurer. Mr. Barnett discusses the Company’s efforts to control operation and maintenance expense; provides an overview of PECO’s principal accounting

⁵ Effective March 31, 2018, Mr. Innocenzo became President and Chief Executive Officer of PECO. At the time of the initial filing, Mr. Innocenzo was Senior Vice President and Chief Operating Officer of PECO.

exhibits; discusses PECO's budgeting process; and describes the services that PECO receives from the Exelon Business Services Company and the estimated cost of those services during the FPFTY.

3. **Benjamin S. Yin** (PECO Statement No. 3) is PECO's Manager of Revenue Policy. Mr. Yin sponsors PECO Exhibits BSY-1, BSY-2, BSY-3, and BSY-4. PECO Exhibits BSY-1, BSY-2, and BSY-3 set forth PECO's revenue requirement for the FPFTY ending December 31, 2019, FTY ending December 31, 2018 and HTY ended December 31, 2017, respectively. In those exhibits and his direct testimony, Mr. Yin specifically supports PECO's measures of value, revenue, operating expense and tax claims. PECO Exhibit BSY-4 is the Company's calculation of the reduction in its 2018 revenue requirement attributable to changes in federal tax law made by the TCJA.

4. **Scott A. Bailey** (PECO Statement No. 4) is PECO's Vice President and Controller. Mr. Bailey describes PECO's accounting processes; supports the assignment and allocation of common costs between PECO's electric and gas operations; and explains the development of the depreciated original cost of the Company's utility plant in service and its claim for annual depreciation expense.

5. **Paul R. Moul** (PECO Statement No. 5) is the Managing Consultant of P. Moul & Associates, Inc. Mr. Moul presents testimony concerning the rate of return that PECO should be afforded an opportunity to earn on its measures of value. He supports PECO's claimed capital structure ratios, its embedded costs of debt, and its requested equity allowance, as follows:

<u>Type of Capital</u>	<u>Ratios</u>	<u>Cost Rate</u>	<u>Weighted Cost Rate</u>
Long-Term Debt	46.61%	4.16%	1.94%
Common Equity	53.39%	10.95%	5.85%
Total	100.00%		7.79%

6. **Jiang Ding** (PECO Statement No. 6) is a Principal Regulatory and Rates Specialist at PECO. Ms. Ding presents an unbundled, fully allocated, customer class cost of service study.

7. **Mark Kehl** (PECO Statement No. 7) is a Principal Regulatory and Rates Specialist at PECO. Mr. Kehl presents PECO’s proposed tariff rates and explains how the results of Ms. Ding’s customer class cost of service study, as well as the consideration of other factors, were utilized in the rate design process. Mr. Kehl also describes changes to several existing rates and riders and discusses PECO’s proposal to recover a portion of the costs related to the Company’s transition from a tiered discount to a Fixed Credit Option Customer Assistance Program.

8. **Richard A. Schlesinger** (PECO Statement No. 8) is PECO’s Manager, Retail Rates. Mr. Schlesinger discusses proposed changes and clarifications to PECO’s tariff rules and regulations, proposed changes to several existing rates and riders (including the FTAC), and PECO’s commitment from its 2015 electric base rate proceeding regarding the interconnection of customer-owned generation.

The Company may present additional witnesses to address the direct testimony of other parties; however, such witnesses cannot be identified until the direct testimony of such parties is reviewed and evaluated.

IV. DISCOVERY

The parties have agreed to proposed discovery modifications, attached as Exhibit “B” hereto. These procedures are substantially the same as those previously approved by the Presiding Administrative Law Judge in PECO’s 2015 electric base rate proceeding. Accordingly, the parties respectfully request that the Administrative Law Judges approve the proposed discovery modifications.

In addition, PECO has submitted to the parties for their consideration a proposed Protective Order, which is attached as Exhibit “C” hereto. It is substantially the same form of Protective Order approved by the Presiding Administrative Law Judge in PECO’s 2015 electric base rate proceeding. The parties have no objections to its adoption, and PECO respectfully requests that the Administrative Law Judges enter the proposed Protective Order. In advance of the Prehearing Conference and in order to facilitate the discovery of certain confidential information, the Company also has sent Stipulated Protective Agreements to each of the statutory advocates and other parties who have petitioned to intervene in this proceeding, which address how recipients will handle information deemed confidential by a party responding to discovery. To date, the Company has executed Stipulated Protective Agreements with I&E, OCA, OSBA, IBEW, and CAUSE-PA.

