OCA Statement No. 1-S

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2018-3000164
	:	
PECO Energy Company – Electric Division	:	

SURREBUTTAL TESTIMONY

OF

DAVID J. EFFRON

ON BEHALF OF THE
OFFICE OF CONSUMER ADVOCATE

AUGUST 8, 2018

Q. Please state your name and business address.

A. My name is David J. Effron. My address is 12 Pond Path, North Hampton, New Hampshire.

Q. Have you previously submitted testimony in this docket?

A. Yes. I submitted Direct Testimony on June 26, 2018, marked as OCA Statement No. 1. My qualifications and experience are attached to my Direct Testimony.

Q. What is the purpose of this Surrebuttal Testimony?

A. In this Surrebuttal Testimony, I respond to the Rebuttal Testimony of PECO Energy witnesses Barnett and Yin. I am also presenting certain modifications to the adjustments that I proposed in my Direct Testimony and a revised calculation of the Company's revenue deficiency (or excess) to incorporate the effect of those modifications. I do not respond to all the Company's Rebuttal addressing the issues presented in my Direct Testimony. However, this should not be interpreted to mean that I agree with the Company's Rebuttal on those issues or that I no longer believe that the position expressed on those issues in my Direct Testimony is appropriate.

Q. With the modifications to the original adjustments proposed in your Direct Testimony, what is the Company's revenue deficiency?

A. Incorporating the modifications that I in the following Surrebuttal Testimony, I have calculated a revenue excess of $23,193,000 (see my revised Schedule A, accompanying this testimony).

Year End Rate Base and Annualization Adjustments

Q. What is the Company's position with regard to the use of a year-end rate base and annualization of expenses in association with a fully projected future test year ("FPFTY")?

A. Mr. Yin addresses this issue and states that he disagrees with my Direct Testimony on this matter for "several reasons."

Q. Do any of the reasons cited by Mr. Yin for his disagreement cause you to reconsider your proposal to reflect an average rate base and eliminate annualizing adjustment in the determination of the FPFTY revenue requirement?

A. No. First, Mr. Yin addresses my testimony that the use of a year-end rate base in the context of a FPFTY would allow the Company to earn a return on its net plant investment in advance of when such investment is actually made. He states that this is "no reason to reject the Company's use of year-end plant balances in developing its proposed rate base" and goes on to say that "even the 'average' rate base methodology … reflects FPFTY plant additions that will not be in service when new rates are in effect." However, as I also stated in my Direct Testimony, under the Company's proposal, customers would be paying rates that include a return on a rate base larger than the actual investment in facilities being used to provide service through the whole rate year. This is clearly not true with the average rate base methodology, where the rates paid by customers in the rate year would reflect the investment in rate base over the course of that year.

Q. What is the second reason cited by Mr. Yin for opposing the average rate base methodology?

A. Mr. Yin cites Act 11, which amended Section 315(e) of the Public Utility Code and asserts that reducing the Company's year-end rate base because the Company would earn a return and depreciation on investment before the corresponding plant is in service conflicts with the plain language of amended Section 315(e). I'll leave it to the attorneys to argue whether reflecting an average rate base for that reason would conflict with Section 315(e). However, Mr. Yin does not state that the Public Utility Code requires the use of a year-end rate base in conjunction with an FPFTY, nor does he state that the Public Utility Code prohibits the use of an average rate base in conjunction with an FPFTY. Tellingly, he also does not cite any of the other jurisdictions where a fully projected future test year coinciding with the rate year is employed as permitting the use of a year-end rate base.

Q. What is the third reason cited by Mr. Yin for opposing the average rate base methodology?

A. Mr. Yin testifies that the use of an average FPFTY rate base in this case would advance the date of the Company's implementation of its Distribution System Improvement Charge ("DSIC") from April 2020 to October 2019. Implementation of the DSIC, however, is no justification for overstating the base rate revenue requirement in the present case.

Mr. Yin then goes on to state that "More importantly, if a test year average rate base were employed, the Company's annual rate of return immediately following the FPFTY would fall below the rate of return granted in this case. The only way to mitigate the attrition that using test-year average rate base and expenses would create would be to file another base rate case by the end of March 2019." This is arrant speculation. Given the existence of the DSIC, and the coordination of the DSIC with plant included in rate base in rate cases, it is not at all clear that rate base growth between rate cases would cause any significant attrition of the Company's earned rate of return. The threat of perpetual rate applications is no reason to reject the use of an average rate base for the FPFTY.

Q. Mr. Yin further claims that it would not be proper to use the full annual amount of the repairs deduction to calculate the Company's state and federal income taxes if only one-half of the Company's FPFTY plant additions were reflected in rate base. Do you concur with this claim?

A. No. As I explained in my response to PECO-OCA-II-2, which Mr. Yin ignores:

> It is proper to include a "repairs deduction" in calculating allowable income taxes that reflects additions to plant in service for the fully projected future test year, because the Company will realize a tax deduction for such plant costs in the fully projected future test year (2019). For example, if a plant cost in December 2019, qualifies as a repair for income tax purposes, the Company will get an income tax deduction for those plant costs in 2019. However, the revenue requirement effect in 2019 of a plant cost incurred in December 2019 will be only 1/12 of that plant cost.

There is no inconsistency between including the average balance of distribution plant in rate base and the repairs deduction for the test year in the calculation of income taxes. In fact, this reflects the reality of what actually happens in the test year.

Q. Mr. Yin also claims that using a full annual amount of the repairs deduction for 2019 to calculate the Company's income tax expense when only one-half of FPFTY plant additions is reflected in its rate base in not permitted by of the Public Utility Code, 66 Pa.C.S. §1301.1(a). Do you have a response?

A. Yes. Mr. Yin cites the following language from Section 1301.1(a) of the Public Utility Code:

> If an expense or investment is not allowed to be included in a public utility's rates, the related income tax deductions and credits, including tax losses of the public utility's parent or affiliated companies, shall not be included in the computation of income tax expense to reduce rates.

