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AOBA
APARTMENT AND OFFICE BUILDING ASSOCIATION OF METROPOLITAN WASHINGTON

January 12, 2024

By Electronic Filing

Brinda Westbrook-Sedgwick
Commission Secretary
D.C. Public Service Commission
1325 G Street, N.W., Suite 800
Washington, D.C. 20005

Re: Formal Case No. 1176
In the Matter of the Application of Potomac Electric Power Company for Authority to Implement a Multiyear Rate Plan for Electric Distribution Service in the District of Columbia

Dear Ms. Westbrook-Sedgwick:

Enclosed for filing please find the Public Direct Testimony of Bruce Oliver and Timothy Oliver on behalf of the Apartment and Office Building Association of Metropolitan Washington in the above-referenced proceeding. The Confidential Direct Testimony of Bruce Oliver will be filed under separate cover.

If you have any questions, please contact me at ffrancis@aoba-metro.org or call my cell at (301) 518-9700. Thank you for your attention in this matter.

Sincerely,

Frann G. Francis

Frann G. Francis, Esq.

cc: All parties of record

AOBA (A)

Before the

PUBLIC SERVICE COMMISSION
OF THE
DISTRICT OF COLUMBIA

IN THE MATTER OF	)	
	)	
The Application of Potomac Electric	)	
Power Company for Authority to	)	**Formal Case No. 1176**
Implement a Multiyear Rate Plan	)	
For Electric Distribution Service in the	)	
District of Columbia	)	

PUBLIC

VOLUME I OF II: DIRECT TESTIMONY OF AOBA WITNESS
BRUCE R. OLIVER

January 12, 2023

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of Metropolitan Washington
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EXECUTIVE SUMMARY – BRUCE R. OLIVER

The “Pilot” Multi-Year Rate Plan (“MYP”) approved by the Commission in Formal Case No. 1156 has not served the interest of District of Columbia ratepayers. Pepco’s request for the Commission’s approval of a new (or second) MYP in this proceeding should be rejected, and the Commission should act to establish rates based on a Traditional Test Year (“TTY”). To the extent that Pepco relies upon forecasted data to support its costs and requested revenue requirement, provision must be made for more detailed after-the-fact assessment of the reasonableness and prudence of the Company’s actual expenditures. Moreover, Pepco should be given notice that the Company’s actual costs will be carefully scrutinized by the Commission and that any costs found to be not prudently incurred and any earnings that exceed the Company’s authorized ROE will be refunded to District ratepayers.

Despite the Commission’s request for an examination of “lessons learned” from the “Pilot” MYP approved in Formal Case No. 1156, Pepco offers only a recitation of the reasons for its preference for an MYP. No retrospective examination of actual experience under the “Pilot” MYP is presented. This testimony identifies major problems in the MYP process and procedures adopted in Formal Case No. 1156 that should outweigh Pepco’s speculative claims of MYP benefits. In particular, the current MYP process provides no effective incentives for Pepco to manage its expenditures in a manner that benefits District ratepayers. Pepco’s management must be held accountable for improving the cost-effectiveness of the Company’s operations and plant additions. Management must not be allowed to simply spend to forecasted budgets when the Company’s Annual Information Filings demonstrate substantial variations between Pepco’s Budgeted costs and the costs it has actually incurred. Management must not be given wide discretion to amend the composition of cost estimates on which this Commission relied in setting rates without responsibility to justify those changes with more than just cryptic comments in a cell of a spreadsheet. Moreover, the dollar amounts in forecasted budgets must not be the only benchmark judging the reasonableness and prudence of Pepco’s actual expenditures under an MYP.

Pepco's representation of its MYP as a "Climate Ready Pathway" is more rhetoric than substance. Pepco has not identified any parameters of its perception of what constitutes a "*Climate Ready Grid*." Pepco's forecasts of future service requirements include no assessment of the expected impacts of the District's efforts to move toward greater electrification of energy use. Pepco's SAIFI, SAIDI, and CEMI metrics are already among the best in the industry, and Pepco has demonstrated no significant ratepayer benefits from further improvement of those metrics. In the context of declining kWh and kW billing units, as well as only modest increases in the numbers of customers served, maintenance of the affordability of electric service in the District necessitates more rigorous efforts to trim Pepco's planned rate base growth to reflect only **essential** expenditures.

Pepco's BSA mechanism continues to display major shortcomings that will not be remedied by the recommendations of the Atrium BSA Audit Report. The revenue per customer mechanism on which Pepco's BSA relies to compute monthly rate adjustments fails to provide reasonable and equitable results when applied to demand-metered rate classes. Pepco's BSA "Allowed" Revenues are significantly above the levels of revenue authorized by the Commission in Formal Case No. 1156. However, the Company cannot demonstrate corresponding increases in its costs of service for the classes for which the greatest increases in BSA "allowed" Revenues have been computed. Pepco also inappropriately attempts to reflect the results of its non-cost-based determinations of BSA "allowed" revenues in the development of its proposed rate designs through its application of "Effective Rate Adjustments." Pepco's Effective Rate Adjustments are not cost based and must be discarded. Pepco's expansion of its authorized revenues based on changes in numbers of customers served in a rate class are primarily a product of the Company's use of substantially inaccurate estimates of numbers of customers for forecasted months and are not supported by changes in Pepco's costs of providing service, particularly for medium and large demand-metered rate classifications.

Pepco's revenue requests under both its MYP and Traditional Test Year ("TTY") filings are greatly overstated and require substantial downward adjustment. Pepco's requested return on equity ("ROE") far exceeds market-based return requirements. Other elements of the Company's partially actual and partially forecasted test year costs are also substantially overstated. In particular, Pepco's request for roughly a **tripling** of its Cash Working Capital must be denied, and Pepco's request to earn a return on its claimed BSA Deferred Revenue Balance must be rejected. Pepco's actual results for 2022 suggest the Company exceeded it allowed ROE, and the Company only shows its ROE falling below the currently authorized level when reliance is placed on unverifiable forecasts of future costs. Even for Pepco's partial forecasted TTY presentation, an examination of Pepco's actual and forecasted monthly costs for the months of the TTY finds large costs increases loaded into the forecasted months in the second half of the year.

Pepco's proposed four-step revenue increase distribution methodology has not performed well to date and requires revision, or at least refinement. Non-residential rate classes with extreme RORs require significant one-time downward adjustments to their revenue requirements. Pepco's presentation demonstrates that the Company's application of no increase for classes with extremely high RORs has only served to institutionalize substantially above average rates of return for those classes. Moreover, within the classes with above system average RORs, treatment of a class that has an ROR 2.4 times the system average ROR the same as a class that has an ROR at **half** that level is not reasonable or equitable.

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DIRECT TESTIMONY OF BRUCE R. OLIVER
DCPSC Formal Case No. 1176

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE RECORD.

A. My name is Bruce R. Oliver. My business address is 7103 Laketree Drive Fairfax Station, Virginia, 22039.

Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

A. I am employed by Revilo Hill Associates, Inc., and serve as President of the firm. I manage the firm's business and consulting activities, and I direct its preparation and presentation of economic, utility planning, and policy analyses for our clients.

Q. ON WHOSE BEHALF DO YOU APPEAR IN THIS PROCEEDING?

A. I appear on behalf of the Apartment and Office Building Association of Metropolitan Washington ("AOBA").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony in this proceeding is to respond to the Direct Testimony of witnesses for the Potomac Electric Power Company (hereinafter "Pepco" or "the Company") in the context of this Commission's Order No. 21902, issued on September 14, 2023. This testimony also responds to portions of the pre-filed direct and supplemental direct testimonies of several Pepco witnesses that sponsor testimony in support of the Company's Traditional Test Year ("TTY") rate filing as well as its request for approval of a Multi-Year Rate Plan ("MRP"). As part of this testimony, I address portions of the pre-filed Direct and/or Supplemental Direct testimonies of Pepco Witnesses O'Donnell, Leming, Holden, Gardiner, Bonikowski, Barnett, Cantler, and Belle-Izzard.[1] This testimony also presents AOBA's assessment of the Pilot MRP that was approved for Pepco in Formal Case No. 1156.

Q. PLEASE SUMMARIZE YOUR EXPERIENCE AND QUALIFICATIONS.

A. I am an economist specializing in the areas of utility rates, energy, and regulatory policy matters. I have over 45 years of experience in the analysis of energy and utility policy issues. That experience includes employment in management positions in the rate departments of two major utilities (the Pacific Gas and Electric Company and the Potomac Electric Power Company), as well as service in management and senior staff positions for three consulting firms, Revilo Hill Associates, Inc., the Resource Dynamics Corporation, and ICF Incorporated.

As a consultant, I have served a diverse group of clients on issues encompassing a wide range of energy and utility regulatory matters. My clients have included state regulatory commissions, utilities, state Attorneys General, state-funded consumer advocacy groups, municipal governments, hospitals and

[1] It is noteworthy that of the twelve witnesses filing Direct Testimony on behalf of Pepco in support of the Company's Application in this proceeding only two, witnesses Barnett and Bell-Izzard, presented testimony in Formal Case No. 1156. Witness Bell-Izzard filed only Surrebuttal Testimony in Formal Case No. 1156 which addressed RAD Program Issues and Affordability Tracking. Thus, witness Barnett is the only witness in this proceeding that also filed direct testimony in Formal Case No. 1156.

universities, federal agencies, commercial and industrial energy users, suppliers of equipment and services to utility markets, residential consumer intervenors, the Electric Power Research Institute (EPRI), and the World Bank. Projects for those clients have included participation in gas, electric, water, and wastewater utility regulatory proceedings, as well as analyses and forecasts of supply, demand, and prices for utility and non-utility energy markets. I have also assisted a number of commercial, institutional, and industrial energy users in the negotiation of contracts for a wide range of energy services, including contracts for the procurement of competitive electricity and natural gas supply services.

To date, I have presented more than 500 separate pieces of testimony in over 300 proceedings before regulatory commissions in 25 jurisdictions. The regulatory jurisdictions in which I have testified include: the states of Pennsylvania, New York, New Jersey, Maryland, Delaware, Virginia, North Carolina, Rhode Island, Vermont, Connecticut, Massachusetts, Ohio, Illinois, Wisconsin, South Dakota, Arizona, New Mexico, Utah, and California, as well as the District of Columbia, Guam, the U.S. Virgin Islands, the City of Philadelphia, the Provence of Alberta, Canada, and the U.S. Federal Energy Regulatory Commission (FERC). My testimonies in those jurisdictions have addressed such topics as utility mergers and acquisitions, industry restructuring, divestiture of generation assets, sighting of energy facilities, utility revenue requirements, capital structure, costs of capital, cost of service allocations, rate design, rate unbundling, incentive ratemaking, revenue decoupling, capacity expansion planning, asset management, outsourcing, demand-side management, energy conservation, contracts for non-tariff services provided to large energy users, natural gas purchasing practices, gas supply costs, gas transportation service, natural gas processing, competitive bidding, economic development rates, load research, load forecasting, weather normalization, climate issues, metering, fuel procurement, and fuel pricing issues. I have also testified before legislative committees in Virginia, Maryland, and the District of Columbia. A copy of my resume is provided as Attachment A.

Q. HAVE YOU PREVIOUSLY APPEARED BEFORE THIS COMMISSION?

A. Yes, I have appeared before this Commission in nearly every major electric and gas utility rate proceeding for nearly 40 years. Pepco cases before this Commission in which I have participated include Formal Case Nos. 759 (Phases I, II, and III), 785, 813 (Phases I and II), 834, 869, 889, 939, 945, 951, 1002, 1053, 1053 Phase II, 1056, 1076, 1087, 1103, 1116, 1119, 1121, 1130, 1133, 1139, 1145, 1150, 1151, and 1156. Furthermore, I have testified in nearly every major Pepco proceeding before the Maryland Public Service Commission ("MDPSC") since 1980, including the Pepco-Exelon Merger proceeding in Maryland and Pepco's currently pending Maryland base rate case, Case No. 9702, and Pepco's last MYP proceeding in Maryland, Case No. 9655.

Q. WAS THIS TESTIMONY PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION AND CONTROL?

A. Yes, it was.

II. OVERVIEW

Q. WHAT IS YOUR OVERALL ASSESSMENT OF PEPCO'S FILINGS IN THIS PROCEEDING?

A. Neither Pepco's Multi-Year Rate Plan ("MYP") proposal nor its Traditional Test Year ("TTY") filing should be accepted as presented. Both include unnecessarily inflated assessments of the revenue requirements necessary for the Company to ensure Pepco's continued provision of safe and reliable electric service in the District of Columbia. In both filings Pepco has failed to provide reasonable and appropriate demonstration of the need for, and appropriateness of, the additions to rate base the Company proposes. Likewise, the Company's assessment of the return it requires on its rate base investments is substantially overstated.[2]

BSA-Related Issues

BSA-related issues represent a major area of concern for AOBA and its membership. Issues associated with Pepco's "Bill Stabilization Adjustment"

[2] Pepco's required return on equity is addressed in the Direct Testimony of AOBA witness Timothy Oliver.

mechanism continue to have a significant influence on multiple aspects of Pepco's base rate filings. In this case, Pepco has proposed significant modifications to its BSA mechanism, the Company's recovery of claimed deferred revenue balances associated with that mechanism, and adjustments to class revenue requirements premised on claims regarding the impacts of BSA revenue per customer allowances on authorized revenue by rate class. Pepco's proposals are largely reflections of analyses and recommendations presented in the Atrium BSA Audit Report. Yet, Pepco's Application in this proceeding was filed well before the final Atrium BSA Audit Report was filed with the Commission. Moreover, AOBA has specifically challenged significant elements of the Final Atrium Audit Report,[3] and to date the Commission has taken no action with respect to the Atrium Report. These facts combined with the fact that there is no witness in this proceeding who supports the development of Atrium's analyses and recommendations, leaves Pepco's BSA-related recommendations in this proceeding without challengeable evidentiary support.

Both Pepco's MYP and TTY filings include proposals for modification of its Bill Stabilization Adjustment ("BSA") mechanism. The Company's TTY filing also includes a proposal for Pepco to be provided a return on its BSA Deferred Revenue Balance. Those proposals require the Commission's careful and thoughtful consideration of an array of factors that were not well addressed by the Atrium

[3] See Attachment B to this testimony which provide copies of AOBA's June 5, 2023 Comments regarding the Draft Atrium Report; AOBA's June 30, 2023 Response Pepco's Reply Comments on the Draft Atrium Report; AOBA's November 13, 2023, Comments on the Atrium Final Report; and AOBA's November 20, 2023 Reply Comments regarding the Final Atrium Report.

BSA Audit Report ("Atrium Report").[4] The Atrium examination of Pepco's BSA mechanism, which is primarily process-focused, overlooks or does not address a number of key relationships that have significantly impacted Pepco's monthly BSA rate adjustment calculations, the Company's reported BSA Deferred Revenue Balances, and its revenue requirements and rate structure proposals in this proceeding.

This Commission needs to get its hands dirty in the details of the Company's BSA mechanism and specifically address a number of issues relating to that mechanism. Those issues include, but are not limited to, (i) inequities in the current BSA mechanism for Pepco's commercial rate classes; (ii) factors that have contributed to Pepco's reported BSA deferred revenue balances; and (iii) assignment of responsibility for BSA deferred revenue balances. This testimony demonstrates that the largest component of Pepco's current BSA deferred revenue balance is a direct result of the Company's use of inaccurate numbers of customers for the GT-LV rate class in the development of its compliance rates for Formal Case No. 1156. In that context, Pepco's request for inclusion of its entire current BSA Deferred Revenue Balance as of June 30, 2023 in rate base is wholly inappropriate and unjustified.

[4] The less than adequate and fully objective assessment of BSA issues presented in the Final Atrium BSA Audit Reported, filed on July 6, 2023, must not be permitted to drive the Commission's BSA-related determinations in this proceeding without further development of those matters. AOBA has addressed many of the errors and deficiencies in that report in Comments and Reply Comments filed in Formal Case No. 1156. Additional matters relevant to going-forward BSA issues are addressed in greater depth within this testimony.

<u>Pepco's Claims of a Climate Ready Pathway</u>

Pepco's characterization of its Multi-Year Rate Plan ("MYP") proposal as a "*Climate Ready Pathway*" undermines the credibility of the Company's MYP, as well as the revenue requirements Pepco claims are necessary to support the District's climate goals. Pepco has not identified and placed parameters on what a "*Climate Ready Grid*" will actually require in terms of additional or modified distribution facilities in the District of Columbia.[5] In the absence of such metrics, Pepco's substantial capital investment plans lack justification.

Pepco's long-term planning to date does not incorporate the requirements of full electrification. In fact, Pepco has indicated, "***Electrification is not directly included in Pepco's current 10-year capacity/load forecasts***."[6] Pepco also states, "***Electrification has not been projected*** *at the levels that would be required to meet the District's anticipated goals for electrification.*"[7] Moreover, Pepco's current planning includes no assessment of conversions from gas heating to electric heating and no estimates of the units of service by rate class that would be required under a "*growth in electrification"* scenario.[8] Also, Pepco states that it "*has not included conversions of gas heat to electrical heating sources in its most recent Ten-Year Forecast*."[9] Thus, in the context of the foregoing Pepco

[5] Pepco's response to AOBA Data Requests 1-2 and 1-3.
[6] Pepco's response to AOBA Data Request 1-11a (Emphasis added).
[7] Ibid.
[8] Pepco's response to AOBA Data Request 1-11b and 1-11c.
[9] Pepco's response to AOBA Data Request 1-11c

responses to AOBA discovery requests, any claims that Pepco's proposed MYP provides a "pathway" for the achievement of a "*Climate Ready Grid,*" must be heavily discounted.

Even if Pepco had presented a more well-developed assessment of the requirements of a "*Climate Ready Grid*," this Commission must consider the impacts of Pepco's substantial capital investment plans on the affordability of electric service in the District of Columbia. Given existing preferences among customers, particularly residential customers reliance on gas heating systems, the conversion of customers from natural gas heating to electric heating is likely to be challenging with no increases in the relative costs of electricity. If Pepco's massive capital investment plans further erode the comparative costs of electric heating relative to the costs of natural gas heating, the challenges faced in efforts to encourage conversions to electric heating will become even more formidable.

The Commission is asked to be sensitive to the manner in which Pepco's planned capital additions will impact the affordability of electric service at a time when the District is planning to encourage greater electrification of energy usage. With forecasts of declining kWh deliveries and minimal customer growth, Pepco has strong financial incentives to grow its earnings by expanding the size of its rate base. However, significant rate base additions in the context of minimal customer growth and declining kWh deliveries will necessarily amplify required percentage increases in Pepco's rates for electric distribution service in the District.

Pepco's Incentives Under a MYP

The Company's current MYP, as well as its proposed MYP, exacerbate incentives for Pepco to maximize its earnings growth through rate base additions. Under traditional historic test year ratemaking, Pepco could improve its earnings by exercising control over its operating costs. However, as we can observe from Pepco's AIF filings in Formal Case No. 1156, as well as in its filings and data request responses in this case, Pepco views its forecasted estimates of future period capital and operating expenditures as costs for which it has an **inherent right** for recovery through rates. Thus, Pepco's incentives are to spend to budgeted cost levels, with little regard for the composition its expenditures.

Pepco's activities during its "pilot" MYP clearly reflect the Company's efforts to approximate its forecasted levels of O&M and capital expenditures, regardless of the extent to which **the specific activities or programs** encompassed by its actual expenditures during an MYP year align with dollar amounts forecasted for MYP budgeting and rate approval purposes.[10] The MYP process to date has essentially enabled Pepco to spend to budgeted cost levels with full assurance of cost recovery. As a result, the current MYP process provides Pepco a level of

[10] This observation is not intended to imply that the Company should be provided no flexibility to adjust the composition of its budgeted expenditures during an MYP year. However, when Pepco's actual expenditures by program and/or FERC account vary significantly from its budgeted costs, a meaningful review of the Company's demonstration of the prudence of observable changes in the composition of its budgeted costs is necessary. The often cryptic explanations for budget variances found in Pepco's AIF filings are not adequate to justify observed variations from the Company's budgeted costs and do not provide reasonable assurance of the cost-effective use of ratepayer funds. In that context, procedures the Commission provided for review of AIF filings during the "pilot" MYP were insufficient and fail to provide incentive for Pepco to improve its earnings through better management of its operating expenditures.

assurance that it will recover the full amount of its budgeted costs regardless of the actual composition of those costs. Such a high level of revenue assurance is rare in any industry, regulated or non-regulated, and if permitted to continue, it will effectively eliminate most, if not all, cost recovery risk for the Company. Without the Commission's adoption of more rigorous, evidence-based, review of the prudence of Pepco's actual expenditures, as reported in Annual Information Filings, and greater effort to determine the need for rate adjustments, all semblance of ratepayer protection in the setting of rates is lost. When the only benchmarks for performance are unverifiable estimates of future expenditures, the concepts of "*used and useful*" facilities and "direct and traceable" benefits no longer have any substantive value.

The Commission must not overlook the fact that Pepco's Historic Test Year Rate of Return is noticeably above its currently allowed rate of return.[11] The Company's claims regarding revenue deficiencies in the MYP years and for the partially projected TTY only arise in the context of: (1) unverifiable budget estimates of future period costs; and (2) a greatly inflated assessment of the Company's required return on equity. In current financial markets, that have seen significant declines in forecasted earnings for many non-regulated businesses, the

[11] AOBA recognizes that Pepco's March 31, 2022 Annual Information Filing reflected earnings below the Company's authorized rate of return. However, that 2021 result should not be viewed as a reflection of the success or failure of the MYP and/or the Commission's ratemaking determinations in Formal Case No. 1156. MYP rates were only in effect for six months of 2021, but the Company AIF addresses full year results. Assessments of earnings results under the MYP should not be biased by mixing data for pre-MYP-approval and post-MYP-approval periods.

comparatively safe returns provided by equity investments in regulated utilities have offered a "safe haven" for many investors.

<u>MYPs and Relief from Regulatory Burdens</u>

The Commission must recognize that an MYP is no panacea. Regulatory burdens that are perceived to be eliminated by less frequent rate case filings are substantially offset by the need for an array of interim activities, including "working groups," frequent requests for comments on filings, and the need for more careful and detailed after-the-fact examination of Pepco's actual expenditures and the prudence of changes in the mix of expenditures the Company had budgeted. The "pilot" MYP process may have reduced some of the Commission's regulatory burdens, but it has not alleviated the burdens placed on OPC and intervenors.

Pepco's Annual Informational Filings ("AIF") have served **no useful purpose**. They have failed to yield any assessment of the prudence of Pepco's actual expenditures, and they have not provided District ratepayers needed ratemaking protections in the context of ratemaking determinations that are based on forecasted estimates of future expenditures. As this testimony will demonstrate, Pepco's budgeted cost for its current MYP are simply a compilation of inaccurately forecasted budget detail. The Company's budgeted costs for numerous expense accounts and capital projects are either substantially above or substantially below the costs on which this Commission was asked to set rates in Formal Case No.

1156. Simply producing results that approximate the Company's overall budgeted capital and/or O&M costs is not a measure of prudence.

The existing process has allowed Pepco to retain earnings in excess of its authorized ROE for 2022 with no requirement for Pepco's provision of refunds to District ratepayers. In addition, the greatly constrained time schedule for review of Pepco's AIF filings has not produced evidence of substantive review of Pepco's claimed actual costs. The AIF process also provides no incentive for Pepco to control its costs or employ its resources more cost-effectively. Management's only responsibility is to ensure that actual expenditures reasonably match the aggregate levels of the **forecasted** cost presented in Formal Case No. 1156. However, forecasted costs do not provide appropriate benchmarks for assessing the reasonableness and prudence of the Company's actual costs.

Pepco's Capital Spending Plans

Pepco's planned capital expenditures represent a key driver of the Company's revenue increase requests in this proceeding under both its requested MYP and its Traditional Test Year ("TTY") filing. Pepco's plan for undertaking over $957 million of new plant additions within the three years of its proposed MYP represents an average annual investment in new plant additions of nearly $320 million for each of the three years of its proposed MYP. That equates to nearly a **12% per year** compound annual growth in rate base. For a system that has only about **0.6%** per year customer growth and declining kWh deliveries, such a high on-going level of plant additions is not warranted and cannot be financially sustained.

When Pepco had significant service reliability problems, increased levels of reliability-related capital expenditures were understandable. However, that is no longer the case. Pepco has met **and exceeded** the reliability standards established by the Commission as well as the standards set forth in the Pepco-Exelon merger conditions. With forecasted declines in kWh deliveries and kW billing demands, requirements for Pepco to expand its distribution system capacity for reliability reasons should be quite limited in scope. Likewise, with minimal project customer growth, requirements for capital additions to serve new customers and/or load growth should also be limited in magnitude.

The District and its energy utilities are in a period of transition. That transition, the parameters of which continue to evolve, requires **<u>greater</u>**, not lesser, sensitivity to recent and anticipated changes in the environment in which Pepco must operate. That, in turn, suggests a need for **<u>greater</u>**, not lesser, involvement of regulators and stakeholders in the regulatory process. However, the Commission's procedures under the "*pilot*" MYP approved for Pepco in Formal Case No. 1156 have allowed Pepco to recover estimated costs with no accountability for the prudence of its actual expenditures. Practices that accept expenditures within budgeted levels as prudent, regardless of variations in the composition of such expenditures, does not reflect sound exercise of the Commission's regulatory responsibilities and must not be continued.

Moreover, Pepco's approach to the reconciliation process used for the "pilot" MYP reflects an attitude that any expenditure the Company makes is inherently prudent, and therefore, it make no difference how Pepco spends its capital and O&M budgets as long as Pepco's total expenditures reasonably align with its budget estimates. The Commission's acceptance of such representations with limited opportunity for public comment and no evidentiary review constitutes an abdication of the Commission's regulatory responsibilities and does not properly protect the interests of Pepco's District of Columbia ratepayers.

The Commission also needs to recognize that the financial incentives for utilities operating under holding company structures are to **grow earnings**. As previously noted, where growth in numbers of customers and kWh deliveries is limited or negative, the primary avenue for an operating utility to achieve earnings growth is developing rationales for increased rate base investment. However, without growth in the units of service billed that approximate planned rate of growth in the utility's rate base investment, expansion of the utility's rate base can only serve to further amplify the magnitudes of the utility's rate increase requests and erode the affordability of electric service to customers.

The Commission should support efforts to implement mechanisms that reduce the costs of regulation that must be borne by ratepayers while ensuring that rates for the District's electric consumers are just and reasonable. Alternative ratemaking methods, if well-structured **<u>and implemented with appropriate regulatory oversight</u>** may facilitate the achievement of this and other regulatory objectives.[12] However, alternative ratemaking should not be viewed as a replacement for on-going regulatory scrutiny of utility activities. The notion that approval of an MYP based on forecasted costs minimizes the need for the Commission's on-going examination of the details of Pepco's actual expenditures is simply wrong. There is no "*free lunch*"! Any suggestion that more complex multi-year rate filings will serve to alleviate the Commission's regulatory burdens is at best myopic and unwarranted. Moreover, the Commission is asked to recognize that rate case intervenors such as OPC, AOBA, DCG and others have experienced no reduction in their regulatory activities as a result of the Commission's approval of an MYP for Pepco. Rather, MYP-related filings, coupled with Commission directed working group activity and other Pepco regulatory filings have increased, not decreased, regulatory cost burdens for AOBA, and for other parties.

Alternative ratemaking methods are not a cure-all for existing ratemaking problems. In the Commission-sponsored Technical Conferences held in October 2019, one of the clear points of emphasis from regulators in other jurisdictions was the need for close oversight of utility costs and capital expenditures between rate proceedings. Rather, substantial on-going monitoring and review of utility costs by regulators is necessary to ensure that utility incentives and performance remain

[12] As will be discussed later in this testimony, Pepco's Pilot MYP and the procedures adopted for review of Pepco's actual annual expenditures do not constitute appropriate regulatory oversight of Pepco's expenditures.

consistent with appropriate regulatory objectives. Pepco's proposals in this proceeding do not accomplish some of the most basic objectives of alternative ratemaking. Specifically, they do not reduce the costs of regulation while maintaining necessary ratepayer protections.

The Commission's fulfillment of its responsibilities with respect to regulation of utility costs in this period of transition to a reduced carbon future, will necessarily require greater Commission activity as the need for coordination of activities between the District's gas and electric utilities increases, and control of utility expenditures becomes even more essential to the fulfillment of the District's policy goals. The cost of energy utility services in the District are already well above those in neighboring jurisdictions, and further amplification of those differences will not foster economic development and increased employment opportunities within the District. It will also not stimulate growth in the District's tax revenues.

<u>Rate Structure Considerations</u>

The main purpose of utility regulation is to protect captive customers from the extraction of economic rents by a monopoly supplier of services. However, Pepco has levered the regulatory process to embed a level of price discrimination in its rates that is not found anywhere else in the U.S. Thus, instead, of protecting customers from price discrimination, Pepco has maintained that rates effectively institutionalize extreme rate of return differentials among Pepco's rate classes.

The needs of low-income and moderate-income customers cannot be denied. However, subsidization of the **entire** residential class is not necessary to protect customers who face true hardships. As will be addressed in greater detail herein, Pepco's four-step methodology for allocating the revenue increase among rate classes represents little more than "*window dressing*" on long-enduing problems.

Pepco's representations regarding the "*affordability*" of the rates it proposes to apply to its District of Columbia ratepayers must not be accepted at face value. Given the magnitude of Pepco's revenue increase requests (under both its MYP and its TTY proposals), concerns relating to the affordability of electric service in the District of Columbia should not be limited in focus to residential customers and/or low- and moderate-income residential customers. Rather, they must be expanded to address the impacts of Pepco's rate proposals on the District's struggling commercial business sector.

The discretion of this Commission to provide rate assistance to low-income, elderly, and/or disabled individuals within the District is well-established. However, the role of the utility in the development and presentation of proposals for expanded rate subsidies for which the Company would bear no cost responsibility must be questioned. Utility-sponsored proposals that involve expanded rate subsidies (to be funded through increased rate surcharges outside of the Commission's base rate determinations in this proceeding), as well as added outreach and enrollment costs for unspecified numbers of added RAD program participants, are highly inappropriate, particularly where the utility bears none of the costs of its proposals for expanded rate subsidies. **It is easy for Pepco to spend other peoples' money**, particularly where it facilitates Pepco's ability to make representations regarding its efforts to aid the customers who are the recipients of such expanded rate subsidies (even though such aid is provided at the expense of other customers, not at Pepco's expense).

Pepco's proposed allocations of its requested revenue increase(s) in this proceeding are represented as an attempt to narrow existing class rate of return differentials. However, Pepco's support for its proposals fails to address the impacts of its proposed expansion of RAD subsidies. The proposed expansion of RAD subsidies would effectively impede efforts to achieve more balanced class rates of return. Proposed efforts to reduce class ROR differentials through adjustments to the distribution of base rate increases would be substantially offset by increased RAD surcharges, which as presently structured, are collected primarily from Medium and Large Commercial customers. If Pepco's proposal for expansion of RAD program participation is to be pursued, all requirements for recovery of incremental RAD subsidies should be through a separate surcharge applied only to non-RAD **residential** customers. The extreme magnitude of the subsidies already provided to Pepco's overall Residential class in the District must not be ignored.

The Commission must balance Pepco's proposals for increased capital and operating expenditures with the affordability of service for customers in **all** rate classes. Support for customers with limited financial resources is understandable, but the magnitude of Pepco's planned capital spending and the size of the Company's overall revenue increase request greatly constrain the District's commercial business sector to bear the costs of expanded rate subsidy programs. An expanded RAD program must not be permitted to amplify the already large bill impacts of the base revenue increases that Pepco proposes in this proceeding.[13]

When considering issues of electric service affordability, the Commission is also asked to recognize that Pepco's assessments of bill impacts include substantial billed costs for surcharges that are adjusted outside of base rate proceedings, as well as often volatile energy supply costs and pass-through charges over which Pepco generally has little influence or direct control. Pepco has made greatly simplified assumptions regarding the non-base rate charges that will be included in bills for District ratepayers. In that context, this Commission cannot rely on Pepco's bill comparisons for future periods to provide reliable assessments of the actual "total bill costs" that District ratepayers can expect to face. Assessment of the impacts of Pepco's rate proposals should be limited to the impacts to changes Pepco's base rate charges, as those are the costs over which Pepco and this Commission exercise substantial influence and control. Unreliable projection of energy supply costs in future periods or costs for other elements of customers' bills should not be used to moderate the perceived impacts of Pepco's rate increase proposals.

[13] Given that Pepco has made no forecast of the numbers of customers that it expects to enroll in its proposed expansion of the RAD program, the Commission must recognize that Pepco's bill comparison analyses include no costs for expanded rate credits for RAD customers.

Pepco's filings in this case, once again, suggests that the Company inflated the size of its revenue increase request well beyond the levels it can reasonably justify. The Company's inflation of its revenue increase request is further magnified by Pepco's efforts to gain approval of a Multi-Year Rate Plan ("MYP") in which its unduly inflated costs are projected forward for not one, but three separate annual revenue requirement requests. In addition, Pepco seeks further opportunities to enhance its earnings through the implementation of mechanisms under which it could be provided increased equity returns for doing little more than meeting business as usual expectations for its performance. The Traditional Test Year ("TTY") filing that Pepco has submitted in Supplemental testimony filed on October 16, 2023 also reflects a greatly overstated revenue increase request.

The combination of Pepco's over-reaching revenue requests, Pepco's reliance on questionable forecasts of future costs and usage, and Pepco's pursuit of a second MYP prior to a detailed investigation of the results of the current MYP, have rendered this a highly complex case. Even before the filing of intervenor Direct testimony, this case has greatly strained the resources of parties, such as AOBA, who lack public funding of their participation in these matters. The notion that the Company's MYP will reduce the costs of regulation that must be borne by District ratepayers is illusory. The only way the Company's proposals will result in a reduction in regulatory costs, is if this Commission abdicates its fiduciary responsibility to ratepayers and allows Pepco to set rates for future periods with limited reviews of the Company's Annual Information Filings and no evidentiary review of the prudence of Pepco's expenditures. Such ratemaking practices do not provide necessary oversight of Pepco's monopoly provision of electric distribution services in the District of Columbia.

III. DISCUSSION OF ISSUES

Q. HOW IS YOUR DISCUSSION OF ISSUES RELATING TO PEPCO'S FILING IN THIS PROCEEDING ORGANIZED?

A. This discussion of issues is presented in six sections. **Section A** addresses lessons learned from Pepco's "Pilot" MYP. **Section B** examines Pepco's claims that its MYP provides a "Climate Ready Pathway." **Section C** discusses issues associated with Pepco's Bill Stabilization ("BSA") mechanism, the historical operation of that mechanism, and Pepco's unwarranted reliance on the Atrium BSA Audit Report to support its BSA-related proposals in this proceeding. **Section D** identifies the primary drivers of Pepco's requested revenue requirements in this proceeding, the support, or lack thereof, for the Company's estimates of forecasted costs, and merits of certain specific elements of the Company's requested revenue requirements in this proceeding. **Section E** examines both the form and sub-stance of the Class Cost of Service Study ("CCOSS") sponsored by Pepco witness Gardiner in this proceeding. **Section F** presents an assessment of Pepco's rate structure proposals in this proceeding, including: (i) the appropriateness of the Company's proposed Four-Step revenue increase allocation methodology, (ii)

Pepco's inappropriate use of "Effective Rate Adjustments," (iii) Pepco's erroneous assessment of Customer Costs for Schedule Rate Schedule GT-LV, and (iv) the impacts of Pepco's proposed expansion of the RAD program.

A. EVALUATION OF PEPCO'S PILOT MYP

Q. DOES THE DISTRICT'S EXPERIENCE UNDER THE "PILOT" MYP WARRANT ADOPTION OF ANOTHER SIMILARLY STRUCTURED MYP AT THIS TIME?

A. No. The MYP process that Pepco has pursued since this Commission's issuance of Order No. 20755 has not served the interests of District ratepayers and has not provided necessary and appropriate ratepayer protections from wasteful spending by the Company. Moreover, despite the Company's rhetoric, there is little evidence that the Pilot MYP produced benefits that would not have been achievable under traditional test year ratemaking.

In Order No. 20755, the Commission found:

> "…*that establishing a Pilot to consider Pepco's EMRP will allow this first MRP filing to serve as an opportunity to gather valuable lessons learned in assessing future MRP proposals and to facilitate the development of AFOR regulations.*[14]

The Commission also stated that "*Through this pilot the Commission will benefit from lessons learned to facilitate the adoption of regulations for MRP and other*

[14] Order No. 20755, page 60, paragraph 143.

AFOR applications."[15] For these reasons, an examination of Pepco's actual performance under the pilot MYP is essential.

1. Pepco's MYP Evaluation

Q. HAS PEPCO OFFERED AN EVALUATION OF LESSONS LEARNED FROM THE "PILOT" MYP?

A. No. The Additional Supplemental Direct Testimony of Pepco witness O'Donnell indicates that part of the purpose of that testimony is to address lessons learned from the Pilot MYP,[16] but the presentation that follows primarily repeats arguments the Company presented in Formal Case No. 1156 to support its preference for an MYP.[17] Absent from witness O'Donnell's testimony is a retrospective examination of the actual results of the "Pilot" MYP and the extent to which actual experience under the Pilot MYP met expectations for that plan.

Q. WHAT ARGUMENTS ARE OFFERED BY PEPCO WITNESS O'DONNELL IN SUPPORT OF PEPCO'S PREFERENCE FOR A MYP?

A. Witness O'Donnell claims a MYP:

- Improves collaboration and transparency;
- Allows the Company to make investments that support the District's goals and policies;

[15] Order No. 20755, page 60, Footnote 408.
[16] Exhibit Pepco (3A), page 1, lines 10-15.
[17] Exhibit Pepco (3A), pages 5-9.

- Provides greater opportunities for Pepco to positively impact economic and community development;

- Provides longer-term view of future capital and O&M investments;

- Can smooth rates and avoid risk of large rate increases year to year;

- Reduces regulatory costs and provides "*significant cost savings and lower administrative costs due to few rate cases*;"

- Provides the Company revenue certainty for a period of time.

Yet, as noted above, witness O'Donnell's arguments focus on benefits the Company "believes" an MYP can provide without substantive examination of the benefits the "Pilot" MYP **actually** provided. Also, missing from witness O'Donnell's presentation is any recognition of the added ratemaking complexity that a MYP imposes and the dependence of MYP rate determinations on forecasted estimates of future period costs that have at best questionable accuracy when examined in detail.[18] Witness O'Donnell's testimony fails to address the prudence of the Company's actual expenditures, the complexity of multi-year rate determinations based on estimates of future costs and usage, and burdens that abbreviated time requirements for review of Annual Information Filings place on OPC and other rate case intervenors.

[18] As will be developed herein, a general alignment of total budgeted cots with total actual expenditures is of little value. When the Company is allowed to make wholesale changes to the composition of its budgeted costs, any claim of transparency with respect to the projects and programs to which planned MYP period expenditures would be applied is lost.

Q. WITNESS O'DONNELL SUGGESTS THAT A TRADITIONAL RATE CASE IS "*NECESSARILY BACKWARD LOOKING*."[19] DO YOU AGREE?

A. No. This Commission has a long history of accepting adjustments to historic test year costs to reflect known and measurable changes in costs that will prevail during a forward-looking rate effective period. Furthermore, witness O'Donnell overlooks the fact that commissions have, at times, allowed costs to be included in rates for facilities placed into service before the closing of the evidentiary record, even though at best limited opportunity may have been provided for third-party review of such plant additions.

Q. DOES PEPCO PROVIDE EVIDENCE OF ACTUAL REDUCTIONS IN REGULATORY COSTS THAT CAN BE ASSOCIATED WITH THE IMPLEMENTATION OF THE COMPANY'S PILOT MYP?

A. No, it does not. The Company's assertions regarding regulatory cost savings have at least three shortcomings.

First, the Company's position is premised on the assumption that, in the absence of an MYP, Pepco should be expected to annually file a new base rate increase request. However, historically there have been numerous instances in which there were multiple years between Pepco's rate increase requests. Moreover, the complexity of multi-year rate plan filings can make litigation of MYP

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[19] Exhibit Pepco (3A), page 6, lines 5-7.

requests costly and time consuming than traditional test year rate case filings. The complexity of MYP filings also tends to make such cases less likely to settle.

Second, the reliance of Pepco's MYP filings on forecasted estimates of future expenditures requires greater after-the-fact review of actual expenditures to ensure that ratepayers' interests are protected. If the Company is to be held accountable for its actions and decisions, greater time and effort must be invested in the examination of actual expenditures. Both the magnitude of actual expenditures and the composition of actual expenditures require detailed review. Forecasted budgets are at best poor benchmarks for assessing the prudence of the Company's actually incurred costs. Where a project is cancelled or deferred, the attributes of any substitute project(s) warrant detailed examination in terms of the benefits the substituted project(s) provides. Simply filling an expenditure void created by a cancelled or deferred project with a lower priority project or project with lower expected benefits is not necessarily a prudent use of ratepayer funds.

Third, Pepco offers no assessment of the added costs that an MYP can impose on other rate case participants. Such added costs can result from litigation of more complex issues and requirements for expanded post-rate-case activities. Such activities include requirements for working group participation; more frequent filings of comments; and monitoring, review and analysis of reported actual results. To date, the MYP process has increased, not reduced, AOBA's regulatory burdens and further strained AOBA's available resources.

Q. SHOULD THE COMMISSION ACCEPT PEPCO'S ARGUMENT THAT TRADITIONAL TEST YEAR RATEMAKING DOES NOT PROVIDE FLEXIBILITY AND CONFIDENCE TO PLAN INVESTMENT NEEDED TO FACILITATE THE DISTRICT'S CLIMATE GOALS[20]?

A. No. From a ratepayer perspective the "*flexibility and confidence*" that Pepco seeks only yields an erosion of Pepco's accountability and a **shifting of risk from the Company to its ratepayers**. Sound ratemaking policy and effective utility regulation require more than simply allowing the utility to estimate costs and spend to forecasted cost levels.

Q. HOW DO YOU RESPOND TO WITNESS O'DONNELL'S ASSERTION THAT TRADITIONAL RATE CASES DO NOT PROVIDE RATE CERTAINTY?

A. Establishment of base rate charges for a multi-year plan does not ensure rate certainty for customers. Pepco's array of rate surcharges can significantly erode any potential perception of rate certainty. I would also note, for example, that adoption of Pepco's proposal to expand enrollment in the Company's RAD program, will necessarily lead to increased RAD surcharges for Non-RAD customers over the course of the MYP. Thus, there should be no illusion that the establishment of base rate charges for the years of an MYP will necessarily yield rate certainty for District ratepayers.

[20] Exhibit Pepco (3A), page 6, lines 5-7.

In addition, the Company's proposals for updates of billing determinants must also be expected to erode the certainty of charges that customers will face over the course of an MYP.

Q. DOES WITNESS O'DONNELL OFFER ANY FACTUAL SUPPORT FOR THE SUGGESTION THAT TRADITIONAL RATE CASE FILINGS DO NOT SUPPORT FOCUS ON SERVICE RELIABILITY?

A. No. To the contrary, Pepco's history documents substantial improvements in the Company's service reliability metrics that were accomplished without the aid of a multi-year rate plan. Likewise, witness O'Donnell representations lack factual support and historical perspective. Requirements for "*continued focus on reliability*" are not new for either Pepco or electric utilities in general. Although Distributed Energy Resources ("DER") and other customer focused technologies may require consideration of modifications to some traditional ratemaking practices, witness O'Donnell fails to demonstrate that such considerations cannot be accommodated within traditional rate year filings. The broad discretion that Pepco seeks to pursue such programs without the need to meet traditional requirements for demonstration of the prudence and cost-effectiveness expenditures for such programs may facilitate Pepco's efforts to grow its earnings, but it is not reflective of sound ratemaking practice. Again, in the context, of the Company's forecasts of declining kWh and kW requirements along with minimal customer growth, unchecked growth in the Company's capital investments and

O&M expenditures can only be expected to place substantial further upward pressure on Pepco's rates for electric services in the District of Columbia.

Q. SHOULD THE COMMISSION EXPECT THAT PEPCO'S MYP PROPOSALS IN THIS PROCEEDING WILL YIELD "*RATE CERTAINTY*" FOR ITS CUSTOMERS IN THE DISTRICT OF COLUMBIA?