To date, PECO has been served with 295 interrogatories and data requests, and PECO has responded to more than 72 of those inquiries (with an additional 73 responses being served on May 4, 2018, for a total of 145 responses). In an effort to facilitate the timely exchange of information, PECO has voluntarily held itself to an accelerated 10-day response time for all interrogatories and data requests. PECO encourages informal exchanges of information and is prepared to meet with representatives of the other active parties to discuss issues of interest. To

that end, PECO has proposed two Technical Conferences before the due date for other parties' Direct for discussions with the Company about information it has provided.

V. PROPOSED PROCEDURAL SCHEDULE

PECO has developed, and proposes, the schedule attached as Exhibit "D" to this Memorandum for the submission of testimony, public input hearings, the conduct of evidentiary hearings, and briefing. The Company has communicated the proposed schedule to the parties and believes there are no outstanding objections to the proposal, subject to approval by the Administrative Law Judges of certain scheduling accommodations in the order of witnesses at hearings.

The attached schedule proposes August 20-22, 2018 for hearings and August 22, 2018 for the closing of the record. The parties have proposed these dates instead of the dates proposed in the Prehearing Conference Order because a number of parties in this proceeding may also be participating in hearings in the base rate proceedings of Duquesne Light Company scheduled for August 15-17, 2018. The proposed schedule maintains the dates for filing of Reply Briefs (September 17, 2018) specified in the Prehearing Conference Order, but adds an additional day for filing of Main Briefs (September 7, 2018 instead of September 6, 2018) to avoid a conflict with the due date for Main Briefs in the Duquesne Light Company proceedings.

VI. SETTLEMENT

PECO will pursue stipulations of individual issues with the parties and the possibility of settlement that might lead to a comprehensive resolution of this matter.

VII. SERVICE LIST

PECO requests that the official service list entry for the Company be as follows:

Romulo L. Diaz, Jr. (Pa. No. 88795)
Jack R. Garfinkle (Pa. No. 81892)
W. Craig Williams (Pa. No. 306405)
Michael S. Swerling (Pa. No. 94748)
PECO Energy Company
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jack.garfinkle@exeloncorp.com
craig.williams@exeloncorp.com
michael.swerling@exeloncorp.com

PECO also requests that a copy of all correspondence, discovery, testimony and other materials sent to the Company be provided to:

Kenneth M. Kulak (Pa. No. 75509)
Anthony C. DeCusatis (Pa. No. 25700)
Catherine G. Vasudevan (Pa. No. 210254)
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Phone: 215.963.5384
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ken.kulak@morganlewis.com
anthony.decusatis@morganlewis.com
catherine.vasudevan@morganlewis.com

The lead attorney for purposes of the Prehearing Conference will be Mr. Williams,
Assistant General Counsel for the Company.

VIII. CONCLUSION

Based on the evidence referenced above, PECO submits that the rates proposed in Tariff Electric – Pa. P.U.C. No. 6 are just, reasonable and lawful in all respects. Accordingly, the requested rate increase should be approved by the Administrative Law Judges and the Commission at the close of this proceeding.



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Counsel for PECO Energy Company

Dated: May 4, 2018

EXHIBIT A

Statement of Reasons

PECO ENERGY COMPANY

STATEMENT OF SPECIFIC REASONS FOR PROPOSED INCREASE IN ELECTRIC RATES

PECO Energy Company (“PECO” or the “Company”) is filing to increase its electric delivery rates by approximately \$82 million, or 2.2% on the basis of total Pennsylvania jurisdictional operating revenue. In accordance with Section 1308 of the Public Utility Code, the tariff setting forth the Company’s proposed rates bears an effective date of May 28, 2018. However, the Company anticipates that its requested increase will be suspended and investigated by the Pennsylvania Public Utility Commission (“PUC” or the “Commission”) and, therefore, the Company does not expect that new Commission-approved rates will become effective until approximately January 1, 2019.