I also addressed this matter in my response to PECO-OCA-II-2:

> Whether Mr. Effron's proposal complies [with] Section 1301.1(a) of the Public Utility Code, 66 Pa.C.S. §1301.1(a) is a legal conclusion. However, Mr. Effron's proposal with regard to the use of an average rate base for the fully projected future test year does not entail a proposed disallowance of any expense or investment. Rather, Mr. Effron is proposing nothing more than to limit the revenue requirement effect of plant additions in 2019 to the actual revenue requirement effect of those plant additions in 2019.

As I am not proposing to disallow any expense or investment in my recommendation to employ an average rate base for the FPFTY, the language cited by Mr. Yin is not at all relevant.

Q. Has Mr. Yin cited any sound reasons why the use of an average rate base in conjunction with an FPFTY is inappropriate?

A. No, he has not. I continue to believe that my average test year approach is reasonable.

Cash Working Capital

Q. Does the Company agree with your proposed modification to the lag in payment of gross receipts tax ("GRT")?

A. No. Mr. Yin addresses this issue. He states that PECO is adhering to the generally applicable payment schedule for GRT and that reliance on the "safe harbor" alternative would require reliance on uncertain projections and estimates.

Q. Do you have a response?

A. Yes. Mr. Yin does not dispute that the Company can pay 90% of the GRT liability on March 15 of the year for which the tax payment is due, with the remaining 10% paid on March 15 of the following year without being subject to interest or penalties. I continue to believe, for the reasons set forth in my Direct Testimony, that it is appropriate to utilize this payment schedule in calculating the lag in payment of gross receipts tax for the purpose of determining the cash working capital requirement.

Pension Asset

Q. Mr. Yin begins his Rebuttal Testimony on the pension asset issue by stating that you attempt "to minimize the significance of Duquesne's 2010 and 2013 rate case decisions by noting that they approved, in each case, 'a comprehensive settlement.'" Is this an accurate representation of your testimony?

A. No. My intent in noting that the resolution of the pension asset issue in the Duquesne cases was part of comprehensive settlements in the respective 2010 and 2013 base rate proceedings was not to minimize the significance of those cases. I was simply putting the treatment of the pension assets in those cases in context.

Q. Mr. Yin states that "Based on the correct rationale that actually supported the use of January 1, 2007 as the starting date for calculating Duquesne's pension asset, PECO should begin measuring its pension asset as of the conclusion of its 1989 base rate case" (PECO Statement 3-R, Page 36). Has he established that it is appropriate to include the pension asset accumulated since 1989 in the Company's rate base?

A. No. Mr. Yin does not dispute that January 1, 2007 was approximately the effective date of rates in Docket No. R-00061346, Duquesne's last rate case prior to its 2010 rate case, but states "that is *not* the reason January 1, 2007 was selected as the starting point for calculating Duquesne's pension asset" (PECO Statement 3-R, Page 38, emphasis in original). He goes on to explain that it is his belief that January 1, 2007 was selected as the starting point for calculating Duquesne's pension asset because that is when Duquesne began using the pension contribution, rather than the SFAS 87 accrual, as the basis for the pension expense included in its revenue requirement.

An examination of the record in Docket No. R-2010-2179522, Duquesne's 2010 rate case, provides further illustration as to why the Duquesne cases are not relevant in this proceeding. (I was the revenue requirements witness for the OCA in that case.) The matter of the appropriate starting date for the pension asset was actually the subject of some back and forth in that case. Although the Company cited the effective date of rates in Docket No. R-0061346 (which was January 1, 2007) as the starting date for the difference between the pension contribution and the pension accrual (making reference to the point where the pension expense included in its rates was based on the pension contribution), the actual capitalized pension contribution that it originally sought to include in rate base went back only to 2008. Then in Rebuttal Testimony, Duquesne modified its proposal to include the pension contribution going back to 2006 in its rate base. In my Surrebuttal Testimony in that case, I noted that the rates in Docket No. R-00061346 went into effect in 2007, not 2006, and that therefore, any relevant calculation of the excess of pension contributions over the SFAS 87 accruals should go back only to 2007.

The Settlement in Docket No. R-0061346 adopted January 1, 2007 as the starting date for calculating the difference between the capitalized pension accruals and contributions, but there is no explanation of why that was chosen as the starting date. There is no particular logic to support Mr. Yin's contention that the date that the pension contribution was first included in operation and maintenance for ratemaking purposes was chosen as the starting date for this calculation.

Q. Why not?

A. Mr. Yin explains that, in Duquesne's 1987 rate case, pension costs were based on its SFAS 87 accrual and that it was not until the 2006 rate case that rates reflected pension costs based on Duquesne's pension contributions. To be accurate, what Mr. Yin really means when he says that "Duquesne's pension costs were based on its SFAS 87 accrual" in its 1987 rate case is that the pension *expense* included in its pro forma operation and maintenance expenses was based on the SFAS 87 accrual. However, the method of determining the pension *expense* included in the Company's revenue requirement had no effect on the determination of the pension *capitalized* and included in plant accounts.

What we are talking about here is not the pension cost included in operation and maintenance expense; rather it is the pension cost capitalized and charged to plant accounts. Even if the pension expense included in operation and maintenance expense in its 1987 rate case had been based on cash contributions, Duquesne's pension cost capitalized and charged to plant would have still reflected the SFAS 87 accrual. With regard to the *capitalized* portion of the pension cost, there was no change on January 1, 2007. Therefore, it is not logical that the change in determining the pension *expense* included in operation and maintenance expense for ratemaking purposes would be the basis for the starting point for measuring the difference between the pension contribution and the SFAS 87 accrual *capitalized* to plant accounts. What Mr. Yin speculates is the "correct rationale for the January 1, 2007 start date for calculating Duquesne's pension asset" lacks any logical foundation.

Q. Did the Company also respond to your testimony that it would be extremely difficult, if not impossible, to determine what pension costs (or any other costs) were or were not recovered in rates during the period between its 1989 and 2010 rate cases?

A. Yes. Mr. Yin states that I am assuming that "there needs to be a line by line reconciliation of each element of revenue requirement PECO claimed in its 1989 case versus the costs it actually experienced between 1989 and 2010" and that without such a reconciliation I am taking freedom to "speculate that PECO recovered an excessive amount of pension cost." (PECO Statement 3-R, Page 40)

Q. Have you assumed that there needs to be a line by line reconciliation of each element of revenue requirement PECO claimed in its 1989 case versus the costs it actually experienced between 1989 and 2010?