A. No. Any appearance of "*rate certainty*" under a multi-year plan is likely to be illusory as, at best, only the Company's base rate charges are fixed for the term of the MYP. There are multiple rate surcharges and pass-through charges (e.g., SEFT, EATF, BSA, UPC, and the RADS Rider) included in customers' monthly bills that are subject to change over the course of an MYP. In addition, charges included in customers' bills for energy supply services under either Standard Offer Service or competitive supply contracts remain subject to adjustment over time.[21]

2. <u>MYP Lessons Learned</u>

Q. WHAT ARE THE MOST IMPORTANT LESSONS LEARNED FROM PEPCO'S INITIAL MYP?

[21] Although a schedule for adjustments to Pepco's SOS charges has been established by the Commission, the magnitude and direction of future changes in SOS charges cannot be forecasted with certainty. Where customers utilize competitive electricity supply alternatives, the costs of such alternatives and the timing of adjustments to charges for such services are negotiated between the customer and its chosen supplier, and in that context, changes in such charges are not predictable.

A. Several important lessons arise from experience to date under Pepco's initial MYP that was approved in Formal Case No. 1156. Those lessons include the following:

- MYP's, by their very nature, require substantially greater effort on the part of the Commission, OPC, AOBA, and other intervenors to examine the basis for establishing different sets of rates by year for multiple years into the future. It should not be expected that litigation of a multi-year rate plan can be accomplished within a time frame comparable for those that the generally established for traditional test year rate proceedings.

- Setting rates on the basis of forecasted costs, increases incentives for utilities to over-forecast future costs, and reduces incentives for utilities to control their actual expenditures in a manner that benefits ratepayers.

- Pepco's actual expenditures, as reflected in its Annual Information Filing ("AIF") for 2022, demonstrate the Company's lack of ability to accurately forecast the details of actual expenditures for future periods.

- A general alignment of total budgeted costs with total actual expenditures does not yield sufficient basis for judging the reasonableness and prudence of actual expenditures when the utility has broad discretion to deviate from the composition of its budgeted expenditures.

- The only opportunity for greater incentives for more accurate cost forecasting and control of actual utility expenditures lies in more detailed regulatory oversight of Pepco's expenditures and the ***a priori*** establishment of more well-defined prudence criteria.

- Where rates are set on the basis of forecasted costs for multiple years into the future, rigorous reviews of the prudence of the utility's actual expenditures with opportunities for rate refunds are essential.

- Even if greater time is provided for review of MYP applications, the need for extensive oversight of the Company's actual expenditures is not alleviated, and that need further undermines utility representations that MYPs serve to reduce regulatory burdens.

Q. WHAT IS THE BASIS FOR YOUR ASSERTION OF A GENERAL LACK OF ALIGNMENT BETWEEN PEPCO'S BUDGETED AND ACTUAL COSTS?

A. The lack of alignment between Pepco's budgeted and actual costs is reflected in Pepco's AIF for 2022.[22] Appendix 1, Schedule 4, of Pepco's 2022 AIF indicates the Company had a projected 2022 capital budget for its District of Columbia distribution service of **$308,303,000** and actual capital expenditures of

[22] See Appendix 1, Schedule 4, of Pepco's 2022 Annual Information Filing in Formal Case No. 1156, dated March 31, 2023.

$266,965,000. Thus, in aggregate, Pepco **underspent** the capital budget it presented for ratemaking purposes in Formal Case No. 1156 by approximately $41.3 million or 13.4%.

However, further examination of the details of the Company's 2022 AIF report finds that Pepco had **$217.1 million** of budgeted costs for projects on which it actually spent only **$66.1 million**.[23] That means **nearly half** (i.e., $150.9 million) of the Pepco's overall budget **was not spent** as forecasted. On the other hand, Pepco's 2022 AIF identifies **$102.1 million** of unbudgeted actual expenditures. In other words, roughly **one-third** of Pepco's actual capital expenditures in 2022 **represented costs that were not included in its 2022 capital budget**.[24]

Overall Pepco's actual O&M expenditures for 2022 reflect a closer alignment with its total forecasted O&M budget for 2022. Pepco budgeted $171.1 million of O&M costs for 2022 and it reports actual expenditures of $173.9 million. Thus, in aggregate Pepco overspent its O&M budget by roughly $2.8 million or just 1.6%.[25] Yet, that overall result hides substantial deviations between Pepco's actual and budgeted expenses for a significant number of accounts. Exhibit AOBA (A)-2 demonstrates that Pepco had six accounts in 2022 for which it budgeted a total of $6.15 million but actually spent $20.9 million. There were also seven O&M accounts for which Pepco's underspent its forecasted 2022 O&M budget amounts

[23] Exhibit AOBA (A)-1, page 2 of 4.
[24] Exhibit AOBA (A)-1, page 4 of 4.
[25] See Appendix 1, Schedule 3, of Pepco's 2022 Annual Information Filing in Formal Case No. 1156, dated March 31, 2023, as well as Exhibit AOBA (A)-2.

by 33% or more, including four O&M accounts for which Pepco spent less than half of its forecasted budget amounts.

Although Pepco's actual costs for its largest budgeted O&M account, Outside Services Employed (Account 992300), were within 2% of the amount budgeted, that observation provides no insight regarding the composition of Pepco's actual expenditures for Outside Services. Given that Outside Services can be used to support a wide array of activities, it is important to consider the extent to which the composition of Pepco's actual expenditures for Outside Services aligns with the composition of the 2022 Outside Services costs that Pepco included in the budgeted costs it presented for 2022 in Formal Case No. 1156. There can be no meaningful assessment of the reasonableness and prudence of Pepco's actual O&M expenditures in the absence of a more fully developed understanding of such matters.

The substantial deviations from budgeted expenditures identified in Exhibits AOBA (A)-1 and (A)-2 greatly diminish transparency of the MYP process. They also serve to erode the confidence this Commission can place on Pepco's budgets based on forecasted expenditures. Those large deviations from budgeted cost amounts also place substantial burden on the Commission to assess the prudence of the Company's alterations to the composition of its budgeted costs. That is a burden that no party (i.e., the Commission, OPC, AOBA or any other regular rate case intervenors) appears well positioned to assume.

Q. DO THE EXPLANATIONS OF VARIANCES THAT PEPCO INCLUDES IN ITS AIF FILINGS PROVIDE ADEQUATE JUSTIFICATION FOR THE VARIANCES THE COMPANY REPORTS?

A. No. The explanations of variances Pepco provides are overly cryptic (i.e., often one or two sentences) and less than fully expository. Pepco's offered explanations for observable variations between its budgeted and actual expenditures must not be the limit of what is required of the Company to justify its substantial restructuring of the budgeted costs Pepco presents for ratemaking purposes.

Q. IS THERE EVIDENCE THAT CHALLENGES THE CREDIBILITY OF PEPCO'S VARIANCE EXPLANATIONS?

A. Yes. For example, Pepco's 2022 AIF indicates the Company underspent its budget for New Business Commercial (Project No. 75093) by **$9.2 million**. As explanation for that variance, the Company suggests that the observed variance is "*Primarily driven by **higher than anticipated CIAC***." However, that explanation is not credible. Pepco's response to AOBA Data Request 7-2d indicates that in 2022 Pepco billed $11.0 million of CIAC to Commercial customers in the District. If unanticipated CIAC payments were in fact a major driver of Pepco's reported variance for Project 75093, New Business Commercial, most of the Company's 2022 CIAC receipts for that year would have to have been unanticipated. Yet, Pepco's Commercial customer CIAC payments for 2022 were less than the Commercial CIAC payments the Company received in either of the two prior years.

In 2020 Pepco received $14.4 million in CIAC payments from Commercial customers in DC.[26] In 2021, Pepco's CIAC payments from Commercial customers in DC totaled $16.26 million.[27]

Pepco has represented that: *"The budgets established by Pepco are the net anticipated expenditures after taking into consideration historical levels of contributions in aid of construction*."[28] In that context, CIAC payments should have no impact on the actual capital expenditures that Pepco reports. However, in this instance we must conclude that, at best, Pepco did not reasonably assess its historical levels of CIAC payments from Commercial customers. Alternatively, it appears possible that the Company presented its budget for Commercial New Business without removing some or all of its expected commercial CIAC payments to provide Pepco greater flexibility with respect to other elements of its budgeted capital expenditures. Either scenario should be viewed by this Commission as problematic and not indicative of utility behavior that fosters efficient and transparent ratemaking determinations.

Q. SHOULD THE COMMISSION HAVE OTHER CONCERNS REGARDING PEPCO'S VARIANCE EXPLANATIONS?

A. Yes. There are numerous additional examples of inadequate support for observed variances. For instance, statements that costs were moved between projects or

[26] Pepco Response to AOBA Data Request 7-11c and the associated attachment.
[27] Ibid.
[28] Exhibit Pepco (H)-1, Section 6, Customer-Driven Projects, page 66 of 82.

accounts or reclassified without more explicit quantification and tracking of those cost shifts are not justification for the variances for which such statements are applied. Rather, the absence of quantification and tracking of such cost shifts, again serves to erode the transparency of and value of Pepco's presentation of budgeted costs. Likewise, references to "emergent work" without more detailed delineation and quantification of costs for such work does not provide adequate basis for assessing the reasonableness and prudence of costs incurred for such "*emergent work requirements*." In addition, references to "***reprioritization of funds from elsewhere in the Company***" with identification of the source of the funds and the nature and priority of the work not performed should not be accepted as adequate or appropriate explanation of any variance.

Q. SHOULD THE COMMISSION HAVE OTHER CONCERNS REGARDING PEPCO'S VARIANCE EXPLANATIONS?

A. Yes. It is highly apparent from the foregoing observations that Pepco simply views its forecasted budgets as large pools of funding over which it can exercise very broad discretion with little accountability for its decisions. Without a requirement for Pepco to assume greater responsibility for demonstrating reasonable conformance with its estimated costs by project and activity, no representations regarding the benefits that the Company's forecasted costs will provide for its District of Columbia customers are warranted. Essentially, Pepco's forecasted budgets become little more than large "*pools of funds*" that management can spend without concerns regarding substantive regulatory challenges and cost disallowance.

The Commission is asked to recognize that any party that seeks to challenge the prudence of elements of Pepco's actual expenditures is almost impossible task. Inevitably, any after-the-fact challenge of the prudence of the Company's management decisions is written-off as "*20-20 hindsight*." The more effective control of Pepco's actual expenditures is dependent on: (a) the establishment of regulatory procedures that enable more detailed evidentiary review of the Company's actual costs; and (b) the Commission's ***a priori*** establishment of criteria for evaluation of the prudence of actual expenditures. Without the potential for serious challenges to the Company's deviations from the composition of its budgeted expenditures, management essentially operates with impunity. As a result, Pepco's forecasted estimates of future expenditures become little more than pools of funds over which management exercises wide discretion. Moreover, traditional ratemaking considerations regarding the cost-effectiveness of actual expenditures, the relative priority of projects and/or programs on which dollars are actually spent, and when planned additions of plant and equipment actually become "used and useful" are at best relegated to secondary importance.

Q. HAS PEPCO OFFERED AN EVALUATION OF THE RELIABILITY OF ITS FORECASTS OF FUTURE EXPENDITURES FOR EITHER ITS PILOT MYP OR ITS PROPOSED MYP?

A. No, it has not. As previously demonstrated herein, there have been substantial differences between the composition of the budgeted costs Pepco presented in Formal Case No. 1156 as the basis for the rates established for its "pilot" MYP and the composition of the costs it actually incurred. Pepco's Reconciliation Filings Assessments of the accuracy of Pepco's forecasted budgets must look at more than just the total amounts spent. What is provided or achieved for the dollars spent is important. Simply spending to approximate a total budgeted dollar amount should not be the objective. There is little value added by utility management if management's primary task is simply to spend a fixed number of dollars without regard for how the dollars are used. One of the key challenges of the pursuit of multi-year rate plans based on forecasted costs is finding the means to ensure that the dollars expended are used productively. District ratepayers should not be subjected to results that are reflective of "*bait and switch*" tactics.

Pepco's presumption appears to be that ratepayers will always be better served if the Company spends its entire capital budget regardless of what is provided for the dollars spent. That is not a presumption that this Commission should foster. The Commission has a responsibility to ratepayers to ensure the reasonableness and prudence of utility expenditures, and that responsibility requires more rigorous examination of differences between Pepco's actual expenditures and the Company's forecasted budgets than has been undertaken to date. There may be situations in which ratepayers may be better served by the savings associated with reduced expenditures when a project is deferred or cancelled than by acceptance of a lesser priority project or the purchase of a lower quality product.

Thus, with the approval of multi-year rate plans based on forecasted costs, the Commission assumes an added burden of after-the-fact verification of the productivity of a utility's actual expenditures. Moreover, it is a task that demands an evidentiary process.[29] Moreover, this type of after-the-fact review expenditures is not a process for which intervenors such as AOBA, and possibly OPC, can undertake on the basis of traditional levels of funding. It also creates an added challenge for the Commission in terms of finding new methods for ensuring that ratepayer value is not eroded by changes in the composition of the costs on which rates were set. Without the establishment of more clear criteria for assessing the impacts on changes in the composition of Pepco's expenditures on ratepayer value. The Company's presentation of forecasted budgets becomes a meaning-less activity with no real transparency.

Q. HAS THE MARYLAND COMMISSION ADDRESSED ISSUES RELATING TO A UTILITY'S USE OF FORECASTS IN A MRP FILING?

A. Yes. In Order No. 89482 rendered by the Maryland Public Service Commission on February 4, 2020, the Maryland Commission found:

> Given the risk of inaccurate forecasts as well as the reality that the utility has both greater information than other stakeholders and

[29] I am aware of no regulatory commission in the U.S. that denies recovery of costs without the aid of an evidentiary record.

> greater control over its own costs, it is imperative that the utility have strong incentives to develop accurate forecasts and then plan appropriately to stay within the authorized revenue requirement while also not under-investing to the detriment of safe and reliable utility service.[30]

Q. HAS PEPCO'S PILOT MYP INCREASED THE RISKS BORNE BY DISTRICT RATEPAYERS?

A. Most definitely. Pepco's provision of Annual Information Filings ("AIF") has not proven to be an effective means of ensuring the maintenance of ratepayer value. In concept it may be possible to construct a MYP process that does not shift forecasting risk from the utility to ratepayers. But, as a practical matter, protecting ratepayers from the impacts of utility forecasting errors generally requires extensive cost tracking and prudence review that must necessarily go beyond the simple acceptance of an annual information filing. Yet, those activities which are necessitated by reliance on unverifiable forecasts of future expenditures to set rates, can add significantly to the costs of regulation. That, in turn, defeats one of the key objectives of a MYP, which is to reduce the costs of regulation borne by ratepayers. On the other hand, if detailed cost tracking and prudence reviews are not required, the transparency of the regulatory processes will be substantially undermined.

[30] MD PSC Order No. 89482, paragraph 43, pages 21-22.

Q. HAS THE PILOT MYP PROVIDED INCENTIVES FOR PEPCO TO FORECAST ITS FUTURE COSTS WITH GREATER ACCURACY?

A. No. For a utility to have incentive to forecast with greater accuracy, it must take responsibility for its forecasts and have accountability for the results of its forecasts. Neither has been observed during the MYP Pilot. In addition, clear expectations for performance must be established for both capital projects and O&M activities, such that meeting a projected level of spend is only a **satisfactory** result if performance objectives are achieved. Yet, no specific performance objectives were established for Pepco prior to its implementation of the Pilot.

Q. ARE YOU ADVOCATING GREATER USE OF PERFORMANCE INCENTIVE MECHANISMS?

A. No. I am advocating the establishment of **standards** without a priori determination of penalties or rewards. One of the problems encountered with PIMs is that the dollar value of the rewards and penalties often has no direct linkage to the value gained from positive performance or the costs imposed by substandard performance. Establishing standards without a predetermined reward or penalty structure convey expectations for performance while providing the Commission the ability to tailor penalties or rewards to fit the circumstances.

One of the pitfalls of the use of PIMs in combination with rates set on the basis of forecasted costs is the potential that the utility will inflate the levels of its forecasted costs to ensure ample resources to meet its performance objectives.

Where that occurs, ratepayers are affectively asked to pay twice for the same achievement. Rewards paid to utilities under performance incentive programs should be associated with accomplishments beyond expectations based on the funding provided. Under a MYP that sets rates based on forecasted costs, incentives for exceeding expectations are difficult to justify if: (1) specific expectations are not associated with approved levels of funding; and (2) the utility is allowed substantial discretion to alter the composition of budgeted expenditures.

Q. SHOULD THIS COMMISSION HOLD PEPCO ACCOUNTABLE FOR THE ACCURACY OF ITS FORECASTS?

A. Yes. To ensure that the risks of improper forecasting remain on the utility, and to encourage cost control, this Commission should consider the recent MRP determinations of the Maryland Commission. After examination of various parties' recommendations and positions relating to the structuring of a MRP process, the Maryland Commission elected to adopt an approach which requires the utility to operate within its approved revenue requirements during the period of the MRP without the potential for upward cost reconciliation adjustments if the Company under-forecasts its costs. More specifically, the Maryland Commission has chosen to use an "*asymmetrical method for returning over- and under-collections of prudent expenditures*."[31]

[31] MD PSC Order No. 89842, paragraph 84, page 39.

Q. HAS PEPCO PROVIDED ANY QUANTIFICATION OF THE IMPACTS OF ITS PILOT MYP ON REGULATORY COSTS FOR ITS OWN OPERATIONS, FOR THE COMMISSION, FOR OPC, AND/OR OTHER RATE CASE INTERVENORS?

A. No, it has not. At this point the Company's claims or regulatory cost saving remain, at best, conceptual. Further, any attempt to quantify such savings at this time must consider: (1) the added complexity of this case given that it represents the first time that the Commission has faced a need to review past MYP experience before making determinations regarding future MYP ratemaking policies; and (2) the absences to date of any significant proceeding for evaluation of the reasonableness and prudence of Pepco's actual MYP costs and performance.

B. PEPCO'S MYP AS A "CLIMATE READY PATHWAY"

Q. WITNESS O'DONNELL REFERS TO PEPCO'S MYP FILING IN THIS PROCEEDING AS A "CLIMATE READY PATHWAY." HAS PEPCO DEFINED WHAT WILL BE REQUIRED FOR ITS SYSTEM TO BE "CLIMATE READY"?

A. No. It has not. Although witness O'Donnell's Direct testimony offers considerable rhetoric regarding Pepco's support for the District's climate objectives, Pepco has placed no parameters on the attributes its District of Columbia distribution system will need to add, expand, or refine to achieve its concept of a "*climate ready grid*."[32] Witness O'Donnell and Cantler do indicate that "*reliability is an integral component*

[32] Pepco's response to AOBA Data Request 1-2.

of a Climate Ready Grid,"[33] but they cite no specific elements of the Company's system that need further improvement. They also offer no explicit recognition of the fact that Pepco is already among the best performing utilities in the region with respect to the levels of system reliability it has already achieved.

The primary metric Pepco offers with respect to its progress toward a "Climate Ready" status is its level of capital spend. Yet, the Commission needs to recognize that Pepco, as a subsidiary of a utility holding company, needs to grow its earning to support growth in Exelon's stock price, and in an era of declining kWh and kW requirements the Company can only achieve its parent company's growth objectives through continual expansion of its rate base investment. For decades, utility investments were a comparatively safe haven for individual investors seeking comparatively safe and steady returns. That has changed with the expansion of utility holding companies over the last two decades and the diminished role of local investors who had a stake in maintaining safe and reliable service at affordable rates for the local community of which they were a part. Pepco's forecasted capital budgets in this case are mostly a reflection of an effort to leverage climate concerns to facilitate further rate base growth.

Pepco's electric utility operations will not be a centerpiece of the District's climate efforts if continued expansion of its capital spending makes electric service in the District unaffordable. However, the diminished affordability of electric service in the District must be viewed as inevitable in the context of growing capital

[33] Ibid.

expenditures, declining kWh deliveries, and minimal customer growth. Thus, the challenge for this Commission is to cut through the rhetoric and find ways to limit Pepco's capital spending to essential requirements.

The fact is Pepco's most recent 10-year long-range plan does not even include projections of electrification requirements. Thus, Pepco offers no road map for how it will evolve its system from its present state to a "*climate ready*" state. The only "pathway" Pepco offers is a "yellow brick road" to Exelon's "Wizard of Oz." Not the magical solution to this emerald city's needs, but a little man behind a curtain pulling strings.

Certainly, greater electrification will add new loads to the system. However, in the context of Pepco's forecasts of declining kWh deliveries and declining metered demands for existing District customers, Pepco should be able to accommodate at least some added electrification load within its existing distribution system facilities. Likewise, a reliable and resilient system will be important for more heavily electrified energy end-uses. Yet, Pepco's existing SAIFI, SAIDI, and CEMI metrics are currently among the best in the industry, and Pepco has not clearly demonstrated the incremental improvements in system reliability and resilience that will be required for a "*Climate Ready*" grid.

The linkage between Pepco's proposed capital expenditure in this case and the parameters of a "*Climate Ready Pathway*" need to be more clearly established. This Commission should not allow Pepco to rely on vague assertions regarding climate readiness to drive a level of capital expenditures that defeats the District's electrification goals by making its electric service unaffordable. A "Climate Ready" Grid will be of little value if its costs drive customers off-the system or out of the District of Columbia. Electrification will only work if electric service is an affordable alternative to other energy sources. As a professor of electrical engineering once expressed to me, engineering is an "***economic art***." It is not sufficient for an engineer to design a system that will perform a task or meet a structural requirement. Rather, the challenge of engineering is to create products and systems that can accomplish specific objectives **economically**.

Achievement of the District's climate goals will not be fostered by Pepco's capital spending if that Company's capital spending programs render the use of electric service in the District an uneconomic alternative for both individuals and businesses. As we have seen over the last couple years, the draw of proximity to the federal government may no longer be sufficient to overcome the costs of maintaining substantial operations in the District for many businesses.

C. BSA-RELATED ISSUES

Q. BEFORE ADDRESSING THE DETAILS OF PEPCO'S BSA RELATED PROPOSALS IN THIS PROCEEDING, DO YOU HAVE ANY PRELIMINARY OBSERVATIONS REGARDING PEPCO'S BSA MECHANISM AND OUTSTANDING ISSUES ASSOCIATED WITH THAT MECHANISM?

A. I do. Although Pepco's BSA proposals in this proceeding lean heavily on the recommendations of the Atrium BSA Audit Report, substantial reason has been provided to question the accuracy and comprehensiveness of the analyses presented in the Atrium Report and the appropriateness of the recommendations contained therein.[34] It is also troubling that: (1) the Atrium recommendations were cited by Pepco as support for positions in this proceeding before that report was finalized; and (2) the Final Atrium Report addresses testimony filed by Pepco witnesses in this pending rate case. Such cross-fertilization between Pepco and the Commission's purportedly independent auditors is highly irregular and only serves to undermine perceptions of the actual independence and objectivity of the authors of the Atrium report.

Q. DOES PEPCO PROPOSE CHANGES TO ITS BSA MECHANISM IN THIS PROCEEDING?

A. Yes. It proposes several. The Direct testimony of Pepco witness Bonikowski specifically identifies four proposed "enhancements" to the current BSA structure. Those include:

- A change from revenue per customer targets by class to a flat revenue target for each rate class;

- Transition from monthly to annual revenue reconciliation and annual surcharge adjustments;

[34] Attachment B to this testimony provides copies of the multiple filings of Comments AOBA has submitted to the Commission in Formal Case No. 1156 regarding the Atrium BSA Audit Report and those comments are incorporated as part of this testimony.

- The introduction of a demand component to the Company's BSA surcharges for demand metered rate classes;

- Display the BSA surcharge as a separate line item on customer bills.

In addition, Pepco's Supplemental Direct testimony requests that Pepco be provided a return on its fully BSA Deferred Revenue Balance.

1. <u>Treatment of Pepco's BSA Deferred Revenue Balance</u>

Q. HOW DO PEPCO'S PROPOSALS IN THIS PROCEEDING ADDRESS ITS BSA DEFERRED REVENUE BALANCE?

A. The Supplemental Direct testimony of Pepco witness Leming proposes, as part of the Company's Traditional Test Year filing, that the Company's **<u>full</u>** BSA deferred revenue balance as of June 30, 2023 be included in rate base and that the Company be allowed to earn its requested rate of return on that balance.[35]

Q. WHAT IS THE DOLLAR MAGNITUDE OF THE RATE BASE ADJUSTMENT THAT PEPCO PROPOSES TO REFLECT ITS BSA DEFERRED REVENUE BALANCE?

A. Pepco Exhibit (2B)-1, presents Pepco's proposal for a **$113,781,000** rate base adjustment to reflect the Company's claimed BSA Deferred Revenue Balance.

[35] Exhibit Pepco (2B), pages 14-15, and Exhibit Pepco (2B)-1, page 15 of 45.

Q. DOES WITNESS LEMING'S TESTIMONY PROVIDE SUPPORT FOR THE AMOUNT OF PEPCO'S REQUESTED RATE BASE ADJUSTMENT FOR ITS BSA DEFERRED REVENUE BALANCE?

A. As shown in Exhibit Pepco (2B)-1, page 15 of 45, Pepco's proposed RMA 12 shows only one number, **$113,781,000**. No documentation of the derivation of the amount of that adjustment is presented. The only support witness Leming offers in his Supplemental Direct testimony is his representation that the Company RMA 12 is intended to "*reflect the total BSA regulatory asset deferred balance as of June 30, 2023*."[36] However, that representation appears inconsistent with the content of Exhibit Pepco (2B)-1, page 15 of 45, which indicates the referenced **$113,781,000** proposed rate base adjustment is for "***12 ME Dec 31, 2023***." Through discovery, AOBA was able to verify that the amount shown in support of Pepco's RMA 12 is, in fact, reflective of a summation of Company's reported BSA Deferred Revenue Balances by rate class that were presented in Pepco's July 10, 2023, Monthly BSA Filing in the Commission's PEPBSAR docket.

Q. WOULD THE BSA DEFERRED REVENUE BALANCE BE TREATED IN THE SAME MANNER AS OTHER UTILITY ASSETS?

A. No. Utility assets are either depreciated or amortized over defined periods of time. Pepco has not proposed any means for amortization of its BSA Deferred Balance

[36] Exhibit Pepco (2B), page 14, lines 9-10.

regulatory asset. Thus, it appears that Pepco's proposal could impose an unending obligation on District ratepayers. How and when that obligation would be extinguished is unclear. It is also unclear how or when Pepco would adjust the amount of any BSA Deferred Revenue Balance on which it is allowed to earn a return.

AOBA asked Pepco in discovery whether the Company intended to update the BSA balance on which it proposes to earn a return in this proceeding. Pepco's response indicated that the Company has not decided whether it would seek to update the amount included in witness Leming's Supplemental Direct Testimony as Adjustment 12. Considering that the balance used in witness Leming's Supplemental Direct testimony was based on June 30, 2023 data, but witness Leming's Adjustment 12 references an amount for "12 ME Dec 31, 2023"[37] there remains some uncertainty regarding Pepco's intensions with respect to an update to the initially proposed balance before the end of this proceeding.

It is also concerning that Pepco offers no plan to track changes in this monthly adjusted amount. The Company offers no specific rationale for why it chose to use the balance as of June 30, 2023 and why it is appropriate to include in the proposed regulatory assess amounts it expects to recover through the BSA mechanism before new rates from this proceeding are placed into effect.

[37] Exhibit Pepco (2B)-1, page 15 of 45.

Q. HOW DOES PEPCO ATTEMPT TO JUSTIFY ITS REQUEST FOR RATE BASE TREATMENT OF ITS BSA DEFERRED REVENUE BALANCE?

A. The Supplemental Direct testimony of Pepco witness Leming cites the recommendation of the Atrium BSA Audit Report that the Commission should *"continue to monitor Pepco's credit quality for signs of deterioration and consider implementing credit support measures such as allowing a return on the BSA deferral balance or increasing the ROE to account for the under-earnings associated with the BSA deferral balance, should circumstances warrant such support*."[38] Witness Leming then submits, based on the testimony of Pepco witnesses O'Donnell and Barnett that Pepco's large BSA deferred revenue balance is negatively impacting the Company's financials, credit standing, and ability to attract investor (debt) capital.[39]

Q. PEPCO WITNESS BARNETT SUGGESTS THAT THE COMPANY'S LARGE BSA DEFERRED REVENUE BALANCE IMPOSES APPROXIMATELY $9 MILLION DOLLARS PER YEAR OF COSTS ON PEPCO WITHOUT THE ABILITY TO RECOVER THOSE COSTS. SHOULD THE COMMISSION ACCEPT THAT ARGUMENT?

A. No. That myopic view of the issue reflects an incomplete assessment of a much broader set of concerns. As I demonstrated below, Pepco is currently benefitting

[38] Exhibit Pepco (2B), page 14, lines 12-18.
[39] Exhibit Pepco (2B), page 14, line 18, through page 15, line 2.

from billing substantially more than the $9 million amount he cites as a result of non-costs based expansion of the revenue requirements the Commission approved in Formal Case No. 1156.

Q. PEPCO WITNESS BARNETT ASSERTS THAT THE COMPANY'S LARGE REVENUE DEFERRAL BALANCE FOR RATE SCHEDULE GT-LV IS THE RESULT OF THE COMPANY'S "*INABILITY TO UPDATE IT BILLING DETERMINANTS TO REFLECT CURRENT CONDITIONS*."[40] DO YOU AGREE?

A. No. The Commission rejected Pepco's effort to update its billing determinants for the GT-LV rate class in at least in part due to the Company's effort to leverage its development of new rates for CY 2023 to greatly expand its authorized revenues. In Order No. 20755 this Commission authorized a $38.4 million increase in Pepco's CY 2023 revenues. However, Pepco's initially proposed CY 2023 rates were designed to provide the Company more than $70 million of additional annual revenue. Had the Commission accepted Pepco initially proposed CY 2023 rates, the Company's authorized revenue would have been higher. However, the dramatic increase in the revenue requirement for the GT-LV rate class incorporated in that proposal would have produced inordinately large rate increases for commercial customers in the District who were already struggling to recover from the effect of the pandemic and related changes in work from home practices. Thus, the alternative that Pepco witness Barnett suggests the

[40] Exhibit Pepco (G), page 55, line 16, through page 56, line 2.

Commission should have approved, would also have served to exacerbate revenue under-recovers for the GT-LV rate class while further depressing the Commercial business activity in the District.

Q. HAS ANY PEPCO WITNESS PROVIDED EVIDENCE OF A CREDIT RATING AGENCY'S CONSIDERATION OF A DOWNGRADE OF PEPCO'S CURRENT BOND RATINGS?

A. No, it has not.

Q. HAS PEPCO DEMONSTRATED NEGATIVE IMPACTS OF THE COMPANY'S BSA DEFERRED REVENUE BALANCE ON ITS ABILITY TO EARN ITS AUTHORIZED RATE OF RETURN?

A. No. Pepco's Final Reconciliation Filing for 2022 indicates that Pepco over-earned its authorized rate of return by **$16 million** dollars.[41]

Q. DOES PEPCO'S TRADITIONAL TEST YEAR FILING SHOW THE COMPANY UNDER-EARNING ITS AUTHORIZED REVENUES FOR CALENDAR YEAR 2023?

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[41] Pepco's March 31 2023 Annual Information Filing for Appendix 1, Schedule 1. That filing also suggests that Pepco had a computed $42 million under-recovery for 2021. However, the Company's 2021 analysis addresses the entirety of calendar year 2021, while the Commission's approved revenue increase for the Company was only effective for the second half of calendar year 2021 (i.e., July 2021 through December 2021). Thus, the 2021 result does not capture the full annualized impact of the Commission revenue determination.

A. It does. As shown in Exhibit Pepco (2B)-1, page 1 of 45, Pepco projects that it will under-recover the revenues necessary to earn its authorized return on equity by nearly $10 million. However, an examination of the monthly detail for Pepco's partial actual – partially forecasted Traditional Test Year ("TTY") costs, finds large increases in its expenditures in the forecasted portion of its TTY (with often very large increases in the last couple months of the forecast period). Given that the forecasted elements of Pepco's costs cannot be verified at this time, little weight should be given to the Company's calendar year earnings that Pepco presents in its TTY filing.

Q. HAS THE COMPANY'S BSA DEFERRAL BALANCE HAD A SIGNIFICANT NEGATIVE IMPACT ON PEPCO'S ABILITY TO RECOVER THE LEVELS OF REVENUE THAT WERE AUTHORIZED BY THIS COMMISSION IN FORMAL CASE NO. 1156 ORDER NO. 20755?

A. No. In fact, the Company's calculation of BSA "Allowed Revenue" amounts in its monthly BSA reports has allowed the Company to significantly **<u>exceed</u>** the levels of annual revenue authorized by the Commission in Order No. 20755.

The Commission must recognize that Pepco's BSA deferred revenue balance concerns primarily relate to one rate class, **Rate Schedule GT-LV**, and the magnitude of Pepco's claimed under-recoveries of "*allowed*" revenue for that class are primarily driven by significant differences between the Company's actual numbers of Rate Schedule GT-LV customers and the numbers of Rate Schedule

GT-LV customers that were assumed in the design of Pepco's rates for that class. If the numbers of GT-LV customers by month used in Pepco's development of its rates and charges for that class had more closely approximated the actual numbers of customers Pepco has reported for that class in subsequent months, the size of Pepco's claimed revenue deferral balance for that class (and in total for DC) would be substantially reduced. In other words, as a result of the use of unduly low numbers of GT-LV customers in its design of rates, Pepco has been able to generate non-cost-based increases in its "*allowed*" BSA revenues that vastly increase Pepco's claimed BSA revenue under-recoveries from Rate Schedule GT-LV customers.

Q. TO WHAT EXTENT HAVE THE NUMBERS OF GT-LV CUSTOMERS USED BY PEPCO IN ITS RATE DESIGN ANALYSES IN FORMAL CASE NO. 1156 UNDERSTATED ITS ACTUAL NUMBERS OF GT-LV CUSTOMERS?

A. Exhibit AOBA (A)-3 demonstrates the extent of Pepco's understatement of the actual numbers of Rate Schedule BSA customers for the periods since rates approved by the Commission in Formal Case No. 1156 became effective. For the last six months of 2021 Pepco understated its actual numbers of GT-LV customers by an average of **16.8%** or 46.5 customers. For calendar year 2022, Pepco's rate design numbers of GT-LV customers understated its actual numbers of GT-LV customers by an average of **21.5%** or 59 customers, and for calendar year 2023 to date (i.e., through November 2023), the Company's actual numbers of GT-LV customers have exceeded the numbers of customers assumed in the design of Pepco's CY 2023 rates by an average of 67.2 customers or **24.3%**.

These significant understatements of the actual numbers of customers for the GT-LV class have **two** effects. First, understated assumptions regarding the Company's actual numbers of customer in a rate class result in inflated revenue per customer expectations. Second, as higher numbers of **actual** customers are reported in Pepco's monthly BSA filings, the Company's calculations of allowed revenue for the class exceed the revenues for the class that the Commission approved in its determinations in Formal Case No. 1156 and were reflected in Pepco's compliance filings in that proceeding.[42] If Pepco had used more accurate numbers of customers in its design of compliance rates for Rate Schedule GT-LV in Formal Case No. 1156, most of the Company's claimed under-recoveries from the GT-LV rate class over the last nearly two and a half years would not have been reported. For no other rate class have the numbers of customers used by Pepco in the design of compliance rates in Formal Case No. 1156 been as significantly in error.[43]

[42] See Pepco's Updated June 24, 2021 Compliance Filing for the Company's development of its rates for the last six months of 2021 and 2022, and the Company's January 11, 2023 Compliance filing for CY 2023 rates. Page 2 of Exhibit AOBA (A)-3 shows revised GT-LV revenue per customer calculations that depict the revenue per customer amounts for GT-LV that would have resulted from use of accurate estimates of number of customers by month for Rate Schedule GT-LV in the development of compliance rates.

[43] AOBA recognizes that Pepco attempted to adjust its estimates of the numbers of GT-LV customers used in the development of its compliance rates for CY 2023. However, it did so in a manner that inappropriately expanded the authorized revenues for that class by more than $30 million, and in the context of time limitations to finalize rates for 2023, the Commission accepted rates based on the same numbers of GT-LV customers that were used to develop compliance rates for Rate Schedule GT-LV for 2021 and 2022.

Most of the discussion relating to Pepco's need for a BSA mechanism has focused on the Company's declining kWh sales and the impacts of declining usage on Pepco's revenue collections. As a result, there has been substantial focus on Pepco's ability to accurately forecast kWh deliveries by rate class for future years. However, this issue highlights the importance of accurate estimation of numbers of customers by rate class, particularly for classes comprising comparatively small numbers of large energy uses, such as Pepco's GT-LV rate class. Thus, accurate forecasting of numbers of customers by rate class by month is as important, if not more important, to the proper functioning of Pepco's BSA rate adjustment mechanism as accurate estimation of kWh and kW billing determinants.

Q. HOW MUCH OF PEPCO'S CLAIMED BSA DEFERRED REVENUE BALANCE IS A PRODUCT OF THE COMPANY'S USE OF SIGNIFICANTLY UNDER-STATED NUMBERS OF GT-LV CUSTOMERS IN ITS COMPLIANCE FILINGS IN FORMAL CASE NO. 1156?

A. The Attachment to Pepco's response to **AOBA Data Request 10-22** computes the difference between the revenues by month that Pepco included in its Compliance filings in Formal Case No. 1156 and the "*allowed*" revenue amounts it has computed for each month from July 2021 (when approved rates in Formal Case No 1156 first became effective) through August 2023.[44] Although the monthly

[44] The Atrium BSA Audit report includes no comparable assessment of the revenue impacts of Pepco's use of greatly understated numbers of GT-LV customers in its design of Compliance Rates for Formal Case No. 1156. The Atrium Report, Table 2-12, claims to quantify the impacts of customer growth on the

differences are not summed in that response, the "*differences*" computed in that attachment reflect the following increases in Pepco's claimed authorized (or "allowed") revenues for the GT-LV rate class;

June 2021 – December 2021	$ 7,229,935
January 2022 – December 2022	$ 19,345,813
January 2023 – August 2023	$ 15,976,372
Total June 2021 – August 2023	**$42,552,119**

Through June 30, 2023 (i.e., the point in time on which Pepco witness Leming measures the BSA Deferred Revenue Balance on which Pepco seeks to earn a return), the additions to Pepco's compliance filing revenues for the GT-LV class based on its reported actual numbers of GT-LV customers is **$37,773,655.** That equates to about **one-third** or **33%** of the total BSA Deferred Revenue Balance for all BSA rate classes on which Pepco seeks to earn a return.

For the months of September 2023 through November 2023 Pepco's understatement of its actual numbers of Rate Schedule GT-LV customers adds another **$5,641,993** to the Company's claimed "allowed" BSA revenues and an equal amount to its subsequent claimed BSA Deferred Revenue Balance.

Company's BSA Under Recoveries for the GT-LV rate class, but no workpapers or more detailed support is provided for Atrium's calculations, and Atrium's analysis does not comport with the data and calculations provided in Pepco's response to AOBA Data Request 10-22 in this proceeding.

If Pepco had used more accurate estimates of its actual numbers of Rate Schedule GT-LV customers in its development of its compliance rates in Formal Case No. 1156, it is possible that none of these **$37,773,655** million of additional revenue requirements reflected for the two-year period from July 2021 through June 2023 would have been included in that balance.

Q. ARE YOU SUGGESTING THAT IF PEPCO HAD USED MORE ACCURATE ESTIMATES OF ITS NUMBERS OF GT-LV CUSTOMERS, THERE WOULD HAVE BEEN NO RECOVERY FOR THAT CLASS SINCE THE IMPLEMEN-TATION OF NEW RATES IN FORMAL CASE NO. 1156?

A. No. Exhibit AOBA (A)-4 compares the revenues by month for which rates were developed in Pepco's compliance filings for Formal Case No. 1156 with the actual revenues Pepco collected for the GT-LV class for each month. As shown in that exhibit, Pepco's actual Rate Schedule GT-LV revenues since Order No. 20755 have on been within 6.1 percent of the revenue levels the Commission approved for that class. That result is well within the ± 10% cap on BSA revenue adjustments established by the Commission.

Q. WHAT IS AOBA'S ASSESSMENT OF THE PRIMARY DRIVERS OF PEPCO BSA DEFERRED REVENUE BALANCE?

A. As demonstrated above, Pepco's use of inappropriately low numbers of GT-LV customers in its Compliance rates for the months from July 2021 through June

2023 second half of calendar year 2021 and all of 2021 contributed over $26.5 million to the Company's Rate Schedule GT-LV revenue under-recoveries for that period. An additional $16.0 million of under-recoveries can be attributed to the Company's significant under-statement of actual Rate Schedule GT-LV customers for the first six months of 2023. In addition, between March 2020 and the end of June 2021 Pepco reported **$39,743,624** of revenue under-recoveries for its GT-LV rate class in the District. Those under-recoveries should be primarily attributed to governmental restrictions on business and personal activities during the pandemic and identified for recovery outside of the BSA mechanism.

Of the Company's claimed June 30, 2023, overall BSA Deferred Revenue Balance of $113,781,401 million, Pepco attributes $79,707,885 or 70% of the total to under-recoveries for the GT-LV rate class.[45] However, as I have demonstrated above the equivalent of approximate **$77.5 million** or over 97% of the of the June 30, 2023 deferred revenue balance for the GT-LV class can be attributed to two factors (i.e., Pepco's significant understatement of its numbers of GT-LV customer in the development of its compliance rates and the impacts of COVID-19).

Moreover, the foregoing assessment of BSA deferred revenue drivers for the GT-LV rate class does not address the impacts on Pepco's deferred revenue balance of: (a) customer transfers between C&I rate classes that were recognized by the Commission in Formal Case No. 1139;[46] and (b) the effects of Pepco's

[45] Pepco's Voluntary DR 1-01, Attachment B12, page 2 of 2.
[46] Formal Case No. 1139, Order No. 18846, page 98, paragraph 306.

errors in the development of rates for the MGT-LV and GT-LV rate classes that the Company identified in testimony presented in Formal Case Nos. 1156.[47] The fact that the revenue impacts of those factors may have already been recovered through the Company's BSA adjustments today should not erase the impact on continuously adjusting BSA deferred revenue balances or negate the need to address their impact factors that have inflated those balances.

2. New BSA Concerns

Q. HAVE YOU IDENTIFIED NEW CONCERNS REGARDING PEPCO'S RECENT MONTHLY BSA FILINGS?

A. Yes. In the preparation of this testimony, I have found that the revenue per customer amounts used by Pepco in its monthly BSA filings since April 2023 are not consistent with the revenue per customer amounts computed in Pepco's January 11, 2023 Compliance Filing in Formal Case No. 1156. The affected rate classes include the Residential (Rate R) class, and Pepco's Medium and Large Commercial rate classes (i.e., Rate Schedules MGT-LV, GT-LV, GT-3A, and GT-3B). In each instance the revenue per customer amount Pepco has used is **greater than** the revenue per customer amount for the comparable month reflected in Pepco's January 11, 2023 Compliance Filing in Formal Case No. 1156,

[47] Formal Case No. 1156, Exhibits (7C) and (7C)-1, pages 3 and 4. The Atrium BSA Audit report purports to address this matter, but the Atrium Report does not recognize and fully address key elements of AOBA's position regarding the history and causes of the errors that Pepco openly admitted in the referenced testimony in Formal Case No. 1156.

Attachment D, page 1 of 3.[48] I have searched the filings in the Commission's EDocket System for both Formal Case No. 1156 and the PEPBSAR docket for the Company's filing of revisions or updates to the referenced revenue per customer amounts, and I have found no evidence of Pepco's filing of revisions to its January 11, 2024 revenue per customer amounts for any rate class. Thus, it appears that Pepco has unilaterally increased its representations of authorized revenue per customer amounts for several major rate classes, and thereby, the Company has further inflated its claimed revenue under-recovery balances.

Q. DOES THIS NEW BSA ISSUE IMPACT PEPCO'S REQUEST IN THIS PROCEEDING TO EARN A RETURN ON ITS BSA DEFERRED REVENUE BALANCE?