PECO’s proposed rate increase reflects \$71 million savings in 2019 from changes in federal income tax law made by the Tax Cuts and Jobs Act (the “TCJA”), which became effective on January 1, 2018. PECO is also proposing to refund the amount of PECO’s reduced tax expense in 2018 which PECO projects to be approximately \$68 million under its existing rates. The 2018 refund would be returned to customers expeditiously through a reconcilable surcharge mechanism proposed as part of these proceedings.

The reasons for the Company’s proposed increase are summarized below.

Rate Increase

PECO last filed for an increase in electric base rates in March 2015.⁶ Since rates were established in that case, PECO has continued to make substantial investments in new and replacement utility plant to ensure that customers can continue to receive the safe and reliable service they have come to expect. Between January 1, 2016 and December 31, 2019, the end of the fully projected future test year, PECO will have invested over \$1.9 billion in additional electric distribution plant.

PECO has carefully managed bad debt expense, post-employment benefits and other operation and maintenance (“O&M”) expenses. Indeed, when adjusted for major storms, PECO projects a 0.4% compound annual growth rate in O&M expense from 2016 through the end of 2019. These annual increases are well below the expected rate of inflation for the same period. The projected compound annual growth rate would increase to 1.7% if the variable expenses associated with major storms (using PECO’s five-year average of historic storm damage expense) were included.

Notwithstanding PECO’s aggressive cost-containment and management efforts, after three years, based on PECO’s review of current and projected financial results, an increase in electric-delivery revenues is needed and cannot be achieved without an increase in rates. In fact, load growth from 2016 to 2017 has declined by 0.5%, notwithstanding the fact that the number of customers has increased by 0.8% during the same period. Load growth from 2017-

⁶ *PECO Energy Company General Base Rate Filing for Electric Operations*, Docket No. R-2015-2468981, filed on March 27, 2015.

2019 is expected to remain relatively flat with a compound annual growth rate of 0.1% notwithstanding customer growth of 0.8%.

Absent rate relief, the Company's overall rate of return at present rates is projected to be only 5.84% for the fully projected future test year, as shown on Schedule A-1 of PECO Exhibit BSY-1. More importantly, the indicated return on common equity under present rates is anticipated to be only 7.30%, which is inadequate by any reasonable standard and far less than required to provide the Company with a reasonable opportunity to attract capital.

Without the requested rate relief, PECO's financial results would deteriorate even further in 2020 and thereafter. This would jeopardize the Company's ability to appropriately invest in the infrastructure needed to maintain and improve its safety, reliability and customer-service levels. It would also have an adverse impact on PECO's credit-coverage ratios and negative implications with respect to maintaining the Company's current credit ratings, which would increase its financing costs.

The requested rates would produce a 7.79% return on the Company's claimed measures of value and a return on its common equity of 10.95%. These return levels are recommended by Mr. Paul R. Moul (PECO Statement No. 5), the Company's cost-of-capital consultant and an expert on the subject of rate of return. Mr. Moul's rate of return recommendations are set forth in PECO Exhibit PRM-1 and are summarized in the following table:

	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
Long-Term Debt	46.61%	4.16%	1.94%
Common Equity	53.39%	10.95%	5.85%
Total	100%		7.79%

Mr. Moul proposes a 10.95% return on common equity for this case based on his analysis of the Company’s cost of capital and its superior management performance, as described in the testimony of Mr. Michael A. Innocenzo, PECO’s Senior Vice President and Chief Operating Officer (PECO Statement No. 1).⁷

Supporting Data

PECO is filing all of the supporting data required by the Commission’s regulations, including data for the historic test year (“HTY”) ended December 31, 2017, the future test year (“FTY”) ending December 31, 2018, and the fully projected future test year (“FPFTY”) ending December 31, 2019. Because the Company is basing its claim principally on the level of operations for the FPFTY, the discussion that follows will address FPFTY data.