A. No, and nothing I have said requires such an assumption.

Q. Are you speculating that PECO has recovered an excessive amount of pension cost since 1989?

A. No. Nothing I have said implies that I think that PECO has recovered an excessive amount of pension costs. Nor is such a conclusion necessary in determining the extent to which previous pension distributions allocated to construction should be eligible to earn a prospective return.

Q. Mr. Yin states that you contend that, because PECO's 2010 and 2015 cases were settled, "it should be assumed that its base rates recovered, and are recovering, the entire pension expense PECO claimed, which Mr. Effron asserts is more than PECO's cash contributions allocated to electric distribution expense in 2011 through 2017." (PECO Statement 3-R, Page 42) Have you offered such a contention?

A. No. This canard, which Mr. Yin repeats at the bottom of Page 43 of his Rebuttal Testimony, is virtually the opposite of what I said in my Direct Testimony. What I actually said was that "In Docket No. R-2010-2161575, the PECO revenue requirement reflected a total electric distribution pension contribution of $48,288,000, of which $30,827,000 was charged to expense [both amounts were about 1% lower based on PECO's Rebuttal position in that case]. As that case was settled, and the pension expense had been a contested issue, it is hard to say exactly what pension cost was recovered in rates." (OCA Statement 1, pp. 12-13) All of Mr. Yin's subsequent attributions of error spring from this misrepresentation of my Direct Testimony on this matter.

I did go on to state that cumulative expense portions of the pension costs alone for the years 2011 – 2017 exceeded the Company's cumulative pension contributions in those years. The point is that the pension expense assumed to be recovered in rates could be less than the pension expense requested by PECO in the years 2011 - 2017 and still be more than the Company's pension contributions in those years. Mr. Yin has presented nothing to challenge that fact. I continue to believe that any claim that PECO's pension contributions for the years 2011 – 2017 exceeded the amounts recovered in rates for those years is questionable at best.

ADIT - OPEB

Q. Did the Company address your testimony on the ADIT deferred tax asset related to the cumulative difference between OPEB accruals and OPEB contributions in its Rebuttal?

A. Yes. Mr. Yin addresses this matter on Pages 50 – 54 of his Rebuttal Testimony. On Page 53, he describes what he says I "assert" and "contend" in my testimony. First, he states that I assert that the deferred tax asset related to the OPEB accrual "consists of two parts: (1) the net difference between the OPEB contributions and the smaller deductible amounts since December 31, 2014 (including reversals projected to occur in 2018 and 2019), which is $24.97 million; and (2) the cumulative difference between OPEB 'accruals' and OPEB contributions."

Q. Is this merely an assertion on your part, as Mr. Yin claims?

A. No. This is what the Company stated clearly and without qualification or reservation in its response to OCA-VI-5 (sponsored by Mr. Yin): "The present case includes the

ADIT on the book/tax timing difference related to the OPEB accrual in addition to the ADIT on the Contribution Limitation." The description of the OPEB deferred tax asset as consisting of two parts is originally the Company's description, not mine.

Mr. Yin then states that I contend that "PECO's claim is different from its last case, where its claim more closely corresponded to (1) above and did not include the cumulative difference between OPEB accruals and OPEB contributions."

Q. Is this merely a contention of yours, as Mr. Yin claims?

A. No. This is what the Company stated clearly and without qualification or reservation in its response to OCA-VI-5: "The Company's last rate case included the ADIT on the OPEB Contribution Limitation portion only. The present case includes the ADIT on the book/tax timing difference related to the OPEB accrual in addition to the ADIT on the Contribution Limitation." The description of the Company's treatment of the OPEB deferred tax asset as being different from its last case is originally the Company's description, not mine.

Mr. Yin goes on to say "Mr. Effron contends that the cumulative difference between OPEB accruals and contributions does not give rise to ADIT and should not be reflected as a tax asset either."

Q. Did you, in fact contend that the cumulative difference between OPEB accruals and contributions does not give rise to ADIT?

A. I did not say any such thing, and there is no reasonable way to interpret this as being my position.

Q. Mr. Yin states that he does not agree with your characterization of the two-part nature of the Company's OPEB-related ADIT tax asset. Do you have a response?

A. As noted above, this "characterization" originated with the Company, not me. Mr. Yin is not only disagreeing with me; he is disagreeing with himself.

Mr. Yin explains his disagreement by saying that "The OPEB-related ADIT tax asset does not represent the difference between 'accruals' of OPEB expense and the amounts contributed to its OPEB trust." This is directly contradicted by Mr. Yin's response to OCA-VI-5: "The present case includes the ADIT on the book/tax timing difference related to the OPEB accrual in addition to the ADIT on the Contribution Limitation." It is "the ADIT on the book/tax timing difference related to the OPEB accrual" referenced in that response that is in dispute here. The "ADIT on the Contribution Limitation" is not.

Q. Has Mr. Yin offered any substantive rebuttal to your testimony on this matter?

A. No. In my Direct Testimony, I stated that, "The accrued OPEB liability in excess of contributions is not itself deducted from rate base. If an item giving rise to ADIT is not reflected in the determination of rate base, then the deferred tax balance related to that item should not be reflected in the determination of rate base either. In its last case, the Company's treatment of the accrued OPEB liability and the ADIT related to that liability was internally consistent. The Company's proposed treatment in the present case is not." Mr. Yin has not addressed this testimony. Rather, he has presented mischaracterizations that are contradicted by his own responses to OCA discovery.

Common Plant

Q. Did the Company address your proposed adjustment to common plant in its Rebuttal Testimony?

A. Yes. Mr. Barnett addresses this issue at Pages 2-7 of his rebuttal testimony. He states that PECO is on track to complete and place in service all Common Plant 2018 additions by the end of 2018 and notes that as of June 30, 2018, the difference between the projected actual total-Company 2018 Common Plant additions has been reduced to 24%.