A. Yes. As presented by Pepco witness Leming, the Company's request to earn a return on its BSA deferred revenue balance is premised on the Company's reported deferral balance as of June 30, 2023. That balance includes at least three months for which Pepco appears to have used incorrect revenue per customer amounts in the calculation of its BSA deferred revenue amounts. Furthermore, it is unclear whether Pepco will seek to update the BSA Deferred Revenue Balance on which it seeks to earn a return in this proceeding.

3. <u>Changes to the Structure of Pepco's BSA Mechanism</u>

[48] See Exhibit AOBA (A)-4 which shows the differences between the January 11, 2023 Compliance Filing revenue per customer amounts and the revenue per customer amounts used in Pepco's monthly BSA filings during calendar year 2023.

Q. WHAT IS YOUR ASSESSMENT OF PEPCO'S PROPOSAL TO CONVERT FROM REVENUE PER CUSTOMER TARGETS TO FLAT REVENUE TARGETS FOR EACH RATE CLASS?

A. If the BSA is to be continued, reasonably established flat targets would appear to be a preferred alternative for demand-metered commercial rate classes. The Company's current use of revenue per customer targets has been a source of significant BSA mechanism concerns for AOBA. However, as I will discuss further below, it is unclear whether continuation of any form of revenue decoupling mechanism for Pepco is necessary and appropriate for Pepco on a going-forward basis.

Q. DO YOU SUPPORT THE COMPANY'S RECOMMENDED TRANSITION FROM MONTHLY REVENUE RECONCILIATIONS AND MONTHLY SURCHARGE ADJUSTMENTS TO AN ANNUAL MECHANISM WITH ANNUAL RECONCILIATIONS AND ANNUAL SURCHARGE ADJUSTMENTS?

A. I assume that the proposed shift to an annual mechanism would integrate Pepco's proposal to dispense with "*revenue per customer*" targets. With termination of Pepco's use of revenue per customer targets the transition to annual revenue reconciliations and annual surcharge adjustments would appear preferable to the current monthly mechanism. However, again, it is unclear that continued use of a revenue decoupling mechanism is necessary and appropriate.

An annual mechanism would have the potential, if properly administered, to reduce regulatory burdens. However, without more clear specification of the manner in which the transition to an annual mechanism would operate would be helpful as would more detail regarding the timing and procedures for review and approval of annual surcharge adjustments. My concern is that the schedule suggested in witness Bonikowski's Direct testimony does not appear to provide opportunity for review and input by other parties. I have participated in annual surcharge proceedings in other jurisdictions that provide more reasonable time periods for regulatory review and hearings on possible annual surcharge adjustment issues.

Q. IS PEPCO'S PROPOSAL TO INTRODUCE A DEMAND CHARGE COMPONENT TO ITS BSA SURCHARGE MECHANISM APPROPRIATE?

A. Given that Pepco's forecasts anticipate that changes in kWh use and kW demands will move in unison, it is not clear that the added complexity will significantly improve the operation of Pepco's BSA mechanism. I do not find any reason to expect that the introduction of a BSA Surcharge demand charge component will significantly improve Pepco's recovery of revenues. I am unaware of any other electric utility that has a demand component in a revenue decoupling surcharge mechanism. For this reason, an effort to introduce a demand charge component to Pepco's BSA should probably be undertaken on an experimental basis if it is pursued.

I also observe that most AOBA members operate their commercial buildings at fairly comparable load factors. However, there may be somewhat greater variations in load factors among smaller commercial accounts. In that context, it does not appear that a proposed demand charge with the BSA surcharge would shift significant revenue responsibilities among commercial customer accounts for GT-LV and GT-3A accounts, but it may produce some limited redistribution of revenue requirements among MGT-LV and GSD customers. Again, the question is whether the complexities introduced by adding a second component to the surcharge mechanism are warranted by the expected impacts of that change.

Q. IS THE DISPLAY OF SURCHARGES AS A SEPARATE LINE ITEM ON CUSTOMER BILLS A CONTROVERIAL MATTER?

A. No. AOBA has long supported transparent presentation of revenue decoupling surcharge amounts on bills. Further, assuming both energy and demand surcharge components are utilized, it is AOBA's understanding that "*bills would include separate line items for both energy and demand BSA surcharges*," as stated in witness Bonikowski's Supplemental Direct testimony.[49]

4. <u>BSA Continuation</u>

[49] Exhibit Pepco (2E), page 25, lines 10-12.

Q. SHOULD PEPCO'S BSA FOR ITS DISTRICT OF COLUMBIA SERVICE BE CONTINUED?

A. Considering the problems discussed herein and the general lack of evidence that Pepco's BSA provides benefits to its District of Columbia customers, no compelling case exists for continuation of the Company's BSA mechanism. If Pepco's BSA is continued its application to classes other than those dominated by large numbers of comparatively small users (i.e., Rate R and Rate GSND) should be discontinued.

Pepco's BSA was initially presented by the Company as a tool for stabilizing the charges billed to customers. It has not achieved that objective. BSA rate adjustments are much more frequent than rate adjustments that result from base rate filings. Moreover, the magnitude of Pepco's rate requests in this case and in Formal Case No. 1156 are demonstration that monthly BSA adjustments have done nothing to quell Pepco's thirst for base rate revenue increases.

When the BSA was first adopted, another key benefit Pepco attributed to that mechanism was a reduction in the frequency of rate cases. That benefit has not materialized. There was a period of nearly 40 months between Pepco's filing of its applications in Formal Case Nos. 1103 and 1139, however, that period was extended voluntarily by the Company to avoid a base rate filing during the pendency of its Merger proceeding.[50] It now appears that with or without approval

[50] Apparently, it was important to the Joint Applicants that their Merger proceeding not be considered a rate case.

of a new MYP for the Company, District ratepayers should expect essentially annual increases in their base rates. With frequent base rate adjustments, separate adjustments to rates through a BSA surcharge are unnecessary. I also submit that, if a new MYP is approved for Pepco, the Company's ability to use both forecasted billing determinants and forecasted costs in the development of MYP rates would provide substantial ability to address anticipated revenue recovery problems before they occur. That capability couple with annual reconciliation filings again totally eliminate the need for a BSA surcharge mechanism. The key concern under an MYP is whether the Commission and OPC have the resources necessary to maintain reasonable control of Pepco's expenditures. Setting rates on the basis of forecasted costs in the absence of rigorous reconciliation and prudence review procedures provides little incentive for the Company to limit its expenditures. Thus, without effective checks on utility expenditures, all semblance of effective regulation will be lost, and that is not in the interests of District ratepayers.

D. FORECASTED CAPITAL SPENDING AND RATE BASE ADDITIONS

Q. DOES PEPCO FORECAST SIGNIFICANT CAPITAL SPENDING OVER THE YEARS OF ITS PROPOSED MYP?

A. Yes. As shown in Table 1 below, Pepco plans over more than $1.42 billion in capital spending for the three years of the Company's proposed MYP. That capital spending is expected to produce a 36% increase in Pepco's District of Columbia rate base. Over the same period, Pepco forecasts a 7.0% increase in its numbers of customers served and **3.0% decline** in kWh deliveries. Vastly different growth rates for Pepco's Rate Base additions, numbers of customers, and kWh deliveries cannot be expected to provide reasonable and affordable rates for the District.

Table 1

Pepco's Budgeted Capital Spending, Plant Additions, and Rate Base
(in Thousands)

Year	Capital Spending[51]	Plant Additions[52]	Rate Base[53]
2022 HTY	$ 424,353	$266,965	$2,512,759
2023 Bridge Year	$ 419,146	$452,306	$2,757,779
2024 MYP Year 1	$ 456,190	$380,023	$3,014,660
2025 MYP Year 2	$ 476,906	$403,401	$3,326,565
2026 MYP Year 3	$ 489,551	$338,822	$3,416,270
Total	$2,266,146	$1,841,517	
Percent Rate Base Increase *(HYT to MYP Year 2)*			**36.0%**

[51] Exhibit Pepco (H), page 12, Table 1.
[52] Exhibit Pepco (H), page ii.
[53] Exhibit Pepco (B)-1, page 1 of 23, line 12.

1. Pepco's Proposed Capital Additions

Q. HAVE YOU REVIEWED THE CAPITAL BUDGETS THAT PEPCO PRESENTS IN THIS PROCEEDING?

A. Yes, I have. I have also reviewed hundreds of pages of documents that Pepco offers as purported support for its forecasted capital spending.

Q. DO YOU FIND PEPCO'S FORECASTED BUDGETS FOR CAPITAL SPENDING WELL SUPPORTED?

A. No, I do not. The frequency of responses that indicate the Company has no supporting workpapers, no documentation of representations that clearly involved numerical analyses, and analyses not performed are at best troubling. Likewise, the Company's provision of generalized rationales to answer questions that should be expected to involve more quantitative analytics provide no confidence in the rigor of Pepco's budgeting processes.

Q. WHY SHOULD THE COMMISSION BE SENSITIVE TO THE MAGNITUDE OF PEPCO'S PLANNED CAPITAL SPENDING?

A. Pepco's capital spending plans far outstrip its forecasted growth in service requirements, but I find little evidence of Pepco's consideration of the economics and cost effectiveness of planned capital expenditures. As I have previously discussed, rapidly escalating costs and declining sales can only be expected to yield continually rising costs for services provided. Such increases are not congruent with efforts to encourage greater electrification of energy end uses in the District.

In AOBA Data Request 7-4 AOBA asked Pepco for its assessment of the impacts of its planned capital expenditure on the affordability of electric service in the District of Columbia. AOBA's question specifically addressed Non-RAD residential customers and Commercial customers. Pepco's response portrays a Company that believes the "**affordability**" of electric service is only a concern of income constrained residential customers.

Pepco's representations regarding a "*balanced commitment*" are more rhetoric than substance from a commercial customer perspective. Although Pepco's response references efforts to reduce subsidization of residential rates, I demonstrate later in this testimony that Pepco's rate proposals actually accomplish very little, if anything, in terms of reducing the rate burdens of its Medium and Large Commercial customers in the District. Under Pepco's proposals, those customers can expect to continue to be burdened by excessive rate of return requirements (i.e. class rates of return well in excess of twice the Pepco's jurisdictional rate of return).

Commercial buildings in the District are losing tenants, often to suburban locations, or other jurisdictions where their costs of operation are often noticeably lower. As a result, the **affordability** of electric service in the District is a relevant issue for many Pepco commercial customers in the District. Proximity to federal government operations and legislators has lost much of its drawing power.

Q. IS IT YOUR POSITION THAT PEPCO'S FORECASTED CAPITAL EXPENDITURES ARE UNNECESSARY OR UNREASONABLE?

A. Pepco's overall capital spending plans are simply not affordable. Although new, shinier, state-of-the-art alternatives are generally preferred, trade-offs are often necessary to balance what is desired with what is economically affordable within the limits of our resources. Pepco's capital spending plans reflect no sensitivity to such limits and no rigorous assessment of which expenditures will provide District ratepayers the greatest benefits for each dollar spent.[54] The information Pepco presents offers little opportunity for independent evaluation of the Company's budgeted expenditures. Representations that "*reliability is an integral component of a Climate Ready Grid*,"[55] must not be permitted to serve as justification for any and all reliability related projects that can be envisioned. Rather, the amount of reliability improvement achieved by each project must be balanced against the costs of the project. Pepco's presentation, and particularly the testimony and

[54] Analyses such as those presented in the CONFIDENTIAL NERA study provided by the Company as Exhibit Pepco (A)-1, are premised on the implicit assumption that if Pepco spends a dollar on a capital project it creates jobs and stimulates the economy, but if a customer is allowed to retain that dollar and spend it on a project of their choosing no such benefits will be derived. Moreover, nothing in the referenced NERA study offers an assessment of the impact on the District's economy of the increased electricity rates that are necessitate by Pepco's spending plans.

[55] Ibid.

exhibits sponsored by witness Cantler do little to demonstrate Pepco's quantitative assessment of such trade-offs.

Q. ARE YOU SUGGESTING PEPCO PROVIDED NO SUPPORT FOR THE CAPITAL EXPENDITURES IT HAS BUDGETED?

A. No. In Pepco's CONFIDENTIAL response to AOBA Data Request 7-25 Pepco provides over 800 pages of presentations that were apparently used to obtain internal approval of proposed capital expenditures. Of the roughly 40 attachments incorporated in that response, I have been able to map most to projects included in witness Cantler's Exhibit Pepco (H)-2. However, despite substantial effort to align project number and/or project descriptions the correspondence between the budget amounts presented Exhibit (H)-2 and the budget amounts for projects with comparable project number and descriptions in Pepco's CONFIDENTIAL response to AOBA Data Request 7-25 is frequently quite limited. More recently approved projects tend to be more consistent in the overall magnitude of the budgeted dollars presented. However, several of the presentations offered as supporting documentation date back five years or more and have no discernible linkage to the dollar amounts for the forecasted capital budgets for specific projects that are presented in Exhibit Pepco (H)-2.

Q. HOW SHOULD THE COMMISSION ADDRESS THIS MATTER?

A. Exhibit (A)-5 **CONFIDENTIAL** identifies a number of projects for which I find no support for the budgeted costs in the supposedly supporting materials provided in Pepco's CONFIDENTIAL response to AOBA Data Request 7-25. In the absence of meaningful support for the dollar amounts budgeted, the Commission should exclude at least the budgeted costs of the projects listed in Exhibit AOBA (A)-5 **CONFIDENTIAL** from its ratemaking determinations in this proceeding. Summed for the Bridge Year and Pepco's three MYP years, the listed projects represent **$167.3 million** of budgeted expenditures, (based on amounts budgeted amounts shown in Exhibit Pepco (H)-2).

Q. ARE THERE ANY OTHER ELEMENTS OF PEPCO'S BUDGETED CAPITAL EXPENDITURS THAT SHOULD BE EXCLUDED FROM THE COMMISSION'S RATEMAKING DETERMINATIONS IN THIS PROCEEDING?

A. Yes. I have a number of concerns regarding Pepco's budgeted costs for Commercial New Business Connections. Although Pepco submits that its capital budgets exclude costs for expenditures offset by CIAC payments, the Company offers no quantification of the dollar amounts it assumes will be offset. Pepco's only representation is that its budgeting reflects consideration of historical levels of CIAC receipts. As Commercial service connections and heavy-ups typically represent a major source of CIAC payments, the Commission should require that Pepco be more open and transparent regarding its CIAC expectations.

In the context of the foregoing, I observe that Pepco's 2022 Reconciliation Filing for DC includes an explanation for a reported variance for Project 75093 which indicates the Company's $9.2 million underspending of budgeted costs for that project was "***primarily driven by higher than anticipated CIAC***."[56] However, that representation is highly suspect. Pepco's response to AOBA Data Request 7-11c provides data on CIAC payments received by Pepco from Commercial customers on a monthly basis for each year from 2019 through 2022 and for the first seven months of 2023. That data indicates Pepco's CIAC collections for 2022 (the year for which the variance is reported) was three to five million dollars lower than comparable CIAC receipts for the two prior years.

Year	Commercial CIAC
2020	$14,420,390
2021	$16,263,284
2022	$11,014,899

These reported CIAC receipts do not appear to be consistent with the suggestion that Pepco received unanticipated amounts of CIAC in 2022 based on its historical experience. If unanticipated CIAC receipts were a **<u>primary</u>** driver of $9.2 million of unspent budget for Commercial New Business Connections, I would expect to observe a significant increase in 2022 CIAC receipts.

[56] Pepco's March 31, 2023, Final Reconciliation for 2022, Appendix 1, Schedule 4, page 1 of 6, line 48.

Furthermore, it seems strange for Pepco to suggest that CIAC was the primary cause of unexpended budget amounts when Pepco's responses to AOBA data requests have repeatedly indicated that Pepco's budgets are exclusive of CIAC. The fact that Pepco now suggests CIAC receipts had a significant influence on its reported actual expenditures for this project emphasizes the importance of the need for the Company to provide more specific quantification of the dollar amounts of CIAC it anticipated in the budgeting process. Both Pepco's presentation of its budgeted capital expenditures and the supporting documents the Company has provided are essentially devoid of information regarding anticipated CIAC receipts. Most of the supporting documents for Pepco's planned capital projects include separate lines for presentation of CIAC amounts by year, but nearly all are blank or zero entries.

In addition, noticeable differences are found between the reported actual expenditure by project in the Company's March 31, 2023, Final Reconciliation Filing for 2022 and the Actual amounts shown by project for 2022 in Exhibit Pepco (H)-2. For Project 75093 New Business Commercial, the Company's reconciliation filing shows $21,197,000 of actual 2022 expenditures.[57] However, Exhibit Pepco (H)-2 shows an actual 2022 amount for Project 75093 New Business Commercial of $23,165,790. Nothing in the information provided reconciles these amounts.

[57] Pepco's March 31, 2023, Final Reconciliation for 2022, Appendix 1, Schedule 4, page 1 of 6, line 48.

Q. SHOULD THE COMMISSION ACCEPT PEPCO'S BUDGETED COST FOR NEW BUSINESS COMMERCIAL CONNECTIONS AS PRESENTED?

A. No. Although support for Pepco's budgeted costs for this project area is lacking, I am hesitant to suggest that all of the costs for this project be excluded from rates given that there is clearly on-going activity, I do not want to interfere with the completion of required new business connections for Commercial customers. Alternatively, Pepco has indicated in its 2022 Final Reconciliation filing that it underspent its budget for that year by $9.2 million dollars. Thus, I recommend that the Commission eliminate $9.2 million of the Company's budgeted costs for this project for each year of the MYP. That still leaves the Company substantial funds to pursue new business connections.

Q. HAVE YOU IDENTIFIED OTHER DIFFERENCES BETWEEN THE ACTUAL 2022 COSTS REPORTED IN EXHIBIT PEPCO (H)-2 AND THE ACTUAL 2022 EXPENDITURES BY PROJECT REPORTED IN PEPCO'S 2022 FINAL RECONCILIATION FILING?

A. Yes. Based on the observed inconsistency described above, further checks of the correspondence between the amounts shown for 2022A (where the "A" designation is understood to represent "actual") and the "Actuals - 2022" presented by project in the Company's March 31, 2023 Final Reconciliation filing were made. In no case did the number in the two referenced documents directly correspond, and in many cases there are significant and substantial differences. A few examples are shown Table 2 below:

Table 2

Comparison of Reported Actual 2022 Expenditures on Pepco Capital Projects

Project	Exh (H)-2	Final Reconciliation
	(Dollars in Thousands)	
75095	$ 11,849	$ 10,461
70897	$ 6,693	$ 7,143
63711	$ 2,749	$ 4
75092	$ 22,990	$ 16,651
70897	$ 6,693	$ 7,143
64365	$ 2,721	$ 3,593
77475	$ 1,926	$ 46
74590	$ 6,505	$ 0
71558	$ 5,713	$ 3,345
72978	$ 8,430	$ 6,556
61976	$ 4,607	$ 3
72268	$ 4,374	$ 2,599
64357	$ 2,029	$ 84

These observations raise serious concerns regarding the accuracy and reliability of the information Pepco has provided with respect to the Company's actual cost experience. Without reliable data on actual expenditures the Commission ability to assess the reasonableness of Pepco's forecasted capital budgets is severely eroded.

Q. WHAT ACTION SHOULD THE COMMISSION TAKE WITH RESPECT TO THESE IDENTIFIED DISCREPANCIES?

A. The Commission should require reconciliation and full explanation of all data for 2022 expenditures for comparable projects in the referenced documents before allowing any of the costs for such projects to be included in rates. In addition, the Commission should re-open its consideration of the Company's Final Reconciliation filings and require greater verification of the accuracy of the Company's representations of its actual earnings for both 2021 and 2022.

2. <u>Pepco's Cash Working Capital Requirements</u>

Q. HAS PEPCO'S ASSESSMENT OF ITS CASH WORKING CAPITAL REQUIREMENTS CHANGED SIGNIFICANTLY SINCE ITS INITIAL FILING IN FORMAL CASE NO. 1156?

A. Yes. Pepco's assessment of its Cash Working Capital ("CWC") requirements in this case have increased dramatically. In Formal Case No. 1156 Pepco CWC requirements for DC for the years of its proposed MYP were computed to be approximately $9.7 million dollars for each year.[58] In this case, Pepco suggests that its CWC requirements have more than doubled. For the three years of its requested MYP, Pepco seeks CWC allowances in excess of $23.5 million.

Q. WHAT IS THE CAUSE OF THIS LARGE, IF NOT DRAMATIC, INCREASE IN PEPCO'S CLAIMED CASH WORKING CAPITAL REQUIREMENTS?

[58] Formal Case No. 1156, Exhibit Pepco (C)-3, line 47.

A. The primary explanation for Pepco's claimed need for a sharply increased CWC allowance is the Company's development of an "updated" Lead-Lag Study based on data for calendar year 2021. Although many of the lead and lags computed in the updated study have changed from the levels reflected in the lead-lag study Pepco relied upon in Formal Case No. 1156, the key driver of the Company's claimed need for an increased CWC allowance can be attributed to the noticeably higher number of Composite Revenue Lag Days that results from Pepco's "updated" lead-lag analysis. The 2017 Lead-Lag Study Pepco relied upon in Formal Case No. 1156 produce a Composite Revenue Lag of 44.33 days. The 2021 Lead-Lag Study Pepco presents in this proceeding yields a Composite Revenue Lag of 58.33 days, reflecting a more than 30% increase. By contrast, Pepco's Composite Expense Lag only changed from 33.1 days in the 2017 study to 35.72 days or an increase of less than 8%.

Q. SHOULD THE COMMISSION ACCEPT PEPCO'S UPDATED LEAD LAG STUDY AS PRESENTED?

A. No. The revenue lag that Pepco has computed based on calendar year 2021 data is heavily influenced by the COVID-19 pandemic when customers were exempted from late payment fees and from shut-offs of utility service due to non-payment. Those exemptions are no longer effective and should not be relied upon to assess payment lags by Pepco's retail customers in the District during the periods when Pepco's proposed rates in this proceeding would be in effect. It is disappointing that Pepco made no effort to remove the effects of the pandemic issues from its assessment of Cash Working Capital requirements for its projected MYP years.

Q. HOW SHOULD THE COMMISSION DETERMINE APPROPRIATE CASH WORKING CAPITAL ALLOWANCES FOR PEPCO IN THIS PROCEEDING?

A. Exhibit Pepco (C)-1, page 14 of 21, shows Pepco's proposed Rate Base Adjustment for Cash Working Capital. That ratemaking adjustment, if accepted would increase Pepco's CWC allowance by more than $16 million for each forecasted MYP Rate Year. The Commission should reject ratemaking adjustment in its entirety and set Pepco's CWC requirements on the basis of results of the 2017 Lead-Lag Study on which Pepco currently relies. As a result, Pepco's Rate Base for each of its MYP years would be reduced by approximately $16 million.

E. CLASS COST OF SERVICE ISSUES

Q. HAVE YOU REVIEWED THE CLASS COST OF SERVICE ANALYSES PRESENTED IN THIS PROCEEDING BY PEPCO WITNESS GARDINER?

A. Yes, I have reviewed in detail both the hard copy and electronic versions of the exhibits attached to witness Gardiner's Direct testimony, as well as witness Pepco's responses to AOBA data requests relating to the Company's Class Cost of Service analyses.

1. Pepco's CCOSS Presentation

Q. BEFORE ADDRESSING THE SUBSTANCE OF THE CLASS COST OF SERVICE ANALYSES THAT PEPCO HAS PRESENTED, DO YOU HAVE COMMENTS ON THE FORM OF THE CCOSS EXHIBITS THAT ACCOMPANY WITNESS GARDINER'S DIRECT TESTIMONY IN THIS PROCEEDING?

A. I do. Witness Gardiner's exhibits provide a distinct impression that the Company has endeavored to limit the transparency of its class cost of service analyses and magnify the level of effort required to examine the details of their development. For decades Pepco has filed a hard copy of its class cost of service studies with each base rate application. Those CCOSS analyses have typically been presented in hard copy (i.e., printed form) and have shown the Company's allocations of rate base and expenses by FERC account to each of its District of Columbia to rate classes. In addition, electronic copies of the Company's CCOSS allocation models have been made available upon request. In Formal Case No. 1156, Pepco's CCOSS was presented by witness Schafer in Exhibit Pepco (E)-1 which comprised 39 pages of allocations by class including information regarding each of the allocation factors used in that study.[59] By contrast, the Company's Class Cost of Service Study ("CCOSS") was initially provided only in electronic format. However, in this case, the Direct testimony of witness Gardiner asserts that

[59] In Formal Case No. 1150, Pepco's CCOSS was provided in printed format as Exhibit Pepco (F)-1 which comprised 72 pages of class cost of service allocation information.

Pepco's CCOSS Model is "***deemed confidential and proprietary***."[60] However, in response to AOBA Data Request 6-1 Pepco agreed to provide a public printable version of its CCOSS. That "*printable version*" of the Company's model, which was conveyed to the parties as AOBA DR 6-1 Attachment, comprises **1,385 pages** without a table of contents, an index, or easily identifiable subsections.

The details of a utility's CCOSS constitute **core building blocks** for the development of cost-based revenue increase distribution and rate design proposals. Although the Commission retains discretion to consider non-cost-based factors in its ratemaking determinations, CCOSS results provide important guidance for allocating approved revenue increase amounts amount rate classes and for the development of charges applicable to each rate class. For these reasons, the Company's assessments of cost responsibilities by rate class, its development of proposals for allocating the revenue increase among classes, and its recommended changes in the applicable charges for each rate schedule cannot be fully and appropriately evaluated without full CCOSS transparency. There should be no limitations on access to the data and calculations upon which Pepco relies (except where it is necessary for the protection of the confidentiality of individual customer data).

Similar issues regarding the use of a proprietary CCOSS model were encountered in Formal Case No. 1139. Those issues were resolved by the Commission's issuance of a directive to Pepco that it develop a new CCOSS

[60] Exhibit Pepco (D), page 1, lines 18-19.

model.[61] Pepco's provision of its CCOSS only in electronic format does not facilitate open and transparent discussion of the manner in which Pepco allocates or assigns costs by rate class. It also effectively bars references to specific elements of the Company's CCOSS allocations in intervenor testimony, as well as any potential for cross-examination on the contents of the CCOSS. However, Pepco's subsequent provision of 1,385-page document is also not an appropriate response.

Q. HOW SHOULD THE COMMISSION ADDRESS THESE MATTERS?

A. The Commission should require Pepco to file a printed copy of its CCOSS analyses, with detail comparable to that presented by the Company in Formal Case No. 1156, with all future base rate applications. It should also provide an electronic copy of the CCOSS model from which its CCOSS analyses are derived. If the Commission or an intervenor requires further supporting detail it can request, such added information through data requests. Although Pepco has provided a highly voluminous hard copy of its CCOSS, the voluminous nature of that document serves little purpose other than to waste intervenor's time and resources wading through hundreds and hundreds of pages of printouts. Moreover, both the electronic file Pepco has provided for Exhibit Pepco (D)-1 and the subsequently provided voluminous printout of CCOSS allocations[62] serve to eliminate effective

[61] Order No. 1139, page 131, paragraph 422; page 134, paragraph 430; and page 193, paragraph 599.vv.
[62] Although voluminous, the 1,385-page printout provided does not include key elements of the Company's CCOSS model analyses, particularly the standard summary of rate base, revenue, and expense

cross-examination of the Company's CCOSS witness and impede other parties reference to supporting details for Pepco CCOSS and in briefing. The Commission should never find such practices acceptable.

Q. IS THERE REASONABLE PRECEDENT FOR THE COMPANY'S CLAIM THAT ITS CCOSS MODEL IS PROPRIETARY?

A. No. In Formal Case No. 1139 Pepco utilized a CCOSS model developed by a third-party vendor that the vendor considered proprietary. However, the Commission Order No. 18846 in that case, directed Pepco to develop a new CCOSS model. That new model, which Pepco developed and presented to the parties in a Technical Conference in September 2017, did not rely on programming that was developed by a third-party vendor and was not considered proprietary.

In both Formal Case No. 1150 and Formal Case No. 1156, Pepco provided printed Class Cost of Service Study exhibits without claims that the allocation details and the class allocation results presented in those exhibits were proprietary. Moreover, as Pepco has indicated, with certain exceptions described in witness Gardiner's Direct testimony,[63] the allocations the Company presents in this proceeding are the same allocations Pepco used in Formal Case No. 1156.[64] Nothing in the changes made to Pepco's CCOSS model for this proceeding warrants the Company's efforts to re-characterize its CCOSS model in this

allocations with resulting class rates of return that has been provide in all Pepco base rate proceedings over at least the last 40 years.

[63] Exhibit Pepco (D), pages 6-14.

[64] Pepco's response to AOBA Data Request 3-13a.

proceeding as proprietary. Ratemaking transparency mandates that class cost of service allocations be exposed for full review by the Commission and the parties to each base rate proceeding. Any claim that Pepco's CCOSS model is a proprietary model would require evidence that the model was developed without reliance on ratepayer funding. Moreover, even with such evidence, Pepco's use of proprietary models for analyses relied upon to set rates impedes transparency.

The fact that Pepco has used essentially the same model in its currently pending MYP rate case before the Maryland Public Service Commission (i.e., Case No. 9702),[65] without any assertions regarding the proprietary nature of the model, strongly suggests that the Company's claim is nothing more than an attempt to impede the efforts of parties such as OPC, AOBA and other intervenors to review and critique the Company's allocations of costs among rate classes. Pepco has not offered any evidence that supports its claim that the Company's CCOSS model should be treated as proprietary. Thus, this Commission must reject Pepco's assertion that its CCOSS should be afforded proprietary treatment.

[65] See Schedule (LCS)-1, attached to the Direct Testimony of Pepco witness Lance Schafer in MD PSC Case No. 9702, filed on May 16, 2023. AOBA notes that the CCOSS exhibit (schedule) that Pepco witness Schafer presents in MD PSC Case No. 9702 comprises **only 42 pages**, as opposed to the 1,385-page document that Pepco ultimately provided in its response to AOBA Data Request 6-1 in this proceeding. Again the voluminous nature of the CCOSS printout Pepco ultimately provided in response to AOBA's data request, suggests even further effort by the Company to impede, rather than facilitate, review of its class cost of service allocations.

Q. SHOULD THE COMMISSION ACCEPT PEPCO'S CLASS COST OF SERVICE STUDY AS A REASONABLE AND APPROPRIATE REFLECTION OF THE COMPANY'S COSTS OF PROVIDING SERVICE BY CUSTOMER CLASS?

A. I understand that this Commission has previously indicated that a CCOSS "*need not be perfect to be serviceable*."[66] However, there are problems in Pepco's CCOSS that seriously undermine its value for the determination of costs of service by rate class.

Q. DOES WITNESS GARDINER'S EXHIBIT PEPCO (D)-2 FACILITATE AN UNDERSTANDING OF HOW THE COMPANY DERIVED ITS ASSESSMENT OF COSTS BY RATE CLASS AND BY FUNCTION?

A. No. Exhibit Pepco (D)-2 does not explain the calculations and sources of the data presented in that exhibit. Moreover, the electronic spreadsheet file that the Company offers in support of Exhibit Pepco (D)-2 includes extensive information, but all of the data in that workpaper is presented as "***hardcoded values***."[67] In other words, that file provides no further insight regarding the manner in which Pepco determined its Customer Unit Costs. That purported workpaper provides no cell formulas and identifies no specific data sources. The Company's less than **transparent** presentation of this analysis which forms a basic building block for

[66] Formal Case No. 1139, page 131, paragraph 422.
[67] See Pepco's response to AOBA Data Request 6-2, part a.

witness Bonikowski's rate design recommendations can only be viewed as highly problematic.

In witness Gardiner's response to AOBA Data Request 6-2, the Company suggests that the "(sub)functions tab" in the electronic version of Exhibit Pepco (D)-1 provides "*all cell references and formulas*" relied upon in the development of Exhibit Pepco (D)-2. However, of $13,547,093 of total DC Distribution Sales Revenue at Present Rates attributed to Customer Installations (Acct 371), $12,526,921 or **92.5%** is assigned to the GT-LV class. Yet, even in the electronic version of Exhibit Pepco (D)-1, as shown in the tab labeled "Unbundled – Func. Summaries," the assignments of costs by rate class are all "***hardcoded values.***"

Q. WHAT ARE THE PROBLEMS THAT UNDERMINE THE ACCURACY AND RELIABILITY OF PEPCO'S CCOSS ANALYSES?

A. The problems to which I refer include the following:

a. Pepco's inappropriate assignment of costs for Customer Installations between the GT-LV and MGT-LV rate classes;

b. The Company's failure to properly recognize the influence of disproportionate CIAC contributions by rate class;

c. Pepco's failure to recognize the impacts of uneven rates of growth in service requirements among rate classes over the period of its proposed MYP; and

d. Allocations of income tax responsibilities to rate classes that directly conflict with the manner in which income taxes are assessed of corporations, such as Pepco.

2. Customer Installations Costs

Q. PLEASE EXPLAIN YOUR CONCERN REGARDING PEPCO'S ASSIGNMENT OF COSTS FOR CUSTOMER INSTALLATIONS?

A. My review of Pepco's proposed customer charges in this proceeding highlighted the extremely high customer charges for the GT-LV class that Pepco seeks to implement in this proceeding. As shown in Table 3 below, Pepco's proposed customer charge for GT-LV customers is nearly $4,000 per customer per month greater than its proposed customer charges for any other rate class.

Table 3

Components of Pepco's Claimed Customer Unit Costs For Rate Schedule GT-LV[68]

Rate Schedule	Customer Unit Cost
R	$ 21.61
MMA[69]	$ 1.30
GS-ND	$ 38.29
T	$ 38.29
GS-LV	$ 38.29
GS-3A	$ 115.26
MGT-LV	$ 210.58
GT-LV	**$ 4,231.22**
GT-3A	$ 238.95
GT-3B	$ 197.46

[68] Customer Unit Costs from Exhibit Pepco (E)-4, Line (2).
[69] Cost per dwelling unit for MMA accounts.

Further investigation of the reasons for the very high level of Pepco's proposed GT-LV customer charge found that witness Bonikowski's proposals to significantly increase monthly Customer Charges for that class are guided by the results of the Company's functional cost of service analyses that are presented by Pepco witness Gardiner in Exhibit Pepco (D)-2. A review of the detail of witness Gardiner's development of costs by rate class by function, it became apparent that the very high customer cost for the GT-LV class was driven by a single category of customer related costs, Customer Installations. Table 4 details the components of Pepco's assessment of Customer Costs for the GT-LV rate class.

Table 4

Pepco's Assessment of Rate Schedule GT-LV Customer Unit Costs

Functional Component	**Pepco (D)-2 Col. Q**	**GT-LV Unit Cost**
Customer Services	p 17, ln 7	$ 831.20
Customer Meters	p 17, ln 37	$ 46.20
Customer Installations	p 20, ln 7	**$ 3,162.83**
Customer Street Lighting	p 20, ln 37	$ 0.00
Customer Meter Reading	p 23, ln 7	$ 16.67
Customer Records & Collections	p 23, ln 37	$ 31.79
Customer Uncollectible	p 26, ln 7	$ 139.38
Customer Service Expense	p 26, ln 37	$ 3.60
Customer Sales Expense	p 29, ln 7	$ 0.00
Customer Other	p 29, ln 37	$ (0.44)
Total[70]		**$ 4,231.22**

70 The total shown, as developed from witness Gardiner's Exhibit Pepco (D)-2, does not reconcile with the **$ 4,231.22** customer unit cost that Pepco witness Bonikowski presents in Exhibit Pepco (E)-4, page 1 of 2. However, no explanation of the source of the observed difference is offered.

Clearly, the largest component of Pepco's computed Customer Unit Cost for Rate Schedule GT-LV is the **Customer Installations** Function. Costs attributed to the GT-LV class for the Customer Installations Function represent nearly **three-fourths** or **74.7%** of that class's total Customer Unit costs.

Q. WHY DO COSTS FOR CUSTOMER INSTALLATIONS ACCOUNT FOR SUCH A LARGE COMPONENT OF PEPCO'S IDENTIFIED CUSTOMER COSTS FOR THE GT-LV RATE CLASS?

A. Through investigation of Pepco's development of its functional costs by rate class the primary cause of Pepco's very high customer costs for the GT-LV class was identified. As shown in Table 5, below, Pepco assigns over $12 million of Customer Installation costs to the GT-LV class and Zero Customer Installation costs to the MGT-LV class. Apparently, after the MGT-LV class was split off from the GT-LV class in the resolution of Formal Case No. 1150, all of the costs for the former GT-LV class (i.e., the class that serve both current GT-LV and current MGT-LV customers) were imposed on just the remaining GT-LV customers. None of those costs were attributed to the new MGT-LV class despite its much large number of customers.[71]

[71] See Exhibit Pepco (D)-2, page 20 of 30, column [P].

Q. HAS PEPCO OFFERED ANY JUSTIFICATION FOR ITS ASSIGNMENT OF OVER $12 MILLION OF CUSTOMER INSTALLATION COSTS TO THE GT-LV RATE CLASS AND ZERO TO THE MGT-LV CLASS?

A. No, It has not. Even the much smaller customers in the GS-LV class get a significant assignment of customer installation costs. How Pepco assesses that no Customer Installation costs should be assigned to the MGT-LV class is not documented or explained. There is also no indication that CIAC contributions by rate class were considered in the development of Pepco's assignments of Customer Installation costs by rate class. While I can accept that costs for Customer Installations for GT-LV are expected to be greater on an average cost per customer basis than they are for GS-LV or MGT-LV customers, but Customer Installations costs are also costs for which Pepco typically assesses Contributions in Aid of Construction ("CIAC"). After deducting CIAC contributions by class from the Company's total costs for Customer Installations, the expectation should be that the remaining average cost per customer for Pepco's commercial rate classes should be relatively uniform. That clearly is not the result of Pepco's functional cost allocations in this proceeding.

Table 5

Pepco's Assessment of
Revenue Requirement Components of
Customer Costs for Commercial Rate Classes

Functional Component	**MGT-LV Col. (P)**	**GT-LV Col. (Q)**	**GT-3A Col (S)**
Customer Services	$ 5,220,734	$ 3,179,338	$ 0
Customer Meters	$ 719,714	$ 176,714	$ 225,433
Customer Installations	**$ 0**	**$12,097,824**	$ 63,220
Customer Street Lighting	$ 0	$ 0	$ 0
Customer Meter Reading	$ 44,936	$ 63,769	$ 98,707
Customer Records & Collections	$ 558,611	$ 121,582	$ 29,238
Customer Uncollectible	$ 1,946,353	$ 533,118	$ 8,388
Customer Service Expense	$ 61,637	$ 13,751	$ 9,947
Customer Sales Expense	$ 0	$ 0	$ 0
Customer Other	$ (17,975)	$ (1,669)	$ (760)
Total	$ 8,534,010	**$16,184,427**	$ 434,173

Given that the MGT-LV and GT-LV rate classes were a single class until the resolution of Formal Case No. 1150 and that there have been subsequent transfers of customers between those rate classes, the Company's assignment of all of its Customer Installation costs for the former combined class of GT-LV and current MGT-LV customers to the new, smaller GT-LV rate class and none to the new MGT-LV rate class is difficult to rationalize and not justified.

Q. DO PEPCO'S MARYLAND COST OF SERVICE ANALYSES PRODUCE SIMILAR UNIT CUSTOMER COSTS FOR MARYLAND GT-LV CUSTOMERS?

A. No. As a participant in Pepco's currently pending rate case in Maryland, MD PSC Case No. 9702, I have reviewed and analyzed Pepco's unit cost analyses for both

DC and Maryland. Pepco's computed unit Customer Cost for its Maryland GT-LV customers is less than one-third of the level Pepco computes for its GT-LV customer in DC.

Table 6

Comparison of Pepco MD and DC
Customer Charges and Unit Customer Cost
For DC and MD

	DC	MD
Current Customer Charge	$ 1,908.28	$ 375.70
Compute Customer Unit Cost	**$ 4,231.22**	$ 1,316.70
Proposed Customer Charges		
MYP Rate Year 1	$ 2,295.44	$ 386.37
MYP Rate Year 2	$ 2,682.20	$ 397.34
MYP Rate Year 3	$ 3,069.76	$ 408.62

Q. HOW SHOULD PEPCO'S UNIT CUSTOMER COSTS BE COMPUTED?

A. The customer installations for which each rate class is held responsible should be tracked directly and only those portions of Customer Installation costs that are not offset by CIAC should be reflected in Pepco's determination of unit customer costs by rate class. As noted in Pepco's response to AOBA Data Request 7-2d:

> *The assessment for CIAC billed to residential and commercial* [New Business] *connections and the timing of its receipt will be prior to the execution of the project. The company utilizes a signed cost letter by the customer, noting the CIAC dollar amount*.

Thus, the Company clearly obtains the information necessary to track such costs and CIAC offsets. However, it has chosen not to track that information in a format that would readily support its assignment of costs by rate class.

In the absence of the Company's provision of information necessary to track costs for Customer Installations directly by rate class, the Customer Installation costs that Pepco presently assigns to the GT-LV rate class be allocated between the GT-LV and MGT-LV rate classes based on the numbers of customers in each class for the CCOSS test period. This is appropriate given that CIAC assessments are intended to require customers to pay upfront for costs in excess of a standard installation.

Q. WHAT IS THE IMPACT OF YOUR PROPOSED REVISION TO PEPCO'S TREATMENT OF CUSTOMER INSTALLATION COSTS?

A. As shown in Table 5, above, each GT-LV customer is effectively assigned responsibility for the costs reflected in Pepco's CCOSS analyses. Each GT-LV customer is assigned over $3,160 of monthly cost responsibility for Customer Installations while MGT-LV customers are assigned **Zero** monthly responsibility for Customer Installations cost. Under the recommendation outlined above, the costs of Customer Installations would be homogenized between those two classes to yield a monthly cost per customer of approximately $273 for both classes. No other rate class would be affected by this proposal.

I also note that the Company's current allocation and rate design methods yield a dramatic rate change for any customer near the cut-off between the MGT-LV and GT-LV rate classes who, due to changes in operations, may subsequently be transferred between these two rate classes. This cost allocation recommendation will help to moderate rate differences for customers that may be transferred between the GT-LV and MGT-LV rate classes.

3. Recognition of CIAC by Rate Class

Q. DOES THE CLASS COST OF SERVICE STUDY THAT PEPCO WITNESS GARDINER SPONSORS IN THIS PROCEEDING PROVIDE EXPLICIT CONSIDERATION OF CLASS CONTRIBUTIONS TO CIAC BY RATE CLASS?

A. No, it does not.

Q. WHY IS SEPARATE EXAMINATION OF CONTRIBUTIONS IN AID OF CONSTRUCTION ("CIAC") BY RATE CLASS IMPORTANT?

A. Separate recognition and allocation or assignment of CIAC is the only manner in which the disproportionate contribution of Large Commercial customers to Pepco's CIAC revenues can be properly recognized. The data provided in Pepco's response to AOBA Data Request 7-11c demonstrate that over the last four years, the Residential class on average has contributed less than 5% of the CIAC payments received by the Company from its District of Columbia customers.

Q. WHY IS EXPLICIT RECOGNITION OF CIAC PAYMENTS BY RATE CLASS IMPORTANT TO THE FAIR AND ACCURATE ASSESSMENT OF CLASS COST RESPONSIBILITIES?

A. CIAC represents portions of Pepco's investment in mostly customer-related facilities that customers are required to pay under Pepco's General Terms and Conditions before facilities are installed. Although the costs of facilities for which Pepco receives CIAC payments are excluded from rate base, Pepco's assessments of CIAC are not a uniform percentage across classes of the costs that Pepco incurs to install the facilities necessary to connect customers to its system. Larger C&I customers typically are required to pay a larger portion of their customer-related facilities costs through CIAC payments than smaller C&I or residential customers. As a result, the responsibility of larger customers for the portion of the Company's remaining customer-related investments that remain in Pepco's rate base is not proportional. However, Pepco's allocation methods effectively homogenize the rate based elements of its customer-related plant investments and ignore that fact that some classes have already paid for most, if not all, of the customer-related facilities Pepco installs to serve them.

Q. HAS THS ISSUE BEEN PREVIOUSLY ADDRESSED BY THE COMMISSION?

A. Yes. In Formal Case No. 1139 AOBA discovered that Pepco had shown CIAC separately in its CCOSS in Formal Case No. 1103 (Pepco's most recent prior rate case at that time),[72] the Company elected not to separately recognize CIAC in the CCOSS it filed in Formal Case No. 1139. AOBA argue that Pepco's omission of separate reflection of CIAC by rate class in its CCOSS in Formal Case No. 1139 was inappropriate, and the Commission found AOBA's arguments persuasive.[73] The Commission, thereby, direct Pepco to show CIAC by rate class separately (not netted) in its next CCOSS filing.