The revenue and expense claims for the FPFTY have been prepared in accordance with accepted practices of the Commission. Operating revenues at present rates were derived from budgeted revenues for PECO’s electric operations for the year ending December 31, 2019, adjusted in the manner shown on Schedule D-5 of PECO Exhibit BSY-1. Principal

⁷ Effective March 31, 2018, Mr. Innocenzo will become President and Chief Executive Officer of PECO.

revenue adjustments include the removal of revenues related to portions of the Company's business that are not subject to the jurisdiction of the Commission, decreased revenues resulting from the implementation of Act 129 energy efficiency programs, the removal of revenues billed under the surcharges (i.e., non-base rate revenue) that recover the cost of implementing the Company's energy efficiency and conservation programs pursuant to Act 129, and the annualization of changes in number of customers.

Pro forma FPFTY operating expenses were developed from PECO's 2019 budget for electric operations. Budgeted expenses, which were prepared based on business activities and related cost elements such as payroll, employee benefits, etc., were distributed to FERC accounts based on the distribution experienced by the Company during the HTY. The budget data, as distributed to FERC accounts, were annualized or normalized in accordance with established Commission ratemaking practices and other appropriate adjustments were made, all of which are included in Schedule D of PECO Exhibit BSY-1. The necessary adjustments were made to the appropriate FERC accounts.

Annual depreciation expense for electric and common plant in service at December 31, 2019, was calculated using the remaining life method, which the Commission has previously approved for PECO's electric operations. PECO's claim for the estimated annualized depreciation accrual is set forth in Schedule D-17 of PECO Exhibit BSY-1 and is described in PECO Statement No. 3.

Income taxes were calculated using procedures commonly accepted by the Commission and reflect the tax rates and other tax changes enacted by the TCJA. The interest expense deduction was synchronized with the Company's measures of value and claimed

weighted average cost of long-term debt. The normalization method was used to reflect the tax-book timing differences associated with the use of accelerated methods of tax depreciation to the extent permitted by the Commission and appellate precedent. In addition, there are adjustments to other tax-book differences and flow-through amounts. Tax expense was reduced to reflect the amortization of the unamortized investment tax credits and to flow back “excess” accumulated deferred tax liabilities created by the reduction in the federal corporate income tax rate as of January 1, 2018. The income tax expense claims for the FPFTY at present rate and proposed rate revenue levels are shown on PECO Exhibit BSY-1, Schedule D-18.

PECO's measures of value reflect the Company's balances of electric plant at December 31, 2019, including common plant used in, and appropriately allocated to, electric operations, as shown in Section C of PECO Exhibit BSY-1. The estimated original cost of gross plant at December 31, 2019 was developed by taking the original cost of gross plant at January 1, 2018, and adding the 2018 and 2019 estimated plant additions and subtracting the 2018 and 2019 estimated plant retirements. The estimated accumulated book reserve at December 31, 2019 was calculated in similar fashion. Specifically, the accumulated book reserve at December 31, 2017 was brought forward to December 31, 2019 by adding the 2018 and 2019 estimated annual depreciation accrual; subtracting the 2018 and 2019 estimated plant retirements; and adding 2018 and 2019 estimated cost of removal net of salvage that is closed to the accumulated book reserve. The unamortized balance of Automated Meter Reading (“AMR”) investment, a pension asset, materials and supplies and cash working capital were included in the determination of the measures of value, while accumulated deferred Federal

income taxes, a 13-month average of customer advances, and a 13-month average of customer deposits were deducted from measures of value.

As is evident from the foregoing and the extensive supporting data filed by the Company, the proposed increase is just and reasonable and is the minimum increase necessary to enable the Company to earn a reasonable return on the fair value of its property that is used and useful in the public service, to maintain the integrity of its existing capital, and to attract new capital.

Rate Structure and Rate Design

As Mr. Mark Kehl (PECO Statement No. 7) explains, in developing its rate-structure proposal, the Company considered the results of a cost of service study performed by Ms. Jiang Ding (PECO Statement No. 6). While the cost of service study was used as a guide, the Company also considered the principle of gradualism that has traditionally been applied in Pennsylvania. Accordingly, the proposed rates were designed to mitigate the impact on each major rate class, to the extent practicable, while still making meaningful movement toward the system average rate of return.