Q. Does this Rebuttal give you any cause to rethink your proposed adjustment to common plant?

A. No. I do not dispute that the Company is forecasting that it will be putting in service the 2018 common plant additions that it includes in the FPFTY rate base. I only question whether the actual additions to common plant will be as great as what the Company is forecasting. I agree that the 24% variance in common plant additions as of the end of June cited by Mr. Barnett is an improvement of the 40% variance as of the end of April. However, being 24% under budget does not really offer great support of the accuracy of the Company's forecasts of common plant additions.

Act 40 – Consolidated Tax Adjustment

Q. Did the Company respond to your proposed treatment of the consolidated tax adjustment ("CTA")?

A. Yes. Mr. Yin responds to my proposal with regard to the consolidated tax adjustment. His testimony appears to be based on an interpretation of Act 40, which added Section 1301.1 to the Public Utility Code. As I explained in my Direct Testimony, my adjustment to the Company's position is based on advice of counsel that the Company's treatment of CTA does not comply with Act 40. (OCA Statement 1 at 17-19)

Leap Year Revenue Normalization

Q. Did the Company respond to your testimony on the leap year revenue normalization?

A. Yes. Mr. Yin continues to believe that this adjustment is appropriate.

Q. Does anything in Mr. Yin's Rebuttal change your opinion on this matter?

A. No. I continue to believe that elimination of this adjustment is appropriate for the reason stated in my Direct Testimony.

Forfeited Discounts

Q. Does the Company agree with your proposed adjustment to forfeited discount (late payment charge) revenue?

A. No. Mr. Barnett explains that PECO calculated forfeited discount revenue for the FPFTY by calculating the average forfeited discount revenue for 2015-2017 as a percentage of average past due accounts receivable balances for that period and then applying that percentage to the forecast of past due accounts receivable for the FPFTY. He believes that this method is reasonable and produces a more accurate depiction of what forfeited discount revenue will be for the FPFTY. He then states that past due balances are forecasted to decline in 2019 as compared to the average of such balances during the recent historical period. He does not explain why the past due balances are forecasted to decline in 2019, although this appears to be the underlying reason why the forfeited discount revenues are projected to be lower in 2019 than in recent years.

Q. Are you modifying your proposed adjustment to forfeited discount revenues based on Mr. Barnett's Rebuttal Testimony?

A. No. I continue to believe that the historic ratio of forfeited discounts to revenue is a reasonable method to estimate the forfeited discount revenue for the FPFTY.

Wage and Salary Expense

Q. Does the Company continue to believe that it is appropriate to include the effect of annualizing wage increases expected to take place in 2019 and in January and March of 2020 in the calculation of pro forma wage and salary expense?

A. Yes. Mr. Yin addresses this in his Rebuttal Testimony.

Q. Does his Rebuttal refute the points you made in your Direct Testimony on this issue?

A. No. Therefore, I continue to believe that elimination the Company's annualization of wage rate increases in, and beyond, the FPFTY from the determination of its test year revenue requirement is appropriate.

Pension Expense

Q. In his Rebuttal Testimony, Mr. Barnett asserts that you did not explain why your proposed four-year average for pension expense is preferable to the Company's proposed five-year average. Is he correct?

A. No. In my Direct Testimony, I stated that in the Company's last rate case, I recommended that the pro forma pension cost be based on a four-year average consisting of actual pension contributions in the two most recent actual historical years and the forecasted pension contributions for the two following years; and I noted that this was a reasonable weighting between the Company's actual experience and the expected level of future pension contributions. I then stated that I continue to believe that this method is reasonable. Thus, I did explain why my proposed method is preferable.

Q. Did Mr. Barnett explain why he believes his proposed five-year average is preferable to your proposed four-year average?

A. Yes. However, he does not explain why he believes that his proposed five-year average in the present case is preferable to the use of the forecasted FPFTY pension contribution, as he advocated in the Company's last case. Nor does he describe any circumstances that have changed since the last case that would indicate that the method of determining the pro forma pension expense should be modified.

As there has been no change in circumstances, I am continuing to propose the same method of calculating the pro forma pension expense that I proposed in the Company's last rate case. I continue to believe that this method is reasonable and appropriate.

Uncollectible Accounts Expense

Q. Did the Company respond to your proposed adjustment to pro forma uncollectible accounts expense?

A. Yes. Mr. Yin continues to believe that the Company's three-year average write-off ratio, which includes 2015, is an appropriate basis to determine the pro forma uncollectible accounts expense.

Q. Did Mr. Yin offer any refutation of the reasons that you proposed to eliminate 2015 from the calculation of the write-off percentage?

A. No. In my Direct Testimony, I noted that in response to OCA-VI-14, the Company stated that "deployment of several collection initiatives … enabled the Company to reach hard-to-access meters, which further enabled termination of high-balance accounts. The charge-off of these higher balance accounts primarily occurred during 2014 and 2015. Once addressed, the average value of accounts that charged-off declined from 2015 to 2017." I went on to state that the effect of the write-off of such accumulated higher balance arrearages should not be a normal, recurring event once those balances have been addressed.

I did not propose to eliminate 2015 simply because the write-off percentage was higher in that year. I proposed to eliminate 2015 based on the cause of the higher level of write-offs in that year. Mr. Yin did not dispute my testimony that the elevated level of write-offs in 2015 resulting from the deployment of several collection initiatives was an abnormal, non-recurring event.

As I noted above, Mr. Barnett, in his Rebuttal Testimony, stated that past due balances are forecasted to decline in 2019 as compared to the average of such balances during the recent historical period. If the past due balances decline, it would seem to logically follow that write-offs will also decline. I did not project any decline in the write-off percentage from 2016 and 2017. I continue to believe my proposed write-off rate is reasonable, and perhaps conservative, for the purpose of determining the pro forma uncollectible accounts expense.

Normalized Storm Damage Expense

Q. Does the Company agree with your proposal to use calendar years 2013 – 2017 to determine the normalized storm damage expense?

A. No. Both Mr. Barnett and Mr. Yin address this issue. They continue to advocate use of the twelve month periods from 4/1/2013 – 3/31/2014 through 4/1/2017 – 3/31/2018 to determine the normalized storm damage expense**.**

Q. Why does Mr. Barnett disagree with your recommendation that the five-year average normalized storm damage expense be based on the annual storm damage expense incurred in the most recent five calendar years?