Q. DID PEPCO COMPLY WITH THE COMMISSION'S DIRECTIVE IN ITS SUB-SEQUENT BASE RATE PROCEEDING?

A. Yes. In Formal Case No. 1150 Pepco's CCOSS included separate recognition of CIAC by rate class.[74] However, in Pepco's subsequent base rate filings (Formal Case No. 1156 and this case) it has again omitted separate recognition of CIAC payments by rate class from its CCOSS.[75]

Although Pepco complied with the Commission's directive, in the CCOSS it filed in Formal Case No. 1150, Pepco witness Murphy in that proceeding, argued that "*No treatments of* [CIAC] *are necessary because there are no CIAC-related amounts in Pepco's base revenue requirements*."[76] Witness Murphy further asserted, "*The purpose of [formal Case No. 1150] is to set base rates using*

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[72] Formal Case No. 1103, Exhibit Pepco (H)-2, page 1 of 72, line 13.
[73] Formal Case No. 1139, Order 18846, page 132, paragraph 426.
[74] Formal Case No. 1150, Exhibit Pepco (F)-3, page 1 of 72, line 13.
[75] As a result of Pepco's decision not to provide its CCOSS in this case in a format comparable to the formats used to present is CCOSS in prior cases, Pepco's omission of separate treatment of CIAC in this case is not readily observable for evidentiary purposes. Referencing a cell or line in a large multi-tab electronic spreadsheet file is of little value if the reader does not have computer in front of them and the software and RAM necessary to display and process such a file.
[76] Formal Case No. 1150, Exhibit Pepco (F)-1.

amounts in Pepco's base revenue requirement," and "*CIAC is not a component of Pepco's base revenue requirement*."[77]

AOBA accepts witness Murphy's representation in Formal Case No. 1150, that CIAC was not a component of Pepco's base rate revenue requirement in Formal Case No. 1150, and AOBA recognizes that CIAC is not a component of Pepco's base rate revenue requirement in this proceeding. Yet, his argument fails to address the concerns that AOBA presented in Formal Case No. 1139 and the fact that the Commission found AOBA's concerns persuasive in that case. Pepco continues to avoid recognition of the fact that CIAC contributions are not proportional to Pepco's rate base allocations by rate class. Pepco has the information necessary to develop more accurate assessments of CIAC payments by rate class, but "***the manner in which Pepco elected to maintain its records did not allow CIAC to be readily identified by rate class***."[78]

Pepco's exclusion of CIAC from rate base is appropriate for the establishment of Pepco's overall revenue requirement, but it fails to provide recognition of the manner in which the Company's requirements for Contributions in Aid of Construction are differentiated for residential and non-residential rate classes under Pepco's General Terms and conditions. The available data for Pepco's receipts of CIAC payments clearly demonstrate that Commercial customers pay a disproportionate share of CIAC assessments. Further, within Pepco's commercial

[77] Ibid.
[78] Order No. 18846, page 132, paragraph 426.

rate classes larger commercial customers typically are required to pay larger percentages of their total service connection costs in the form of CIAC than small commercial customers. As a result, Pepco's medium and large commercial customer rate classes should be recognized as having lesser responsibility for the customer-related cost that are included in Pepco's rate base. Pepco's CCOSS in this proceeding does not provide such recognition.

Q. DID AOBA RAISE A SIMILAR CONCERN REGARDING PEPCO'S TREAT-MENT OF CIAC IN FORMAL CASE NO. 1156?

A. Yes. AOBA addressed this matter through the Direct testimony of witness Timothy Oliver, and AOBA's position on this matter was referenced by the Commission in Order No. 20755.[79] However, that Order rendered no specific determination regarding AOBA's concern regarding Pepco's treatment of CIAC within its determination of class cost responsibilities.[80]

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[79] Order No. 20755, page 140, paragraph 368.

[80] Order No. 20755, page 141, paragraph 373. Given the complexity of the issues faced by the Commission in Formal Case No. 1176, the absence of a Commission determination on this detailed cost-of service concern regarding the Company's recognition of CIAC contributions by rate class that AOBA raised in Formal Case No. 1156 may be understandable. However, Pepco's treatment of CIAC in this proceeding directly conflicts with the Commission's determination in Formal No. 1139, Order No. 18846 page 132, paragraph 426. and part of the effect of the Company's mistreatment of CIAC in its determination of customer class cost responsibilities in its filed CCOSS in this proceeding surfaces in witness Bonikowski's proposals for further large increases in monthly Customer Charge levels for rate schedule GT-LV. Customers that are required to make upfront payments for facilities must not be required to pay for those facilities a second time on the basis of inappropriately developed class cost of service analyses.

4. Uneven Growth in Costs of Service by Rate Class

Q. WHY SHOULD THIS COMMISSION ADDRESS MATTERS RELATING TO UNEVEN RATES OF GROWTH IN SERVICE REQUIREMENTS AND COSTS OF SERVICE AMONG RATE CLASSES?

A. Pepco's rate proposals in this proceeding are premised on the implicit assumption the Company's relative costs of service by rate class will not change between the historic test year used for Class Cost of Service analyses in this proceeding and the end of the multi-year period addressed by Pepco's proposed multi-year rate plan. No support has been provided for the reasonableness of that assumption. Rather, the available evidence strongly indicates that reasonably uniform growth in class revenue requirements has not prevailed over the last several years. Further, based on the Company's forecasted billing determinants by rate class, continued changes in relative magnitudes of Pepco's costs of service by rate class should be expected over the period addressed by Pepco's MYP proposals in this proceeding.

Q. HOW HAVE YOU ASSESSED CHANGES IN PEPCO'S COSTS OF SERVICE BY RATE CLASS?

A. Changes in Pepco's costs of service by rate class are reflected in the comparison of Pepco's CCOSS results in this proceeding with the CCOSS results by class that were presented by Pepco in Formal Case No. 1156. As shown in Exhibit AOBA

(A)-6, the percentage changes in cost responsibilities by rate class between the CCOSS test year used in Formal Case No. 1156 and the CCOSS test year used by Pepco in this proceeding are far from uniform.

Q. WHAT SHOULD THE COMMISSION OBSERVE FROM THE ANAYSES PRESENTED IN EXHBIT AOBA (A)-6?

A. Pepco's Residential rate class in the District (Rate R) has had greatly disproportionate responsibility for growth in Pepco's District of Columbia costs of service. Pepco's Residential class rate base responsibilities have accounted for the equivalent of almost **95%** of the overall growth in the Company's District of Columbia rate base. In addition, Pepco's Rate R customers are responsible for more than **52%** of the Company's increased operating and maintenance (O&M) expenses. By contrast, Pepco's Medium and Large Commercial rate classes in the District have accounted for -14.1% of the Company's total rate base growth and 46.5% of its growth in O&M expenses.

Q. HOW SHOULD YOUR FINDINGS REGARDING UNEVEN LEVELS OF GROWTH IN COST RESPONSIBILITIES BY RATE CLASS INFLUENCE THE COMMISSION'S RATEMAKING DETERMINATIONS IN THIS CASE?

A. Given Pepco's projections that the vast majority of its growth in service requirements will be associated with increases in its numbers of residential and small C&I customers, a continuation of more rapid increases in the cost responsibilities of those classes should be reflected in revenue increase allocation determinations. The Commission should also express concern regarding the propriety of setting rates for future periods based on the results of CCOSS analyses that could be as much a five years old when rates are placed in effect for the third year of an MYP. As demonstrated in Exhibit AOBA (A)-6, in just the two-year period between the CCOSS analyses examined in that exhibit, significant changes in the relative levels of class cost responsibilities are observed.

F. RATE STRUCTURE

Q. HOW HAVE THE RELATIVE LEVELS OF THE RATES OF RETURN FOR PEPCO'S CLASSES OF SERVICE IN THE DISTRICT CHANGED OVER TIME?

A. Prior to Pepco's divestiture of generation assets and its merger with Conectiv nearly 20 years ago, Pepco's rates for its District Columbia customers were bundled rates that included charges for generation, transmission and distribution services. As part of the resolution of Pepco's divestiture case, the Company's rates were unbundled, and charges for distribution service were segregated from its charges for generation and transmission, as they are today. The resolution of Pepco's divestiture proceeding also included the Company's agreement to a multi-year cap on its distribution rates. That was followed by a settlement of the Company's merger with Conectiv which extended the period of rate caps for another 30 months (i.e., from February 2005 through March 2007). With the expiration of those rate caps, Pepco's filing of a new base rate proceeding (Formal Case No. 1076), in which it was found that the residential class rate of return for Pepco's distribution service in the District of Columbia had fallen into negative territory.

Exhibit AOBA (A)-7 provides a history of UROR's by rate class from Formal Case No. 1076 (which was based on a test year ended 12/31/2008) to the present case.[81] That exhibit indicates the UROR for Pepco's Residential Rate R customers in the District is now at its lowest point reported in a Pepco base rate proceeding in the nearly 40 years in which I have participated in Pepco rate cases. Over the same period the URORs for GT-LV and MGT-LV have continued to rise and are now more than twice the Company's jurisdictional average rate of return. The combined UROR for GT-LV and MGT-LV classes, as computed by Pepco, in Formal Case No. 1156 was **2.35.** In this case the combined UROR for those classes is **2.52.** In other words, Pepco's computed rates of return for those classes have moved further away from the system average between rate cases, **not closer**.

Past Pepco proceedings have included considerable discussion of negative class rates of return and the need to significantly narrow differences in class rates of return. Yet, as noted above, Pepco's Class Cost of Service Study ("CCOSS") in this proceeding demonstrates a general **lack of progress** in terms of moving class

[81] The Class Cost of Service Study ("CCOSS") presented by Pepco in Formal Case No. 1076 was based on a test year ended 12/31/2008. The Company's CCOSS in this case is based on data for the twelve months ended 6/30/2019.

rates of return for medium and large commercial rate classes closer to the Company's jurisdictional average rate of return. Moreover, the extremely high rates of return that Pepco is presently extracting from its medium and large commercial customers in the District of Columbia are not helping the District's efforts to retain existing business, much less revitalize its commercial business sector. **In fact, the District's commercial real estate tax base has declined.**[82]

1. <u>Revenue Increases Distribution</u>

Q. HOW DOES PEPCO PROPOSE TO DISTRIBUTE ITS REQUESTED REVENUE INCREASES AMONG RATE CLASSES?

A. The Direct Testimony of Pepco witness Bonikowski outlines a four-step process for distributing the Company's requested revenue increases by year for the three proposed MYP years among rate classes.

Q. IS PEPCO'S PROPOSED DISTRIBUTION OF THE REVENUE INCREASE AMONG RATE CLASSES REASONABLE?

A. The overall intent of the four-step process that witness Bonikowski describes is reasonable. The specifics of the Company's application of that methodology require further refinement. In particular, Pepco's development and application of

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[82] See the District of Columbia, Annual Comprehensive Financial Report 2022, which indicates in Exhibit S-2A that The estimated value of Commercial Real Estate in the District declined by more than **$10 billion** between 2021 and 2022, after more than a decade of continued year-to-year increases.

the multipliers used to adjust the System Average Increase by rate class requires further refinement.

AOBA agrees with Pepco that the continued assignment of average or less than average revenue increase percentages to dramatically under earning rate classes "*impedes meaningful progress*" toward reducing subsidization of under-earning classes. The application of average or less than average rate increases to classes with **negative** rates of return is particularly inappropriate and counter-productive. Classes with negative rates of return are not simply contributing less than the Company's required return on investment. Rather, with every unit of service provided, they erode the Company's opportunity to achieve its authorized rate of return.

The notion that a major class of customers, such as Pepco's Residential class in the District of Columbia, can be allowed to make **no positive contribution** to the Company's required return on investment **over a period of nearly two decades** conflicts with all concepts of cost-based ratemaking and reflects a distinct lack of fairness and equity in rate determinations. There is not another utility or another jurisdiction within the U.S. that has allowed such large negative rates of return to endure for a major class of service over such an extended number of years. Unjustifiably large class rate of return differentials among Pepco's District of Columbia rate classes have been allowed to endure for too long.

Q. SHOULD THE COMMISSION APPROVE PEPCO'S FOUR-STEP REVENUE INCREASE ALLOCATION METHODOLOGY AS PRESENTED?

A. No. There are at least four reasons that Pepco's recommended revenue increase allocation using is Four-Step methodology in this proceeding is inappropriate. First, the allocation revenue increases in past cases reflect the circumstances at the time each case was litigated. As the magnitude of the revenue increase granted, the relationships between class rates of return, and other economic conditions change, the distribution of any approved revenue increase must be adapted accordingly. Second, the Commission's reliance on Pepco's Four-Step method in Formal Case No. 1156 has not produced the desired results for all rate classes. Exhibit AOBA (A)-8 demonstrates that the revenue increase allocation approved in Formal Case No. 1156 has resulted in five rate classes now having rates of return that are further from unity than they were when Formal Case No. 1156 was litigated. Third, Pepco's proposed Four-Step method does not adequately or appropriately address differences in class rates of return for classes with above rates of return. Fourth, if employed in the context of a multi-year rate plan, the revenue increase allocation approved should address anticipated changes in class cost responsibilities over the period that the proposed rates are expected to be in effect. Pepco's proposed application of its Four-Step Revenue Allocation methodology does not address such considerations.

Q. WHY IS PEPCO'S REILIANCE ON AVERAGE REVENUE ALLOCATION PERCENTAGES FROM PAST CASES INAPPROPRIATE?

A. Pepco's averaging of past revenue increase allocations is insensitive to the conditions that prevailed at the time the distribution of each revenue increase was approved. For example, the revenue increase approved by the Commission in Formal Case No. 1156 was clearly influenced by considerations relating to the impacts of the COVID-10 pandemic. Moreover, the effective revenue increases by rate class were influenced by the Commission's approval of partial rate offsets including the extension of Customer Base Rate Credits ("CBRC") for residential customers.[83] In addition, the magnitude of the increase approved for the Company in each case tends to influence the degree to which revenue increase percentages among rate classes can be differentiated without imposing unacceptably large increases (i.e., rate shock) on customers in any specific rate class.[84]

Q. DO YOU HAVE ANY FURTHER CONCERNS REGARDING THE MANNER IN WHICH PEPCO HAS DELVELOPED ITS PROPOSED DISTRIBUTION OF THE REVENUE INCREASE BY RATE CLASS?

A. Yes. The measures of annualized revenue that Pepco uses as the starting point for its calculation of each class's revenue requirement includes adjustments to

[83] Order No. 20755, page 3, paragraph 5.
[84] It is also noteworthy that witness Bonikowski's development of its revenue increase allocation omits consideration of the rate decreases implemented as a result of Formal Case No. 1150 even though the allocation of those revenue reductions are as much a reflection of the Commission's long-term rate policy and revenue allocation determinations as those in any of the other cases on which witness Bonikowski relies.

revenue at current rates that Pepco labels "*Effective Rate Adjustments*." Those adjustments are often quite substantial. For MYP Rate Year 1, Pepco's **Effective Rate Adjustment** for the GT-LV rate class is **$31,124,709**.[85] That adjustment increases the revenue requirement for the GT-LV rate class by nearly **35%** before the application of Pepco's proposed **$24,411,047** MYP Rate Year 1 increase for the GT-LV class.[86] Combined Pepco's Effective Rate Adjustment and its MYP Rate Year 1 Revenue Increase would add **over $55.5 million** in annual revenue requirements for a class that now has a revenue requirement at current rates of **$91,819,791**. In other words, Pepco seeks to extract an effective **60.5%** Rate Year 1 revenue increase from its GT-LV customers who already provide the Company a rate of return more than 2.3 times its jurisdictional average rate of return.

Q. ARE THERE OTHER RATE CLASSES THAT ARE SIGNICANTLY IMPACTED BY PEPCO'S EFFECTIVE RATE ADJUSTMENTS?

A. Yes. Pepco's Effective Rate Adjustments add about $9.1 million to the revenue requirements for GT-3A class, which when added to Pepco's proposed MYP Rate Year 1 revenue increase effectively increases the GT-3A revenue requirement by

85 Exhibit Pepco (E)-8, page 38 of 39, Rate Schedule GT-LV, Line (15). This is comparable to a similarly substantial expansion of Pepco's approved revenue requirements that this Commission rejected in Order No. 21563. Moreover, Pepco's rationale for its Effective Rate Adjustment for the GT-LV rate class is once again a product of the Company's significant understatement of its numbers of GT-LV customers in its FC 1156 compliance filings and Pepco's attempts to greatly expand its authorized revenues without cost-based support.

86 Exhibit Pepco (E)-1, page 1 of 1, Col (U).

over **39%**. In addition, Pepco's Effective Rate Adjustments add nearly $6.0 million to the MGT-LV MYP Rate Year 1 revenue requirement in addition to the Company's proposed $35.7 million MYP Rate Year 1 increase for that class. Again, both the GT-3A and MGT-LV rate classes already provide UROR well in excess of 2.0 and are not deserving of such abusive treatment.

Q. SHOULD THE COMMISSION ACCEPT PEPCO'S USE OF EFFECTIVE RATE ADJUSTMENTS IN THE DEVELOPMENT OF CLASS REVENUE REQUIREMENTS IN THIS PROCEEDING?

A. No. Pepco's Effective Rate Adjustments are inappropriate and can greatly amplify the actual bill impacts Pepco's customers in the District will experience. Pepco's Effective Rate Adjustments are particularly inappropriate where the billing determinants used in the design of rate can reflect calculations of revenues by class that are based on forecasted data, not actual experience. If properly developed, Pepco's revenue requirements should already be reflective of the costs the Company expects to incur to provide its forecasted levels of service. Further, inflation of the Company's revenue requirements in the rate design process is not necessary or appropriate.

Q. HOW SHOULD REVENUE INCREASE PERCENTAGES BE DIFFERENTIATED AMONG CLASSES WITH URORS ABOVE UNITY?

A. First, the Company's application of no increase to classes with extremely high RORs (i.e., the GS-3A class at a 27.78% ROR and the TN class with an ROR of 19.22%) has proven ineffective in producing significant moderation of those extreme rates of return. No class should be required to continue to provide several multiples of the Company's overall DC rate of return over an extended number of years. Yet, that is the expected effect of Pepco's proposed revenue increase allocation in this case. The GS-3A and TN classes account for only about very a small component Pepco's revenues. Together they represent only $138,263 (or 0.025%) of Pepco's $543,871,573 current DC total base rate revenue. In that context, there is no reason the very extreme nature of their current RORs cannot be remedied within a single rate case. Lowering the RORs for the GS-3A and TN classes to 1.5 times the jurisdictional average ROR would have less than a 0.1% impact on the amount of revenue the Company would need to recover from all other classes. In that context, there is no compelling reason that avoidance of more significant realign of the rates of return for those two classes.

Second, Pepco's application of a single multiplier to all classes that are not identified as having extremely low (or negative) or extremely high rates of return is not reasonable or appropriate. As shown in Table 3 in witness Bonikowski's Direct Testimony, Step 4 of the Company's proposed four-step methodology for revenue increase allocation applies a uniform 0.70 multiplier to all classes having current Unitized Rates of Return ("URORs") above 1.21 and less than 2.61. This broad-brush treatment of classes with greater than system average rates of return may simplify the Company's determinations, but it does not produce equitable results. A class currently providing a UROR of 1.21 should not receive that same percentage increase in its revenue requirement as a class providing a UROR as a class that is currently providing a UROR roughly **twice** that level. For rate increases to be equitable, a class with a UROR more than two times unity must be assigned a percentage revenue increase that is noticeably less than the percent increase assigned to a class with a UROR only 21% above unity (i.e., a class with a ROR of 1.21) .

The GT-LV, GT-3A, and MGT-LV classes all currently have URORs in excess of 2.35 and are in need of greater downward adjustment to their revenue increase percentages in this proceeding. The MGT-LV UROR is 2.61, the UROR for the GT-3A class is 2.42, and the UROR for the GT-LV class is 2.36. No other class (excluding the GS-3A and TN classes discussed above) has a UROR above 1.6. For most utility systems, the current URORs for the GT-LV, GT-3A and MGT-LV classes would be considered extremely high. However, the current base rate revenues for GT-LV, GT-3A and MGT-LV classes account for roughly two-thirds of the Company's total current annualized base rate revenue. As a result, comparatively small adjustments to increases for those classes can have minimal impact on the revenue increase percentages required for other rate classes. In that context, I have structured a revenue increase allocation that does the following:

a. Reduces theURORs for the GS-3A and TN classes to 1.5 (i.e., 50% above the Company's overall rate of return);

b. Applies a multiplier of 1.4 to the system average rate increase to compute the rate increases for under-earning rate classes (i.e., R, SL-E, and SL-S;

c. Applies a multiplier of 0.9 to the system average increase for classes with currentURORs in excess of 2.35 (i.e., the GT-LV, GT-3A and MGT-LV classes); and

d. Applies a multiplier of 0.948 to the system average increase percentage for the rate classes with UROR's in excess of unity.

Q. DO YOU OFFER ANY FURTHER RECOMMENDATIONS REGARDING THE REVENUE ALLOCATION IN THIS PROCEEDING?

A. Yes, I do. Pepco's proposed revenue increase allocation only addresses increases by class under the assumption that the Commission will approve the Company's entire revenue increase request. From the Company's perspective, that single scenario approach is understandable. However, history shows that Pepco has rarely, if ever, gained approval of its full revenue increase request in a base rate proceeding in this jurisdiction. Yet, considerations relating to the equity of the revenue increase distribution and the avoidance of rate shock need to be sensitive to the size of the over revenue increase. In the context, of the overall revenue increase that Pepco seeks in this proceeding, limits need to be placed on the deviations from the average rate increase percentage. However, as the magnitude of the revenue increase is reduced, greater differentiation of rate increase percentages among rate classes can be implemented without imposing rate shock on any class of customers.

2. <u>GT-LV Customer Charges</u>

Q. DOES PEPCO PROPOSE TO INCREASE ITS MONTHLY CUSTOMER CHARGES FOR RATE SCHEDULE GT-LV CUSTOMERS?

A. Yes. Although the current customer charge for Rate Schedule GT-LV customers is already dramatically higher than the Company's customer charges for each of its other rate classes in the District, Pepco proposes to further widen the gap between the monthly Customer Charge for GT-LV customers and Pepco's monthly Customer Charges for its other rate classes. Exhibit Pepco (E)-4, line 1, indicates Pepco's current Customer Charge for Rate Schedule GT-LV is $1,908.28. No other rate class currently has a monthly Customer Charge in excess of $237.00.[87] Thus, the current GT-LV Customer Charge is roughly **eight times greater** than the current monthly Customer Charge current billed to any other rate class.

Yet, Pepco proposes rates to further amplify the relative size of the GT-LV customer charge. Under the Company's recommended rate designs the customer charge for Rate Schedule GT-LV customers would soar to **$3,069.75** per month[88] or over $36,000 per customer per year. That represents a $1,161.47 or more than

[87] As shown in Exhibit Pepco (E)-3, that $237.00 charge is the MGT-LV class.

[88] Under Pepco's proposed MYP the Company's plan is to achieve the proposed $3,069.75 monthly customer charge through three annual increases of equal amounts. However, Pepco's TTY proposal is to immediately raise the GT-LV customer charge to the $3,069.75 per month level. Such a large one step increase in any charge for any rate class is rarely viewed by regulators as reasonable or appropriate.

60% increase, while Pepco proposes to lower the monthly customer charge for the MGT-LV rate class $210.58.

Q. ARE THE CUSTOMER CHARGE INCREASES THAT PEPCO PROPOSES FOR RATE SCHEDULE GT-LV CUSTOMERS APPROPRIATE FOR APPLICATION TO THAT CLASS?

A. No. As I have explained in my discussion of Class Cost of Service Issues, above,[89] the unit customer costs underlying Pepco's proposed customer charges for Rate Schedule GT-LV are premised on flawed analyses. When the flaws in Pepco's development of unit customer costs for the GT-LV class are corrected, no increase in the current GT-LV customer charge is justified. For this reason, I strongly urge the Commission to not approve any increase in the GT-LV customer charge in this proceeding. Instead, the Commission should direct Pepco to justify the components of the computed unit customer costs for the GT-LV.

3. <u>RAD Program Expansion</u>

Q. IS PEPCO PROPOSING CHANGES IN THE RATE ASSISTANCE IT PROVIDES TO LOW-INCOME AND MODERATE-INCOME CUSTOMERS THROUGH ITS RAD PROGRAM?

[89] See Section III.C.2. of this testimony.

A. Pepco is not proposing to change the level of assistance provided to current participants in the RAD program. The Company is, however, proposing to expand the pool of eligible customers, and "enhance" its marketing of that program to reach and enroll a greater portion of the eligible residential customers. .

Q. SHOULD THE COMMISSION ACCEPT PEPCO'S EFFORTS TO PROVIDE EXPANDED RATE RELIEF TO CUSTOMERS WITH LIMITED INCOME?

A. No. Some measure of rate relief to low-income or moderate-income customers and/or senior and disabled citizens may be justifiable. However, the negative rates of return that Pepco continues to earn for its entire residential class are not justified. Pepco's residential class in the District of Columbia includes substantial numbers of customers who cannot be reasonably classified as low-income, moderate-income, senior, or disable. There is no basis for this Commission's continued subsidization of customers who cannot be assigned to any of those classifications of customers. .

4. <u>TOU Rates for Electric Vehicles</u>

Q. DO YOU SUPPORT IMPLEMENTATION OF PEPCO'S PROPOSED TIME OF USE RATES FOR ELECTRIC VEHICLES?

A. No. There is no demonstrated need for such rates, and the limited numbers of customers who can be expected to utilize the proposed TOU rates do not justify the complexity they added to the ratemaking process. The incremental benefits, if any, that TOU rates will provide to Pepco's electric system and to the achievement of the District's climate goals are not sufficient to warrant the effort Pepco has already committed to this activity.

IV. CONCLUSION

Before deciding how Pepco will be permitted to recover its approved revenue requirements (i.e., through traditional rate case determinations or a multi-year rate plan), the Commission must carefully assess the reasonableness of the costs that Pepco seeks to recover. As we have seen in many prior Pepco base rate proceedings, the Company's revenue requests in this case are substantially inflated, and must not be approved without significant downward adjustments. Considerations, such as "smoothing" the rate increases over time are immaterial prior to a determination of the Company's actual need for additional revenue. Simply adjusting Pepco's revenue request to reflect a more appropriate return on equity than that which the Company has used in the preparation of its rate increase requests in this case will have a noticeable impact on the Company's need for additional revenues.[90] But, adjusting the Company's requested ROE is just a first step. Another substantial driver of Pepco's revenue requirements in this case is

[90] Interest rates have been declining, and there has been no dramatic upward trend in allowed rates of return for utilities. Yet, Pepco seeks an ROE that is nearly 122.5 basis points above its currently authorized 9.275% ROE.

the magnitude of planned capital expenditures. Between the end of the historic test year and the end of calendar year 2022, Pepco plans more than $1.25 billion of capital expenditures. For a system that has less than one percent per year customer growth and zero or negative kWh growth, the Company's planned capital expenditures which produce rate base growth of more than 12% per year is not a sustainable scenario. When Pepco's system reliability statistics were much poorer, large annual reliability-related expenditures were understandable. That is no longer the case. Yet, Pepco continues to plan large annual reliability expenditures that necessitate continued growth in the Company's charges for distribution service. No reasonable or rational result can come from this proceeding without greater alignment of the Company's capital expenditures with the needs and financial resources of a system that has little if any growth.

The "multi-year rate plan" ("MRP") Pepco has filed in this proceeding asks the Commission to approve rates for a three-year period extending through the end of 2022. The reasonableness of such efforts to set rates for future periods depends heavily on the Company's ability to forecast its future costs and future customer usage levels with reasonable accuracy. But, Pepco has failed to show that its forecasts of future costs and customer usage levels have yielded sufficient accuracy for the Commission to place any confidence in the Company's forecasting for ratemaking purposes.

Similarly, Pepco has proposed several purportedly performance-based incentive mechanisms ("PIMs") in this proceeding, but none of the Company's proposed PIMS meet the criteria for PIMs that this Commission has set forth in Order No. 20273. The parameter of the Company's PIM proposals are designed to facilitate receipt of incentive awards for achieving little or no improvements in service, and to provide Pepco disproportionate protection against penalties if its performance metrics decline. In addition, Pepco offers no evidence that the incentives it could receive are directly tied to the incremental benefits that rewarded performance would generate for District ratepayers. As a result, there can be no assurance that the value of incentive rewards provided to the Company would not overshadow the benefits, if any, that its customers would receive.

From a rate structure perspective, Pepco appears to be fighting a losing battle. With continued declines in the rates of return that the Company derives from its residential service customers, Pepco must place ever increasing reliance on its commercial rate classes to meet its earning requirements. However, the notion that commercial customers in the District can continue to compensate for negative earnings contributions from Pepco's residential customers must be questioned in light of newly legislated requirements for further reductions in energy use by commercial buildings.

The Company's Bill Stabilization Adjustment ("BSA") mechanism has long had its problems. It does not stabilize customer bills, nor does it add to the predictability of charges that customers are billed on a month-to-month basis. Yet, it is perhaps most problematic as applied to commercial classes for which measures of average revenue per customer do not properly reflect the relationship between actual and authorized revenues for classes that contain customers with diverse usage characteristics. As part of the resolution of Formal Case No. 1150, the parties agreed to a restructuring of the GT-LV class and the creation of an MGT-LV class to help mitigate a portion of that problem. However, large monthly under-collections of authorized revenue continue for the GT-LV and MGT-LV classes.

The CleanEnergy DC Act of 2018 further erodes expectations that actual revenues for customers in the GT-LV and MGT-LV classes will reasonably align with authorized revenues for those classes. It also undermines one of the basic premises of Pepco's BSA (i.e., that Pepco does not have incentive to encourage energy efficiency). With the mandates for more reduced energy use in commercial buildings set forth in the CleanEnergy DC Act, the implementation of energy efficiency and conservation measures by operators of commercial buildings is no longer discretionary. Therefore, whether Pepco has incentive to encourage energy efficiency is a moot question. Where energy use reductions are mandated by law, resultant under-collections of revenue by the utility (i.e., Pepco) are reflective of efforts to achieve a societal goal and not discretionary actions by individual customers to achieve their own economic objectives. In that context, reduced revenue collections that result from customers' efforts to conform to the requirements of the law represent societal costs that are properly recovered from all classes of customers and should not serve to penalize customers who endeavor to conform to mandates for energy use reductions.

The problems found in the Company's BSA are also magnified by differences in class rates of return which require commercial customers to not only bear the entire burden of Pepco's earnings requirement but also compensate for negative residential contributions to the Company's earnings. Special rate treatments are now in place for low and moderate income residents of the District and for senior and disabled citizens. Those programs, coupled with growing affluence among the remaining residential consumers in the District, greatly diminish the need for the Commission to place affordability concerns ahead of utility cost recovery considerations for those customers. This testimony demonstrates that even if none of the responsibility for Pepco's requested revenue increase is assigned to commercial customers, each of the Company's commercial rate classes will still have a rate of return well in excess of Pepco's requested overall rate of return in this proceeding. It is time for this Commission to move more expeditiously toward greater balance in Pepco's rates by customer class and to ensure that all residential, as well as commercial customers, bear responsibility for contributing in a positive manner to Pepco's required earnings. If the magnitude of the rate increases needed for residential customers to achieve greater balance in the Company's rates is a concern for the Commission, the Commission can best address that concern by significantly reducing Pepco's requested revenue requirements and trimming the Company's capital expansion plans.

In an evolving industry, alternative ratemaking structures should not be viewed as long-term solutions. Rather, the Commission may view alternative ratemaking structures as tools for facilitating the achievement of specific near-term, goals. However, it must also recognize that once such goals are achieved, revision or termination of alternative ratemaking structures may be necessary to ensure a proper balance between ratepayer protections and utility cost recovery. Goals that are too easily achieved by utilities generally cannot be relied upon to generate substantial ratepayer benefits. Further, alternative ratemaking structures should not be viewed as a replacement for rigorous regulatory oversight. Effective regulation requires a knowledgeable and involved Commission that continues to serve a leadership role.

IV. SUMMARY OF FINDINGS AND RECOMMENDATIONS

A. <u>RECOMMENDED FINDINGS</u>

Q. PLEASE SUMMARIZE THE KEY ELEMENTS OF YOUR FINDINGS WITH RESPECT TO PEPCO'S PROPOSALS IN THIS PROCEEDING.

A. Key findings from my review of Pepco's filing in this proceeding include the following:[91]

1. **<u>Pilot MYP Lessons Learned</u>**

- A well-functioning MYP process requires the Commission's commitment of greater time and resources for evaluation of the reasonableness and prudence of Pepco's actual MYP period capital and O&M expenditures.

- The pilot MYP has reduced, if not eliminated, incentives for Pepco to control its costs and/or use its budgeted costs in a manner that reduces ratepayer cost burdens. As a result, the pilot MYP has failed to provide a reasonable alignment of shareholder and ratepayer interests.

- The practice of setting rates on the basis of fully forecasted costs provides no basis for assessing the appropriateness of the Company's budgets and provides incentives for the Company's to aggressively project its future levels of expenditures.

[91] This summary is not necessarily comprehensive. Omission of a find presented in the body of this testimony from the following list of findings does not diminish the importance of such a finding.

- There is no evidence that the "Pilot" MYP actually improved ratemaking transparency. To the contrary, the transparency suggested by the Company's presentation of detailed budgets for MYP period costs is lost when the Company is provided wide discretion to alter the composition of its budgeted costs.

2. <u>Climate Ready Pathway</u>

- Pepco's purported pathway to a climate ready system lacks clearly discernible ties to the achievement of specific climate related goals.

- Pepco has failed to identify the attributes of its perception of a "Climate Ready Grid" or a "Climate Ready Pathway and has not identified specific improvements to its system that are necessary to ensure its District of Columbia distribution system is "climate ready."

- Only a very small portion of Pepco's substantial budget for MYP capital expenditures can be tied to projects that will directly reduce GHG emissions.

- Pepco's District of Columbia distribution system will not be supportive of the District's climate goals if unchecked capital spending programs erode the affordability of electric service in the District or drive businesses to relocated in other jurisdictions.

- Pepco's Multi-Year Rate Plan ("MRP") proposal in this proceeding fails to achieve one of the most basic objectives for such a plan. That is a reduction of the regulatory costs that must be borne by Pepco ratepayers in the District of Columbia.

3. <u>BSA-Related Issues</u>

- Pepco's request to be provided a return on its claimed BSA deferred revenue balance is poorly conceived and not appropriate for implementation as presented.

- Pepco has failed to provide a compelling case that the Company's BSA deferred revenue balance has had a significant negative impacts on its earnings and credit.

- A significant portion of Pepco's current BSA deferred revenue is appropriately identified as COVID-19-related and should be recovered outside of the Company's BSA mechanism.

- Continuation of Pepco's BSA mechanism is inappropriate in the context of rates set on the basis of forecasted costs and forecasted billing determinants since the Company is provided the ability to account for anticipated changes in usage and costs before they occur.

- Pepco's proposal to shift to an annual BSA rate adjustment mechanism would be an improvement over the current monthly mechanism, but under an MYP neither annual nor monthly BSA rate adjustments should be necessary or appropriate.

- This testimony has identified a new problem associated with Pepco's current application of its BSA mechanism that must be resolved before there is any further consideration of providing Pepco a return on its BSA deferred revenue balance.

- A significant component of Pepco's BSA deferred revenue balance for the GT-LV rate class is the product of Pepco's use of significantly understated numbers of Rate Schedule GT-LV customers in its development of Compliance Rates in Formal Case No. 1156.

Budgeted Capital Additions

- Pepco's excessive capital spending plans are the primary driver of the size of its revenue increase request in this proceeding.

- Pepco's budgeted capital expenditures, in the context of declining kWh deliveries, declining kW demand, and minimal customer growth, are inconsistent with the maintenance of affordable electric service in the District of Columbia.

- Rapid growth in Pepco's rate base investment, for a system with forecasted declines in usage and limited customer growth (mostly within classes comprised of smaller customers), will necessarily require further significant increases in Pepco's charges for electric service in the District.

- Pepco's capital expenditures budget is generally presented without supporting workpapers and without meaningful supporting cost analyses and quantified assessments of project costs and benefits.

- Pepco's budgeting for Commercial New Business connections is inconsistent with the Company's projections of limited growth in its numbers of Commercial customers and fails to demonstrate explicit consideration of the portions of Commercial New Business costs that it can expect to be offset by CIAC payments.

- The dollar amounts Pepco has budgeted for Commercial New Business connections imply extremely high average costs per customer added.

- Pepco's Lead-Lag Study and its determinations of Cash Working Capital Requirements do not properly account for the influences of the COVID-19 pandemic.

4. <u>Class Costs of Service</u>

- Pepco's CCOSS has failed, once again, to provide separate recognition of Contributions in Aid of Construction by rate class as the Commission directed in Order No. 18846.

- Pepco has the information necessary to track CIAC payments by rate class, but it does not utilize that information in the development of its class costs of service analyses.

- Pepco naively argues that separate assessment and presentation of CIAC payments is unnecessary because no CIAC is included in rate base, ignoring the fact that CIAC is not a uniform percentage of allocated rate base, or even customer-related rate base costs, for all rate classes.

- Pepco's allocation of income tax responsibilities remains inconsistent with appropriate application of the U.S. income tax code and hides substantial additional cross-subsidization between rate classes.

- Considering evidence that Pepco's service requirements and costs of service have not increased with relative uniformity between the time periods addressed by the Company's two most recent class cost of service studies any presumption that class cost of service results for calendar years 2021 will be reasonably indicative of relative class cost responsibilities in 2026 (i.e., five years later) is unfounded.

5. Rate Structure Issues

- Negative rates of return for Pepco's Residential class in the District of Columbia have now been permitted to endure for nearly two decades and greater regulatory focus needs to be placed on the elimination of these extreme levels of subsidization that the current negative rates of return represent.

- As applied in Formal Case No. 1156, Pepco's proposed Four-Step method for allocating the Company's requested revenue increase did not produce movements toward unity in theURORs for several rate classes including most of Pepco's medium and large C&I rate classes.

- Pepco's proposed Four-Step method for allocating the Company's requested revenue increase does not adequately or equitably address the adjustment of rates of return for classes for which Pepco currently computes rates of return in excess of two times the Company's overall rate of return for its DC jurisdiction distribution service (i.e., classes with UROR's in excess of 2.0).

- A decision to approve a multi-year rate plan for Pepco should be viewed as an opportunity for the Commission to implement annual phased increases in Rate R revenue requirements designed to significantly narrow current differences in class rates of return.

- Pepco's proposed MRP provides an opportunity for the Company to phase in a more substantial adjustment to its residential class rate of return, but the Company fails to seize that opportunity.

- Pepco's use of "four Adjustments" in the design of its proposed rates inappropriately amplify the magnitude of the revenue increases that Pepco proposes for its commercial rate classes and conflict with the Company's efforts to address class rate of return differentials through its Four-Step method for allocating the revenue increase among rate classes.

- Pepco's proposed increases in Customer Charges for Rate Schedule GT-LV are the product of Pepco's erroneous assignment of Customer Installation attributable to both the GT-LV and MGT-LV rate classes to just the GT-LV class.

- Pepco's proposed costs for marketing and enrollment of greater numbers of customers in the current RAD program have not been justified in terms of costs to be imposed on other Pepco ratepayers in the District or the impacts of the proposed RAD program expansion on effective rate subsidies between the Company's residential and commercial rate classes.

B. RECOMMENDATIONS FOR COMMISSION ACTION

Q. WHAT ARE YOUR RECOMMENDATIONS FOR COMMISSION ACTIONS WITH RESPECT TO PEPCO'S FILING IN THIS PROCEEDING?

A. Based on the findings in this presentation, I urge the Commission to take the following actions:[92]

Pilot MYP Lessons Learned

1. The Commission should not approve any form of multi-year rate plan in the absence of a plan and procedures for more rigorous examination of the reasonableness and prudence of the Company's actual expenditures for each MYP rate year.

[92] Omission from this list of a recommendation presented elsewhere in this testimony is unintentional and does not diminish or negate the importance of such a recommendation.

2. The Commission should substantially limit Pepco's ability to deviate from the details of the budgets on which MYP rate determinations are made and set relatively tight limitations on the extent to which the Company's actual expenditures are permitted to vary from Pepco's budgeted costs by project for capital costs and by account and subaccount for O&M costs without providing detailed justification for such variances.

3. The Commission should require that any multi-year rate plan must include a plan to eliminate negative class rates of return within the period of the plan.

4. The Commission should reject Pepco's proposed MYP in this proceeding as not reflective of the public interest.

5. If the Commission elects to approve Pepco's MYP, it should couple that approval with: (a) the establishment of procedures that provide for more rigorous review of the Company's actual expenditures; (b) establish specific performance expectations for the Company; and (c) establish criteria for subsequent determinations regarding the prudence of Pepco's actual expenditures.

BSA-Related Issues

6. The Commission should deny Pepco's request to be permitted to earn a return on its BSA Deferred Revenue Balance.

7. The Commission should conclude that a revenue decoupling mechanism in the context of a multi-year rate plan, for which both the Company's service requirements and costs are forecasted, does not provide necessary ratepayer protection in the absence of rigorous examinations of the reasonable and prudence of Pepco's actual expenditures.

8. The Commission should identify the portion of Pepco's BSA Deferred Revenue Balance associated with revenue under-recoveries during the COVID-19 pandemic, remove the identified amount from Pepco's BSA Deferred Revenue Balance, and allow Pepco recovery of the identified amount as a COVID-19 regulatory asset amortized over ten years with a return for the Company on the unamortized balance.

9. The Commission should either terminate the Company's application of its BSA for GT-LV and MGT-LV customer classifications or

distribute responsibilities for under-collections of authorized revenue for those classes to all classes of District ratepayers.

10. The Commission should reject Pepco's proposal to compute compliance rates and compliance monthly authorized revenue per customer amounts at the end of this proceeding on the basis of "updated" estimates of billing determinants that have not been presented for review by the parties in this proceeding.

Budgeted Capital Additions

11. The Commission should act to significantly reduce the overall magnitude of Pepco's budgeted capital expenditures, excluding from Pepco's capital budgets cost for projects for which Pepco has provide no substantial support for the dollar amounts budgeted.

12. The Commission should reduce Pepco's budgeted capital expenditures for Commercial New Business Connections, finding that Pepco has failed to provide necessary and appropriate support for its budgeted costs for Commercial New Business Connections and the amounts of CIAC payments the Company expects to receive to offset Commercial New Business Connection expenditures.

13. The Commission should direct Pepco to recompute its cash working capital requirements ("CWC") using its pre-COVID assessment of 44.34 composite revenue lag days, as opposed to the 58.38 composite revenue lag days Pepco has presented in this proceeding.

<u>Class Costs of Service</u>

14. The Commission should direct Pepco to revise its assignment of Customer Installations costs to the GT-LV and MGT-LV rate classes as proposed herein, and direct Pepco that each future base rate filing should provide greater support for its determination of the dollar amounts assigned to each rate class.

15. The Commission should require Pepco to provide standardized, printable, publicly available, and transparent CCOSS analyses in **all future base rate filings**. The Commission should also require Pepco's filed CCOSS in each future rate case be presented in comparable format to those used for its CCOSS in prior prior proceedings with easily referenced detail for costs allocated to each rate class by FERC account and the allocation factors employed.

16. The Commission should affirm its CIAC determination in Formal Case No. 1139, Order No. 18846, and require Pepco to show CIAC contributions by rate class separately (not netted from rate base elements) in CCOSS allocations in all future base rate proceedings.

17. If the Commission accepts Pepco's continued use of MYP filings, it should require Pepco to provide CCOSS analyses for each forecasted rate year.

<u>Rate Structure Issues</u>

18. The Commission should direct Pepco to take immediate action to significantly reduce the extreme rates of return that Pepco reports for its GS-3A and TN rate classes as those reductions can be achieved with only minor impacts on other rate classes.

19. The Commission should approve AOBA's recommended modifications to Pepco's Four-Step revenue allocation methodology to achieve greater movement toward unity for all classes rates of return.