PECO proposes certain changes in rate design, which include principally: (1) aligning fixed distribution/customer charges with, or closer to, customer-classified costs; and (2) increasing the voltage discounts for customers served at 69 kV or higher to provide an offset to those customers to reflect an appropriate allocation of distribution substation costs. Certain other changes in rate design and in the rules, regulations and riders set forth in the Company's tariff are described in the testimony of Mr. Kehl and Mr. Richard A. Schlesinger (PECO Statement No. 8).

Community Involvement

PECO also has a strong and continuing tradition of community involvement. The Company's corporate citizenship efforts are designed to improve the quality of life for the people who live and work in PECO's service territory, and include support for education and the environment, sponsorships, employee volunteer activities, and executive involvement on outside nonprofit boards.

Summary

The requested increase in revenues is the minimum necessary to enable the Company to appropriately invest in the infrastructure needed to maintain and improve its safety, reliability and customer-service levels; to maintain the integrity of PECO's existing capital; to attract additional capital at reasonable costs; and to have an opportunity to achieve a fair rate of return on its investment in property dedicated to public service. The Company's proposed revenue allocation and rate design are just, reasonable and non-discriminatory. Accordingly, the Company's proposed rates, rules and terms of service should be permitted to become effective as filed.

EXHIBIT B

Proposed Discovery Modifications

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
	:	DOCKET NO. R-2018-3000164
v.	:	
	:	
PECO ENERGY COMPANY	:	

PECO PROPOSED DISCOVERY PROCEDURE MODIFICATIONS

1. Answers to written interrogatories are to be served in-hand within ten (10) calendar days of service of the interrogatories.
2. Objections to interrogatories are to be communicated orally within three (3) days of service; unresolved objections are to be served on the Administrative Law Judges in writing within five (5) days of service of the interrogatories.
3. Motions to dismiss objections and/or direct the answering of interrogatories are to be filed within three (3) calendar days of service of written objections.
4. Answers to motions to dismiss objections and/or directing the answering of interrogatories shall be filed within three (3) calendar days of service of such motions.
5. Responses to requests for documents production, entry for inspection, or other purposes are to be served in-hand within ten (10) calendar days of service.
6. Requests for admission are deemed admitted unless answered within ten (10) calendar days or objected to within five (5) calendar days of service.
7. When an interrogatory, request for production, request for admission or motion is served after 12:00 p.m. on a Friday or the day before a holiday, the appropriate response period is deemed to start on the next business day.

8. Interrogatories, requests for production and requests for admissions that are objected to but which are not made the subject of a motion to compel will be deemed withdrawn.
9. Pursuant to 52 Pa. Code §5.341(b), neither discovery requests nor responses thereto are to be served on the Commission or the Administrative Law Judges, although a certificate of service may be filed with the Commission's Secretary.
10. Discovery requests, motions to compel and responses are to be served electronically as well as on paper.

EXHIBIT C

Proposed Protective Order

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
v.	:	DOCKET NO. R-2018-3000164
	:	
PECO ENERGY COMPANY	:	

PROTECTIVE ORDER

IT IS ORDERED THAT:

1. This Protective Order is hereby GRANTED and shall establish procedures for the protection of all materials and information identified in Paragraphs 2 and 3 below, which are or will be filed with the Commission, produced in discovery, or otherwise presented during the above-captioned proceeding and all proceedings consolidated with it. All persons now or hereafter granted access to the materials and information identified in Paragraph 2 of this Protective Order shall use and disclose such information only in accordance with this Order.

2. The information subject to this Protective Order is all correspondence, documents, data, information, studies, methodologies and other materials, whether produced or reproduced or stored on paper, cards, tape, disk, film, electronic facsimile, magnetic or optical memory, computer storage devices or any other devices or media, including, but not limited to, electronic mail (e-mail), furnished in this proceeding that the producing party believes to be of a proprietary or confidential nature and are so designated by being stamped “CONFIDENTIAL” or “HIGHLY CONFIDENTIAL” protected material. Such materials are referred to in this Order as “Proprietary Information.” When a statement or exhibit is identified for the record, the portions thereof that constitute Proprietary Information shall be designated as such for the record.