A. Mr. Barnett states that I want to select a period that assures the costs of winter storms Riley and Quinn cannot be recognized in this case. He goes on to claim that there is no basis for my contention that the Company has recovered more than its actual storm expense.

Q. Has Mr. Barnett accurately represented your testimony on this issue?

A. No. My intent in proposing that the normalized storm damage expense be based on the actual storm damage was not to select a period that assures the costs of winter storms Riley and Quinn cannot be recognized in this case. My intent was to use a method that is consistent with the method used by the Company (and, as far as I know, not opposed by any party) in its last two rate cases.

I did not contend, as Mr. Barnett claims, that the Company has recovered more than its actual storm expense. I did state that the storm damage in 2016 and 2017 was ostensibly less than the storm damage expense included in the Company's revenue requirement in Docket No. R-2015-2468981. I cited this experience to make the point that nobody would suggest that the Company should refund the difference to customers when the actual storm damage expense is less than the amount recovered in rates, and conversely, the Company should not be able to defer the difference for prospective recovery when the actual storm damage expense is more than the amount recovered in rates. However, I offered no contention that the Company over-recovered the cumulative storm damage expense in the years 2011 – 2017.

Q. What is Mr. Yin's response to your recommendation with regard to the determination of normalized storm damage expense?

A. Mr. Yin repeats Mr. Barnett's misrepresentation that I have contended that the Company has over-recovered the actual storm damage expense incurred since 2010. He also takes issue with my position that Company should not be authorized to defer the storm damage costs incurred in the first quarter of 2018 for future recovery if its proposal to deviate from the use of calendar years for normalized storm damage is rejected.

Q. Can you further elaborate on why the Company should not be authorized to defer the 2018 first quarter storm damage costs?

A. Yes. As I understand it, the Company has used a normalization approach to storm damage costs in its last two cases, rather than using reserve accounting to reconcile actual storm damage costs against the allowance for storm damage costs in rates. In fact, Mr. Yin explicitly states that the Company does not use reserve accounting for storm damage costs.

With the normalization approach, a normalized storm damage cost included in the revenue requirement, and that is the end of it. If the actual storm damage cost is less, the difference is not refunded to customers; and if the actual storm damage cost is greater, the difference is not recovered from customers. Allowing selective departure from this approach to defer the storm damage costs in the first quarter of 2018 would, in effect, be authorizing reserve accounting when the storm damage costs are greater than normal but requiring normalization accounting when the storm damage costs are less than normal. In my opinion, this would be inconsistent and inappropriate and, over time, could only result in an over-recovery of actual storm damage costs.

Costs to Achieve

Q. Does Mr. Barnett accurately characterize the basis of your proposal to eliminate the amortization of costs to achieve from pro forma FPFTY expenses?

A. He states that the basis for my adjustment is that "PECO's share of the merger savings realized to date should be deemed to have offset the costs-to-achieve." This is generally accurate. What I actually said is that "By the time that the rates in this case go into effect, those costs to achieve will have been recovered through the achievement of merger savings that have not been reflected in rates." That is, the savings *will* have offset the costs to achieve not just that they should be deemed to have offset those costs.

Q. Did Mr. Barnett offer any refutation to that testimony?

A. No. He did say that he understands that "there are exceptions to the rule against retroactive and single-issue ratemaking that could permit PECO to make its claim." If there are such exceptions, I would submit that they should then treat the costs and the savings symmetrically. If the costs are deferred, then the actual savings should be credited against those costs. Doing so, the credits outweigh the costs, and there is nothing left to recover from customers prospectively. The amortization should be eliminated from pro forma test year expenses.

Q. Does this conclude your Surrebuttal Testimony?

A. Yes.

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Pennsylvania Public Utility Commission	:		
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PECO Energy Company – Electric Division	:		

SCHEDULES

OF

DAVID J. EFFRON

ON BEHALF OF THE

OFFICE OF CONSUMER ADVOCATE

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TABLE I

OF

DAVID J. EFFRON

ON BEHALF OF THE

OFFICE OF CONSUMER ADVOCATE

AUGUST 8, 2018

TABLE I
INCOME SUMMARY
($000)

	Pro Forma Present Rates	Recommended Adjustments	Adjusted Present Rates	Revenue Adjustment	Total Allowable Revenue
Sales Revenue	$ 1,878,343	$ (3,712)	$ 1,874,631	$ (23,068)	$ 1,851,563
Other Revenues	219,302	694	219,996	(124)	219,872
Total Operating Revenue	$ 2,097,645	$ (3,018)	$ 2,094,627	$ (23,193)	$ 2,071,435
Deductions					
O&M Expense	1,400,311	(24,382)	1,375,929	(180)	1,375,749
Depreciation and Amortization	235,033	(12,727)	222,306		222,306
Taxes:					
State	11,233	4,266	15,499	(2,154)	13,345
Federal	33,155	8,072	41,227	(4,076)	37,151
Deferred and ITC	(7,411)		(7,411)		(7,411)
Other	140,719	(730)	139,989	(1,451)	138,538
Total Deductions	1,813,040	(25,502)	1,787,538	(7,860)	1,779,678
					-
Net Income Available for Return	$ 284,606	$ 22,484	$ 307,089	$ (15,332)	$ 291,757
Rate Base					$ 4,484,385
Return on Rate Base					6.51%

OCA Statement No. 1-S

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2018-3000164
	:	
PECO Energy Company – Electric Division	:	

TABLE II

OF

DAVID J. EFFRON

ON BEHALF OF THE

OFFICE OF CONSUMER ADVOCATE

AUGUST 8, 2018

TABLE II
SUMMARY OF ADJUSTMENTS
($000)