20. If a multi-year rate plan is approved for Pepco, the Commission should use the years of that plan to **<u>phase-in</u>** more substantial rate

movements toward the elimination of current negative rates of return for Pepco's overall residential (Rate R) customers.

21. The Commission should find that, as presented by Pepco, the proposed effort to expand RAD program participation is inconsistent with the Company's efforts to reduce the subsidies currently provided to its overall Residential (Rate R) customer class.

22. If the Commission finds further efforts to expand RAD program participation appropriate, the costs of expanding that program should be recovered fully from Pepco's Residential Non-RAD customers.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes. It does.

BEFORE THE
PUBLIC SERVICE COMMISSION
OF THE
DISTRICT OF COLUMBIA

IN THE MATTER OF	)	
	)	
The Application of	)	**Formal Case No. 1176**
Potomac Electric Power Company for	)	
Authority to Implement a Multiyear	)	
Rate Plan in the District of Columbia	)	

DECLARATION

I, Bruce R. Oliver, do hereby declare under the penalty of perjury that I am authorized to make this Declaration on behalf of the Apartment and Office Building Association of Metropolitan Washington; that the foregoing testimony and exhibits were prepared by me or under my direction and supervision; and that the contents herein are true and correct to the best of my knowledge, information and belief.

Bruce R. Oliver

Bruce R. Oliver
January 12, 2024

Potomac Electric Power Company

DC PSC Formal Case No. 1176

Pepco's 2022 Underspent and Overspent Capital Projects 1/

From Pepco's March 31, 2023 Annual Information Filing in Formal Case No. 1156, Appendix 1 Schedule 4

Capital Projects with Substantially Underspent Budgets

Line No.	Category	Project No.	Budget	Actual	Variance
Budgeted Projects with Zero Actual Expenditures					
34	Customer Driven	68933	$ 850	$ -	$ (850)
57	Load Driven	62900	$ 4,273	$ -	$ (4,273)
59	Load Driven	68678	$ 2,590	$ -	$ (2,590)
60	Load Driven	68972	$ 5,740	$ -	$ (5,740)
62	Load Driven	68975	$ 1,993	$ -	$ (1,993)
61	Load Driven	68977	$ 2,013	$ -	$ (2,013)
78	Load Driven	74087	$ 2,971	$ -	$ (2,971)
83	Reliability	73787	$ 546	$ -	$ (546)
102	Reliability	73039	$ 1,251	$ -	$ (1,251)
117	Reliability	62161	$ 6,212	$ -	$ (6,212)
129	Reliability	63518	$ 705	$ -	$ (705)
130	Reliability	63628	$ 750	$ -	$ (750)
132	Reliability	63643	$ 605	$ -	$ (605)
134	Reliability	63947	$ 932	$ -	$ (932)
148	Reliability	65582	$ 521	$ -	$ (521)
157	Reliability	68608	$ 571	$ -	$ (571)
163	Reliability	68756	$ 675	$ -	$ (675)
170	Reliability	69097	$ 1,522	$ -	$ (1,522)
172	Reliability	70060	$ 9,000	$ -	$ (9,000)
173	Reliability	70187	$ 1,261	$ -	$ (1,261)
190	Reliability	71721	$ 4,759	$ -	$ (4,759)
191	Reliability	71731	$ 6,075	$ -	$ (6,075)
205	Reliability	73042	$ 2,143	$ -	$ (2,143)
207	Reliability	73052	$ 718	$ -	$ (718)
209	Reliability	73054	$ 751	$ -	$ (751)
215	Reliability	73371	$ 2,377	$ -	$ (2,377)
230	Reliability	74590	$ 27,000	$ -	$ (27,000)
233	Reliability	75782	$ 915	$ -	$ (915)
234	Reliability	75779	$ 922	$ -	$ (922)
258	General & IT	65462	$ 1,155	$ -	$ (1,155)
260	General & IT	65521	$ 525	$ -	$ (525)
303	General & IT	74318	$ 3,004	$ -	$ (3,004)
438	General & IT	72936	$ 1,499	$ -	$ (1,499)
Total Budgeted Projects with Zero Actuals			$ 96,824	$ -	$ (96,824)
Percent of Total Budget Capital Expenditures			**34.0%**	**0.0%**	**-34.0%**

Potomac Electric Power Company
DC PSC Formal Case No. 1176

Pepco's 2022 Underspent and Overspent Capital Projects 1/
From Pepco's March 31, 2023 Annual Information Filing in Formal Case No. 1156, Appendix 1 Schedule 4

Capital Projects with Substantially Underspent Budgets (Cont.)

Line No.	Category	Project No.	Budget	Actual	Variance
Other Substantially Underspent Projects					
3	Facility Relocation	71231	$ 628	$ (30)	$ (658)
11	Customer Driven	63698	$ 9,035	$ 6,414	$ (2,621)
47	Customer Driven	75093	$ 19,890	$ 16,651	$ (3,239)
48	Customer Driven	75093	$ 30,406	$ 21,197	$ (9,209)
67	Load Driven	70251	$ 11,300	$ 7,122	$ (4,178)
72	Load Driven	71411	$ 4,093	$ 67	$ (4,026)
88	Reliability	67941	$ -	$ (767)	$ (767)
92	Reliability	69594	$ -	$ (1,451)	$ (1,451)
98	Reliability	71612	$ 11,915	$ 1,391	$ (10,524)
101	Reliability	73032	$ 604	$ (315)	$ (919)
133	Reliability	63645	$ 2,015	$ 370	$ (1,645)
139	Reliability	64357	$ 573	$ 84	$ (489)
185	Reliability	71440	$ 721	$ 11	$ (710)
204	Reliability	72978	$ 9,871	$ 6,556	$ (3,315)
212	Reliability	73179	$ 9,054	$ 661	$ (8,393)
219	Reliability	73179	$ 5,775	$ 4,569	$ (1,206)
236	Reliability	77329	$ 1,583	$ 37	$ (1,546)
251	General & IT	64420	$ 781	$ 1	$ (780)
279	General & IT	71558	$ 4,223	$ 3,345	$ (878)
283	General & IT	72040	$ 1,051	$ 236	$ (815)
297	General & IT	74234	$ (3,261)	$ -	$ 3,261
Total Other Substantially Underspent Projects			$ 120,257	$ 66,149	$ (54,108)
Percent of Total Budget			**42.3%**	**23.3%**	**-19.0%**
Total for Underspent Projects			$ 217,081	$ 66,149	**$ (150,932)**
Percent of Total Budget			**76.3%**	**23.3%**	**-53.1%**

Potomac Electric Power Company

DC PSC Formal Case No. 1176

Pepco's 2022 Underspent and Overspent Capital Projects 1/

From Pepco's March 31, 2023 Annual Information Filing in Formal Case No. 1156, Appendix 1 Schedule 4

Capital Projects with Substantially Overspent Budgets

Line No.	Category	Project No.	Budget	Actual	Variance
Expenditures for Unbudgeted Projects					
15	Customer Driven	63718	$ -	$ 478	$ 478
16	Customer Driven	63725	$ -	$ 528	$ 528
35	Customer Driven	69558	$ -	$ 1,934	$ 1,934
45	Customer Driven	73695	$ -	$ 825	$ 825
69	Load Driven	70433	$ -	$ 3,955	$ 3,955
105	Reliability	75200	$ -	$ 609	$ 609
113	Reliability	86033	$ -	$ 669	$ 669
114	Reliability	86049	$ -	$ 15,601	$ 15,601
128	Reliability	63511	$ -	$ 2,100	$ 2,100
135	Reliability	63926	$ -	$ 1,202	$ 1,202
144	Reliability	64724	$ -	$ 4,176	$ 4,176
222	Reliability	73932	$ -	$ 850	$ 850
360	General & IT	65408	$ -	$ 754	$ 754
361	General & IT	65419	$ -	$ 607	$ 607
370	General & IT	69338	$ -	$ 1,105	$ 1,105
385	General & IT	75205	$ -	$ 3,183	$ 3,183
Total for Unbudgeted Projects			$ -	$ 38,576	$ 38,576
Percent of Total Budget			**0.0%**	**13.6%**	**13.6%**

Potomac Electric Power Company
DC PSC Formal Case No. 1176

Pepco's 2022 Underspent and Overspent Capital Projects 1/
From Pepco's March 31, 2023 Annual Information Filing in Formal Case No. 1156, Appendix 1 Schedule 4

Capital Projects with Substantially Overspent Budgets

Line No.	Category	Project No.	Budget	Actual	Variance
Overspent Budgeted Projects					
340	General & IT	94237	$ (664)	$ 1,024	$ 1,688
49	Customer Driven	75095	$ 5	$ 10,466	$ 10,461
66	Load Driven	70096	$ 709	$ 2,628	$ 1,919
75	Load Driven	73839	$ 2,540	$ 3,504	$ 964
96	Reliability	71448	$ 700	$ 1,383	$ 683
97	Reliability	71605	$ 324	$ 1,386	$ 1,062
107	Reliability	77041	$ 6,656	$ 7,328	$ 672
110	Reliability	77204	$ 1	$ 981	$ 980
127	Reliability	63510	$ 219	$ 918	$ 699
140	Reliability	64365	$ 726	$ 2,593	$ 1,867
142	Reliability	64396	$ 3,113	$ 7,263	$ 4,150
147	Reliability	65557	$ 5,800	$ 6,488	$ 688
153	Reliability	67471	$ (486)	$ 1,406	$ 1,892
162	Reliability	68616	$ (75)	$ 1,499	$ 1,574
176	Reliability	70897	$ 3,932	$ 7,143	$ 3,211
177	Reliability	71119	$ 2,561	$ 8,589	$ 6,028
182	Reliability	71222	$ 102	$ 632	$ 530
200	Reliability	72746	$ 5,015	$ 6,707	$ 1,692
213	Reliability	73250	$ 2,026	$ 6,793	$ 4,767
225	Reliability	74350	$ 9,000	$ 21,762	$ 12,762
253	General & IT	65387	$ 10,634	$ 11,674	$ 1,040
296	General & IT	74122	$ 46	$ 584	$ 538
339	General & IT	73883	$ 394	$ 1,833	$ 1,439
340	General & IT	94237	$ (664)	$ 1,024	$ 1,688
391	General & IT	77472	$ 222	$ 766	$ 544
Total Overspent Budgeted Projects			$ 52,836	$ 116,374	**$ 63,538**
Percent of Total Budget			**18.6%**	**40.9%**	**22.3%**
Total Overspent Projects			$ 52,836	$ 154,950	$ 102,114
Percent of Total Budget			**18.6%**	**54.5%**	**35.9%**
Pepco DC Total Budget and Total Actuals			**$ 284,426**	**$ 231,396**	**$ (53,030)**
			100.0%	**81.4%**	**-18.6%**

1/ Includes only projects with variances of greater than $500,000 dollars. All dollar amounts in thousands.

Potomac Electric Power Company
DC PSC Formal Case No. 1176

Pepco's 2022 Underspent and Overspent O&M Expense Elements 1/
From Pepco's March 31, 2023 Annual Information Filing in Formal Case No. 1156, Appendix 1 Schedule 3

DISTRIBUTION O&M EXPENSES

Category	Acct No.	Budget	Actual	Variance	Ratio Variance To Budget
Under-Spent Budget Elements					
Operation Supervision & Engineering	958000	$ 2,633,553	$ 1,620,482	$ (1,013,071)	-38.5%
Load Dispatching	958100	$ 4,165,189	$ 1,576,046	$ (2,589,143)	-62.2%
Station Expense	958200	$ 860,904	$ 29,460	$ (831,444)	-96.6%
Overhead Line Expense	958300	$ 3,315,321	$ 1,757,991	$ (1,557,330)	-47.0%
Underground Line Expense	958400	$ 3,804,162	$ 2,522,479	$ (1,281,683)	-33.7%
Meter Expense	958600	$ 3,452,412	$ 2,322,098	$ (1,130,314)	-32.7%
Maintain Equipment	959200	$ 6,815,172	$ 5,138,267	$ (1,676,905)	-24.6%
Maintain Underground Lines	959400	$ 15,063,033	$ 14,364,955	$ (698,078)	-4.6%
Customer Records & Collection Expense	990300	$ 30,105,737	$ 27,983,019	$ (2,122,718)	-7.1%
Admin & Gen Salaries	992000	$ 4,582,866	$ 1,916,518	$ (2,666,348)	-58.2%
Outside Services Employed	992300	$ 47,089,465	$ 46,176,785	$ (912,680)	-1.9%
Employee Pensions & Benefits	992600	$ 9,985,951	$ 3,001,178	$ (6,984,773)	-69.9%
Total Under-Spent Budget Elements		$ 131,873,765	$ 108,409,278	$ (23,464,487)	-17.8%
Percent of Total Unadjusted Budgeted Distribution O&M		***77.1%***	***63.3%***	***-13.7%***	
Overspent O&M Budget Elements					
Maintain Structures	959100	$ 117,832	$ 657,910	$ 540,078	458.3%
Uncollectible Accounts Expense	990400	$ 3,182,522	$ 11,724,362	$ 8,541,840	268.4%
Office Supplies & Expenses	992100	$ 808,295	$ 2,137,799	$ 1,329,504	164.5%
Outside Services Employed - DC	992300	$ 272,456	$ 1,500,875	$ 1,228,419	450.9%
Property Insurance	992400	$ 42,986	$ 712,780	$ 669,794	1558.2%
Dist-Direct Empoyee Pensions & Benefits - DC	992600	$ 1,728,755	$ 4,157,565	$ 2,428,810	140.5%
Total Overspent O&M Exp Budgets Elements		$ 6,152,846	$ 20,891,291	$ 14,738,445	239.5%
Percent of Total Unadjusted Budgeted Distribution O&M		***3.6%***	***12.2%***	***8.6%***	
Total Unadjusted O&M Expense		$ 171,140,966	$ 173,914,994	$ 2,774,028	101.6%
Percent of Total Unadjusted Budgeted Distribution O&M		***100.0%***	***101.6%***	***1.6%***	

1/ Includes only budget elements with variances of greater than $500,000 dollars.

Potomac Electric Power Company

Formal Case No. 1176

Pepco FC 1156 Compliance vs Actual Numbers of GT-LV Customers

	Jul - Dec 2021				Jan - Dec 2022				Jan - Nov 2023 1/			
Month	Customers Compliance Rate Design	BSA Actual Nos. of Customers	Over- (Under-) Compliance No. of Custs	Forecast Error % Actual	Customers Compliance Rate Design	BSA Actual Nos. of Customers	Over- (Under-) Compliance No. of Custs	Forecast Error % Actual	Customers Compliance Rate Design	BSA Actual Nos. of Customers	Over- (Under-) Compliance No. of Custs	Forecast Error % Actual
Jan					277	328	51	18.4%	277	341	64	23.1%
Feb					276	331	55	19.9%	276	340	64	23.2%
Mar					276	328	52	18.8%	276	343	67	24.3%
Apr					276	330	54	19.6%	276	344	68	24.6%
May					277	340	63	22.7%	277	343	66	23.8%
Jun					276	338	62	22.5%	276	343	67	24.3%
Jul	276	321	45	16.3%	276	339	63	22.8%	276	344	68	24.6%
Aug	276	322	46	16.7%	276	339	63	22.8%	276	345	69	25.0%
Sep	277	323	46	16.6%	277	339	62	22.4%	277	345	68	24.5%
Oct	277	324	47	17.0%	277	339	62	22.4%	277	346	69	24.9%
Nov	277	324	47	17.0%	277	340	63	22.7%	277	346	69	24.9%
Dec	277	325	48	17.3%	277	342	65	23.5%	277	349	72	26.0%
Total	1,660	1,939	279	16.8%	3,318	4,033	715	21.5%	3,041	3,780	739	24.3%
Average 2/	277	323	47	16.8%	277	336	60	21.5%	276	344	67	24.3%
Low	276	321	45	16.3%	276	339	63	22.8%	276	344	68	24.6%
High	277	325	48	17.3%	277	342	65	23.5%	277	349	72	26.0%

1/ Will be updated through Dec 2023 when data for Dec 2023 becomes available.
2/ Averages for CY 2023 are for the eleven months from Jan 2023 - Nov 2023.
3/ Compliance numbers of customers for Jul 2021 to Dec 2022 from Pepco's June 24, 2021 Compliance Filing, Formal Case No. 1156.
For Jan 23 to Dec 23 compliance numbers of customers from Pepco's January 11, 2023 Compliance Filing.

Potomac Electric Power Company

Formal Case No. 1176

Recalculated GT-LV Revenue Per Customer based on Actual Numbers of Customers

		Compliance Filing					**Revised**	Revenue per	
Mon	Yr	No. of Customers	Revenue per Customer	Total Revenue	Actual Customers	Compliance Revenue	Revenue per Customer	Customer Difference	Percent Change
		A	B	C	D	E = C	F = E / D	G = F- B	H = G / B
Jul	2021	276	$ 27,013.25	$ 7,455,657	321	$ 7,455,657	$ 23,226.35	$ (3,786.90)	-14.02%
Aug	2021	276	$ 33,446.89	$ 9,231,342	322	$ 9,231,342	$ 28,668.76	$ (4,778.13)	-14.29%
Sep	2021	277	$ 23,992.25	$ 6,645,853	323	$ 6,645,853	$ 20,575.40	$ (3,416.85)	-14.24%
Oct	2021	277	$ 24,736.07	$ 6,851,891	324	$ 6,851,891	$ 21,147.81	$ (3,588.26)	-14.51%
Nov	2021	277	$ 23,922.97	$ 6,626,663	324	$ 6,626,663	$ 20,452.66	$ (3,470.31)	-14.51%
Dec	2021	277	$ 22,607.56	$ 6,262,294	325	$ 6,262,294	$ 19,268.60	$ (3,338.96)	-14.77%
Total	2021	1,660	$ 155,718.99	$ 43,073,700	1,939	$ 43,073,700	$ 133,339.58	$ (22,379.41)	-14.37%
Jan	2022	277	$ 27,278.16	$ 7,556,050	328	$ 7,556,050	$ 23,036.74	$ (4,241.42)	-15.55%
Feb	2022	276	$ 27,019.49	$ 7,457,379	331	$ 7,457,379	$ 22,529.85	$ (4,489.64)	-16.62%
Mar	2022	276	$ 27,667.29	$ 7,636,172	328	$ 7,636,172	$ 23,281.01	$ (4,386.28)	-15.85%
Apr	2022	276	$ 25,204.39	$ 6,956,412	330	$ 6,956,412	$ 21,080.04	$ (4,124.35)	-16.36%
May	2022	277	$ 25,819.98	$ 7,152,134	340	$ 7,152,134	$ 21,035.69	$ (4,784.29)	-18.53%
Jun	2022	276	$ 23,958.55	$ 6,612,560	338	$ 6,612,560	$ 19,563.79	$ (4,394.76)	-18.34%
Jul	2022	276	$ 28,749.78	$ 7,934,939	339	$ 7,934,939	$ 23,406.90	$ (5,342.88)	-18.58%
Aug	2022	276	$ 35,616.89	$ 9,830,262	339	$ 9,830,262	$ 28,997.82	$ (6,619.07)	-18.58%
Sep	2022	277	$ 25,591.79	$ 7,088,926	339	$ 7,088,926	$ 20,911.29	$ (4,680.50)	-18.29%
Oct	2022	277	$ 26,362.46	$ 7,302,401	339	$ 7,302,401	$ 21,541.01	$ (4,821.45)	-18.29%
Nov	2022	277	$ 25,896.74	$ 7,173,397	340	$ 7,173,397	$ 21,098.23	$ (4,798.51)	-18.53%
Dec	2022	277	$ 24,091.83	$ 6,673,437	342	$ 6,673,437	$ 19,512.97	$ (4,578.86)	-19.01%
Total	2022	3,318	$ 323,257.35	$ 89,374,069	4,033	$ 89,374,069	$ 265,995.32	$ (57,262.03)	-17.71%
Jan	2023	277	$ 29,514.47	$ 8,175,508	341	$ 8,175,508	$ 23,975.10	$ (5,539.37)	-18.77%
Feb	2023	276	$ 29,233.04	$ 8,068,319	340	$ 8,068,319	$ 23,730.35	$ (5,502.69)	-18.82%
Mar	2023	276	$ 29,937.95	$ 8,262,874	343	$ 8,262,874	$ 24,090.01	$ (5,847.94)	-19.53%
Apr	2023	276	$ 27,257.93	$ 7,523,189	344	$ 7,523,189	$ 21,869.74	$ (5,388.19)	-19.77%
May	2023	277	$ 27,927.79	$ 7,735,998	343	$ 7,735,998	$ 22,553.93	$ (5,373.86)	-19.24%
Jun	2023	276	$ 25,902.24	$ 7,149,021	343	$ 7,149,021	$ 20,842.63	$ (5,059.61)	-19.53%
Jul	2023	276	$ 31,115.81	$ 8,587,964	344	$ 8,587,964	$ 24,965.01	$ (6,150.80)	-19.77%
Aug	2023	276	$ 38,588.26	$ 10,650,360	344	$ 10,650,360	$ 30,960.35	$ (7,627.91)	-19.77%
Sep	2023	277	$ 27,679.45	$ 7,667,208	344	$ 7,667,208	$ 22,288.40	$ (5,391.05)	-19.48%
Oct	2023	277	$ 28,518.10	$ 7,899,514	346	$ 7,899,514	$ 22,830.97	$ (5,687.13)	-19.94%
Nov	2023	277	$ 28,011.31	$ 7,759,133	348	$ 7,759,133	$ 22,296.36	$ (5,714.95)	-20.40%
Dec	2023	277	$ 26,047.30	$ 7,215,102	349	$ 7,215,102	$ 20,673.64	$ (5,373.66)	-20.63%
Total	2023	3,318	$ 349,733.65	$ 96,694,190	4,129	$ 96,694,190	$ 281,076.48	$ (68,657.17)	-19.63%

Potomac Electric Power Company

Formal Case No. 1176

Pepco Representations of 2023 Revenue per Customer by Rate Class

FC 1156 Compliance Filings vs Monthly BSA Filings

	Residential			MGT-LV			GT-LV		
Mo/Yr	FC 1156 Compliance Filing BSA Revenue Per Customer 1/	Monthly BSA Report Revenue Per Customer 2/	Difference	FC 1156 Compliance Filing BSA Revenue Per Customer 1/	Monthly BSA Report Revenue Per Customer 2/	Difference	FC 1156 Compliance Filing BSA Revenue Per Customer 1/	Monthly BSA Report Revenue Per Customer 2/	Difference
	A	B	C = B - A	A	B	C = B - A	A	B	C = B - A
Jan 2023	$ 28.76	$ 28.76	$ -	$ 4,130.41	$ 4,130.41	$ -	$ 29,514.47	$ 29,514.47	$ -
Feb 2023	$ 26.78	$ 26.78	$ -	$ 4,173.14	$ 4,173.14	$ -	$ 29,233.04	$ 29,233.04	$ -
Mar 2023	$ 25.26	$ 25.26	$ -	$ 4,468.95	$ 4,468.95	$ -	$ 29,937.95	$ 29,937.95	$ -
Apr 2023	$ 23.86	$ 24.00	**$ 0.14**	$ 4,158.31	$ 4,199.41	**$ 41.10**	$ 27,257.93	$ 27,549.45	**$ 291.52**
May 2023	$ 21.84	$ 21.92	**$ 0.08**	$ 4,440.78	$ 4,484.91	**$ 44.13**	$ 27,927.79	$ 28,227.07	**$ 299.28**
Jun 2023	$ 27.95	$ 28.12	**$ 0.17**	$ 4,051.58	$ 4,091.45	**$ 39.87**	$ 25,902.25	$ 26,177.53	**$ 275.28**
Jul 2023	$ 32.00	$ 32.22	**$ 0.22**	$ 4,657.01	$ 4,703.17	**$ 46.16**	$ 31,115.81	$ 31,450.58	**$ 334.77**
Aug 2023	$ 33.53	$ 33.77	**$ 0.24**	$ 5,455.29	$ 5,509.80	**$ 54.51**	$ 38,588.26	$ 39,009.07	**$ 420.81**
Sep 2023	$ 30.98	$ 31.19	**$ 0.21**	$ 3,875.16	$ 3,916.11	**$ 40.95**	$ 27,679.45	$ 27,974.73	**$ 295.28**
Oct 2023	$ 24.80	$ 24.92	**$ 0.12**	$ 4,174.09	$ 4,215.39	**$ 41.30**	$ 28,518.10	$ 28,824.32	**$ 306.22**
Nov 2023	$ 22.83	$ 22.92	**$ 0.09**	$ 4,173.07	$ 4,214.34	**$ 41.27**	$ 28,011.31	$ 28,311.35	**$ 300.04**
Dec 2023	$ 24.88	$ 25.00	**$ 0.12**	$ 3,734.90	$ 3,771.55	**$ 36.65**	$ 26,047.30	$ 26,325.18	**$ 277.88**
Total (11 mos)	$ 298.59	$ 299.86	$ 1.27	$ 47,757.79	$ 48,107.08	$ 349.29	$ 323,686.36	$ 326,209.56	$ 2,523.20

	GT-3A			GT-3B		
Mo/Yr	FC 1156 Compliance Filing BSA Revenue Per Customer 1/	Monthly BSA Report Revenue Per Customer 2/	Difference	FC 1156 Compliance Filing BSA Revenue Per Customer 1/	Monthly BSA Report Revenue Per Customer 2/	Difference
	A	B	C = B - A	A	B	C = B - A
Jan 2023	$ 35,450.90	$ 35,450.90	$ -	$ 49,673.63	$ 49,673.63	$ -
Feb 2023	$ 32,985.08	$ 32,985.08	$ -	$ 42,640.50	$ 42,640.50	$ -
Mar 2023	$ 36,388.66	$ 36,388.66	$ -	$ 44,453.42	$ 44,453.42	$ -
Apr 2023	$ 33,442.60	$ 33,442.60	$ -	$ 45,531.38	$ 45,531.38	$ -
May 2023	$ 35,621.63	$ 35,621.63	$ -	$ 50,642.38	$ 55,217.90	**$ 4,575.52**
Jun 2023	$ 33,481.98	$ 33,481.98	$ -	$ 46,734.29	$ 50,954.53	**$ 4,220.24**
Jul 2023	$ 38,998.45	$ 39,495.49	**$ 497.04**	$ 44,654.63	$ 48,685.81	**$ 4,031.18**
Aug 2023	$ 47,668.67	$ 48,277.55	**$ 608.88**	$ 65,744.57	$ 71,693.02	**$ 5,948.45**
Sep 2023	$ 33,267.20	$ 33,690.57	**$ 423.37**	$ 51,814.17	$ 56,496.22	**$ 4,682.05**
Oct 2023	$ 35,730.86	$ 36,188.82	**$ 457.96**	$ 44,966.44	$ 49,025.96	**$ 4,059.52**
Nov 2023	$ 33,889.95	$ 34,322.50	**$ 432.55**	$ 16,239.68	$ 17,687.68	**$ 1,448.00**
Dec 2023	$ 30,591.80	$ 30,982.04	**$ 390.24**	$ 38,589.24	$ 42,069.02	**$ 3,479.78**
Total (11 mos)	$ 396,925.98	$ 399,345.78	$ 2,419.80	$ 503,095.09	$ 532,060.05	$ 28,964.96

1/ Data for 2023 from Pepco 1/11/2023 Updated FC 1156 Compliance Filing, Attachment D, page 1 of 3.
2/ From Pepco Monthly BSA Filings, Attachment 2, Line I.A.2.
NOTE: BSA Rate Classes omitted from this presentation had no differences between Compliance Filing Revenue per Customer amounts and the Revenue per Customer amounts used in Pepco's Monthly BSA filings for the months of Jan - Nov 2023.

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Potomac Electric Power Company

DC PSC FC 1176

Changes in Allocated Rate Base and Expenses by Rate Class

Fomal Case No. 1176 vs Formal Case No. 1156

	Allocated Rate Base			% of Change in Total	% Change From FC 1156
	FC 1156	FC 1176	Change		
Residential	$ 836,513,670	$ 1,005,958,658	$ 169,444,988	94.9%	20.3%
MMA	$ 51,971,942	$ 55,112,950	$ 3,141,008	1.8%	6.0%
Small C&I	$ 183,060,821	$ 214,128,392	$ 31,067,571	17.4%	17.0%
Med & Large C&I	$ 1,057,446,335	$ 1,032,296,437	$ (25,149,898)	-14.1%	-2.4%
Metro	$ 33,913,495	$ 35,698,397	$ 1,784,902	1.0%	5.3%
Other	$ 20,914,352	$ 19,152,499	$ (1,761,853)	-1.0%	-8.4%
Total	$ 2,183,820,615	$ 2,362,347,333	$ 178,526,718	100.0%	8.2%

	Allocated Operating Expenses			% of Change in Total	% Change From FC 1156
	FC 1156	FC 1176	Change		
Residential	$ 147,102,044	$ 154,452,449	$ 7,350,405	52.7%	5.0%
MMA	$ 9,296,008	$ 9,468,440	$ 172,432	1.2%	1.9%
Small C&I	$ 37,423,187	$ 37,624,668	$ 201,481	1.4%	0.5%
Med & Large C&I	$ 224,420,724	$ 230,898,387	$ 6,477,663	46.5%	2.9%
Metro	$ 7,871,242	$ 7,597,169	$ (274,073)	-2.0%	-3.5%
Other	$ 2,836,477	$ 2,850,965	$ 14,488	0.1%	0.5%
Total	$ 428,949,682	$ 442,892,078	$ 13,942,396	100.0%	3.3%

Potomac Electric Power Company

DCPSC Formal Case No. 1176

A Ten-Year History of Class Unitiezed Rates of Return

	Class URORs					
Case No.	FC 1087	FC 1103	FC 1139	FC 1150	FC 1156	FC 1176
Test Year - TME	9/30/11 1/	12/31/12 2/	3/31/16 3/	12/31/17 4/	6/30/19 5/	12/31/21 6/
RES-R	(0.73)	(0.64)	(0.88)	NA	NA	NA
RES-AE	NA	(0.54)	(0.82)	NA	NA	NA
RAD	(0.88)	(0.84)	NA	NA	NA	NA
RTM	1.67	1.65	1.71	NA	NA	NA
Total Residential	(0.73)	(0.62)	(0.85)	(0.91)	(1.00)	(0.68)
MMA	1.54	2.00	2.67	1.40	1.83	1.35
GS-LV	2.22	2.26	1.70	1.58	2.23	1.58
GS-HV	2.74	2.61	4.43	1.67	4.81	4.87
MGT-LV	NA	NA	NA	NA	2.54	2.61
GT-LV	1.82	NA	NA	2.34	2.03	2.36
Total MGT-LV & GT-LV	1.82	1.83	1.89	2.34	2.35	2.52
GT-3A	1.90	2.18	2.43	2.33	2.16	2.42
GT-3B	2.43	2.93	2.43	3.85	2.27	1.35
Metro	2.05	1.85	1.66	2.20	1.69	1.21
SL-S	(0.77)	0.59	(0.11)	(1.01)	0.62	0.74
SL-E	0.02	(0.73)	(0.71)	(0.85)	(1.04)	(0.79)
Traffic Signals	NA	1.14	2.58	(0.51)	1.90	1.54
TN	6.73	5.25	6.68	6.63	3.56	3.37
Total DC	1.00	1.00	1.00	1.00	1.00	1.00

Source

1/ FC 1087, PEPCO (K)-2, pages 1 and 2 of 2.
2/ FC 1103, PEPCO (2H)-2, pages 1 through 3 of 72.
3/ FC 1139, PEPCO (2F)-1, pages 1 through 3 of 72.
4/ FC 1150, PEPCO (F)-1, pages 1, 25, and 49 of 72.
5/ FC 1156, PEPCO (E)-1, pages 1 through 3 of 39.
6/ FC 1156, PEPCO (D)-1.

Potomac Electric Power Company
DC PSC Formal Case No. 1176

Comparison of Class RORs and URORs
Formal Case No. 1176 vs. Formal Case No. 1156

Rate	Class ROR			Class UROR	
Class	FC 1156 1/	FC 1176 2/	1176 - 1156	FC 1156 3/	FC 1176 4/
R	-4.87%	-3.86%	1.01%	(1.00)	(0.68)
MMA	8.90%	9.09%	0.19%	1.83	1.59
GS-LV	10.84%	9.03%	-1.81%	2.23	1.58
GS-3A	23.40%	27.78%	4.38%	4.81	**4.87**
MGT-LV	12.37%	14.92%	2.55%	2.54	**2.61**
GT-LV	9.89%	13.46%	3.57%	2.03	**2.36**
GT-3A	11.03%	13.83%	2.80%	2.27	**2.42**
GT-3B	10.51%	7.69%	-2.82%	2.16	1.35
RT	8.22%	6.89%	-1.33%	1.69	1.21
SL-S	3.00%	4.21%	1.21%	0.62	0.74
SL-E	-5.05%	4.52%	9.57%	(1.04)	(0.79)
TS	9.25%	8.81%	-0.44%	1.90	1.54
TN	17.34%	19.22%	1.88%	3.56	**3.37**
Total DC	4.87%	5.71%	0.84%	1.00	1.00

1/ Case No. 1156, Exhibit Pepco (E), page 16, Table 3; and Exhibit Pepco (E)-1.
2/ Case No. 1176, Exhibit Pepco (D)-1; Exhibit Pepco (E), page 17, Table 3.

Indicates class UROR moved further from unity.

Attachment A
Resume of Bruce R. Oliver
Formal Case No. 1176

BRUCE R. OLIVER

Revilo Hill Associates, Inc.
7103 Laketree Drive
Fairfax Station, Virginia 22039
(703) 569-6480

EXPERIENCE

Over 45 years of experience specializing in the areas of utility rates, energy, and regulatory policy. Offers unusual depth and breadth in his understanding of energy and utility industries which leads to creative and effective resolution of rate issues. Has presented expert testimony in regulatory proceedings in more than 300 proceedings before regulatory commissions in 26 jurisdictions, and has served a diverse group of clients on issues encompassing a wide range of energy and utility-related activities. Assists clients in the assessment of competitive energy markets for retail services and in the negotiation of contracts for the purchase of such services. Clients have included commercial and industrial energy users, hospitals and universities, state regulatory commissions, utilities, consumer advocates, municipal governments, federal agencies, and suppliers of equipment and services to utility markets.

1985-Present — Revilo Hill Associates, Inc.
President and CEO

Directs the firm's consulting practice, with specialization in the areas of industrial economics, energy, utilities and regulatory policy. Provides expert testimony in regulatory proceedings. Assists individual commercial and institutional customers in the competitive procurement of energy services and resolution of utility service and billing issues. Regulatory work includes participation in electric, gas, water and sewer utility rate and policy matters, with particular specialization in the areas of utility costs of service, rate structure, rate of return, utility planning, and forecasting. Examples of recent projects include:

- Development and presentation of positions regarding the merits of various forms of alternative ratemaking including, but not limited to: multi-year rate plans; performance-based ratemaking concepts; and the merits of proposals for Performance Incentive Mechanisms.

- Assessment of a gas distribution utility's plans for accelerated replacement of aging and leak prone distribution mains by an LDC, as well as the impacts of rising leak rates the utility's gas system safety and rates distribution services.

- Negotiation of settlements to reflect the impacts of the Tax Cut and Jobs Act of 2017 in rates for certain electric and gas distribution utilities.

- Investigation of utility merger issues including ring-fencing, costs to achieve, estimated merger benefits, and allocation of merger benefits among customers for electric and gas utility mergers.

- Investigation of gas distribution utility system expansion proposals, tariff changes, and proposed ratemaking treatment of costs for gas expansion activities.

- Examination of utility proposals undergrounding overhead electric distribution facilities and the recovery of costs for undergrounding activities.

- Evaluation of utility proposals for the deployment of Advanced Metering Infrastructure (AMI) and the development of dynamic pricing rates to be implemented using AMI equipment.

- Detailed evaluation of a gas distribution utility's long-range gas supply planning, its evaluation of gas supply alternatives, and the prudence of gas its procurement decisions.

- Investigation of cost of service, rate design, tariff, forecasting and planning issues for island utilities in the U.S. Virgin Islands and Guam.

- Analysis of utility revenue decoupling proposals including assessment of the cost of service and rate impacts of such proposals and the development of appropriate tariff language for such proposals.

- Investigation of matters relating to a utility's outsourcing of significant components of its Administrative and General and Customer Service activities, including the merits of the proposed outsourcing arrangements and appropriate rate treatment of costs incurred to: select providers of outsourced services; negotiate contracts; and achieve the implementation of outsourcing arrangements.

- Strategic analysis and policy guidance for a major commercial consumer group in the development and presentation of positions before legislative and regulatory bodies regarding electric and gas regulatory issues.

- Development of Asset Management incentive programs for natural gas distribution utilities.

- Investigation and preparation of a report on the causes of large heating oil price increases for the Attorney General of a New England state.

- Participation as a member of a three-person panel hearing a gas marketer complaint of anti-competitive behavior by a local gas distribution utility in its provision of unbundled gas transportation services.

- Preparation of cost allocation studies and rate structure proposals for electric, gas, water and wastewater utility regulatory proceedings;

- Analysis of proposals for restructuring and the unbundling of rates for local gas distribution companies, and negotiated terms, conditions, and pricing for restructured utility services.

2000-Present AOBA Alliance, Inc.
Director and Chief Economist

Key technical advisor to one of the nation's largest and most successful customer-based energy aggregation programs. Assists non-residential customers in the Washington, D.C. area in the procurement of competitive retail energy services, including the evaluation and negotiation of contract terms for competitive electricity, natural gas, energy information services. Monitors energy markets and keeps participants informed regarding energy market developments and pricing trends. Focused primarily on the commercial building industry, the AOBA Alliance, Inc. serves more than 9,000 electric and natural gas accounts in twelve states and the District of Columbia. Those participants use over 3.0 billion kWh per year and over 660 MW of electrical peak load.

1981-85 Resource Dynamics Corporation
Principal and Vice President

Responsible for the firm's activities in the areas of energy pricing, utility rates and regulatory policy. Provided expert testimony before utility regulatory commissions on issues relating to costs of service, rate design, load management, load research, fuel price forecasting, utility costing analyses, and cost allocation methods. Evaluated utility fuel procurement practices, fuel price forecasts, and price forecasting methodologies. Contributed to modeling efforts relating to the estimation of national and regional electric utility load curves and coal market prices. Participated in the development handbooks for cogeneration feasibility assessment.

1980-81 Potomac Electric Power Company

Manager of Rate Research Department

Directed the development of all rate related programs. Supervised the costing, design and analysis of traditional and innovative rates (including time-of-use, load management and cogeneration tariffs). Also was responsible for corporate revenue forecasting activities, as well as the development of marginal and avoided cost studies.

1979-80 Pacific Gas and Electric Company
Rate Experimentation Supervisor

Responsible for design, implementation and analysis of innovative rate programs for both gas and electric service. Developed programs for curtailable service; cogeneration; conservation; residential load cycling; and commercial, industrial, and agricultural time-of- use rates. Directed analyses of time-of-use and lifeline price elasticities and development of marginal and avoided costing methods.

1973-79 ICF Incorporated
Project Manager

Specialized in energy policy and utility regulatory analyses. Performed detailed analysis of U.S. petroleum, natural gas, coal and electric utility industries. Provided expert testimony on utility rate issues. Designed experimental rates for federally funded time-of-use rate and load management programs in North Carolina. Provided technical support to the DOE Regulatory Intervention Program. Contributed to the design and development of the National Coal Model, and prepared forecasts of low sulfur fuel availability for utility markets.

1972-73 U.S. Cost-of-Living Council - Pay Board
Labor Economist

Served in the Office of the Chief Economist. Responsible for macroeconomic analyses of Board decisions, and for the development data systems to support assessments of the impacts of Board decisions and the reporting of aggregate statistics on wage increases granted by the Board.