3. For purposes of this Protective Order there are two categories of Proprietary Information: “CONFIDENTIAL” and “HIGHLY CONFIDENTIAL” protected material. A producing party may designate as “CONFIDENTIAL” those materials that are customarily treated by that party as sensitive or proprietary, that are not available to the public, and that, if generally disclosed, would subject that party or its clients to the risk of competitive disadvantage or other business injury. A producing party may designate as “HIGHLY CONFIDENTIAL” those materials that are of such a commercially sensitive nature, relative to the business interests of parties to this proceeding, or of such a private or personal nature, that the producing party determined that a heightened level of confidential protection with respect to those materials is appropriate. The parties shall endeavor to limit the information designated as “HIGHLY CONFIDENTIAL” protected material.

4. Subject to the terms of this Protective Order, Proprietary Information shall be provided to counsel for a party who meets the criteria of a “Reviewing Representative” as set forth below. Such counsel shall use or disclose the Proprietary Information only for purposes of preparing or presenting evidence, testimony, cross examination or argument in this proceeding. To the extent required for participation in this proceeding, such counsel may allow others to have access to Proprietary Information only in accordance with the conditions and limitations set forth in this Protective Order.

5. Information deemed “CONFIDENTIAL” shall be provided to a “Reviewing Representative.” For purposes of “CONFIDENTIAL” Proprietary Information, a “Reviewing Representative” is a person who has signed a Non-Disclosure Certificate and is:

- i. A statutory advocate, or an attorney for a statutory advocate pursuant to 52 Pa. Code § 1.8 or an attorney who has formally entered an appearance in this proceeding on behalf of a party;
- ii. An attorney, paralegal, or other employee associated for purposes of this case with an attorney described in subparagraph (i) above;
- iii. An expert or an employee of an expert retained by a party for the purpose of advising that party or testifying in this proceeding on behalf of that party; or
- iv. Employees or other representatives of a party to this proceeding who have significant responsibility for developing or presenting the party's positions in this docket.

6. Information deemed "HIGHLY CONFIDENTIAL" protected material shall be provided to a Reviewing Representative, provided, however that a Reviewing Representative, for purposes of "HIGHLY CONFIDENTIAL" protected material, is limited to a person who has signed a Non-Disclosure Certificate and is:

- i. A statutory advocate, or an attorney for a statutory advocate, pursuant to 52 Pa. Code § 1.8 or an attorney who has formally entered an appearance in this proceeding on behalf of a party;
- ii. An attorney, paralegal, or other employee associated for purposes of this case with an attorney described in subparagraph (i);
- iii. An outside expert or an employee of an outside expert retained by a party for the purposes of advising that party or testifying in this proceeding on behalf of that party; or
- iv. A person designated as a Reviewing Representative for purposes of HIGHLY CONFIDENTIAL protected material pursuant to paragraph 11.

Provided, further, that in accordance with the provisions of Sections 5.362 and 5.365(e) of the Commission's Rules of Practice and Procedure (52 Pa. Code §§ 5.362, 5.365(e)) any party may, by objection or motion, seek further protection with respect to HIGHLY CONFIDENTIAL protected material, including, but not limited to, total prohibition of disclosure or limitation of disclosure only to particular parties.