Recommended Adjustment	Exhibit Reference *		Rate Base Effect	Revenue Effect	Expense Effect	Depreciation Effect	Effect on Other Taxes	State Tax Effect	Federal Tax Effect
			$	$	$	$	$	$	$
Average FPFTY Rate Base	OCA St.1	Sch. B-1	(159,834)			(11,226)		1,121	2,122
Common Plant Additions	OCA St.1	Sch. B-1	(23,501)			(1,501)		150	284
Pension Asset	OCA St.1	Sch. B-1	(95,200)					-	-
Gross Receipts Tax Lag	OCA St.1	Sch. B-1	(12,016)					-	-
ADIT - OPEB	OCA St.1	Sch. B-1	(69,965)						-
Consolidated Tax Adjustment	OCA St.1	Sch. B-1	(917)						
Sales Annualization	OCA St.1	Sch. C-1		(3,233)	-		(191)	(304)	(575)
Leap Year Revenue Normalization	OCA St.1	Sch. C-1		(479)	-		(28)	(45)	(85)
Forfeited Discounts	OCA St.1	Sch. C-1		694			41	65	123
Salaries, Wages, and Benefits	OCA St.1	Sch. C-2			(5,060)		(354)	541	1,023
Pension Expense	OCA St.1	Sch. C-2			(1,400)			140	265
Storm Damage	OCA St.1	Sch. C-2			(12,000)			1,199	2,268
Costs to Achieve	OCA St.1	Sch. C-2			(2,560)			256	484
Uncollectible Accounts Expense	OCA St.1	Sch. C-2			(3,362)		(198)	356	673
Interest Synchronization	OCA St.1	Sch. C-5						787	1,490
Total Adjustment			(361,433)	(3,018)	(24,382)	(12,727)	(730)	4,266	8,072
Company Rate Base	Exh. BSY-1, Sch. C-1		4,845,818						
Recommended Rate Base			4,484,385						

OCA Statement No. 1-S

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2018-3000164
	:	
PECO Energy Company – Electric Division	:	

SCHEDULE A

OF

DAVID J. EFFRON

ON BEHALF OF THE

OFFICE OF CONSUMER ADVOCATE

AUGUST 8, 2018

PECO ENERGY COMPANY - ELECTRIC OPERATIONS
REVENUE DEFICIENCY
($000)

	(1) Company Position	Adjustments		Proposed Position
Measures of Value (Rate Base)	$ 4,845,818	$ (361,433)	(2)	$ 4,484,385
Rate of Return	7.79%	-1.28%	(3)	6.51%
Operating Income Requirement	377,287	(85,530)		291,757
Adjusted Operating Income	284,606	22,483	(4)	307,089
Income Deficiency (Excess)	92,681	(108,013)		(15,332)
Gross Revenue Conversion Factor	1.514	-		1.513
Revenue Deficiency (Excess)	$ 140,317	$ (163,510)		$ (23,193)

Sources:

(1) Exhibit BSY-5, Schedule A-1

(2) Schedule B-1

(3) Schedule D-1

(4) Schedule C-1

(5)

Gross Revenue		1.0000
Gross Receipts Tax	5.9000%	0.0590
Uncollectible Accounts	0.7750%	0.0078
PUC/OCA/SBA Assessment	0.3557%	0.0036
Net Revenue		0.9297
State Income Tax	9.99%	0.0929
Federal Income Tax	21%	0.1757
Net Income		0.6611
Gross Revenue Conversion Factor		1.5127

OCA Statement No. 1-S

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
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PECO Energy Company – Electric Division	:	

SCHEDULE B Through B-3

OF

DAVID J. EFFRON

ON BEHALF OF THE

OFFICE OF CONSUMER ADVOCATE

AUGUST 8, 2018

Schedule B
Page 1

PECO ENERGY COMPANY - ELECTRIC OPERATIONS
MEASURES OF VALUE (RATE BASE)
($000)

	(1) Company Position	(2) Adjustments	Proposed Position
Electric Plant in Service	$7,193,359	$ (216,108)	$6,977,251
Reserve for Accumulated Depreciation	(2,041,494)	58,764	(1,982,730)
Net Utility Plant in Service	5,151,865	(157,344)	4,994,521
Add:			
Common Plant	326,144	(31,613)	294,531
Materials and Supplies	15,876	-	15,876
Pension Asset	95,200	(95,200)	-
Unamortized AMR Investment	11,551	5,775	17,326
Working Capital	148,915	(12,475)	136,440
Subtotal	597,686	(133,513)	464,174
Deduct			
Accumulated Deferred Income Taxes	537,434	65,143	602,577
Customer Advances	959	-	959
Customer Deposits	50,574	-	50,574
Regulatory Liability - EDFIT	314,766	5,434	320,200
Subtotal	903,733	70,577	974,310
Net Measures of Value (Rate Base)	$4,845,818	$ (361,433)	$4,484,385

Sources:

(1) Exhibit BSY-5, Schedule C-1

(2) Schedule B, Page 2

Schedule B
Page 2

PECO ENERGY COMPANY - ELECTRIC OPERATIONS
SUMMARY OF ADJUSTMENTS TO RATE BASE
($000)

	(1) Average Rate Base	(2) Working Capital	(3) Pension Asset	(4) ADIT OPEB	(5) Common Plant	(6) CTA	Total
Plant in Service	(215,650)					(459)	(216,108)
Accum. Deprec	58,764					-	58,764
Net Utility Plant	(156,886)					(459)	(157,344)
Add:							
Common Plant	(8,112)				(23,501)		(31,613)
M & S	-						-
Pension Asset	-		(95,200)				(95,200)
AMR	5,775						5,775
Working Cap	-	(12,016)	-		-	(459)	(12,475)
Subtotal	(2,337)	(12,016)	(95,200)		(23,501)	(459)	(133,513)
Deduct							
ADIT	(4,823)			69,965	-		65,143
Cust Advances	-						-
Cust Deposits	-						-
Reg Liab- EDFIT	5,434	-	-	-	-	-	5,434
Subtotal	612			69,965	-	-	70,577
Net Rate Base	(159,834)	(12,016)	(95,200)	(69,965)	(23,501)	(917)	(361,433)

Sources:

(1)	Schedule B-1			
(2)	Schedule B-2			
(3)	Exhibit BSY-5, Schedule C-5			
(4)	Schedule B-3			
(5)	Common Plant Adds - 2016		57,031	OCA VI-7
	Allocated to Distribution	69.88%	39,851	BSY-5, Sch. C-8
	Forecasted Adds - 2018		64,853	OCA VI-7
	Adjustment		(25,002)	
	Depreciation - Schedule C-3		(1,501)	
	Net Adjustment		(23,501)	
(6)	Exhibit BSY-5, Schedule D-18, Page 3			