EDUCATION

1972 M.A., Economics, Virginia Polytechnic Institute and State University

1970 B.A., Economics, Virginia Polytechnic Institute and State University

RATE CASE PARTICIPATION

Alberta, Canada

Canadian Western Natural Gas	1998 General Rate Application
NOVA Gas Transmission Ltd.	1995 GRA, Phase II
Canadian Western Natural Gas	Core Market Direct Purchase
Northwestern Utilities	Core Market Direct Purchase
TransAlta Utilities Corp.	Load Retention Rate Offering
Alberta Power Ltd.	1993 General Rate Application

Arizona

Southwest Gas Corporation	Docket No. U-1551-93-272
Sun City Water Company	Docket No. U-1656-91-134
Havasu Water Company	Docket No. U-2013-91-133
Arizona Water Company	Docket No. U-1445-91-227

California

Pacific Gas & Electric Company	Application No. 58089

Connecticut

Southern Connecticut Gas Company	Docket No. 89-09-06
Connecticut Light & Power Company	Docket No. 87-07-01

Delaware

Chesapeake Utilities Corporation	Docket No. 95 - 73
Delmarva Power & Light Company	Docket No. 94 - 141
Delmarva Power & Light Company	Docket No. 94 - 129
Delaware Electric Cooperative	Docket No. 94 - 100
Delmarva Power & Light Company	Docket No. 92 - 85
Delmarva Power & Light Company	Docket No. 92 - 71F
Delaware Electric Cooperative	Docket No. 91 - 37
Delmarva Power & Light Company	Docket No. 91 - 24
Delmarva Power & Light Company	Docket No. 91 - 20
Delmarva Power & Light Company	Docket No. 90 - 31
Delmarva Power & Light Company	Docket No. 90 - 21
Delmarva Power & Light Company	Docket No. 89 - 26
Chesapeake Utilities Corporation	Docket No. 88 - 39F
Delmarva Power & Light Company	Docket No. 88 - 34
Delmarva Power & Light Company	Docket No. 88 - 32, Phase 2
Delmarva Power & Light Company	Docket No. 88 - 32
Delaware Electric Cooperative	Docket No. 87 - 34, Phase 2
Delaware Electric Cooperative	Docket No. 87 - 34
Delmarva Power & Light Company	Docket No. 87 - 9, Phase 5
Delmarva Power & Light Company	Docket No. 87 - 9, Phase 4
Delmarva Power & Light Company	Docket No. 87 - 9, Phase 3
Delmarva Power & Light Company	Docket No. 87 - 9, Phase 2

Delmarva Power & Light Company	Docket No. 87 - 9
Delmarva Power & Light Company	Docket No. 86 - 43
Delmarva Power & Light Company	Docket No. 86 - 24

District of Columbia

Washington Gas Light Company	Formal Case No. 1162
Potomac Electric Power Company	Formal Case No. 1156
Potomac Electric Power Company	Formal Case No. 1151
Potomac Electric Power Company	Formal Case No. 1150
Potomac Electric Power Company	Formal Case No. 1145
WGL – AltaGas Merger	Formal Case No. 1142
Potomac Electric Power Company	Formal Case No. 1139
Washington Gas Light Company	Formal Case No. 1137
Potomac Electric Power Company	Formal Case No. 1133
Potomac Electric Power Company	Formal Case No. 1130
Potomac Electric Power Company	Formal Case No. 1121
Exelon – Pepco Merger	Formal Case No. 1119
Potomac Electric Power Company	Formal Case No. 1116
Washington Gas Light Company	Formal Case No. 1115
Potomac Electric Power Company	Formal Case No. 1103
Washington Gas Light Company	Formal Case No. 1093
Potomac Electric Power Company	Formal Case No. 1087
Washington Gas Light Company	Formal Case No. 1079
Potomac Electric Power Company	Formal Case No. 1076
Potomac Electric Power Company	Formal Case No. 1056
Washington Gas Light Company	Formal Case No. 1054
Potomac Electric Power Company	Formal Case No. 1053, Phase II
Potomac Electric Power Company	Formal Case No. 1053
Washington Gas Light Company	Formal Case No. 1016
Potomac Electric Power/Conectiv Merger	Formal Case No. 1002
Washington Gas Light Company	Formal Case No. 989
Potomac Electric Power Company/Baltimore Gas & Electric Company Merger	Formal Case No. 951
Potomac Electric Power Company	Formal Case No. 945
Potomac Electric Power Company	Formal Case No. 939
Washington Gas Light Company	Formal Case No. 934
Washington Gas Light Company	Formal Case No. 922
District of Columbia Natural Gas	Formal Case No. 890
Potomac Electric Power Company	Formal Case No. 889
Potomac Electric Power Company	Formal Case No. 869
District of Columbia Natural Gas	Formal Case No. 845
District of Columbia Natural Gas	Formal Case No. 840
Potomac Electric Power Company	Formal Case No. 834
Potomac Electric Power Company	Formal Case No. 813, Phase II
Potomac Electric Power Company	Formal Case No. 813
Washington Gas Light Company	Formal Case No. 787

Potomac Electric Power Company	Formal Case No. 785
Potomac Electric Power Company	Formal Case No. 759, Phases III
Potomac Electric Power Company	Formal Case No. 759, Phases II
Potomac Electric Power Company	Formal Case No. 759, Phases I
Potomac Electric Power Company	Formal Case No. 758

Guam

Guam Power Authority	Docket No. 11-090, Phase II
Guam Power Authority	Docket No. 11-090
Guam Power Authority	Docket No. 07-010
Guam Power Authority	Docket No. 98-002
Guam Power Authority	Docket No. 96-004
Guam Power Authority	Docket No. 95-001
Guam Power Authority	Docket No. 94-001
Guam Power Authority	Docket No. 92-002
Guam Power Authority	Docket No. 89-002 A,B,C

Illinois

Commonwealth Edison Company	Docket No. 86-0128

Maryland

Potomac Electric Power Company	Case No. 9655
Washington Gas Light Company	Case No. 9651
Washington Gas Light Company	Case No. 9605
Potomac Electric Power Company	Case No. 9602
Washington Gas Light Company	Case No. 9486
Washington Gas Light Company	Case No. 9481
Washington Gas Light Company	Case No. 9473
Potomac Electric Power Company	Case No. 9472
WGL – AltaGas Merger	Case No. 9449
Potomac Electric Power Company	Case No. 9443
Washington Gas Light Company	Case No. 9433
Potomac Electric Power Company	Case No. 9418
Exelon – Pepco Merger	Case No. 9361
Potomac Electric Power Company	Case No. 9336
Washington Gas Light Company	Case No. 9335
Washington Gas Light Company	Case No. 9322
Potomac Electric Power Company	Case No. 9311
Potomac Electric Power Company	Case No. 9286
Washington Gas Light Company	Case No. 9267
Potomac Electric Power Company	Case No. 9217
Potomac Electric Power Company	Case No. 9207
Washington Gas Light Company	Case No. 9158
Washington Gas Light Company	Case No. 9104, Phase II
Washington Gas Light Company	Case No. 9104
Potomac Electric Power Company	Case No. 9092, Phase II

Potomac Electric Power Company	Case No. 9092
Standard Offer Service Docket	Case No. 9063
Standard Offer Service Docket	Case No. 9056
Standard Offer Service Docket	Case No. 9037
Potomac Electric Power Company	Case No. 8895
Washington Gas Light Company	Case No. 8991
Washington Gas Light Company	Case No. 8959
Washington Gas Light Company	Case No. 8920, Phase II
Washington Gas Light Company	Case No. 8920
Potomac Electric Power Company	Case No. 8895
Potomac Electric Power Company	Case No. 8890
Washington Gas Light Company	Case No. 8819
Potomac Electric Power Company	Case No. 8791
Potomac Electric Power Company	Case No. 8773
Generic Electric Industry Restructuring	Case No. 8738
Potomac Electric Power Company/Baltimore Gas & Electric Company Merger	Case No. 8725
Washington Gas Light Company	Case No. 8545
Potomac Electric Power Company	Case No. 8315
Potomac Electric Power Company	Case No. 8251
Maryland Natural Gas	Case No. 8191
Potomac Electric Power Company	Case No. 8162
Maryland Natural Gas	Case No. 8119
Potomac Electric Power Company	Case No. 8079
Baltimore Gas & Electric Company	Case No. 8070
Maryland Natural Gas	Case No. 8060
Potomac Electric Power Company	Case No. 7972
Potomac Electric Power Company	Case No. 7874
Washington Gas Light Company	Case No. 7649

Massachusetts

Investigation of Rate Structures to Promote Efficient Deployment of Demand Management	Docket No. 07-50

North Carolina

Generic Electric Load Management	Docket No. M100, Sub 78

New Jersey

Public Service Electric and Gas	Docket No. GT93060242
Public Service Electric and Gas	Docket No. ER91111698J
Elizabethtown Gas Company	Docket No. 8812-1231
Elizabethtown Gas Company	Docket No. 8612-1374
Public Service Electric and Gas	Docket No. 8512-1163
Jersey Central Power & Light	Docket No. 8511-1116
New Jersey Natural Gas Company	Docket No. 8510-974
South Jersey Gas Company	Docket No. 850-8858

Public Service Electric and Gas	Docket No. 850-2231
New Jersey Natural Gas Company	Docket No. 850-7732
South Jersey Gas Company	Docket No. 843-184, Phase II
Atlantic Electric Company	Docket No. 8310-883, Phase II
New Jersey Natural Gas Company	Docket No. 831-46
Public Service Electric and Gas	Docket No. 837-620
Public Service Electric and Gas	Docket No. 8210-869

New Mexico

Gas Company of New Mexico	Case No. 2353
Gas Company of New Mexico	Case No. 2340
Gas Company of New Mexico	Case No. 2307
Gas Company of New Mexico	Case No. 2183
Gas Company of New Mexico	Case No. 2147 (Remand)
Gas Company of New Mexico	Case No. 2147
Gas Company of New Mexico	Case No. 2093

New York

Consolidated Edison Company	Docket No. 94-E-0334
Consolidated Edison Company	Docket No. 91-E-0462
Brooklyn Union Gas Company	Docket No. 90-G-0981

Ohio

Toledo Edison Company	Case No. 78-628-EL-FAC

Pennsylvania

PECO Energy Company	Docket No. R-20028394
PG Energy, Inc.	Docket No. R-00061365
Philadelphia Electric Company	Docket No. R-00970258
Mechanicsburg Water Company	Docket No. R-00922502
West Penn Power Company	Docket No. R-00922378
Pennsylvania Electric Company	Docket No. M-920312
North Penn Gas Company	Docket No. R-922276
Metropolitan Edison Company	Docket No. R-922314
York Water Company	Docket No. R-922168
Dauphin Consolidated Water Company	Docket No. R-921000
Pennsylvania Electric Company	Docket No. M-920312
Duquesne Light Company	Docket No. C-913424
Pennsylvania American Water Company	Docket No. R-911909
West Penn Power Company	Docket No. R-901609
Pennsylvania Gas & Water Co. Water Div.	Docket No. R-891209
Pennsylvania Power Company	Docket No. R-881112
Duquesne Light Company	Docket No. R-870651
Pennsylvania Electric Company	Docket No. R-870172
Metropolitan Edison Company	Docket No. R-870171
Western Pennsylvania Water Company	Docket No. R-860397

Duquesne Light Company	Docket No. R-860378
Philadelphia Electric Company	Docket No. R-850290
Pennsylvania Power Company	Docket No. R-850267
Pennsylvania Power & Light Company	Docket No. R-850251
Philadelphia Electric Company	Docket No. R-850152
Western Pennsylvania Water Company	Docket No. R-850096
Pennsylvania Power Company	Docket No. R-842740
Pennsylvania Power & Light Company	Docket No. R-842651
Pennsylvania Electric Company	Docket No. R-832550
Metropolitan Edison Company	Docket No. R-832549
Duquesne Light Company	Docket No. R-842383
UGI Corporation-Gas Utility Division	Docket No. R-832331
Pennsylvania Power & Light Company	Docket No. I-830374
Pennsylvania Electric Company	Docket No. R-822250
Metropolitan Edison Company	Docket No. R-822249
Pennsylvania Power & Light Company	Docket No. R-822169
Pennsylvania Gas & Water Co. - Water Div.	Docket No. R-822102
Columbia Gas Co. of Pennsylvania	Docket No. R-822042
Pennsylvania Gas & Water Co. - Gas Div.	Docket No. R-821961
Philadelphia Electric Company	Docket No. R-811626

Philadelphia, City of

Philadelphia Gas Works	1992 Rate Design Proceeding
Philadelphia Water Department	1992 Rate Increase Request
Philadelphia Gas Works	1990 Rate Increase Request
Philadelphia Water Department	1990 Rate Increase Request
Philadelphia Gas Works	1989 Proceeding
Philadelphia Gas Works	1988 Rate Increase Request
Philadelphia Gas Works	1987-88 Operating Budget
Philadelphia Gas Works	1986 Rate Increase Request
Philadelphia Water Department	1985 Rate Increase Request

Rhode Island – Public Utilities Commission

National Grid – Gas Long-Range Plan	Docket No. 4872
National Grid – Gas GCR	Docket No. 4846
National Grid – Gas DAC	Docket No. 4816
National Grid – Gas Annual ISR Filing	Docket No. 4781
National Grid – Gas Base Rates	Docket No. 4770
National Grid – Gas GCR	Docket No. 4719
National Grid – Gas DAC	Docket No. 4708
National Grid – Gas GCR	Docket No. 4647
National Grid – Gas DAC	Docket No. 4634
National Grid – Gas Long-Range Plan	Docket No. 4608

National Grid – Gas GCR	Docket No. 4576
National Grid – Gas DAC	Docket No. 4573
National Grid – Gas Customer Choice	Docket No. 4523
National Grid – Gas GCR	Docket No. 4520
National Grid – Gas DAC	Docket No. 4514
National Grid – Gas GCR	Docket No. 4436
National Grid – Gas DAC	Docket No. 4431
National Grid – Gas GCR	Docket No. 4346
National Grid – Gas DAC	Docket No. 4339
National Grid – Gas On-System Margins	Docket No. 4333
National Grid – Gas Base Rates	Docket No. 4323
National Grid – Gas GCR	Docket No. 4283
National Grid – Gas DAC	Docket No. 4269
National Grid – Electric Backup Service	Docket No. 4232
National Grid – Elec & Gas Revenue Decoupling	Docket No. 4206
National Grid – Gas GCR	Docket No. 4199
National Grid – Gas DAC	Docket No. 4196
National Grid – Gas GCR	Docket No. 4097
National Grid – Gas DAC	Docket No. 4077
National Grid – Electric	Docket No. 4065
National Grid – Gas Portfolio Management	Docket No. 4038
National Grid – Gas GCR	Docket No. 3982
National Grid – Gas DAC	Docket No. 3977
National Grid – Gas GCR	Docket No. 3961
National Grid – Gas Base Rates	Docket No. 3943
National Grid – Gas GCR	Docket No. 3868
National Grid – Gas DAC	Docket No. 3859
National Grid – Gas Long-Range Plan	Docket No. 3789
National Grid – Gas GCR	Docket No. 3766
National Grid – Gas DAC	Docket No. 3760
New England Gas Company	Docket No. 3696
New England Gas Company	Docket No. 3690
Block Island Power Company	Docket No. 3655
New England Gas Company	Docket No. 3548
New England Gas Company	Docket No. 3459
New England Gas Company	Docket No. 3436
New England Gas Company	Docket No. 3401
Providence Gas Company	Docket No. 3295
Narragansett Electric Company	Docket No. 2930
Providence Gas Company	Docket No. 2902
Providence Gas Company	Docket No. 2581
Providence Gas Company	Docket No. 2552
Providence Gas Company	Docket No. 2374
Providence Gas Company	Docket No. 2286
Valley Gas Company	Docket No. 2276
Valley Gas Company	Docket No. 2138, Phase II

Valley Gas Company	Docket No. 2138, Phase I
Providence Gas Company	Docket No. 2082
Providence Gas Company	Docket No. 2076
Providence Gas Company	Docket No. 2001, Phase II
Valley Gas Company	Docket No. 2038
Providence Gas Company	Docket No. 2001
Block Island Power Company	Docket No. 1998
Providence Gas Company	Docket No. 1971
Generic Gas Transportation	Docket No. 1951
Valley Gas Company	Docket No. 1736
Providence Gas Company	Docket No. 1723
Providence Gas Company	Docket No. 1673

Rhode Island – Division of Public Utilities

PPL Acquisition of National Grid's Rhode Island Assets	Docket No. D-21-09
National Grid Acquisition of New England Gas Company's Rhode Island Assets	Docket No. D-06-13
Merger of Southern Union, Valley Gas Company And Bristol & Warren Gas Company	Docket No. D-00-02

South Dakota

Northern States Power Company	Docket No. F-3188

Utah

Dominion Energy Utah	Docket No. 19-057-02

Vermont

Department of Public Service	Docket No. 5378
Department of Public Service	Docket No. 5307

Virginia

Virginia Electric Power Company	Docket No. PUE 2021-00058
Washington Gas Light Company	Docket No. PUR 2018-00080
Virginia Electric Power Company	Docket No. PUE 2018-00042
AltaGas – WGL Merger	Docket No. PUR 2017-00049
Virginia Electric Power Company	Docket No. PUE 2016-00021
Virginia Electric Power Company	Docket No. PUE 2016-00001
Virginia Electric Power Company	Docket No. PUE 2015-00027
Virginia Electric Power Company	Docket No. PUE 2011-00027
Washington Gas Light Company	Docket No. PUE 2010-00139
Virginia Electric Power Company	Docket No. PUE 2009-00019
Virginia Electric Power Company	Docket No. PUE 2009-00018
Virginia Electric Power Company	Docket No. PUE 2009-00017
Virginia Electric Power Company	Docket No. PUE 2009-00016
Virginia Electric Power Company	Docket No. PUE 2009-00011

Washington Gas Light Company	Docket No. PUE 2006-00059
Washington Gas Light Company	Docket No. PUE 2005-00010
Washington Gas Light Company	Docket No. PUE 2003-00603
Washington Gas Light Company	Docket No. PUE 2002-00364
Virginia Electric Power Company	Docket No. PUE 000584
Virginia Electric Power Company	Docket No. PUE 980213
Virginia Electric Power Company	Docket No. PUE 980212
Virginia Electric Power Company	Docket No. PUE 960296
Washington Gas Light Company	Docket No. PUE 940031
Virginia Electric Power Company	Docket No. PUE 920041
Virginia Electric Power Company	Docket No. PUE 910047
Northern Virginia Natural Gas	Docket No. PUE 900016
Northern Virginia Natural Gas	Docket No. PUE 880024
Virginia Electric Power Company	Docket No. PUE 830029
Washington Gas Light Company	Docket No. PUE 830008

Virgin Islands

Water and Power Authority – Water Rates	Docket No. 613
Water and Power Authority – Electric Rates	Docket No. 612
Water and Power Authority – Water Rates	Docket No. 576
Water and Power Authority – Electric Rates	Docket No. 575
Water and Power Authority – Electric Rates	Docket No. 533

Wisconsin

Gas Transportation - Generic	Docket No. 05-GI-102

Federal Energy Regulatory Commission

Weaver's Cove Energy, LLC.	Docket No. CP04-36-000
Mill River Pipeline, LLC.	Docket No. CP04-41-000
Columbia Gulf Transmission Co.	Docket No. RP86-167-000
Columbia Gas Transmission Corp.	Docket No. RP86-168-000
Columbia Gulf Transmission Co.	Docket No. TC86-021-000

SELECTED REPORTS, PUBLICATIONS AND PRESENTATIONS

"Post-Pandemic Energy Procurement" Presentation to AOBA Utility Committee, April 7, 2022.

"Will Energy Market Developments Drive Government Policy or Will Government Policy Drive Energy Markets," Presentation to AOBA Utility Committee, June 27, 2013.

"Ratemaking for Recovery of Pipeline Safety Investments," Presentation to the National Association of Regulatory Utility Commissioners, February 6, 2013.

"In Comparatively Stable Energy Markets, Legislative and Regulatory Decisions Make Budgeting for Energy Services A Real Challenge," Presentation to AOBA Utility Committee, October 19, 2011.

"Energy Commodities Show Stability; Charges for Utility Services Rise," Presentation to AOBA Utility Committee, April 20, 2011.

"Budgeting for Utilities In the Face of Constantly Changing Rates," Presentation to AOBA Utility Committee, November 10, 2010.

"Electric Utilities Seek Increased Rates to Fund Large Construction Projects," Presentation to AOBA Utility Committee, October 7, 2009.

"Could You Soon Be Paying $1.00 per kWh for Peak Electricity Supply?" Presentation to AOBA Utility Committee, June 24, 2009.

"Energy Markets in a Tailspin," Presentation to AOBA Utility Committee, March 11, 2009.

"Energy price Outlook for 2009," Presentation to AOBA Utility Committee, December 10, 2008.

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Attachment B
AOBA Filed Comments Relating to the Atrium
BSA Audit Report
Formal Case No. 1176

Formal Case 1156
AOBA Comments Pursuant to Order No. 21599, filed June 5, 2023

Formal Case 1156
AOBA Corrected Motion for Leave to Respond and Response to Pepco's Reply Comments Regarding Atrium Economics, LLC Preliminary Draft BSA Audit Report, filed June 30, 2023

Formal Case 1156
AOBA Public Comments regarding the Atrium Economics, LLC Pepco DC BSA Audit Report, filed November 13, 2023

Formal Case 1156
AOBA Reply Comments in Response to Pepco's Comments filed on November 13, 2023, filed November 20, 2023

AOBA
— APARTMENT AND OFFICE —
BUILDING ASSOCIATION OF
METROPOLITAN WASHINGTON

June 5, 2023

By Electronic Filing

Brinda Westbrook-Sedgwick
Commission Secretary
D.C. Public Service Commission
1325 G Street, N.W., Suite 800
Washington, D.C. 20005

Re: **PEPBSAR 2022-01-E,** Potomac Electric Power Company's December 12, 2022, Monthly Bill Stabilization Adjustment Rider,

Formal Case No. 1139, In the Matter of the Application of the Potomac Electric Power Company for Authority to Increase Existing Retail Rates and Charges for Electric Distribution Service, and

Formal Case No. 1156, In the Matter of the Application of the Potomac Electric Power Company for Authority to Implement a Multiyear Rate Plan for Electric Distribution Service in the District of Columbia

Dear Ms. Westbrook-Sedgwick:

Enclosed for filing please find the Comments of the Apartment and Office Building Association of Metropolitan Washington pursuant to Order No. 21599 in the above-captioned proceedings.

If you have any questions, please contact me at ffrancis@aoba-metro.org or call my cell at (301) 518-9700. Thank you for your attention in this matter.

Sincerely,

Frann G. Francis

Frann G. Francis, Esq.

cc: All parties of record

BEFORE THE
PUBLIC SERVICE COMMISSION
OF THE DISTRICT OF COLUMBIA

Potomac Electric Power Company's December 12, 2022, Monthly Bill Stabilization Adjustment Rider,	)))	PEPBSAR2022-01-E
IN THE MATTER OF The Application of the Potomac Electric Power Company For Authority to Increase Existing Retail Rates and Charges for Electric Distribution Service, and	)))))))	Formal Case No. 1139
IN THE MATTER OF The Application of the Potomac Electric Power Company For Authority to Implement a Multi-Year Rate Plan for Electric Distribution Service In the District of Columbia	))))))))	Formal Case No. 1156

THE APARTMENT AND OFFICE BUILDING ASSOCIATION OF METROPOLITAN WASHINGTON COMMENTS <u>PURSUANT TO ORDER NO. 21599</u>

Pursuant to the schedule set forth in paragraph 11 of Order No. 21599, issued by the Commission on April 21, 2023, AOBA offers these comments regarding Pepco's adjustment of its November 2022 BSA Report. Although customer confidentiality considerations have barred Pepco from providing certain requested information relating to this matter,[1] AOBA finds compelling evidence that the Company's November 2022 adjustment to Allowed Revenue for the GT-LV rate class is inappropriate and should be removed from the GT-LV rate class deferred revenue balance. AOBA also finds substantial evidence of mismanagement of this matter by Pepco.

BACKGROUND

[1] Pepco's response to **AOBA Data Request Nos. 1-3 and 1-6** did not provide requested information due to confidentiality considerations. AOBA was not informed that it would not be getting a response from Pepco based on confidentiality until Pepco responded to AOBA's Data Request No. 1 on May 19. 2023. Pepco did not file an objection or notice of unavailability for either request. After AOBA received Pepco's responses, AOBA attempted to resolve the matter with Pepco. AOBA was informed that Pepco believed it could not provide a response due to confidentiality concerns unless ordered to do so by the Commission.

On December 12, 2022, Pepco submitted its monthly BSA filing to the Commission. The report provided BSA Rider calculations based on the Company's reported deferred revenue balances for the November 2022 billing cycle. The cover letter for the filing noted that Pepco's filing included a manual adjustment of $140,279.47 to the GT-LV class. The $140,279.47 adjustment was reflected on Attachment 2, line I.A.2.a. The adjustment served to increase Pepco's calculation of its Allowed Revenues for the GT-LV rate class for the month of November 2022. No adjustment was made to the Company's allowed revenues for any other class.

The cover letter for Pepco's December 12, 2022 monthly BSA filing indicated that its addition to the "Allowed Revenue" for the GT-LV class reflected the Company's correction of **errors in its five prior monthly filings** (i.e., the Company's monthly BSA filings for June 2022 through October 2022). According to Pepco those errors arose due to a customer account being incorrectly marked as "***inactive***."

The amount of the adjustment (i.e., **$140,279.47**) reflects the sum of the Company's authorized revenue per customer for one customer for the months of June 2022 through October 2022.[2] Pepco has provided no information regarding the amount of revenue it actually billed to the customer (that it asserts was erroneously marked as inactive) for the months of June through October 2022. Given that Pepco made no adjustments to its Actual Monthly Revenues for the GT-LV class for any of the months from June 2022 through October 2022, AOBA presumes any billings to the customer for the months of June through October 2022 were included in the Company's Actual Monthly Revenue for November 2022.[3]

On December 19, 2022, AOBA filed a letter with the Commission requesting that the Company's November 2022 adjustment to Schedule GT-LV Allowed Revenue not be permitted in the absence of the Company's further documentation of the adjustment and an opportunity for independent verification of the alleged "*error*" made by Pepco personnel.

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[2] The Pepco's adjustment to its Allowed Revenue was computed as follows:

BSA Month	**Authorized Revenue Per Customer**
June 2022	$ 23,958.55
July 2022	$ 28,749.28
August 2022	$ 35,616.89
September 2022	$ 25,591.79
October 2022	$ 26,362.46
Total Adjustment	**$140,279.47**

[3] AOBA attempted to obtain information that would allow for verification of amounts actually billed the customer in question for each month in the period June 2022 through October 2022, but Pepco indicated it was not permitted to disclose customer-specific data.

On December 22, 2022, Pepco filed a response to AOBA's letter. Pepco's response argues that the Company "*employs a rigorous process on a monthly basis so that customer counts and BSA calcluations (sic) based on those customer counts are as accurate as possible*." Pepco also asserted in its December 22, 2022 letter response that it had "*already met with and provided documentation to the BSA audit team to explain its processes, including how it verifies customer counts*."

On April 21, 2023, the Commission issued Order No. 21599. In that Order the Commission agreed with AOBA that "*the error in question must be verified*."[4] The Commission also set forth a schedule for discovery and the filing of comments.

On May 1, 2023 AOBA submitted its first set of data requests to Pepco on this matter, and responses to those requests were received by AOBA on May 19, 2023. AOBA has reviewed Pepco's responses in the context of the Company's December 12, 2022 monthly BSA filing and the representations contained in Pepco's December 22, 2022 response to AOBA's concerns regarding its November 2022 adjustment to Schedule GT-LV required revenue.

On May 18, 2023, the Commission's chosen BSA Audit team submitted to the Commission for review a preliminary draft report titled, "*Pepco DC Bill Stabilization Adjustment Audit Report*" (hereinafter "Draft Report"). The BSA Audit teams draft suggests that Pepco has robust procedures for ensuring the accuracy of the customer counts used in its monthly BSA filing. However, the Draft BSA Audit report stated: "*the controls to confirm the removal and resulting accuracy of GTLV Customer Counts were slow to detect the customer count error that was uncovered in December 2022 but stemmed from an incorrect customer classification in June 2022."*[5] However, the BSA Audit teams draft report does not explain how those "*robust*" processes overlooked a purportedly "*active*" customer for five months.

DISCUSSION OF ISSUES

A number of AOBA's concerns regarding Pepco's November 2022 adjustment to Allowed Revenue for the GT-LV class remain unanswered. It is difficult to fully verify events relating to a single customer without access to customer-specific information. However, AOBA does find substantial evidence that the revenue adjustment applied by Pepco is not appropriate. AOBA also finds shortcomings in Pepco management of this process, as well as financial incentives for the Company to claim the existence of a GT-LV customer regardless of the relevant circumstances.

Pepco's response to **AOBA Data Request 1-7**, **part a**, reflects Pepco's understanding that the building that housed the customer in question was to be "*razed/demolished*." The Company also indicates in that response that "*Meter Services received a workorder from New Business Engineering to have twelve* [12] *meters*

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4 Order No. 21599, page 3, paragraph 11.

5 Draft Report, dated May 18, 2023, Executive Summary, page xv.

removed." It appears that the customer had communicated a desire to terminate ALL service to the building. Yet, Pepco's response to **AOBA Data Request 1-8** suggests that the customer was "**mistakenly marked as inactive**." In the absence of any evidence that the customer actually desired to continue some electric service at the site, it would appear that classification of the customer as "***inactive***" was appropriate.

Thus, the "***mistake***" appears to be Pepco's failure to ensure completion of the workorder as issued. That is a management responsibility. It is not justification for added rate burdens for other GT-LV customers. Thus, the responsibility for any "*mistake"* or "*error"* appears to rest with Pepco, its personnel, its customer communications, and management. Unfortunately, the comparatively large monthly revenues associated with GT-LV customers can provide an incentive for the Company to inflate its GT-LV customer count.

Pepco does not explain why any meters would be left in-place in a building scheduled for demolition. The Company also does not explain the policies and procedures that allowed the meter technician to depart from the task specified in the workorder without reporting back to superiors within Pepco. The Company's failure to establish and maintain procedures that ensure communication of such departures from a workorder generated a gap in communications on this matter, and Pepco does not demonstrate timely efforts to fill that gap. Importantly, there is no indication of any effort by the Company to contact the customer and resolve the apparent discrepancy between what the meter technician observed on site and the workorder issued.

If the customer had been timely notified of the discrepancy, the customer could have been provided an opportunity to explain or timely resolve the discrepancy. If there was a requirement that all usage had to be terminated before the meters were removed, there is nothing in Pepco's responses that indicates how and when that requirement was communicated to the customer. Certainly, where the Company's understanding is that the building is scheduled for demolition, leaving active meters in-place would not appear to be a sound practice.[6]

AOBA also submits that other management processes and controls could have, and should have, signaled the existence of this problem. For example, well structured meter inventory controls should have identified the fact that only 10 meters were returned to meter inventory when, based on the workorder issued, there should have been an expectation that 12 meters would be returned to inventory. Furthermore, Pepco does not document or explain how its questions regarding the "*inactive*" status of the subject customer were identified. In addition, given Pepco's extensive use of AMI meters in the District of Columbia, the continued recording of usage on a meter that had been

[6] AOBA recognizes the possibility that electric service on the two remaining meters may have been used to support demolition activities. However, maintenance of a GT-LV customer where a Temporary service account might have been established to support demolition/construction activities plays havoc with the revenue per customer relationship upon which Pepco relies to compute its Allowed Revenue. Most customers have little understanding that maintaining a GT-LV account for comparatively low use electrical demolition activities effectively imposes added cost on all other GT-LV customers as a result of the Company's BSA rate adjustment calculations.

scheduled for removal should have been flagged as part of the Company's AMI data collection activities. In response to **AOBA Data Request 1-5**, Pepco states, "*If usage is registered on a meter that is associated with a location that has no active customer, a Business Process Exception Management (BPEM) case is created*." Yet, no documentation of such a BPEM case for this customer is provided or specifically discussed.

The Company's response to **AOBA Data Request 1-8** indicates that "*Upon discovery that two active meters were on site, the customer was billed charges from June 2022 through November 2022*." However, nothing in Pepco's responses explains how, when, by whom, and under what circumstances the existence of the "*active meters*" on the site was ultimately identified.

Nowhere does Pepco specify whether the two meters left in-place at the site were AMI meters or mechanical meters. Pepco also provides no information regarding how the customer's kWh usage and demands for the months of June – October 2022 were determined. If there was a history of meter reading data for the customer for the referenced period, why wasn't that data identified sooner? If there was no meter reading data, or incomplete meter reading data for those months, did Pepco issue bills based on estimated kWh and kW by month, and if so, how were those estimates developed?

Both Pepco's December 22, 2022 response to AOBA and the Company's responses to AOBA's data requests on this matter emphasize the Company's claim that it has in place a detailed verification process for monthly customer count data. That representation is also echoed by the BSA Audit team in its May 18, 2023 Draft Report but it fails to explain why those processes did not flag this problem for at least **five months**. Pepco also does not adequately address failures in its processes and procedures that led to this problem. How the "*error*" reported by the Company in its December 12, 2022 monthly BSA filing avoided more timely detection is inexplicable in the context of the "*robus*t" and "*cross-functional*" verification processes that Pepco claims to undertake on a monthly basis.[7]

Finally, the Company's removal of 10 of the 12 meters identified for removal in the workorder, suggests that the customers actual electric use during the June – October 2022 period was likely noticeably reduced. It is also likely that in preparation for building demolition, reductions in the activities within the building commenced well before the workorder to remove the meters was issued. Each spring Pepco performs an assessment of customers that no longer qualify for service under the rate schedule they are currently billed for service and transfers of customers between rate schedule, particularly within general service low voltage classes are made. Pepco provides no evidence that the customer continued to qualify for service under Rate Schedule GT-LV when that assessment was made in the spring of 2022.

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[7] Pepco's response to **AOBA Data Request 1-1.**

To summarize the situation, AOBA offers the following observations:

1. Pepco understood that the meters were being removed and the service terminated because the building was to be "***razed/demolished***."

2. Pepco's Meter Services department was given a work order to remove all **twelve** meters, but only ten (10) meters were removed.

3. Pepco offers no evidence of an intent on the part of the customer to continue any service after June 20, 2022.[8]

4. Although two allegedly active meters were identified at the site, there is no indication of any direct contact with the customer regarding the usage being recorded, and it appears the customer was provided **no opportunity** to clarify its electric service requirements at the site or eliminate any unintended electrical use.

5. Pepco does not explain why its personnel could not terminate service to an active meter and then remove the meter when a workorder was issued to remove all 12 meters at the site.[9]

6. Pepco offers no indication of the level of service (kWh and kW) the customer purportedly used in the months of June – October 2022.

7. Pepco's claims of an active customer at the site are not well supported, and any metered electric service after June 20, 2022 is more appropriately considered the responsibility of the Company than the responsibility of other Rate Schedule GT-LV customers.

CONCLUSION AND RECOMMENDATIONS

In the absence of any compelling evidence that the customer in question intended to continue its electric service at the site, the addition of a customer to Pepco's GT-LV customer counts for months subsequent to June 2022 is unwarranted and inappropriate. The problems all appear to evolve around a lack of adequate and necessary communication within Pepco and a failure of Pepco's verification processes to timely identify and address questions relating to the proper classification of this customer. AOBA's review of this matter finds no evidence that other GT-LV customers should be required to absorb responsibility for additional revenue requirements that have resulted from shortcomings in Pepco's management of this process.

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[8] Pepco's response to **AOBA Data Request 1-2** indicates "*the customer move out was performed on June 20, 2022*."

[9] One of the functions of Pepco's AMI meters purportedly enables the Company to remotely disconnect service to a customer. Pepco does not explain why that functionality was not used in this situation.

Both Pepco and the BSA Audit team have failed to address critical questions regarding the appropriate labeling of the active or inactive status of the customer in question. The simple observation of usage at the site after June 20, 2022 is not an adequate basis for assessing the existence of an "*active*" customer, particularly if the customer was provided no indication of continued electric use at the site. Again, if the customer had been timely informed of the "*active"* status of the two remaining meters, the customer could have taken action to eliminate the usage.

Legitimate concerns also remain with respect to whether any continued usage by the customer after June 20, 2022 is appropriately considered Rate Schedule GT-LV usage and should be billed at GT-LV rates. With 10 of the customer's 12 meters removed, it must be anticipated that any metered electric use at the site would decline significantly. Pepco has the ability to disconnect service regardless of whether there are active meters at the site, and thus, it is difficult to rationalize why either the customer in question or other GT-LV customers should bare responsibility for usage at the site after June 20, 2022.

Therefore, AOBA recommends that the entirety of Pepco's **$140,279.47** November 2020 Adjustment to Schedule GT-LV Allowed Revenue be eliminated from the Schedule GT-LV deferred revenue balance. Further, Pepco should be held responsible for any authorized revenue arguably foregone as a result of Pepco's elimination of that BSA revenue adjustment. In no event should any costs be shifted to other rate classes.

In addition, Pepco should be required to document all amounts billed to the customer in question for periods subsequent to June 20, 2022, and in the absence of evidence that the customer in question has specifically intended to continue taking electric service from Pepco at the site, Pepco should be required to cancel all amounts billed to the customer for each month from June 2022 to the present and refund any amounts paid by the customer to date for those months.

The BSA Audit Team has made some constructive recommendations for improvement in Pepco's BSA processes and procedures that could help to avoid problems similar to those reflected in Pepco's attempt to adjust its Allowed Revenue for the period June 2022 – October 2022. AOBA generally supports those recommendations. However, AOBA intends to provide more extensive comments regarding the Preliminary Draft of the BSA Audit report in a separate filing scheduled for June 6, 2023.

June 5, 2023

Sincerely,

Frann G. Francis

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AOBA Counsel of Record

Attachment A
Formal Case No. 1156

Dennis P. Jamouneau
Assistant General Counsel

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PUBLIC

May 19, 2023

Ms. Brinda Westbrook-Sedgwick
Commission Secretary
Public Service Commission
of the District of Columbia
1325 G Street N.W., Suite 800
Washington, DC 20005

Re: PEPBSAR 2022-01-E and Formal Case Nos. 1139 and 1156

Dear Ms. Westbrook-Sedgwick:

Enclosed please find Potomac Electric Power Company's public responses to AOBA Data Request No. 1.

Please contact me if you have any further questions.

Sincerely,

/s/ *Dennis P. Jamouneau*

Dennis P. Jamouneau

Enclosure

cc: All Parties of Record

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA
PEPBSAR 2022-01-E AND FORMAL CASE NOS. 1139 AND 1156
RESPONSE TO AOBA DATA REQUEST NO. 1

QUESTION NO. 1

Please explain in detail the customer count verification process that the Company employs in the preparation of its monthly BSA filings for the District of Columbia.

RESPONSE:

All customer counts are verified for accuracy as part of the monthly Accounting close and Regulatory processes involved in the preparation of Pepco's BSA filing. Prior to running any reports in SAP BusinessObjects, Revenue Accounting confirms with IT that the data in the data warehouse has been refreshed as of Day 1 of the close. The IT team will provide a validation spreadsheet as evidence that the monthly refresh has taken place, and no exceptions occurred in the process. Revenue Accounting executes the Count of Contracts report from SAP BOBJ on the first business day of the month utilizing parameters for that month. This report lists all active customers in the Pepco jurisdiction. Inactive customers are excluded from this report.

For purposes of the customer counts, customers without meters are removed from the count since they represent customers who do not yet have electric service. These customers have been moved into a premise because they contacted Pepco to have service placed in their name at a property, but a meter has not yet been installed at the property. In these situations, the move-in date will be updated to match the meter installation date once a meter is installed, and this will be captured within a subsequent Count of Contracts report. Customer Financial Operations provides Revenue Accounting with the No Meter report. The No Meter report is generated from SAP and lists all installations without meters. Using Power Query, Revenue Accounting merges the Count of Contracts report with the No Meter report to determine the active customers with meters. Revenue Accounting then filters the merged report by BSA rate class to determine the total count of BSA customers.

Prior to finalizing the customer count, there is a monthly cross-functional GT-LV customer counts verification process to confirm the accuracy of the additions and removals of GT-LV customers. In this process, Regulatory confirms the accuracy of the additions and removals of GT-LV customers with the Billing, New Business Engineering, Customer Operations, and Accounting teams. The verification begins with a distribution from Customer Operations on the first business day of each month, which contains a roll-forward list of all GT-LV customer accounts with activity status (i.e., active vs. inactive) changes as compared to the prior month. This roll-forward identifies changes in activity status regardless of meter status. This roll-forward is compared to Accounting's GT-LV customer count. Any changes in the roll-forward are discussed by the groups listed above to confirm that the customer changes are appropriate and accurate. If a customer change is determined to have been made in error, then Regulatory will notify Billing to correct the account; Regulatory and Accounting will manually adjust the BSA deferral and BSA filing, as necessary.

Once the customer count files are completed, a member of the Accounting team will review the files to ensure that the customer counts are complete and accurate.

Upon completion of this process, Pepco will begin utilizing the customer count figures in its monthly BSA deferral calculation. During this process, Accounting will review the deferral calculation for any anomalies including abnormal customer counts. Any issues identified during this process will be further investigated. Regulatory will then perform a variance analysis, comparing the average and standard deviation of customer counts for the prior 12 months. Any customer counts outside of two standard deviations of the average are investigated.

SPONSOR: The Company

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA
PEPBSAR 2022-01-E AND FORMAL CASE NOS. 1139 AND 1156
RESPONSE TO AOBA DATA REQUEST NO. 1

QUESTION NO. 2

Please explain why the incorrect status for the referenced GT-LV account was not identified until the Company prepared its December 2022 monthly report when it appears the account had been incorrectly assigned an “inactive” status for each month from June 2022 through October 2022.

RESPONSE:

GT-LV customer count reports are exported from the BOBJ reporting system, which pulls the information from the SAP billing system. The customer move out was performed on June 20, 2022 and the customer was coded as “inactive” in SAP billing system until November 2022, when a field technician discovered on-site that two meters were active. Upon notification, Billing reversed the June move-out, changed the customer’s account status to “active,” and billed the customer based on actual meter data received from the two active meters.

As such, this customer account was added back to the GT-LV customer count for November 2022. The November BOBJ report showed the account was active, and the charges from June through October were manually adjusted by Accounting and Regulatory in November. Regulatory discovered the customer addition within the month that the issue was identified and corrected by the Billing team.

SPONSOR: The Company

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA
PEPBSAR 2022-01-E AND FORMAL CASE NOS. 1139 AND 1156
RESPONSE TO AOBA DATA REQUEST NO. 1

QUESTION NO. 3

Please identify by account number the monthly status (i.e., active or inactive) for each GT-LV customer account for each month of calendar year 2022.

RESPONSE:

Refer to PEPBSAR and 1139/1156 AOBA DR 1-3 Attachment. The GT-LV customer that was originally marked as inactive from June through October is included in the active customers in those months. Note that the active customer counts in this Attachment will not match the customer counts reported in the monthly BSA filings because as noted in response to AOBA DR 1-1, the Company makes adjustments to the active Count of Contracts, such as removing no meter accounts, to arrive at the final BSA customer counts.

Under 34 DC Code 1507 and relevant Commission rules, Pepco cannot provide customer information to parties. This information, which is being submitted confidentially, can only be provided to the Commission.

SPONSOR: The Company

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Active	334	337	337	336	336	342	341	341	342	342	342	343
Inactive	280	277	277	278	278	279	278	277	277	281	282	281

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA
PEPBSAR 2022-01-E AND FORMAL CASE NOS. 1139 AND 1156
RESPONSE TO AOBA DATA REQUEST NO. 1

QUESTION NO. 4

Please explain how, when, and on what criteria the monthly status (i.e., active or inactive) of each GT-LV customer account is determined for the purpose of preparing Pepco's monthly BSA filings for the District of Columbia.

RESPONSE:

The active/inactive status for all Pepco accounts, GT-LV included, is determined by each customer's "moves" status in the billing system. An account is active when a customer contacts Pepco to have service placed in their name at a property. The account status is updated to inactive only when a customer has been moved out of the premise. This most commonly occurs when a customer contacts Pepco to request service to be disconnected due to a move-out. Status is also updated to inactive if the customer is disconnected for non-payment and does not make arrangements to be reconnected within 9 days.

For consideration of the active or inactive status in preparing the monthly BSA filings, refer to the response to FC1156 AOBA DR 1-1.

SPONSOR: The Company

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA
PEPBSAR 2022-01-E AND FORMAL CASE NOS. 1139 AND 1156
RESPONSE TO AOBA DATA REQUEST NO. 1

QUESTION NO. 5
Please document and explain in detail all checks of the accuracy of the Company's determinations of customer status (i.e., active or inactive) and of the customer counts used by the Company in determining the customer counts used by Pepco in the preparation of its monthly BSA filings for the District of Columbia for each customer class over the last three calendar years and calendar year 2023 to date.

RESPONSE:

A location is considered active when there is an account associated with that location with a move-in date prior to the time period in question, and a move-out date after the time period in question, and when there is a meter associated with that location. If either of those criteria is not met, the location is considered inactive. The Count of Contracts report, which is used to determine the BSA customer counts, reflects all active customers as of the last day of a given month.

If usage is registered on a meter that is associated with a location that has no active customer, a Business Process Exception Management (*BPEM*) case is created in the billing system (SAP) and assigned to the Billing team to review the account/premise. If no meters are associated with a location, then the presumption is that no electricity is being provided to the location and therefore, the service is not active.

For details of the checks of the accuracy of the Company's process over customer counts used in the preparation of the monthly BSA filings, refer to the Company's response to AOBA DR 1-1.

SPONSOR: The Company

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA
PEPBSAR 2022-01-E AND FORMAL CASE NOS. 1139 AND 1156
RESPONSE TO AOBA DATA REQUEST NO. 1

QUESTION NO. 6

Please provide all documentation and explanations that the Company has provided to the BSA audit team.

RESPONSE:

Refer to PEPBSAR and 1139/1156 AOBA DR 1-6 Confidential Attachment.

SPONSOR: The Company

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA
PEPBSAR 2022-01-E AND FORMAL CASE NOS. 1139 AND 1156
RESPONSE TO AOBA DATA REQUEST NO. 1

QUESTION NO. 7

Pepco indicates that "two meters associated with the account [mislabeled as inactive] were removed." The Company also indicates that "a Pepco field technician confirmed that two other meters remained active." Please:

a. Explain when and why two meters for the referenced customer were removed, and why they were not replaced, or if they were replaced explain when and why they were replaced.
b. Indicate whether the referenced customer is billed for multiple meters through a single account or whether each meter is associated with a separate account. To the extent meters for the referenced customer are currently, or were previously, billed through separate accounts, identify the rate schedule under which usage for each meter and for each account was billed in each month of calendar year 2022.

RESPONSE:

a. Meter Services received a work order from New Business Engineering to have twelve meters removed on site due to the building being razed/demolished. These twelve meters were set up under one contract account in the billing system. On site, the meter technician found that two meters were in use, and therefore, did not remove them. The fact that two active meters were not removed, but remained on site, was not communicated to Billing. As such, from June through October, these two active meters were not billed.

b. Throughout 2022, the referenced customer was billed for multiple meters under one contract account on the GT-LV rate

SPONSOR: The Company

QUESTION NO. 8

Please explain and document the manner in which revenues actually billed to the customer mistakenly labeled "inactive" were reported by the Company for each month of calendar year 2022. If the actually billed revenues for the referenced customer were included in GT-LV class revenues for any month in which the customer was identified as "*inactive*," explain why actual revenues for an "*inactive*" account would be included in reported GT-LV revenues.

RESPONSE:

Upon discovery that two active meters were on site, the customer was billed for charges from June 2022 through November 2022 in November 2022. The customer was not billed for any charges in June 2022 through October 2022, when the customer was marked as inactive. The charges in November 2022 are reflected in the "1. Actual Monthly Class Distribution Base Revenue in $ for November" item of Attachment 2 in the filing on December 12, 2022.

Since the customer was mistakenly marked as inactive, the customer was excluded from the GT-LV customer count reporting from June 2022 through October 2022. The GT-LV customer count is a source for the Allowed Revenue calculation in the monthly BSA filings. As such, Regulatory manually adjusted the Allowed Revenue in the "2.a. Revenue Adjustment" item of Attachment 2 in the filing on December 12, 2022. The manual adjustment, totaling $140,279.47, reflects the adjustments to Allowed Revenue from June 2022 through October 2022.

SPONSOR: The Company

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA
PEPBSAR 2022-01-E AND FORMAL CASE NOS. 1139 AND 1156
RESPONSE TO AOBA DATA REQUEST NO. 1

QUESTION NO. 9

Document each cancel and rebill transaction or other bill adjustment recorded for a GT-LV customer in each month of calendar year 2022 and explain the reasons for each such transaction and/or bill adjustment and the usage month(s) to which the transaction or billing adjustments were applicable.