7. For purposes of this Protective Order, a Reviewing Representative may not be a “Restricted Person” absent agreement of the party producing the Proprietary Information pursuant to Paragraph 11. A “Restricted Person” shall mean: (a) an officer, director, stockholder, partner, or owner of any competitor of the parties or an employee of such an entity if the employee’s duties involve marketing or pricing of the competitor’s products or services or advising another person who has such duties; (b) an officer, director, stockholder, partner, or owner of any affiliate of a competitor of the parties (including any association of competitors of the parties) or an employee of such an entity if the employee’s duties involve marketing or pricing of the competitor's products or services or advising another person who has such duties; (c) an officer, director, stockholder, owner, agent (excluding any person under Paragraph 6.i or 6.ii), or employee of a competitor of a customer of the parties or of a competitor of a vendor of the parties if the Proprietary Information concerns a specific, identifiable customer or vendor of the parties; and (d) an officer, director, stockholder, owner or employee of an affiliate of a competitor of a customer of the parties if the Proprietary Information concerns a specific, identifiable customer of the parties; provided, however, that no expert shall be disqualified on account of being a stockholder, partner, or owner unless that expert’s interest in the business would provide a significant motive for violating the limitations of permissible use of the Proprietary Information. For purposes of this Protective Order, stocks, partnership or other ownership interests valued at more than \$10,000 or constituting more than a 1% interest in a business establish a significant motive for violation. A “Restricted Person” shall not include an expert for the Office of Small Business Advocate or Office of Consumer Advocate.

8. If an expert for a party, another member of the expert’s firm or the expert’s firm generally also serves as an expert for, or as a consultant or advisor to, a Restricted Person (other than an expert or expert firm retained by the Office of Small Business Advocate or Office of Consumer Advocate), that expert must: (1) identify for the parties each Restricted Person and all

personnel in or associated with the expert's firm that work on behalf of the Restricted Person; (2) take all reasonable steps to segregate those personnel assisting in the expert's participation in this proceeding from those personnel working on behalf of a Restricted Person; and (3) if segregation of such personnel is impractical, the expert shall give to the producing party written assurances that the lack of segregation will in no way adversely affect the interests of the parties or their customers. The parties retain the right to challenge the adequacy of the written assurances that the parties' or their customers' interests will not be adversely affected. No other persons may have access to the Proprietary Information except as authorized by order of the Commission.

9. Reviewing Representatives qualified to receive "HIGHLY CONFIDENTIAL" protected material may discuss HIGHLY CONFIDENTIAL protected material with their client or with the entity with which they are employed or associated, to the extent that the client or entity is not a "Restricted Person," but may not share with, or permit the client or entity to review or have access to, the HIGHLY CONFIDENTIAL protected material.

10. Proprietary Information shall be treated by the parties and by the Reviewing Representative in accordance with the terms of this Protective Order, which are hereby expressly incorporated into the certificate that must be executed pursuant to Paragraph 12(a). Proprietary Information shall be used as necessary, for the conduct of this proceeding and for no other purpose. Proprietary Information shall not be disclosed in any manner to any person except a Reviewing Representative who is engaged in the conduct of this proceeding and who needs to know the information in order to carry out that person's responsibilities in this proceeding.

11. Reviewing Representatives may not use anything contained in any Proprietary Information obtained through this proceeding to give any party or any competitor of any party a commercial advantage. In the event that a party wishes to designate as a Reviewing Representative a person not described in paragraph 6 (i) through (iii) above, the party must first

seek agreement to do so from the party providing the Proprietary Information. If an agreement is reached, the designated individual shall be a Reviewing Representative pursuant to Paragraph 6 (iv) above with respect to those materials. If no agreement is reached, the party seeking to have a person designated a Reviewing Representative shall submit the disputed designation to the presiding Administrative Law Judge for resolution.

12. (a) A Reviewing Representative shall not be permitted to inspect, participate in discussions regarding, or otherwise be permitted access to Proprietary Information pursuant to this Protective Order unless that Reviewing Representative has first executed a Non-Disclosure Certificate in the form provided in Appendix A, provided, however, that if an attorney or expert qualified as a Reviewing Representative has executed such a certificate, the paralegals, secretarial and clerical personnel under his or her instruction, supervision or control need not do so. A copy of each executed Non-Disclosure Certificate shall be provided to counsel for the party asserting confidentiality prior to disclosure of any Proprietary Information to that Reviewing Representative.

(b) Attorneys and outside experts qualified as Reviewing Representatives are responsible for ensuring that persons under their supervision or control comply with the Protective Order.