PECO ENERGY COMPANY - ELECTRIC OPERATIONS
YEAR END VS. AVERAGE RATE BASE
($000)

	(1) 2018 Year End	(2) 2019 Year End	Average	Difference
Electric Plant in Service	$6,762,060	$7,193,359	$6,977,710	$ (215,650)
Reserve for Accum. Deprec.	(1,923,966)	(2,041,494)	(1,982,730)	58,764
Net Utility Plant in Service	4,838,094	5,151,865	4,994,980	(156,886)
Add:				
Common Plant	309,920	326,144	318,032	(8,112)
Materials and Supplies	15,876	15,876	15,876	-
Pension Asset	-	-	-	-
Unamortized AMR Investment	23,101	11,551	17,326	5,775
Working Capital	-	-	-	-
Subtotal	348,897	353,571	351,234	(2,337)
Deduct				
Accum. Deferred Inc Taxes	527,789	537,434	532,612	(4,823)
Customer Advances	959	959	959	-
Customer Deposits	50,574	50,574	50,574	-
Regulatory Liability - EDFIT	325,634	314,766	320,200	5,434
Subtotal	904,956	903,733	904,345	612
Net Rate Base	$4,282,035	$4,601,703	$4,441,869	$ (159,834)

Sources:

(1) Exhibit BSY-2, Schedule C-1

(2) Exhibit BSY-5, Schedule C-1

PECO ENERGY COMPANY - ELECTRIC OPERATIONS
ADJUSTMENT TO CASH WORKING CAPITAL
($000)

Gross Receipts Tax

Pay Date	Lag Days	Weight	Weighted Lag Days
3/15/2016	108	90%	97.20
3/15/2017	(257)	10%	(25.70)
			71.50
Lag Days per Company			108.00
Adjustment to Company Lag Days			(36.50)

Annual Gross Receipts Tax Expense	$ 120,162
Expense per Day	$ 329
Adjustment to Cash Working Capital	$ (12,016)

Source: Exhibit BSY-5, Schedule C-4, Page 7

PECO ENERGY COMPANY - ELECTRIC OPERATIONS
ADIT - OPEB
($000)

ADIT on OPEB Limitation - 12/31/2014	(1)	$ 29,334
Reversal - 2018	(2)	(2,252)
Reversal - 2019	(2)	(2,111)
ADIT on OPEB Limitation - 2019 FPFTY		24,971
Total ADIT on OPEB	(2)	94,936
Adjustment to ADIT on OPEB		$ (69,965)

Sources:
(1) Docket No. R-2015-2468981, Exhibit SY-1, Schedule C-6
(2) Exhibit BSY-5, Schedule C-6

OCA Statement No. 1-S

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2018-3000164
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PECO Energy Company – Electric Division	:	

SCHEDULE C Through C-5

OF

DAVID J. EFFRON

ON BEHALF OF THE

OFFICE OF CONSUMER ADVOCATE

AUGUST 8, 2018

PECO ENERGY COMPANY - ELECTRIC OPERATIONS
OPERATING INCOME
($000)

	(1) Company Position	Adjustments		Proposed Position
Sales Revenue	$1,878,343	$ (3,712)	(2)	$1,874,631
Other Revenues	219,302	694	(2)	219,996
Total Operating Revenue	$2,097,645	$ (3,018)		$2,094,627
Power Supply	608,548			608,548
Operation and Maintenance Expense	791,763	(24,382)	(3)	767,381
Depreciation and Amortization	220,358	(12,727)	(4)	207,631
Amortization of Regulatory Expense	14,675			14,675
Taxes other than Income Taxes	140,719	(730)	(5)	139,989
State Income Tax Expense	11,233	4,266	(6)	15,499
Federal Income Tax Expense	33,155	8,072	(6)	41,227
Deferred and ITC	(7,411)	-		(7,411)
Total Operating Expenses	1,813,040	(25,502)		1,787,538
Adjusted Operating Income	$ 284,606	$ 22,484		$ 307,089

Sources:
- (1) Exhibit BSY-5, Schedule D-1
- (2) Schedule C-1
- (3) Schedule C-2
- (4) Schedule C-3
- (5) Schedule C-4
- (6) Schedule C-5

Schedule C-1

PECO ENERGY COMPANY - ELECTRIC OPERATIONS
ADJUSTMENTS TO OPERATING REVENUE
($000)

Annualization of Customer Growth	(1)	$ (3,045)
Annualization of CAP Discount	(2)	(188)
Leap Year Revenue Normalization	(3)	(479)
Total Adjustment to Sales Revenues		$ (3,712)

Adjustment to Other Revenues:

Forfeited Discounts:

Sales Revenue, as Adjusted	(4)	$1,874,631
Forfeited Discounts: as % of Sales Revenue	(5)	0.54%
Forfeited Discount Revenue		$ 10,100
Forfeited Discount Revenue per PECO	(6)	9,406
Adjustment to Forfeited Discount Revenue		$ 694

Total Adjustment to Test Year Operating Revenue	$ (3,018)

Sources:

(1) Exhibit BSY-5, Schedule D-5A
(2) Exhibit BSY-5, Schedule D-5B
(3) Exhibit BSY-5, Schedule D-5F
(4) Schedule C
(5) OCA-VI-9
(6) Exhibit BSY-5, Schedule D-2

PECO ENERGY COMPANY - ELECTRIC OPERATIONS
OPERATION AND MAINTENANCE EXPENSE
($000)

Employee Wages, Salaries, and Benefits	(1)	$ (5,060)
Pension Expense	(2)	(1,400)
Uncollectible Accounts Expense	(3)	(3,362)
Storm Damage	(4)	(12,000)
Costs to Achieve	(5)	(2,560)
Total Adjustments to O&M Expense		(24,382)

Sources:

(1)	Annualization of Wage Increases		3,840	Exh. BSY-5, D-6
	Annualization of Employee Increases		1,076	Exh. BSY-5, D-6
	Annualization of Benefits		144	Exh. BSY-5, D-8
	Total		5,060	
(2)	Actual 2016 Pension		29,781	Exh. BSY-5, D-9
	Actual 2017 Pension		23,545	Exh. BSY-5, D-9
	Forecasted 2018 Pension		23,896	Exh. BSY-5, D-9
	Forecasted 2019 Pension		23,757	Exh. BSY-5, D-9
	Four-Year Average		25,245	
	Charged to Distribution	72.98%	18,424	Exh. BSY-5, D-9
	Charged to O&M	63.26%	11,655	Exh. BSY-5, D-9
	FPFTY Pension Expense, per PECO		13,055	Exh. BSY-5, D-9
	Adjustment to Company Expense		(1,400)	
(3)	Schedule C-2.1			
(4)	Schedule C-2.2			
(5)	Exhibit BSY-5, Schedule D-15			

PECO ENERGY COMPANY - ELECTRIC OPERATIONS
UNCOLLECTIBLE ACCOUNTS EXPENSE
($000)

Total Tariff Revenue per Company	(1)	3,255,425
Adjustment to Sales Revenue	(2)	(3,712)
Adjustment to Forfeited Discounts	(2)	694
Total Adjusted Revenue		3,252,407
Proposed Uncollectible Accounts Rate	(3)	0.7750%
Uncollectible Accounts Expense		25,206
Uncollectible Accounts Expense, per Company	(1)	28,568
Adjustment to Uncollectible Accounts Expense		(3,362)

Sources:

(1) Exhibit BSY-5, Schedule D-10
(2) Schedule C-1
(3) Exhibit BSY-5, Schedule D-10 (0.0087+0.0068)/2

PECO ENERGY COMPANY - ELECTRIC OPERATIONS
STORM DAMAGE
($000)

Year	(1) Inflation Factor	(2) Expense		Adjusted Expense
2013	1.07058	3,841		4,112
2014	1.05676	88,588		93,616
2015	1.05805	21,302		22,539
2016	1.05104	16,065		16,885
2017	1.03604	8,974		9,297
Average Storm Restoration Expense Adjusted for Inflation				29,290
Average Storm Restoration Expense, per Company			(3)	41,290
Adjustment to Company Expense				(12,000)

Sources:
(1) Response to OCA VI-15
(2) Response to OCA III-53
(3) Exhibit BSY-5, Schedule D-13

PECO ENERGY COMPANY - ELECTRIC OPERATIONS
DEPRECIATION AND AMORTIZATION EXPENSE
($000)

Eliminate Annualization of Depreciation on Year-end Plant	(1)	$ (11,226)
Adjustment to Common Plant	(2)	(1,501)
Reduction to Pro Forma Depreciation Expense		$ (12,727)

Sources

(1)	Exhibit BSY-5, Schedule D-17		
(2)	Adjustment to Plant	(25,002)	Schedule B-1, Page 2
	Depreciation Rate	6.00%	BSY-5, Schs. D-17, C-8
	Adjustment to Depreciation	(1,501)	

PECO ENERGY COMPANY - ELECTRIC OPERATIONS
TAXES OTHER THAN INCOME TAXES
($000)

Adjustment to Distribution Revenues	(1)	$ (3,712)
Adjustment to Forfeited Discounts	(1)	694
Adjustment to Uncollectible Accounts	(2)	(3,362)
Adjustment to Taxable Receipts		(6,380)
Gross Receipts Tax Rate		5.90%
Adjustment to Gross Receipts Tax Expense		$ (376)
Adjustment to Wages and Salaries	(3)	$ (4,916)
Payroll Tax Rate	(4)	7.20%
Adjustment to Payroll Tax Expense		$ (354)
Total Adjustment to Taxes Other Than Income		$ (730)

Sources:

(1) Schedule C-1
(2) Schedule C-2
(3) Schedule C-2.1
(4) Exhibit BSY-5, Schedule D-16, page 2

PECO ENERGY COMPANY - ELECTRIC OPERATIONS
INCOME TAXES
($000)

Adjustments to Taxable Income:

Revenue	(1)	$ (3,018)
Operation and Maintenance Expense	(1)	(24,382)
Depreciation and Amortization	(1)	(12,727)
Taxes other than Income Taxes	(1)	(730)
Interest	(2)	(7,883)
Adjustment to Expenses		(45,723)
Net Adjustment to Taxable Income		42,705
Pennsylvania Income Tax Rate		9.99%
Adjustment to Pennsylvania Income Tax		$ 4,266
Adjustment to Federal Taxable Income		38,438
Federal Income Tax Rate		21%
Adjustment to Federal Income Tax		$ 8,072

Sources:

(1)	Schedule C		
(2)	Rate Base	4,484,385	Schedule B
	Weighted Debt Cost	1.92%	Schedule D
	Interest Deduction	86,100	
	Company Interest Deduction	93,983	Exhibit BSY-5, Schedule D-18
	Adjustment	(7,883)	

OCA Statement No. 1-S

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:		
	:		
v.	:	Docket No.	R-2018-3000164
	:		
PECO Energy Company – Electric Division	:		

SCHEDULE D

OF

DAVID J. EFFRON

ON BEHALF OF THE

OFFICE OF CONSUMER ADVOCATE

AUGUST 8, 2018

Schedule D

PECO ENERGY COMPANY - ELECTRIC OPERATIONS
RATE OF RETURN
($000)

Company Position

	Percent of Total	Cost Rate	Weighted Cost
Long Term Debt	46.61%	4.16%	1.94%
Equity	53.39%	10.95%	5.85%
Total Capital	100.00%		7.79%

OCA Position

	Percent of Total	Cost Rate	Weighted Cost
Debt	46.06%	4.17%	1.92%
Common Equity	53.94%	8.50%	4.58%
Total Capital	100.00%		6.51%

Sources: Exhibit BSY-5, Schedule B-7
Testimony of Mr. Habr

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2018-3000164
	:	
PECO Energy Company	:	

VERIFICATION

I, David J. Effron, hereby state that the facts above set forth in my Surrebuttal Testimony, OCA Statement No. 1S, are true and correct and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

Signature: David J. Effron
____

David J. Effron
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DATED: August 8, 2018
*255726