RESPONSE:

Refer to PEPBSAR and 1139/1156 AOBA DR 1-9 Attachment.

SPONSOR: The Company

	January		February		March		April		May		June		July		August		September		October		November		December		Total	
	Accounts	Months	Accounts	Months	Accounts	Months	Accounts	Months	Accounts	Months	Accounts	Months	Accounts	Months	Accounts	Months	Accounts	Months	Accounts	Months	Accounts	Months	Accounts	Months	Accounts	Months
Estimations	2	2	1	1	1	1	0	0	13	13	8	16	3	5	3	6	3	3	1	1	3	17	2	3	40	68
Third Party Supplier Errors	6	6	2	3	0	0	0	0	0	0	0	0	1	1	0	0	0	0	0	0	1	1	0	0	10	11
Meter Exchange	0	0	0	0	0	0	2	12	0	0	1	1	0	0	0	0	0	0	1	1	4	4	0	0	8	18
Move-in/Move-out Changes	0	0	0	0	1	1	0	0	1	1	0	0	0	0	0	0	1	2	0	0	2	6	1	1	6	11
Meter Communication Issues	1	3	1	1	0	0	0	0	0	0	0	0	1	1	1	1	0	0	0	0	2	2	0	0	6	8
Tax Issue	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1	0	0	1	1
Misapplied Payment	0	0	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1

CERTIFICATE OF SERVICE

I hereby certify that on this 19th day of May 2023, a copy of Pepco's Responses to AOBA Data Request No. 1was sent by electronic mail to all parties in Docket PEPBSAR and Formal Case 1139.

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/s/ Dennis P. Jamouneau

Dennis P. Jamouneau

CERTIFICATE OF SERVICE
PEPBSAR 2022-01-E, Formal Case Nos. 1139 and 1156

I hereby certify on this 5th day of June 2023, that the attached Comments pursuant to Order No. 21599 were filed electronically on behalf of the Apartment and Office Building Association of Metropolitan Washington and copies were electronically delivered to the service list below:

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AOBA
— APARTMENT AND OFFICE —
BUILDING ASSOCIATION OF
METROPOLITAN WASHINGTON

June 30, 2023

By Electronic Filing

Brinda Westbrook-Sedgwick
Commission Secretary
D.C. Public Service Commission
1325 G Street, N.W., Suite 800
Washington, D.C. 20005

Re: **Formal Case No. 1156**
In the Matter of the Application of the Potomac Electric Power Company for Authority to Implement a Multiyear Rate Plan for Electric Distribution Service in the District of Columbia

Dear Ms. Westbrook-Sedgwick:

Enclosed for filing please find the Corrected Motion of the Apartment and Office Building Association of Metropolitan Washington for Leave to Respond and Response to Pepco's Reply Comments Regarding the Atrium Economics, LLC Preliminary Draft BSA Audit Report in the above-captioned proceeding. AOBA inadvertently omitted Attachment A to its earlier filed document.

If you have any questions, please contact me at ffrancis@aoba-metro.org or call my cell at (301) 518-9700. Thank you for your attention in this matter.

Sincerely,

Frann G. Francis

Frann G. Francis, Esq.

cc: All parties of record

BEFORE THE
PUBLIC SERVICE COMMISSION
OF THE DISTRICT OF COLUMBIA

IN THE MATTER OF	*	
	*	
THE APPLICATION OF THE	*	
POTOMAC ELECTRIC POWER COMPANY	*	**FORMAL CASE NO. 1156**
FOR AUTHORITY TO IMPLEMENT A	*	
MULTI-YEAR RATE PLAN FOR	*	
ELECTRIC DISTRIBUTION SERVICE	*	
IN THE DISTRICT OF COLUMBIA	*	

MOTION OF
THE APARTMENT AND OFFICE BUILDING ASSOCIATION
OF METROPOLITAN WASHINGTON
FOR LEAVE TO RESPOND AND RESPONSE
TO PEPCO'S REPLY COMMENTS REGARDING
THE ATRIUM ECONOMICS, LLC
PRELIMINARY DRAFT BSA AUDIT REPORT

Pursuant to Rule 105.9 of the Commission's Rules of Practice and Procedure[1] the Apartment and Office Building Association of Metropolitan Washington ("AOBA") respectfully requests leave to respond to the Potomac Electric Power Company's ("Pepco" or "Company") Reply Comments on the Atrium Economics Preliminary BSA Audit Report[2] ("Pepco Reply Comments") and to provide the following limited reply.

I. MOTION FOR LEAVE TO RESPOND

The Public Service Commission of the District of Columbia ("Commission") has previously granted leave to reply when the proposed reply addresses new issues raised

1 15 DCMR § 105.9 (2022).
2 Reply Comments of Potomac Electric Power Company on Atrium Preliminary Report, June 20, 2023.

by the opposing party in its response, clarifies issues, or assists the Commission in its decision-making process. Good cause exists herein to grant leave to correct the Company's inaccurate assertions regarding the Atrium Preliminary Draft Report, and to otherwise assist the Commission's determination of this matter by addressing other inaccuracies and misleading claims in the Company's Reply Comments.

II. RESPONSE

AOBA's response addresses limited elements of the Pepco Reply Comments. AOBA submits that Pepco's representations regarding billing determinants issues relating to Formal Case No. 1150 are grossly inaccurate and greatly misleading. AOBA also challenges Pepco's characterization of Atrium's determinations with respect to best practices, and Pepco's suggestion that AOBA has failed to present evidence to support its Comments regarding the Atrium Draft Report. For the reasons, discussed herein, AOBA asks that the Commission consider the substance of this AOBA Response when it considers the weight it gives Pepco's Reply Comments.

A. Formal Case No. 1150 Billing Determinants

Pepco's argument regarding Formal Case No. 1150 billing determinants errors constitutes a total misrepresentation of the record in that proceeding and the evidence presented in Formal Case No. 1156. Pepco asserts that "*AOBA was a Settling Party in the Settlement in Formal Case No. 1150 and was aware of the resolution regarding GT-*

LV customer counts."[3] However, the issue relating to Formal Case No. 1150 on which AOBA focuses in this Response is NOT an issue regarding the use of customer counts. It is an issue relating to the manner in which Pepco estimated **demand billing units**. The May 14, 2018 response to Staff Data Request 3, Question 9, Pepco cites in its Reply Comments involves unrelated matters. Pepco did not even discover the **errors** on which AOBA focuses until more than **two years later** in **July 2020**.

As discussed by AOBA Witness Bruce Oliver in Formal Case No. 1156, the concern on which AOBA has focused was first revealed in Pepco's July 22, 2020 response to Staff Data Request 24-24 which was filed on July 22, 2020.[4] In that response, Pepco suggested for the first time that it had used **incorrect demand measures** in Formal Case No. 1150, and those incorrect demand measures have resulted in "***an estimated implicit under-recovery***" for the GT and MGT classes of approximately $30 million. The facts relating to the Company's use of incorrect demand measures and Pepco's estimate of its implicit BSA revenue under-recovery were further developed in subsequent filings in Formal Case No. 1156. The data request response to Staff in Formal Case No. 1150 that Pepco cites in its Reply Comments is of no relevance to either the billing determinants issue on which AOBA has focused or Pepco's estimate of "***an estimated implicit under-recovery***" resulting from that error in Pepco's estimation of demand billing units.

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[3] Pepco Reply Comments at 8.

[4] A copy of page 1 of Pepco's Response to Staff Data Request 24-24 in Formal Case No. 1156 is provided as part of Attachment A to this Response to Pepco's Reply Comments. The full response was entered into the record in Formal Case No. 1156 as Exhibit Pepco (6F)-22. Also, included in Attachment A to this Response is a copy of Pepco's response to Staff Data Request 26-2 in which Pepco further confirms the roughly $30 million under-recovery resulting from its billing determinants error. That response was entered into the record in Formal Case No. 1156 as part of Attachment A to the Second Supplemental Testimony of AOBA Witness Bruce R. Oliver, Exhibit AOBA (5A).

On July 28, 2020, Pepco filed a 250 page errata to the Rebuttal Testimony of witness Blazunas in Formal Case No. 1156. That was followed three days later on July 31, 2020 with the Company's submission of Supplemental Testimony sponsored by witnesses Wolverton, Blazunas, and Schafer. In that Supplemental Testimony the Company tried to re-cast the errors referenced in its response to Staff Data Request 24-24 as "updates" of its billing determinants. However, Exhibits Pepco (6F) and (6F)-20, further document the impacts of Pepco's admitted billing determinants errors which originated in the Company's compliance rate filings in both Formal Case No. 1150 and Formal Case No. 1139. Further, the Second Supplemental Testimony of AOBA Witness Bruce Oliver,[5] more fully develops AOBA's assessment of this matter.

Pepco's confusion on this matter may be the product of the substantial turnover in witnesses that sponsor the Company's Class Cost of Service and Rate Structure testimony. Over the last four base rate cases before this Commission, Pepco has sponsored three different witnesses on Class Cost of Service Study ("CCOSS") issues and three difference witnesses on Rate Structure issues. Even the Company's legal representation has had significant changes. Thus, it is not surprising that their understandings of recent past proceedings are, at best, murky.

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[5] Formal Case No. 1156, Exhibit AOBA (5A), the Second Supplemental Testimony of AOBA Witness Bruce Oliver, filed October 10, 2020.

B. No Established Best Practices

Pepco's Reply Comments imply that Atrium finds Pepco's BSA mechanism to be consistent with "*industry best practice*."[6] Yet, nothing in the Draft Audit Report demonstrates or established "*best practices*" for distribution utility revenue decoupling mechanisms. Although the Draft Report claims to focus on "*industry best practices*," the report offers no pronouncements regarding what it believe constitutes "*industry best practice.*" Rather, the Draft Report merely identifies the attributes of various revenue decoupling mechanisms that it reviewed. Nothing in the Draft Audit Report supports a finding that Pepco's BSA mechanism represents an "*industry best practice*."

For example, as demonstrated in the Comments AOBA filed on June 6, 2023, no utility, other than Pepco and **some** of Pepco's Exelon utility affiliates, utilize a monthly adjusting revenue decoupling mechanism. Furthermore, the Draft Audit Report compares Pepco's Maryland and District of Columbia BSA mechanisms and notes some important differences between the two jurisdictions. Importantly, as shown below, Pepco's rates of return by customer class for the District of Columbia display much more substantial variation than its Maryland class rates of return. However, the Draft Report, without any supporting analysis or calculations, concludes that Pepco's ability to update its billing determinants for COVID-19 in Maryland was the most significant difference between the performance of Pepco's Maryland and District of Columbia BSA performance.

The Draft Report fails to address the fact that in June 2020 (i.e., more than eight months after the filing of Pepco's initial Application in Formal Case No. 1156), the

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6 Pepco Reply Comments at 6.

Company filed an "Enhanced MRP" which was specifically intended to address the impacts of COVID-19. That provided Pepco an opportunity at that time to revise its billing determinants. In July 2020 Pepco, in response to a data request submitted by the Commission Staff, disclosed errors in the billing determinants upon which its June 1, 2020 EMRP rate proposals were premised. Pepco's correction of those errors in late July 2020 provided the Company a second chance to update its billing determinants. A third opportunity was provided when the Commission authorized Pepco to file additional testimony on billing determinants issues in October 2020,[7] but Pepco failed to seize that opportunity and instead defended the reasonableness of the billing determinants forecasts the Company had previously submitted. A fourth opportunity for Pepco to revise or update its billing determinants was provided in Order No. 20755. That Order directed Pepco to provide new billing determinants and rates for use in 2023.[8] However, Pepco manipulated its revised rates in an effort to recover more than $70 million in additional revenue when the Commission had authorized only a $38.4 million CY 2023 increase. Ultimately, the Commission rejected Pepco's revised billing determinants.

In addition, Pepco is permitted to annually update the forecasts of kWh billing determinants that the Company uses to compute its monthly BSA revenue adjustments by rate class. That updated kWh forecast does not alter Pepco's authorized revenue requirement. However, as Pepco argued when such kWh forecast updates were authorized, annual kWh forecasted updates, if reasonably developed,[9] should help ensure a closer tie between the actual kWh use and the kWh on which monthly rate

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[7] See the Fourth Supplemental Testimony of Pepco Witness Blazunas, Exhibit Pepco (7F).

[8] Order No. 20755, page 189, ¶ 476.www.

[9] Unfortunately, no forum or formal procedure has been established to assess the reasonableness of Pepco's annual kWh forecast updates.

adjustments are computed. That closer correspondence between forecast and billed kWh should, lead to greater assurance that monthly rate adjustments actually collect the targeted dollar amounts for those monthly adjustments. Moreover, differences between targeted and actual monthly BSA rate adjustment revenues are added to each class's revenue under- or over-recoveries. As a result, Pepco's annual kWh forecast updates offer the potential for limiting further increases in overall revenue under-recoveries that Pepco computes within the existing BSA mechanism. Thus, suggestions that Pepco's BSA revenue under-recoveries are substantially driven by the Company's inability to update its billing determinants have limited substantive foundation.

Atrium's Draft Report fails to address the obvious observation that if class rates of return in the District of Columbia (particularly for Demand-Metered rate classes) were more in line with the system average rate of return (e.g., more reflective of Pepco's Maryland class rates of return), Pepco would have less revenue at risk when COVID-19 or other factors alter commercial class usage. Also, missing from the Auditor's observations is recognition that no other jurisdiction or utility in the U.S. has sustained **negative rates** of return for its entire residential service class for more than two decades. There is an implicit suggestion that demand-metered commercial classes in general, and the GT-LV class in specific, are **bad actors** that do not meet the revenue per customer targets Pepco has computed based on its questionably reliable forecasts of future billing determinants. However, Pepco's Commercial customers are not the source of the Company's revenue problems. As the Draft Audit Report recognizes in Table 2-3 on page 17 of the Draft Report, the overall rate of return for Pepco's Commercial classes in the District of Columbia is 11.21%. That was **more than double** the Company's 4.87% Test

Year System ROR in Formal Case No. 1156.[10] Table 1 highlights the much closer alignment of class rates of return in Maryland for Pepco's Residential and Commercial customer classifications (which represent more than 97% of total revenues for each jurisdiction).

Table 1

Comparison of Pepco Class Rates of Return For DC and MD

	Pepco District of Columbia		Pepco Maryland	
Rate Class	Class ROR	% of Total Revenues	Class ROR	% of Total Revenues
Residential	**-4.87%**	19.2%	6.52%	59.0%
MMA	8.90%	2.6%		
Commercial	11.21%	77.9%	8.92%	39.1%
Street Lighting	**-2.20%**	0.3%	0.60%	1.9%
Overall	4.87%	100.0%	7.39%	100.0%

Finally, AOBA challenges Pepco's representation that "*some matters raised by OPC and AOBA fail to provide sufficient evidence or facts to allow Pepco to fully respond or are otherwise improper*."[11] OPC and AOBA and other intervenors were only provided the opportunity to submit "comments." The process established by the Commission did not provide for the filing of "*evidence*," and it is inappropriate for Pepco to criticize OPC and AOBA for not introducing new or additional evidence in their filed comments.

[10] Based on Pepco's pending rate increase application in FC 1176, the overall rate of return for Pepco's Commercial service classes in the District of Columbia, as reflected in Pepco Exhibit (D)-1, is now 13.35% and the GT-LV rate of return is **14.36%** or more than 2.5 times the overall system rate of return.

[11] Pepco Reply Comments at 13.

C. Comments Are Not Evidence

Pepco argues that OPC and AOBA "*present no support or legal requirement demonstrating that such topics or issues were required to be addressed by Atrium*.[12] However, the Atrium Audit was understood to require a "holistic examination" of the BSA, and the Scope of Work included a rather extensive list of relevant documents, including testimony filed by witnesses for OPC and AOBA in which substantial support for many of OPC's and AOBA's concerns was developed. In that context, OPC and AOBA had no reason to believe that introduction of new or additional evidence as part of their "comments" on the Preliminary Draft Report was necessary or appropriate.

III. CONCLUSION

AOBA respectfully asks the Commission to accept AOBA's motion to respond and consider the substance of this response as it evaluates the content of the Atrium Draft Report and Pepco's Comments regarding that report.

[12] Pepco Reply Comments at 11.

Dated: June 30, 2023

Respectfully submitted,

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AOBA Counsel of Record

Attachment A
Formal Case No. 1156

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA FORMAL CASE NO. 1156
RESPONSE TO STAFF DATA REQUEST NO. 24

QUESTION NO. 24

Follow-up to Pepco's Response to Staff DR No. 19-6.

i) In DR 19-6, Pepco confirmed the overall underestimation of demand components result in an underestimation of revenues for these two classes, GT and MGT of total of $30 million from August 2018 to December 2020, is that correct?
ii) Did Pepco use the correct demand billing determinants in creation of the original rate application? If not, at what point in testimony were the correct billing determinants implemented into Pepco's proposal?
iii) Has Pepco corrected such an error in billing determinants in enhanced MRP? Why or why not?

ORIGINAL RESPONSE (July 22, 2020):

i) Pepco confirmed that the estimated implicit under-recovery of demand revenue as a result of designing Formal Case No. 1150 demand rates on the incorrect measure of demand is equal to approximately $30 million for the period August 2018 to December 2020.

ii) No. The correct test period measures of demand were, however, introduced in PEPCO (4F) and PEPCO (4F)-14.

iii) Pepco is gathering this information and will provide the response no later than Friday, July 24th.

SPONSOR: Peter R. Blazunas

AMENDED RESPONSE:

i) Please see the response to FC 1156 Staff DR 24-24 (i) filed July 22, 2020.

ii) Please see the response to FC 1156 Staff DR 24-24 (ii) filed July 22, 2020.

iii) In the course of the preparation of this response, the Company determined that the correction made to actual demand (kW) billing determinants for its traditional test period compliance filing affected the forecasted demand (kW) billing determinants utilized for both the Original MRP Proposal rate design (PEPCO (4F)-14) and the MRP Enhanced Proposal (PEPCO (5F)-6) rate design. In particular, the Company's forecasted demand (kW) billing determinants are derived using a calculated load factor for the actual demand (kW) billing determinants for the traditional test period. The Company's Original MRP and MRP Enhanced proposals, as currently filed, fail to reflect this change, and Company Witness Blazunas was incorrect in his assertion in his Rebuttal Testimony that the issue addressed by updating the actual demand (kW) billing determinants in the traditional test period compliance filing did not affect the forecasted demand (kW) billing determinants.

Absent a revision to reflect updated forecasted demand (kW) billing determinants in the Company's proposed MRP rates, the rates as currently proposed in the Original MRP (Rebuttal) and MRP Enhanced Proposal (Surrebuttal) would be designed to be too low and consequently any difference between authorized and billed distribution revenue caused by this issue would continue to be recovered via the BSA, exacerbating the BSA deferral balances.

The Company submits the following attachments as revised versions of Company Witness Blazunas's Rebuttal and Surrebuttal MRP-related exhibits:

- FC 1156 Staff DR 24-24 Attachment A: Revised PEPCO (4F)-6 (provided in electronic format only)
- FC 1156 Staff DR 24-24 Attachment B: Revised PEPCO (5F)-3 (provided in electronic format only)
- FC 1156 Staff DR 24-24 Attachment C: Revised PEPCO (5F)-5 (provided in electronic format only)
- FC 1156 Staff DR 24-24 Attachment D: Revised PEPCO (5F)-6 (provided in electronic format only)
- FC 1156 Staff DR 24-24 Attachment E: Revised PEPCO (5F)-7 (provided in electronic format only)
- FC 1156 Staff DR 24-24 Attachment F: Revised PEPCO (5F)-8
- FC 1156 Staff DR 24-24 Attachment G: Revised PEPCO (5F)-18 (provided in electronic format only)
- FC 1156 Staff DR 24-24 Attachment H: Revised PEPCO (5F)-19

The above incorporate the use of updated forecasted demand (kW) billing determinants in the Company's MRP to address this issue. No change was made to the Company's proposals with respect to total revenue requirements, allocated revenue requirements by class, or total proposed revenues by class. The Company's MRP Enhanced Proposal continues to fully offset base distribution rate increases for RY1 and RY2 of the MRP Enhanced Proposal, and to partially offset distribution rate increases in 2022. Furthermore, this update does not affect either of the proposed rate designs for the Residential, MMA, Metro, Lighting, and non-demand commercial classes.

Company Witness Blazunas will file errata to his testimony detailing the above on Tuesday, July 28th, and will offer to receive discovery limited to this issue for 3 days with a 5-day turnaround. The Company will also offer to have an informal call with any parties that seek to discuss the change and its impact on the proposed rate designs.

SPONSOR: Peter R. Blazunas

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA FORMAL CASE NO. 1156
RESPONSE TO STAFF DATA REQUEST NO. 26

QUESTION NO. 2

Please refer to Pepco (6F), page 5, lines 12-14. The Company estimates an under-recovery of billed distribution revenue for the affected classes equal to be approximately ($12.7) million per year, and approximately ($20.8) million in total for the period August 2018 through March 2020. Please confirm that such underestimation would increase to roughly $30 million for the enhanced MRP for the period August 2018 through December 2020 as stated in Pepco's DR to Staff, DR No. 24-24.

RESPONSE:

Correct.

SPONSOR: Peter R. Blazunas

CERTIFICATE OF SERVICE
Formal Case No. 1156

I hereby certify on this 6th day of June 2023, that the attached Corrected Motion for Leave to Respond and Response to Pepco's Reply Comments Regarding the Atrium Economics, LLC Preliminary Draft BSA Audit Report were filed electronically on behalf of the Apartment and Office Building Association of Metropolitan Washington and copies were electronically delivered to the service list below:

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Frann G. Francis, Esquire

AOBA
— APARTMENT AND OFFICE —
BUILDING ASSOCIATION OF
METROPOLITAN WASHINGTON

November 13, 2023

By Electronic Filing

Brinda Westbrook-Sedgwick
Commission Secretary
D.C. Public Service Commission
1325 G Street, N.W., Suite 800
Washington, D.C. 20005

Re: **Formal Case No. 1156**
In the Matter of the Application of the Potomac Electric Power Company for Authority to Implement a Multiyear Rate Plan for Electric Distribution Service in the District of Columbia

Dear Ms. Westbrook-Sedgwick:

Enclosed for filing please find the Public Comments of the Apartment and Office Building Association of Metropolitan Washington regarding the Atrium Economics, LLC Pepco DC BSA Audit Report in the above-referenced proceeding. AOBA's Confidential Comments will be filed under separate cover.

If you have any questions, please contact me at ffrancis@aoba-metro.org or call my cell at (301) 518-9700. Thank you for your attention in this matter.

Sincerely,

Frann G. Francis

Frann G. Francis, Esq.

cc: All parties of record

BEFORE THE
PUBLIC SERVICE COMMISSION
OF THE DISTRICT OF COLUMBIA

IN THE MATTER OF	*	
	*	
THE APPLICATION OF THE	*	
POTOMAC ELECTRIC POWER COMPANY	*	**FORMAL CASE NO. 1156**
FOR AUTHORITY TO IMPLEMENT A	*	
MULTI-YEAR RATE PLAN FOR	*	
ELECTRIC DISTRIBUTION SERVICE	*	
IN THE DISTRICT OF COLUMBIA	*	

COMMENTS OF
THE APARTMENT AND OFFICE BUILDING
ASSOCIATION OF METROPOLITAN WASHINGTON
REGARDING THE ATRIUM ECONOMICS, LLC
<u>PEPCO DC BSA AUDIT REPORT</u>

Pursuant to the revised schedule for Comments set forth in Order No. 21915 on October 18, 2023, the Apartment and Office Building Association of Metropolitan Washington ("AOBA") hereby files its Comments on the Final Atrium Economics, LLC. BSA ("Atrium") Audit Report submitted to the Commission by Atrium on July 7, 2023. This filing conveys AOBA's comments on the Final Atrium BSA Audit Report. As the Final Atrium Report is not substantively different from the Draft Report submitted in May 2023 and does not address the concerns that AOBA raised in its comments on the Preliminary Draft Report, AOBA hereby incorporates by reference the entirety of the Comments on the Preliminary Draft Atrium Report AOBA filed on June 6, 2023 and its response to Pepco's Reply Comments that was filed on June 30, 2023.

A. INTRODUCTION

AOBA must voice substantial concerns regarding the content of the Atrium BSA Audit Report ("Atrium Report"). The report, although of considerable length (104 pages, including Appendices), provides only conceptual support for important quantitative determinations it offers. No workpapers, calculations, and assumptions relating to quantitative determinations purportedly based on actual Pepco data are provided. The auditors also make factually incorrect representations, and appear to accept as undisputed fact, matters that AOBA specifically contested in testimony submitted by its witnesses in Formal Case No. 1156.

AOBA also expresses concern regarding the lack of effort by the BSA Audit Team to solicit input from AOBA and other interested parties as part of its investigation. AOBA has had a long involvement in the details of Pepco's BSA mechanism and regularly monitors and evaluates the content of Pepco's monthly and annual BSA filings. Also, the Commission should not overlook the fact that AOBA's attorneys and consultants have had continuous involvement in all BSA issues since the inception of that mechanism, while Pepco has had considerable turnover in the personnel that comprise its rate and regulatory groups over the same period. Yet, Atrium made no effort to obtain AOBA's perspectives on these matters before rendering its Draft Report. Atrium's lack of documented effort to gain further insight on these matters from other parties that have been active participants in recent Pepco rate proceedings (e.g., OPC, GSA, DCG, DOEE, the Sierra Club or others) should be viewed as a major shortcoming and a potential source of bias in the development of Atrium's findings.

Four times within the Draft Report AOBA observes representations by Atrium that "*the BSA is well designed*."[1] Yet, AOBA finds no clearly presented support for that assessment. The Draft Report also states:

> "*Upon examination of the BSA documented processes, Atrium finds that the structure, processes, and procedures of the BSA mechanism are sufficient to achieve the objectives prescribed by the DC Commission*."[2]

If the above statement was true, Pepco would not now be faced with large BSA deferred revenue balances, and there would have been no compelling need for the Commission to undertake this audit.

Unfortunately, Atrium shows itself to be a less than fully informed observer that is more focused on rendering opinions on regulatory policy than on the presentation of objective well-structured, and well documented analyses of the substantive Pepco BSA issues faced by this Commission. AOBA also finds reasons to question the objectivity of analyses and rationales underlying certain of Atrium's findings and recommendations.[3]

B. BACKGROUND

In Formal Case No. 1156, the Commission ordered an audit to be conducted to review Pepco's operation of its BSA as part of a "*comprehensive review and evaluation*."

1 Draft Report, Executive Summary, pages iv. and v. and pages 27 and 28 of the body of the report.
2 Draft Report, Executive Summary, page iv.
3 AOBA's review of the Atrium Economics, LLC website finds that essentially all of the entities listed as clients of Atrium Economics are utilities. See https://atriumecon.com/company/ "Our Clients."

The Commission chose Atrium as the auditor, and on May 18, 2023, Atrium submitted a Preliminary Draft BSA Audit Report. On May 24, 2023, the Commission issued a Notice which set forth a revised schedule for the submission of comments on the Preliminary Draft of the Atrium BSA Audit Report. The only other specific action required by the Commission's May 24, 2023 Notice was Atrium's filing of a Final Report by July 7, 2023. The Commission established dates for the filing of comments and reply comments by the parties on the **Preliminary Audit Report**. In response to the Notice issued by the Commission on May 24, 2023 Comments were filed on or before June 6, 2023 by AOBA, the Office of People's Counsel for the District of Columbia ("OPC"), and Pepco.[4] Pepco filed Reply Comments on June 20, 2023, and AOBA submitted a response to Pepco's Reply Comments on June 30, 2023. The Final Atrium DC BSA Audit Report was filed with the Commission, as scheduled, on July 7, 2023.

C. DISCUSSION OF ISSUES

AOBA seeks to focus the Commission's consideration regarding the Atrium Final Report on seven primary issues. Those issues include:

1. Discussion in the Atrium Report of issues associated with pending litigation;

2. Atrium's erroneous assessment of the drivers of Pepco's BSA revenue under-recoveries and revenue deferral balances;

[4] AOBA and Pepco filed Comments on June 6, 2023, and OPC filed Comments on June 5, 2023.

3. Atrium's failure to fully examine Pepco's November 2022 Manual Adjustments to the BSA deferral balance for the GT-LV class including Pepco's responses to AOBA data requests regarding that adjustment;

4. Atrium's general lack of documented effort to gain further understanding of the positions of parties other than Pepco regarding BSA-related issues;

5. Atrium's claim that it has considered "*best practices*" with respect to revenue decoupling mechanisms;

6. Atrium's failure to address issues associated with the responsibility of commercial customers in demand-metered rate classes, particularly the GT-LV and MGT-LV rate classes for revenue under-recoveries during the period of COVID pandemic-related governmental restrictions on business activity during 2020 and 2021;

7. Atrium's failure to hold Pepco accountable for admitted errors in its development of rates in two successive rate proceedings where those errors served to amplify the magnitude of the Company's reported BSA revenue under-recoveries.

AOBA submits that Atrium's BSA Audit Report does not well-serve the interests of either the Commission or Pepco's District of Columbia ratepayers. Atrium's failure to demonstrate well-developed understandings of revenue decoupling mechanisms in general, differences in the structure and application of those mechanisms among utilities, and the factors driving the performance of such mechanisms, renders meaningless much of the content of Atrium's Final BSA Audit Report. Furthermore, the Atrium Report is devoid of evidence of any effort by the auditors to solicit input from AOBA, OPC or other non-Pepco representatives. As a result, the Atrium Report presents a less than fully informed assessment of the operation of the BSA that is unduly reflective of Pepco's perspectives without balanced consideration of the interests and concerns of other parties.

Issues Associated with Pending Litigation

AOBA objects strongly to the elements of the Atrium Report that address matters for which there is currently pending litigation before this Commission. The portions of the Atrium Report that address (i) Pepco's BSA-related proposals in the Company's Application in Formal Case No. 1176, which was not filed until mid-April 2023, and (ii) Washington Gas's pending proposal for a Climate Progress Adjustment ("CPA") mechanism that is still awaiting a Commission determination in Formal Case No. 1169 and on which substantial testimony has been filed by multiple parties. Atrium's observations and opinions regarding these matters are inappropriate in the context of pending litigation, particularly when the authors of the report have not been proffered as witnesses and are not subject to discovery and potential cross-examination.[5] For these reasons, all

[5] AOBA understands that (as indicated on page v of the Executive Summary in the Atrium Report) the Commission has made several requests of Atrium subsequent to the Commission's approval of the initial

elements of the Atrium Report that examine issues now pending before the Commission in filed rate applications must be removed from the Atrium Report, disregarded, and given no weight in Formal Case Nos. 1169 and 1176.

Erroneous Assessment of the Drivers of BSA Deferral Balances

Atrium's assessment that Pepco's BSA revenue under-recoveries are driven primarily by declining use is **incorrect!** The observable declines in GT-LV kWh use do not begin to explain the majority of the Company's claimed GT-LV revenue under-recoveries. For the GT-LV class (i.e., the class for which Pepco's claimed under-recoveries are the largest), Atrium fails to recognize that Pepco's claimed under-recoveries emanate **primarily** from Pepco's use of substantially **erroneous** estimates of numbers of GT-LV customers for each of the years (i.e., July 2021 through December 2023) in its compliance rate design analyses and Compliance revenue per customer per month calculations.[6]

The final page of the Executive Summary (page xviii) of the Final Atrium Report notes, "*there have been errors in customer counts, customer classifications, and in billing determinants*."[7] The Atrium Report also states, "*it is of utmost importance that billing determinants used to build forecasts are accurate*…"[8] Yet, the Atrium Report fails to

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scope of work and the selection of Atrium as the contractor for the BSA audit. However, AOBA submits that expansion of Atrium's scope of work for this project to address matters that involve issues in pending litigation are procedurally inappropriate and deny parties to those proceedings due process.

[6] See Pepco's Updated June 24, 2021 Compliance filing in Formal Case No. 1156, and Pepco's January 11, 2023 Compliance Filing for CY 2023 rates.

[7] Atrium Final Report, Executive Summary, page xviii.

[8] Ibid.

address the substantial impact of Pepco's use of inappropriate numbers of GT-LV customers in the design of its Compliance rates in Formal Case No. 1156.

The primary driver of Pepco's claimed under-recoveries is not declining consumption per customer, as Atrium suggests.[9] Rather, the primary driver of the **Pepco's claimed revenue under-recoveries is the Company's inability to accurately forecast numbers of customers.** Although accurate estimation of future kWh and kW requirements are important, AOBA is prepared to demonstrate in Formal Case No. 1176 that **over 78%** of Pepco's claimed BSA revenue under-recoveries from its GT-LV rate class from the effective date of Commission-approved rates in Formal Case No. 1156 in July 2021 through the month of September 2023 are primarily driven by Pepco's use of greatly erroneous numbers of GT-LV customers in the development of its Compliance rates, as well as in the Company's calculations of monthly allowed revenue per customer amounts. As demonstrated in Table 1, below, and in Attachments A and B, to these Comments, the numbers of GT-LV customers Pepco has used in the computation of its compliance rates and allowed revenue per customer amounts has significantly understated its actual numbers of customers. That significant understatement of the actual numbers of GT-LV customers has: (i) produced overstated allowed revenue per customer amounts; and (ii) enabled Pepco to greatly increase the levels of claimed "allowed" revenues in its monthly BSA filings as the total allowed revenues in each month are adjusted upward to reflect the actual numbers of customers reported for each month.

[9] Between 2019 (i.e., pre-COVID) and 2023 Pepco's **average monthly collected revenue per customer for the GT-LV class has increased by 20%.** Over the same period growth in Pepco's reported numbers of GT-LV customers was 18.1%. These observations do not support a finding that declining use per customer was a major driver of Pepco's BSA revenue under-recoveries.

Table 1

Numbers of GT-LV Customers Assumed in the Development of Pepco's Compliance Rates[10] Versus Pepco's Reported Actual Numbers of GT-LV Customers

Period	Rate Design Customers	Actual Customers	% Error
July 21 – Dec 21			
Low	276.0	321.0	14.0%
High	277.0	321.0	14.8%
Average	276.7	323.2	14.4%
Jan 22 – Dec 22			
Low	276.0	328.0	18.6%
High	277.0	342.0	19.0%
Average	276.5	336.1	17.7%
Jan 23 – Sep 23			
Low	276.0	340.0	18.6%
High	277.0	345.0	18.6%
Average	276.3	343.3	18.6%

Table 1 show significant and growing differences between the numbers of customers used in Pepco Compliance rate calculations in Formal Case No. 1156 and the actual numbers of customers based on the Company's monthly BSA filings. Monthly errors in numbers of customers range from 45 customers to 69 customers. In percentage terms, those errors in the estimation of rate year numbers of customers range from 14% to nearly 20%.

[10] The development of Pepco's Compliance Rates for the last six months of calendar year 2021 and for calendar year 2022 is found in Pepco's Updated June 24, 2021 Compliance Filing in Formal Case No. 1156. The development of Pepco's Compliance Rates for calendar year 2023 is documented in the Company's January 11, 2023, Compliance Filing in Formal Case No. 1156.

In concept the adjustments to allowed revenues were intended to ensure that Pepco's revenues would be adjusted to reflect changes in the Company's costs of service as the numbers of customers served in a rate class change. That structure assumes that Pepco's costs of serving a rate class change in proportion to changes in the numbers of customers served on a monthly basis. However, there is no evidence that Pepco's rate year costs for providing service to its GT-LV customers have grown beyond the levels provided in the Company's approved revenue requirements (which were already premised on forecasted, not historic, costs).

Additionally, if Pepco had estimated its monthly numbers of customers for the GT-LV class before computing its compliance rates, its monthly allowed revenue per customer amounts would have been smaller. As a result, increases in actual numbers of customers would have generated less additional allowed revenue per actual customer. In combination, these two considerations have led to substantial unnecessary and inappropriate inflation of Pepco's "allowed" revenues, and that, in turn, has greatly amplified Pepco's claimed BSA revenue under-recoveries. Unfortunately, Atrium's assessment of the operation of Pepco's DC BSA mechanism fails to specifically address the significance of Pepco's under-representation of its actual rate year numbers of customers for the GT-LV rate class.

Pepco's substantial under-estimation of its rate year numbers of GT-LV customers by month has led to unnecessary and inappropriate, non-cost-based, inflation of Pepco's "*allowed*" revenues for BSA purposes. Nothing in the Atrium Report explicitly addresses this problem, nor does Atrium assess whether the increases Pepco has computed in its allowed revenues by rate class are supported by actual increases in its costs of providing service.

Given the large revenue deferral balances that have accrued, the Commission should expect to observe a substantial decline in the GT-LV class rate of return. Yet, Atrium makes no observations regarding such a decline in the Rate Schedule GT-LV rate of return. Rather, the Atrium Report recognizes that the GT-LV class is found to provide Pepco a substantially above system average rate of return.[11] If the BSA mechanism is working as intended, the Commission should expect to observe that the **substantial** increases in Pepco's BSA "***allowed***" revenue for the GT-LV rate class are accompanied by proportionate increases in Pepco's cost of serving the GT-LV rate class. However, the Atrium Report offers no assessment of the extent to which changes in Pepco's BSA "allowed" revenues are matched by comparable increases in Pepco's costs of service by rate class. Instead, Atrium inaccurately concludes that the primary driver of Pepco's BSA revenue under-recoveries is "***declining use***."[12]

There is no question that kWh use has declined for most of Pepco's classes of service in the District of Columbia, including its large commercial customers served under Rate Schedule GT-LV. However, at least a substantial portion of those declines in kWh has been incorporated in Pepco's rates through the Company's use of forecasted kWh billing determinants. Atrium does not assess the extent to which actual declines in kWh

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[11] Pepco's filed Class Cost of Service Study ("CCOSS") in Formal Case No. 1156, Exhibit Pepco (E), found the **GT-LV** rate class provided Pepco a **9.89%** ROR which was 2.03 times the system average ROR for the twelve months ended June 30, 2019. In Pepco's more recent rate application in Formal Case No. 1176, Exhibit Pepco (D), finds a ROR for the **GT-LV** rate class of **13.46%,** which equates to 2.36 times the system average ROR for the twelve months ended December 31, 2021. Thus, Pepco's analyses indicate the GT-LV rate of return has **increased**, not decreased.

[12] Atrium Final Report, Executive Summary, page iv.

use were already reflected in the kWh forecasts used to design the rates that have been implemented as a result of the Commission's determination in Formal Case No. 1156.

The Commission must not lose sight of the fact that reductions in energy use by large commercial buildings is reflective of, and consistent with efforts to achieve the District's climate goals. In that context, buildings that reduce their energy use should be rewarded, not burdened with added costs through BSA surcharges, Effective Rate Adjustments, and responsibility for large revenue deferral balances to which Pepco claims to be entitled. Given that reductions in energy use in large commercial buildings are not just encouraged, but mandated by legislation, any revenues resulting from reductions in energy use for which Pepco is granted recovery should be viewed as the costs of obtaining important societal benefits. In that context responsibility for such revenue under-recoveries resulting from governmentally mandated reductions in energy use should be socialized and shared by customers in all classes.

Manual Adjustments to BSA Revenue Deferrals

Atrium's report offers the impression that Pepco's internal controls are working fine, but Atrium's representations regarding the adequacy and effectiveness of Pepco's internal controls does not explain how the problem that led to the November 2022 adjustment to Rate Schedule GT-LV revenues slipped through the cracks for several months. Moreover, Atrium's findings regarding the adequacy and robustness of Pepco's internal controls appears inconsistent with the subsequent emergence of the Company's presentation of additional adjustments to BSA deferral balances for the MMA and GS-ND classes. Pepco's identification of this additional problem, and its presentation of additional manual adjustments subsequent to the issuance of Atrium's Final Report, further erodes the confidence that can be placed in the findings of the Atrium audit with respect to Pepco's internal controls.

The Atrium Report's review of the November 2022 adjustment to the Rate Schedule GT-LV BSA deferred revenue balance is **more procedural** than **substantive** in its focus. However, even the **procedural** elements of that review must be questioned. In its Executive Summary, Atrium indicates it "...*will review the circumstances that led to the customer count error discovered in November 2022*, *and ... will assess whether controls around customer counts need to be strengthened*."[13] Yet, the findings Atrium offers on these matters suggest that the auditors did little more than accept Pepco's explanation of the circumstances that Atrium was ask to investigate. Atrium's finding that Pepco's "***Annual BSA agrees to accounting books and records***,"[14] is simply tautological. It renders no insight to the reasonableness and equity of the procedures employed or the accuracy of the customer counts Pepco uses to compute its BSA "*Allowed*" revenues by rate class. Furthermore, the credibility of that finding is undermined by Pepco's recognition (subsequent to the issuance of the Atrium Final Report) of BSA errors resulting from the Company's failure to properly identify and reflect conversions of MMA dwelling units to individual metering in the BSA process.[15] Thus, although Pepco's BSA revenues may have aligned with its accounting books and records, it now appears that (as a result of problems Atrium's audit failed to detect) neither the

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13 Atrium Final Report, Executive Summary, page viii.
14 Atrium Final Report, page 71, Section 3.2.5, Findings and Recommendations.
15 This recently reported problem in Pepco's reporting of BSA numbers of customers is developed further below.

Company's BSA revenues nor its accounting books and records were correct. Moreover, the fact that the identifed problem with respect to conversion of MMA dwelling units to individual metering extended over a period of approximately 39 months renders Atrium's finding that Pepco's Annual BSA agrees with the Company's accounting books and records rather meaningless.

Pepco's GT-LV Customer Count Error

Section 3.2.4 of the Atrium Report, purports to address the "*Customer Count Error discovered in November 2022*."[16] In that section, Atrium states that "*All customer counts are verified for accuracy as part of the normal monthly Accounting close and Regulatory processes involved in the preparation of Pepco's BSA filing*."[17] Yet, that representation conflicts with the fact that the "***error*"** (or string or errors) that led to the November 2022 adjustment to the Rate Schedule GT-LV BSA revenue deferral balance, **endured for multiple** months before detection.

AOBA expresses concern regarding Atrium's findings regarding the error that Pepco identified in November 2022 and the related adjustment to BSA deferred revenue balance reflect little more than acceptance of Pepco's representations. Pepco's responses to AOBA's data requests regarding the November 2022 adjustment to the GT-LV deferred revenue balance raise a number of questions that the Atrium Report does

[16] Atrium Final Report, Section 3.2.4, page 70. AOBA notes that the discussion in this section of the Atrium Report at pages 70-71 make explicit reference to concerns raised by AOBA in December 2022 and addressed by the Commission in Order No. 21599. Yet, nothing in Atrium's discussion of this matter addresses either the content of Pepco's responses to the AOBA data requests that were issued on May 1, 2023, and answered by Pepco on May 19, 2023. There is also nothing in the Atrium report that responds directly to concerns regarding this matter that AOBA offered in its June 5, 2023, comments on the Preliminary Draft Report that was circulated to the parties on May 18, 2023. Again, despite the fact that AOBA has worked with Pepco for decades on matters relating to communications between Pepco and its commercial customers in the District of Columbia, Atrium made no effort to solicit AOBA insights and perspectives on these matters.

[17] Ibid.

not examine.[18] As noted in Pepco's response to AOBA Data Request 1-7, the customer in question had requested termination of its service because the building was to be "***razed/demolished***." With that understanding, Atrium fails to explore why those two meters were still active when the building was scheduled for demolition. The Atrium Report, lacks investigation of:

1. What contact was made with the customer after the discovery was made that two meters of the twelve meters at the site were still in use, and what explanation was provided for the activity being recorded by the active meters?

2. Why was there no tracking of meter inventory that would have reflected the fact that the scheduled work order to remove 12 meters from the site was not completed as scheduled?

3. After 10 of 12 meters at the site were removed, did the customer continue to be properly classified as a GT-LV account?

4. Was the building subsequently razed/demolished? If so, when? If not, why not?

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[18] See Pepco's responses to AOBA's BSA Data Request Set 1 which are included in Attachments A and B to these comments.

5. Given the Company's extensive use of AMI metering, why was there no transmission of usage data from the active meters that would have facilitated earlier identification that those meters were still active?