13. The parties shall designate data or documents as constituting or containing Proprietary Information by stamping the documents “CONFIDENTIAL” or “HIGHLY CONFIDENTIAL” protected material. Where only part of data compilations or multi-page documents constitutes or contains Proprietary Information, the parties, insofar as reasonably practicable within discovery and other time constraints imposed in this proceeding, shall designate only the specific data or pages of documents which constitute or contain Proprietary Information. The Commission and all parties, including the statutory advocates and any other agency or department of state government will consider and treat the Proprietary Information as

within the exemptions from disclosure provided in the Pennsylvania Right-to-Know Act (65 P.S. § 67.708(b)(11)) until such time as the information is found to be non-proprietary.

14. Any public reference to Proprietary Information by a party or its Reviewing Representatives shall be to the title or exhibit reference in sufficient detail to permit persons with access to the Proprietary Information to understand fully the reference and not more. The Proprietary Information shall remain a part of the record, to the extent admitted, for all purposes of administrative or judicial review.

15. Part of any record of this proceeding containing Proprietary Information, including but not limited to all exhibits, writings, testimony, cross examination, argument, and responses to discovery, and including reference thereto as mentioned in paragraph 14 above, shall be sealed for all purposes, including administrative and judicial review, unless such Proprietary Information is released from the restrictions of this Protective Order, either through the agreement of the parties to this proceeding or pursuant to an order of the Commission.

16. The parties shall retain the right to question or challenge the confidential or proprietary nature of Proprietary Information and to question or challenge the admissibility of Proprietary Information. If a party challenges the designation of a document or information as proprietary, the party providing the information retains the burden of demonstrating that the designation is appropriate.

17. The parties shall retain the right to object to the production of Proprietary Information on any proper ground, and to refuse to produce Proprietary Information pending the adjudication of the objection.

18. Within 30 days after a Commission final order is entered in the above-captioned proceeding, or in the event of appeals, within thirty days after appeals are finally decided, the receiving party, upon request, shall either destroy or return to the parties all copies of all

documents and other materials not entered into the record, including notes, which contain any Proprietary Information. In its request, a providing party may specify whether such materials should be destroyed or returned. In the event that the materials are destroyed instead of returned, the receiving party shall certify in writing to the providing party that the Proprietary Information has been destroyed. In the event that the materials are returned instead of destroyed, the receiving party shall certify in writing to the providing party that no copies of materials containing the Proprietary Information have been retained.

Date: _____, 2018

Christopher P. Pell
Deputy Chief Administrative Law Judge

F. Joseph Brady
Administrative Law Judge

APPENDIX A

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY :
COMMISSION :
 : **DOCKET NO. R-2018-3000164**
 v. :
 :
PECO ENERGY COMPANY :

NON-DISCLOSURE CERTIFICATE

TO WHOM IT MAY CONCERN:

The undersigned is the _____ of _____
(the receiving party).

The undersigned has read and understands the Protective Order deals with the treatment of Proprietary Information. The undersigned agrees to be bound by, and comply with, the terms and conditions of said Order, which are incorporated herein by reference.

SIGNATURE

PRINT NAME

ADDRESS

EMPLOYER

DATE: _____

EXHIBIT D

Proposed Rate Case Schedule

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC UTILITY
COMMISSION**

v.

PECO ENERGY COMPANY

:
:
:
:
:
:

DOCKET NO. R-2018-3000164

PROPOSED SCHEDULE

Rate Case Filing	March 29, 2018
Prehearing Conference	May 8, 2018
Technical Conference #1	May 22, 2018
Technical Conference #2	June 5, 2018
Public Input Hearings	June 6 - Media, 7pm June 7 - Norristown, 7pm June 12 - Bucks County, 7pm June 14 - Center City, 10am June 14 - Northeast Phila, 7pm
Non-Company Direct Testimony	June 26, 2018
Settlement Conference #1	June 29, 2018
Settlement Conference #2	July 13, 2018
Rebuttal Testimony	July 24, 2018
Settlement Conference #3	July 27, 2018
Surrebuttal Testimony	August 8, 2018
Oral Rejoinder Outline	August 16, 2018
Oral Rejoinder Testimony and Hearings	August 20-22, 2018
Record Closes	August 22, 2018
Main Briefs	September 7, 2018
Reply Briefs	September 17, 2018