Although Atrium generally finds Pepco's internal controls for its BSA appropriate, the Atrium Report fails to explain the break downs in communication between Pepco's operations and rate personnel that lead to Pepco's claimed need for its November 2022 adjustment to the Rate Schedule GT-LV BSA deferred revenue balance. It appears that Atrium basically accepted Pepco's less than fully expository explanations of causes of the claimed error and did very little to investigate the circumstances surrounding this matter as the Commission had requested.

Atrium's recapitulation of the dollar amounts by month that comprise Pepco's November 2022 adjustment to its Rate Schedule GT-LV BSA deferred revenue balance depicts nothing more than a simple summation of Pepco's allowed revenue per customer amounts for one GT-LV customer over the identified five-month period. That simple summation took at most minutes to compile and provides no insight to an array of related questions. Importantly, nowhere does Atrium address the amounts of usage (kWh and kW) that were recorded on the two purportedly "active" meters in each of those months or the dollar amounts actually billed for such usage over the referenced five-month period. Given Pepco's understanding that the building was to be "***razed/demolished***" it is conceivable that, although the two referenced meters were technically active, only trivial amounts of electricity use were actually recorded. Certainly, the Commission should expect that with 10 of the 12 meters that formerly served the site removed, the total electrical use recorded for the account was likely to have declined substantially.[19]

<u>Pepco's Failure to Timely Recognize MMA Conversions</u>

As explained in Pepco's August 10, 2023, monthly BSA filing, and further documented in Pepco's responses to AOBA Data Requests, Pepco discovered that it had not properly accounted for MMA dwelling units that were converted to individual metering. Although Pepco represents that the conversions occurred **over a period of more than three years**, nothing in the Pepco procedures that Atrium characterizes as "***robust***" flagged this problem. Apparently, those errors, which impact Pepco's monthly BSA filings over a period of more than three years (i.e., from March 2020 through June 2023) were not identified by Pepco through its existing internal system of "controls" and were not flagged by either Pepco or Atrium until after the Audit process was completed. How these errors in Pepco's reporting went undetected for so long, and how Atrium's review failed to identify such problems once again raises concerns regarding the adequacy both of Pepco's internal controls and the thoroughness and sensitivity of Atrium's "Audit" procedures. As demonstrated by Pepco's responses to AOBA data requests on these matters, both instances reflect a substantial lack of communication among Pepco's field operations personnel, customer service representatives, and ratemaking personnel.

[19] AOBA notes that Order No. 21599, page 3, paragraph 9, indicates "*two meters associated with the account were removed*" and that "*two other meters remained active*." However, Pepco's subsequent response to AOBA BSA Data Request Set 1, Question No. 7, part a, indicates that there were actually twelve meters associated with the account of which two were found to be active, and therefore, not removed.

Atrium's Report provides the impression that, except for minor issues, Pepco's internal controls are working fine. Yet, that does not explain how the problem that led to the November 2022 adjustment (reflected in the Company's December 2022 monthly BSA filing) slipped through the cracks for several months. It also appears inconsistent with the subsequent emergence of additional adjustments to BSA deferral balances for the MMA and GS-ND classes for master-metered apartment units that were converted to individual metering. Again, those errors went undetected for more than a three-year period (from March 2020 through June 2023) despite the fact that the referenced conversions represented on-going activity and monthly changes to customer counts throughout that 39-month period.[20]

How these errors in Pepco's reporting went undetected for so long, and how Atrium's review failed to identify such problems again raises concerns regarding the adequacy both of Pepco's internal controls and the thoroughness and sensitivity of Atrium's "Audit" procedures. As demonstrated by Pepco's responses to AOBA data requests on these matters,[21] both instances reflect a substantial lack of communication among Pepco's operating, engineering, customer service, and ratemaking personnel. Clearly, relevant information existed that was not clearly and/or timely communicated. This disclosure amplifies AOBA's concerns. As this Commission is likely aware, there have been a significant number of master-metered apartment units converted to individual metering in recent periods, and these findings raise questions

[20] See Pepco's full updated responses to AOBA Data Request Set 3 with specific focus on Pepco's full responses to Data Requests 3-4 and 3-7, regarding Pepco's adjustment to its numbers of MMA dwelling units and adjustments to deferred revenue balances that are reflected in Pepco's August 10, 2023 Monthly BSA filing.

[21] See Pepco's responses to AOBA's BSA Data Request Set 3 which are included in Attachments A and B to these comments.

regarding the accuracy of Pepco's BSA treatment of other recent projects involving the conversion of MMA dwelling units to individual metering.

Atrium's Review of Pepco's BSA Mechanism

Section 2 of the Atrium Report purports to offer a "***Comprehensive Evaluation of Pepco's BSA***." However, Atrium's presentations in that section are far from comprehensive and less than insightful. For example, Table 2-1 provides data that Atrium characterizes as "*Descriptive Statistics of Commercial Rate Classes*."[22] The data set forth in that table provide some indications of differences in usage characteristics for commercial rate classes in calendar year 2019, but Atrium offers no discussion of the relevance of those differences to the operation of Pepco's BSA. As AOBA explained in Formal Case Nos. 1139 and 1156, Pepco's application of its BSA mechanism to commercial rate classes faces concerns regarding the impacts of customer transfers between rate schedules that do not impact the Company's residential rate class.[23] Yet, the Atrium Report does not even acknowledge these thoroughly documented AOBA concerns. Nor, does Atrium discuss the impact of such differences in commercial class usage statistics on the determination of equitable adjustments to BSA "*Allowed*" revenues by rate class when customers are transferred between rate schedules. Atrium's BSA evaluation does not even mention the fact that Pepco annually reviews individual

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[22] Atrium Final Report, page 6.

[23] See Exhibit AOBA (A), pages 84-99, in Formal Case No. 1156, as well as AOBA's Initial Brief in Formal Case No. 1139, pages 60-64.

commercial customer electric usage and implements customer transfers as required by the Company's District of Columbia tariff provisions.

AOBA submits that the types of differences in class usage characteristics shown in Atrium's Table 2-1 have a direct impact on the equity of adjustments to "*Allowed*" BSA revenues by class. Yet, as currently structured Pepco's BSA computations of "*Allowed*" revenue by class are not reflective of equitable and cost-based ratemaking determinations. Again, the Atrium Report fails to acknowledge and address AOBA's documentation of substantial rate inequities that have resulted for Pepco's current BSA procedures for reflecting customer transfers between commercial rate classes. As AOBA has well-documented, Pepco's current treatment of customer transfers between demand-metered commercial rate classes have permitted significant,[24] non-cost-based, inflation of Pepco's calculated "Allowed" BSA revenues.

In Order No. 18846 in Formal Case No. 1139, this Commission explicitly recognized AOBA's concerns regarding this matter and the fact that Pepco's BSA mechanism is not designed to address customer transfers between rate schedules. The Commission also indicated in that Order that, "*We expect Pepco to take steps to address these concerns*."[25] In this context, Atrium's evaluation of Pepco's BSA mechanism is clearly **not "*comprehensive***," and any effort to attempt to characterize the Atrium Report as a "comprehensive" evaluation of Pepco's BSA mechanism must be rejected.

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[24] In Formal Case No. 1139 AOBA computed that Pepco's BSA procedures for calculating the BSA "Allowed" revenue impacts of customer transfers had allowed Pepco to gain an **$11 million** increase in the revenues Pepco has used to compute monthly BSA revenue adjustments and revenue deferral amounts. With recognition of additional commercial customer transfers between rate schedules since Formal Case No. 1139 was litigated, the impacts of this problem must be expected to grow even larger with the passage of time.

[25] Formal Case No. 1139, Order No. 18846, page 98, paragraph 306.

Undocumented Atrium Analytics

The Atrium Report offers several calculations and quantitative assessments without any supporting workpapers. For example, Atrium states (both in its Executive Summary, page xiii, and in Section F2-3 at page 47 of the Final Report that:

> *According to Atrium's calculations, revenue recoveries associated with declining use comprise 72% of under-recoveries for all classes subject to the BSA and contributing to the deferral balances. Declining use may be further broken out into three categories: non-COVID, energy efficiency or SEU programs, and COVID. Atrium's analysis finds that COVID and its ongoing effects account for approximately 25% of revenue under-recoveries. Energy efficiency programs accounted for 13% of under-recoveries; and non-COVID decline in use comprised 34% of under-recoveries. The non-COVID decline in use of 36% can be primarily attributed to the continued use of stale billing determinants.*

However, Atrium provides no supporting workpapers to document and explain the manner in which Atrium quantified the components of the drivers that it uses to explain Pepco's BSA under-recoveries. AOBA's review of Appendix 2-B to the Final Report finds that Atrium's analysis of "Deferral Drivers" is essentially an analysis prepared by Pepco to which Atrium has made adjustments, but Atrium again, provides no workpapers or supporting calculations for the corrections Atrium made to adjust Pepco's analysis.[26]

AOBA finds the substantial elements of the content of Appendix 2-B to the Atrium Report problematic. For example, the Column on each page of Appendix 2-B is labeled "Location." The entries in that column on each line provide column and row references

[26] Pepco has previously presented an assessment of BSA revenue deferral drivers that AOBA found substantially flawed. AOBA has been provided no means of verifying the accuracy and appropriateness of Atrium corrections to the Pepco analysis on which it has relied as a starting point for its assessment of drivers of Pepco's revenue deferral balances.

apparently to an electronic spreadsheed analyses, but the electronic spreadsheet referenced is not provided.

In addition, AOBA finds certain of the entries in the columns of Appendix 2-B labeled “Finding” and “Resolution” are either inconsistent with information previously provided by Pepco as evidence in prior cases or not fully reflective of information provided in Pepco’s monthly BSA filings. In this context, AOBA observes that Atrium’s Appendix 2-B references adjustments to deferred balances for certain commercial rate classes in the Company’s May 2019 monthly BSA filing. In that May 2019 BSA filing Pepco references a misclassification of MGT-LV and GT-LV customers. However, in Attachment 2, line II.D. Pepco makes adjustments to Deferred Revenues for **five** commercial rate classes, and those adjustments **total to over $20 million**. Atrium does not fully address Pepco’s adjustments to the three classes that are not referenced in the transmittal letter for Pepco’s May 2019 monthly BSA filing. Atrium also does not examine the manner in which the dollar amounts of the adjustments to deferred revenue balances for any of the five impacted classes were calculated.

However, it can be easily assessed that the adjustments to the deferred revenue balances for the MGT-LV and GT-LV classes in that May 2019 filing **far exceed** any amount that can be justified by simply a one-month adjustment to the numbers of customers for those two classes.[27] In addition, the shift of 43 customers from the GT-LV class to the MGT-LV class should have **reduced** the previously computed deferred revenue amounts for the GT-LV class. Yet, Pepco’s May 2019 adjustments **add $6.85**

[27] The allowed revenue per customer for the MGT-LV class for the month of March 2019 was $3,329.94. That amount multiplied by **43** re-classified customers yields a revenue impact of just **$143,187.42**. Yet, the adjustment to the MGT-LV class deferred revenue balance that Pepco shows in its May 2019 monthly BSA filing is **$11,937,205.16**. That equates to **83 times more** than a one-one adjustment for 43 customers.

million to the GT-LV class deferred revenue balance. Nothing in the Atrium report addresses these inconsistencies. Moreover, Atrium only addresses Pepco's adjustments to customer counts for the MGT-LV and GT-LV rate classes for the month of March 2019. No evidence of Atrium's consideration of customer count impacts in other months is reflected. In addition, Atrium provides no review and assessment of the accuracy of the adjustments to deferred revenue balance adjustments that Pepco makes for the MGT-LV and GT-LV rate classes in its May 2019 monthly BSA filing, as well as no discussion of the manner in which Pepco computed its deferred revenue balance adjustment for those two rate classes in its May 2019 monthly BSA filing.

Although as noted above, Pepco's May 2019 made adjustments to deferred revenue balances for **five** classes, neither Pepco's May 2019 monthly BSA filing, nor Atrium's audit report includes documentation of the calculation of the deferred balance adjustments shown for the GS-ND, GS-HV, and GT-3A classes. Also, neither Pepco nor Atrium explains the reasons adjustments for these three additional classes were necessary. As a result, there is no indication that Atrium audited and verified the magnitudes and accuracy of the dollar amounts for Pepco's adjustments to the deferred revenue balances that Pepco shows in this May 2019 monthly BSA filing for the GS-ND, GS-HV, and GT-3A rate classes.

Further, AOBA observes that the final page of the Executive Summary of the Final Atrium Report notes "*there have been errors in customer counts, customer classifications, and in billing determinants*."[28] The Final Report also states, "*it is of utmost importance that billing determinants used to build forecasts are accurate*…" Yet, the Atrium Report

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[28] Atrium Final Report, Executive Summary, page xviii.

fails to address the substantial impact of Pepco's use of significantly understated numbers of GT-LV customers in the design of its Compliance rates in Formal Case No. 1156.

Contrary to Atrium's representations, AOBA submits that the major driver of Pepco's claimed under-recoveries is **not** the Company's forecasts of kWh or kW requirements by rate class. Rather, it is **Pepco's failure to forecast numbers of customers, particularly for the GT-LV rate class, with reasonable accuracy.** Although accurate estimation of future kWh and kW requirements is important, AOBA is prepared to demonstrate in Formal Case No. 1176 that over 78% of Pepco's claimed BSA revenue under-recoveries from its GT-LV rate class since the effective date of Commission-approved rates in Formal Case No. 1156 in July 2021 have been attributable to Pepco's substantial understatement of its numbers of GT-LV customers in the development of its Compliance Rates. As a result, Pepco's calculations of its "Allowed" BSA revenues have been unnecessarily and inappropriately inflated. Nothing in the Atrium report explicitly addresses this problem, and the fact that the resulting **substantial** increases in the Company's "allowed" revenue for BSA purposes is not supported by documentable increases in Pepco's costs of providing service to the GT-LV rate class.

AOBA emphasizes that if the Atrium BSA Audit Report is to be relied upon in an evidentiary proceeding, i.e., Formal Case No. 1176, as Pepco has already done in testimony in Formal Case No. 1176, the parties must be able to investigate and challenge the analytic methods Atrium has used and the conclusions it offers without the bias of the Commission's acceptance of that report as filed. The methods Atrium has used to make many of its assessments are NOT dictated by any accounting or other audit standards, and in that context, Atrium's analyses need to be fully vetted in an evidentiary process. This cannot be done in the absence of supporting workpapers for the analyses Atrium indicates it has performed.

The shortcomings in Atrium's presentation is further exemplified by the content of Figures 2.11 and 2.12 in the Atrium Report. Those figures purport to graphically present **kW per customer** data for the MGTLV/GTLV and GT3A classes. However, nowhere does Atrium provide the kWh and kW demand data used to compute the graphed kW per customer data. Atrium also fails to assess changes in kWh use and Load Factors for those classes. There can be no definitive assessment of Pepco's billing determinants without specifically addressing actual and forecasted changes in kWh use and customer load factors.

Similarly, the hypothetical example of Atrium's BSA Deferral Drivers Methodology presented in Figure 2.14 is far from fully expository.[29] Importantly, that hypothetical example fails to address: (a) differences in Pepco's monthly revenue per customer amounts across classes; (b) the manner in which a comparatively small change in electric service requirements can result in a customer transfer to another rate classification; (c) the fact that the transfer of a customer to another rate schedule often requires little or no change in the costs for facilities and operating expenses that Pepco incurs to serve the customer.[30] On the other hand, the transfer of a customer between rate schedules can dramatically change the amount of revenue per customer to which Pepco claims it is

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[29] Atrium Final Report, page 44.

[30] In this context, the Commission must recognize that if a commercial customer increases its service requirements in a manner that necessitates up-sizing or replacement of existing facilities, the customer is generally required to compensate Pepco for the costs of such upgrades through Contributions in Aid of Construction ("CIAC") that Pepco bills directly to the customer.

entitled. For example, Pepco's "Allowed" revenue per customer for a Rate Schedule MGT-LV customer in the month of July 2023 was **$4,703.17**. If the same customer were transferred to Rate Schedule GT-LV, the "Allowed" revenue per customer that Pepco would use for the same customer in July 2023 would have been **$31, 450.58**.[31] In other words, Pepco's claimed "*Allowed*" revenue for BSA purposes for the same customer would be 6.7 times greater if the customer is served as a GT-LV customer than it would be if the customer remained an MGT-LV customer.

Clearly, the transferred customer would need to have a dramatic increase in its electricity use to avoid producing a revenue under-recovery as a GT-LV customer. More likely, the customer's revenue generation would not change significantly, but Pepco would claim that it is entitled to **6.7 times** more revenue from the customer. AOBA's position is that the inability of Pepco's existing BSA mechanism to equitably address such situations is a major shortcoming in existing BSA rate adjustment methodology and results in a distortion in revenue requirements, particularly for the GT-LV rate class.

Atrium Representations Regarding "Best Practices"

Although the Atrium Report makes extensive use of the phrase "*best practices*," Atrium provides no criteria for assessing what constitutes a "*best practice*." Although Atrium offers a general review of the revenue decoupling mechanisms used by other utilities in certain other jurisdictions,[32] nowhere does Atrium identify one practice or set of

[31] Pepco's August 10, 2023, Monthly BSA filing, Attachment 2, line I.A.2.

[32] The "*Survey of Decoupling Best Practices*" that Atrium presents in Section 2.1.5 of its Final Report would be more appropriately characterized as simply a "Survey of Decoupling Practices" with the word "***best***" deleted.

practices as being better or more appropriate than others. In its Executive Summary, the Atrium Report suggests that: "*Focusing on **industry best practices** of electric utilities, Atrium reviewed the entirety of the Company's BSA design elements, processes, internal controls and filing requirements.*" Yet, without specific identification of each practice that Atrium accepts as a "*best practice*," the entire exercise lack substance and leaves a discerning reviewer wanting for a more well-developed understanding of the practices Atrium believes are reflective of "*industry **best** practices*."

The findings presented in the "*best practices*" section of the Atrium report simply conclude that "… *Pepco's BSA is **similar** in design to full decoupling mechanisms in other state jurisdictions within adjacent regions*."[33] Although there are more than 160 investor-owned electric utilities in the U.S., Atrium identifies only 73 electric utilities (i.e., less than half that currently have any form of revenue decoupling. Of those 73 electric utilities, less than one-third (24) were identified as having "*full*" revenue decoupling.[34] Thus, only about 15% of all electric utilities have "*full*" revenue decoupling. Further, only five electric utilities were found to have **monthly reconciling** revenue decoupling mechanisms.[35] Of those five utilities two are Pepco's DC and Maryland operations and two are Exelon affiliates in Maryland. Exelon's adoption of a practice for **some**[36] of the utilities it operates **does not warrant** a finding that the practice is an "*industry best practice*." Effectively, Atrium abuses the phrase "*best practice*," as it fails to demonstrate that any specific practice of

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33 Atrium Final Report, Section 2.1.8, Findings and Recommendations, Finding F-2.1(1), page 28.
34 Atrium Final Report, page 12, Section 2.1.5.
35 Atrium Final Report, page 14, Table 2-3.
36 Atrium provides no evidence that Exelon employs monthly revenue decoupling for its PECO operations in Pennsylvania or its Commonwealth Edison operations in Illinois.

a surveyed utility is **<u>better</u>** than any of the practices used by one or more other utilities that currently have approved revenue decoupling mechanisms.

AOBA further notes that the Executive Summary in the Atrium Report suggests Atrium focused on industry best practices in its review of "*the entirety of the Company's BSA design elements, processes, internal controls and filing requirements."* However, nothing in the Atrium Report provides any information regarding the internal controls that other utilities with revenue decoupling mechanisms use, and the report only offers high level information regarding processes, and filing requirements. Nothing in the Atrium report identifies specific best practices regarding these details. Furthermore, "*filing requirements*" generally reflect determinations made by regulators, not **<u>utility</u>** practices.

In essence, Atrium identifies no established "*best practices*" for electric utility revenue decoupling mechanisms. Further, Atrium fails to address the fact that few utilities other than Pepco and some of its Exelon affiliates (e.g., BGE and Delmara in Maryland) have **monthly** reconciling revenue decoupling mechanisms. Claims of "*industry best practices*" in instances where comparable mechanisms are not widely used in the industry are, at best, **misleading and inappropriate** for use in this activity that was intended to represent an **objective** audit of Pepco's BSA mechanism.

Conformance to Scope of Work

AOBA understands that the Commission has made certain requests of Atrium that extend beyond the initial scope of work for the audit. However, those requests do not explain or justify other departures from the initial scope of work that Atrium was asked to perform. AOBA notes, for example, that the scope of work approved by the Commission for the BSA Audit was specifically restricted to the time period covering September 1, 2018 to March 21, 2022. Yet, Atrium's assessment of the drivers of Pepco's BSA revenue under-recoveries (at page 40 of the Final Report) reflects Atrium's inclusion of information regarding under-recoveries dating back to **2015**. Considering that the full history of Pepco's DC BSA mechanism dates back to November 2009, Atrium does not explain its choice of a 2015 cut-off for its analysis.

Also, as AOBA has noted in prior Comments, nothing in the Scope of Work for this project asks the BSA Audit Team (i.e., Atrium) to investigate or provide recommendations on either performance incentive issues in general or more specifically on energy efficiency performance incentives. Yet, the Executive Summary of the Draft Report, without establishing any clear ties to the scope of work for the BSA Audit or to the function of Pepco's current BSA mechanism, offers an observation that:

> "*We* [Atrium] *note that the absence of energy efficiency performance incentives may be a limiting factor to fully achieving the greatest energy efficiency savings."*[37]

Atrium's unsolicited observations on such matters as "*energy efficiency performance incentives*" does not aide this Commission's efforts to better understand Pepco's BSA problems and develop policies to address those problems. There is a much broader set of issues associated with the provision of incentives for Pepco to pursue energy

[37] Draft Report, Executive Summary, page iv.

efficiency programs than Atrium even begins to address. For example, the Draft Report does not offer any recognition of the impacts of Building Energy Performance Standards ("BEPS") that already mandate changes in Commercial buildings' operations in the District. Given that the impacted Commercial buildings comprise the majority of electricity use on the Pepco system in the District, and the SEU already has a number of well-developed and successful energy efficiency programs, it is difficult to understand the focus that Atrium attempts to bring to "*energy efficiency performance incentives*" in its Draft BSA Audit Report. Atrium appears to be pursuing an agenda other than that reflected in the BSA Audit Scope of Work or in prior Commission determinations.[38]

D. CONCLUSION

AOBA submits that the Atrium Final Report on its Audit of Pepco's BSA mechanism is not a document on which this Commission should place substantial reliance. Atrium's analyses lack sensitivity to key substantive issues, and several of its findings are either inaccurate or misleading. Moreover, events subsequent to the issuance of Atrium's Final Report, such as Pepco's identification of additional customer count errors, further diminish

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[38] The Draft Report either overlooks or ignores the determination of this Commission in Order No. 20755 in Formal Case No. 1156 which states: "*Even though we believe the BSA may be further improved,* ***the BSA mechanism provides adequate incentive for Pepco to develop energy efficiency programs to achieve GHG reduction and clean energy goals to address the District climate plans****.*" (Order No. 20755, page 122, paragraph 313).

the value of Atrium's findings regarding the adequacy and appropriateness of Pepco's BSA-related internal controls.

The shortcomings in Atrium's analyses are numerous. Atrium provides only a limited one-year (2019) assessment of usage characteristics by rate schedule, and Atrium offers no assessment of how kW and kWh usage characteristics by rate class have changed over the subsequent years. Atrium's examination of differences in usage characteristics for commercial rate classes also ignores issues associated with impacts of differences in average customer electricity use by rate class on Pepco's assessment of the cost and revenue impacts of customer transfers between rate schedules (i.e., issues AOBA has addressed in both Formal Case No. 1139 and Formal Case No. 1156).

Likewise, AOBA has been particularly sensitive to the treatment of BSA revenue under-recoveries for commercial rate classes that can be attributed to governmentally imposed restrictions on business activity during the pandemic. Atrium's assessment of the drivers of Pepco's BSA revenue under-recoveries purports to segregate COVID-related and non-COVID-related reductions in electricity use by rate class. However, Atrium's analyses and its underlying analytical methods and assumptions are totally undocumented and no supporting workpapers for those assessments have been provided. AOBA recognizes the difficulties in assessing COVID impacts on electricity use by rate class, but Atrium's undocumented analyses cannot be independently verified and should be given no credibility.

Additionally, Atrium fails to explain why Pepco should not be held responsible for the financial impacts of its own admitted ratemaking errors in two prior rate cases.

In summary, Atrium's evaluation of Pepco's BSA mechanism is far from "comprehensive," and it yields little of value for this Commission in its assessment of the operation of either Pepco's existing BSA mechanism or potential alternatives to that mechanism.

AOBA further expresses great concern regarding Pepco's reliance on elements of the Atrium Report in the development of its BSA-related proposals currently pending before this Commission in Formal Case No. 1176. Pepco's reliance on that report is particularly inappropriate given that: (1) the Company's Application was filed before the submission of Atrium's Final Report; (2) parties had not even had the opportunity to comment on the Preliminary Draft of the Atrium Report when Pepco's Application was filed; and (3) the Commission had taken no action to accept any of the findings or recommendations in the Atrium Report. In this context, AOBA submits that given Pepco's decision to rely on the Atrium Report as support for its proposals, Pepco should be required to present an Atrium witness (or witnesses) to: (a) support the content of that report, (b) answer data requests regarding its development, and (c) be available for cross-examination in evidentiary hearings. AOBA also submits that due process concerns dictate that the Commission should take no action to endorse either the entirety of the Atrium Report or any elements of that report until the parties have had an opportunity to respond to the content of that report **in testimony** and to cross-examine the author(s) of the Atrium Report. Specifically, the parties should be allowed to examine on an evidentiary basis: (i) the accuracy and appropriateness of the analytics contained in the report; (ii) the information, data, assumptions, and methods used in the report's development; and the specifics of Atrium's support for the findings and recommendations presented.

Dated: November 13, 2023

Respectfully submitted,

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AOBA Counsel of Record

Attachment A
Formal Case No. 1156

PUBLIC

Pepco Public Responses to AOBA BSA Data Request No. 1

Pepco Public Responses to AOBA BSA Data Request No. 3

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PUBLIC

May 19, 2023

Ms. Brinda Westbrook-Sedgwick
Commission Secretary
Public Service Commission
of the District of Columbia
1325 G Street N.W., Suite 800
Washington, DC 20005

Re: PEPBSAR 2022-01-E and Formal Case Nos. 1139 and 1156

Dear Ms. Westbrook-Sedgwick:

Enclosed please find Potomac Electric Power Company's public responses to AOBA Data Request No. 1.

Please contact me if you have any further questions.

Sincerely,

/s/ *Dennis P. Jamouneau*

Dennis P. Jamouneau

Enclosure

cc: All Parties of Record

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA
PEPBSAR 2022-01-E AND FORMAL CASE NOS. 1139 AND 1156
RESPONSE TO AOBA DATA REQUEST NO. 1

QUESTION NO. 1

Please explain in detail the customer count verification process that the Company employs in the preparation of its monthly BSA filings for the District of Columbia.

RESPONSE:

All customer counts are verified for accuracy as part of the monthly Accounting close and Regulatory processes involved in the preparation of Pepco's BSA filing. Prior to running any reports in SAP BusinessObjects, Revenue Accounting confirms with IT that the data in the data warehouse has been refreshed as of Day 1 of the close. The IT team will provide a validation spreadsheet as evidence that the monthly refresh has taken place, and no exceptions occurred in the process. Revenue Accounting executes the Count of Contracts report from SAP BOBJ on the first business day of the month utilizing parameters for that month. This report lists all active customers in the Pepco jurisdiction. Inactive customers are excluded from this report.

For purposes of the customer counts, customers without meters are removed from the count since they represent customers who do not yet have electric service. These customers have been moved into a premise because they contacted Pepco to have service placed in their name at a property, but a meter has not yet been installed at the property. In these situations, the move-in date will be updated to match the meter installation date once a meter is installed, and this will be captured within a subsequent Count of Contracts report. Customer Financial Operations provides Revenue Accounting with the No Meter report. The No Meter report is generated from SAP and lists all installations without meters. Using Power Query, Revenue Accounting merges the Count of Contracts report with the No Meter report to determine the active customers with meters. Revenue Accounting then filters the merged report by BSA rate class to determine the total count of BSA customers.

Prior to finalizing the customer count, there is a monthly cross-functional GT-LV customer counts verification process to confirm the accuracy of the additions and removals of GT-LV customers. In this process, Regulatory confirms the accuracy of the additions and removals of GT-LV customers with the Billing, New Business Engineering, Customer Operations, and Accounting teams. The verification begins with a distribution from Customer Operations on the first business day of each month, which contains a roll-forward list of all GT-LV customer accounts with activity status (i.e., active vs. inactive) changes as compared to the prior month. This roll-forward identifies changes in activity status regardless of meter status. This roll-forward is compared to Accounting's GT-LV customer count. Any changes in the roll-forward are discussed by the groups listed above to confirm that the customer changes are appropriate and accurate. If a customer change is determined to have been made in error, then Regulatory will notify Billing to correct the account; Regulatory and Accounting will manually adjust the BSA deferral and BSA filing, as necessary.

Once the customer count files are completed, a member of the Accounting team will review the files to ensure that the customer counts are complete and accurate.

Upon completion of this process, Pepco will begin utilizing the customer count figures in its monthly BSA deferral calculation. During this process, Accounting will review the deferral calculation for any anomalies including abnormal customer counts. Any issues identified during this process will be further investigated. Regulatory will then perform a variance analysis, comparing the average and standard deviation of customer counts for the prior 12 months. Any customer counts outside of two standard deviations of the average are investigated.

SPONSOR: The Company

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA
PEPBSAR 2022-01-E AND FORMAL CASE NOS. 1139 AND 1156
RESPONSE TO AOBA DATA REQUEST NO. 1

QUESTION NO. 2

Please explain why the incorrect status for the referenced GT-LV account was not identified until the Company prepared its December 2022 monthly report when it appears the account had been incorrectly assigned an “inactive” status for each month from June 2022 through October 2022.

RESPONSE:

GT-LV customer count reports are exported from the BOBJ reporting system, which pulls the information from the SAP billing system. The customer move out was performed on June 20, 2022 and the customer was coded as “inactive” in SAP billing system until November 2022, when a field technician discovered on-site that two meters were active. Upon notification, Billing reversed the June move-out, changed the customer’s account status to “active,” and billed the customer based on actual meter data received from the two active meters.

As such, this customer account was added back to the GT-LV customer count for November 2022. The November BOBJ report showed the account was active, and the charges from June through October were manually adjusted by Accounting and Regulatory in November. Regulatory discovered the customer addition within the month that the issue was identified and corrected by the Billing team.

SPONSOR: The Company

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA
PEPBSAR 2022-01-E AND FORMAL CASE NOS. 1139 AND 1156
RESPONSE TO AOBA DATA REQUEST NO. 1

QUESTION NO. 3

Please identify by account number the monthly status (i.e., active or inactive) for each GT-LV customer account for each month of calendar year 2022.

RESPONSE:

Refer to PEPBSAR and 1139/1156 AOBA DR 1-3 Attachment. The GT-LV customer that was originally marked as inactive from June through October is included in the active customers in those months. Note that the active customer counts in this Attachment will not match the customer counts reported in the monthly BSA filings because as noted in response to AOBA DR 1-1, the Company makes adjustments to the active Count of Contracts, such as removing no meter accounts, to arrive at the final BSA customer counts.

Under 34 DC Code 1507 and relevant Commission rules, Pepco cannot provide customer information to parties. This information, which is being submitted confidentially, can only be provided to the Commission.

SPONSOR: The Company

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Active	334	337	337	336	336	342	341	341	342	342	342	343
Inactive	280	277	277	278	278	279	278	277	277	281	282	281

QUESTION NO. 4

Please explain how, when, and on what criteria the monthly status (i.e., active or inactive) of each GT-LV customer account is determined for the purpose of preparing Pepco's monthly BSA filings for the District of Columbia.

RESPONSE:

The active/inactive status for all Pepco accounts, GT-LV included, is determined by each customer's "moves" status in the billing system. An account is active when a customer contacts Pepco to have service placed in their name at a property. The account status is updated to inactive only when a customer has been moved out of the premise. This most commonly occurs when a customer contacts Pepco to request service to be disconnected due to a move-out. Status is also updated to inactive if the customer is disconnected for non-payment and does not make arrangements to be reconnected within 9 days.

For consideration of the active or inactive status in preparing the monthly BSA filings, refer to the response to FC1156 AOBA DR 1-1.

SPONSOR: The Company

QUESTION NO. 5
Please document and explain in detail all checks of the accuracy of the Company's determinations of customer status (i.e., active or inactive) and of the customer counts used by the Company in determining the customer counts used by Pepco in the preparation of its monthly BSA filings for the District of Columbia for each customer class over the last three calendar years and calendar year 2023 to date.

RESPONSE:

A location is considered active when there is an account associated with that location with a move-in date prior to the time period in question, and a move-out date after the time period in question, and when there is a meter associated with that location. If either of those criteria is not met, the location is considered inactive. The Count of Contracts report, which is used to determine the BSA customer counts, reflects all active customers as of the last day of a given month.

If usage is registered on a meter that is associated with a location that has no active customer, a Business Process Exception Management (*BPEM*) case is created in the billing system (SAP) and assigned to the Billing team to review the account/premise. If no meters are associated with a location, then the presumption is that no electricity is being provided to the location and therefore, the service is not active.

For details of the checks of the accuracy of the Company's process over customer counts used in the preparation of the monthly BSA filings, refer to the Company's response to AOBA DR 1-1.

SPONSOR: The Company

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA
PEPBSAR 2022-01-E AND FORMAL CASE NOS. 1139 AND 1156
RESPONSE TO AOBA DATA REQUEST NO. 1

QUESTION NO. 6

Please provide all documentation and explanations that the Company has provided to the BSA audit team.

RESPONSE:

Refer to PEPBSAR and 1139/1156 AOBA DR 1-6 Confidential Attachment.

SPONSOR: The Company

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA
PEPBSAR 2022-01-E AND FORMAL CASE NOS. 1139 AND 1156
RESPONSE TO AOBA DATA REQUEST NO. 1

QUESTION NO. 7

Pepco indicates that “two meters associated with the account [mislabeled as inactive] were removed.” The Company also indicates that “a Pepco field technician confirmed that two other meters remained active.” Please:

a. Explain when and why two meters for the referenced customer were removed, and why they were not replaced, or if they were replaced explain when and why they were replaced.
b. Indicate whether the referenced customer is billed for multiple meters through a single account or whether each meter is associated with a separate account. To the extent meters for the referenced customer are currently, or were previously, billed through separate accounts, identify the rate schedule under which usage for each meter and for each account was billed in each month of calendar year 2022.

RESPONSE:

a. Meter Services received a work order from New Business Engineering to have twelve meters removed on site due to the building being razed/demolished. These twelve meters were set up under one contract account in the billing system. On site, the meter technician found that two meters were in use, and therefore, did not remove them. The fact that two active meters were not removed, but remained on site, was not communicated to Billing. As such, from June through October, these two active meters were not billed.

b. Throughout 2022, the referenced customer was billed for multiple meters under one contract account on the GT-LV rate

SPONSOR: The Company

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA
PEPBSAR 2022-01-E AND FORMAL CASE NOS. 1139 AND 1156
RESPONSE TO AOBA DATA REQUEST NO. 1

QUESTION NO. 8

Please explain and document the manner in which revenues actually billed to the customer mistakenly labeled "inactive" were reported by the Company for each month of calendar year 2022. If the actually billed revenues for the referenced customer were included in GT-LV class revenues for any month in which the customer was identified as "*inactive*," explain why actual revenues for an "*inactive*" account would be included in reported GT-LV revenues.

RESPONSE:

Upon discovery that two active meters were on site, the customer was billed for charges from June 2022 through November 2022 in November 2022. The customer was not billed for any charges in June 2022 through October 2022, when the customer was marked as inactive. The charges in November 2022 are reflected in the "1. Actual Monthly Class Distribution Base Revenue in $ for November" item of Attachment 2 in the filing on December 12, 2022.

Since the customer was mistakenly marked as inactive, the customer was excluded from the GT-LV customer count reporting from June 2022 through October 2022. The GT-LV customer count is a source for the Allowed Revenue calculation in the monthly BSA filings. As such, Regulatory manually adjusted the Allowed Revenue in the "2.a. Revenue Adjustment" item of Attachment 2 in the filing on December 12, 2022. The manual adjustment, totaling $140,279.47, reflects the adjustments to Allowed Revenue from June 2022 through October 2022.

SPONSOR: The Company

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA
PEPBSAR 2022-01-E AND FORMAL CASE NOS. 1139 AND 1156
RESPONSE TO AOBA DATA REQUEST NO. 1

QUESTION NO. 9

Document each cancel and rebill transaction or other bill adjustment recorded for a GT-LV customer in each month of calendar year 2022 and explain the reasons for each such transaction and/or bill adjustment and the usage month(s) to which the transaction or billing adjustments were applicable.

RESPONSE:

Refer to PEPBSAR and 1139/1156 AOBA DR 1-9 Attachment.

SPONSOR: The Company

	January		February		March		April		May		June		July		August		September		October		November		December		Total	
	Accounts	Months	Accounts	Months	Accounts	Months	Accounts	Months	Accounts	Months	Accounts	Months	Accounts	Months	Accounts	Months	Accounts	Months	Accounts	Months	Accounts	Months	Accounts	Months	Accounts	Months
Estimations	2	2	1	1	1	1	0	0	13	13	8	16	3	5	3	6	3	3	1	1	3	17	2	3	40	68
Third Party Supplier Errors	6	6	2	3	0	0	0	0	0	0	0	0	1	1	0	0	0	0	0	0	1	1	0	0	10	11
Meter Exchange	0	0	0	0	0	0	2	12	0	0	1	1	0	0	0	0	0	0	1	1	4	4	0	0	8	18
Move-in/Move-out Changes	0	0	0	0	1	1	0	0	1	1	0	0	0	0	0	0	1	2	0	0	2	6	1	1	6	11
Meter Communication Issues	1	3	1	1	0	0	0	0	0	0	0	0	1	1	1	1	0	0	0	0	2	2	0	0	6	8
Tax Issue	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1	0	0	1	1
Misapplied Payment	0	0	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1

CERTIFICATE OF SERVICE

I hereby certify that on this 19th day of May 2023, a copy of Pepco's Responses to AOBA Data Request No. 1was sent by electronic mail to all parties in Docket PEPBSAR and Formal Case 1139.

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PUBLIC

September 11, 2023

Ms. Brinda Westbrook-Sedgwick
Commission Secretary
Public Service Commission
of the District of Columbia
1325 G Street N.W., Suite 800
Washington, DC 20005

Re: PEPBSAR and Formal Case Nos. 1139 and 1156

Dear Ms. Westbrook-Sedgwick:

Enclosed please find Potomac Electric Power Company's public responses to AOBA Data Request No. 3.

Please contact me if you have any further questions.

Sincerely,

/s/ *Dennis P. Jamouneau*

Dennis P. Jamouneau

Enclosure

cc: All Parties of Record

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA
PEPBSAR AND FORMAL CASE NOS. 1139 AND 1156
RESPONSE TO AOBA DATA REQUEST NO. 3

QUESTION NO. 1

Re: Pepco's August 10, 2023, Monthly BSA filing. Please provide the workpapers, data, calculations, and assumptions relied upon to compute the ($115,473.00) "manual adjustment" to revenue for the MMA class. The response to this request should fully document the revenue adjustment calculated for each affected month from March 2020 through June 2023.

RESPONSE:

AOBA DR 3-1 Confidential Attachment includes the workpaper detailing the ($115,473.00) manual adjustment to MMA revenues from March 2020 through June 2023.

SPONSOR: The Company

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA
PEPBSAR AND FORMAL CASE NOS. 1139 AND 1156
RESPONSE TO AOBA DATA REQUEST NO. 3

QUESTION NO. 2

Re: Pepco's August 10, 2023, Monthly BSA filing. Please provide the workpapers, data, calculations, and assumptions relied upon to compute the $391.71 "manual adjustment" to revenue for the GSND class. The response to this request should fully document the revenue adjustment calculated for each affected month.

RESPONSE:

AOBA DR 3-1 Confidential Attachment includes the workpaper detailing the $391.71 manual adjustment to GSND revenues from February 2023 through June 2023.

SPONSOR: The Company

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA
PEPBSAR AND FORMAL CASE NOS. 1139 AND 1156
RESPONSE TO AOBA DATA REQUEST NO. 3

QUESTION NO. 3

Re: Pepco's August 10, 2023, Monthly BSA filing. Please document and explain in detail how and when Pepco became aware of the need for customer count adjustments for each affected month for:

a. The MMA class,
b. The GSND class.
c. Also please explain why the need for these corrections was not flagged sooner.

RESPONSE:

a-b. Pepco became aware of the need for the customer count adjustment because the customer contacted the Call Center, requesting a refund for charges for unit numbers that became individually metered. As a result, the Call Center issued a business process exception management ("BPEM") case noting a billing adjustment was required. Upon issuance of the BPEM, Billing verified the accuracy of the number of individual meters installed at the corresponding meter installation dates. As such, Billing issued adjustments for the periods March 2020 through June 2023, removing the number of units billed to the house account under the MMA rate, as appropriate, and switching the customer to GSND rate. All billing adjustments were completed on July 25, 2023.

Subsequently, Regulatory became aware of the need for the customer count adjustments while preparing the monthly BSA compliance filing made on August 10, 2023. The variance analysis performed as part of the monthly filing prompted further investigation and discussions with Billing and Engineering, ultimately resulting in the manual adjustments to authorized revenues for the MMA and GSND rate classes.

c. This information is still being compiled and will be provided within the next week.

SPONSOR: The Company

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA
PEPBSAR AND FORMAL CASE NOS. 1139 AND 1156
RESPONSE TO AOBA DATA REQUEST NO. 3

QUESTION NO. 4

Re: Pepco's August 10, 2023, Monthly BSA filing. Please document all correspondence, e-mails or other communications between Pepco and the owner(s)/manager(s) of the affected building(s) that became individually metered regarding:

a. When the conversion to individual metering would occur
b. The need for Pepco to install additional meters for the units within each affected building that would become individual metered;
c. The number of master metered residential units that would be eliminated;
d. The number of new individually metered units that would be established.

RESPONSE:

a. This information is still being compiled and will be provided within the next week.
b. This information is still being compiled and will be provided within the next week.
c. The conversion to individual metering eliminated all 358 master metered residential units.
d. 358 individually metered units were established.

SPONSOR: The Company

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA
PEPBSAR AND FORMAL CASE NOS. 1139 AND 1156
RESPONSE TO AOBA DATA REQUEST NO. 3

QUESTION NO. 5
Re: Pepco's August 10, 2023, Monthly BSA filing. Please document when Pepco completed the installation of meters for the new individually metered customers.

RESPONSE:

Pepco fully completed the installation of meters for the new individually metered customers in February 2023.

SPONSOR: The Company

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA
PEPBSAR AND FORMAL CASE NOS. 1139 AND 1156
RESPONSE TO AOBA DATA REQUEST NO. 3

QUESTION NO. 6

Re: Pepco's August 10, 2023, Monthly BSA filing. Please document the date on which each new individually metered customer resulting from the conversion of the subject building(s) to individual metering was added to the Company's system, the month in which each was added to Pepco's customer counts for BSA purposes, and the rate schedule to which each new individually metered customer was added.

RESPONSE:

Refer to AOBA DR 3-1 Confidential Attachment for the meter installation dates of the new individually metered units. In July 2023, Billing issued adjustments for the periods March 2020 through June 2023, removing the number of units billed to the house account under the MMA rate and switching the account to the GSND rate.

All customer count adjustments related to the new individually metered customers were reflected in the August 10th BSA compliance filing. In this filing, each new individually metered customer was removed from the MMA rate schedule according to its meter installation date. Additionally, the account was moved to the GSND rate schedule effective with the February 2023 billing cycle in accordance with the customer's request to switch rate schedules.

SPONSOR: The Company

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA
PEPBSAR AND FORMAL CASE NOS. 1139 AND 1156
RESPONSE TO AOBA DATA REQUEST NO. 3

QUESTION NO. 7
Re: Pepco's August 10, 2023, Monthly BSA filing. Please fully document:

a. The procedures Pepco follows to track the progress of conversions of MMA accounts to individual metering;
b. The numbers of buildings and dwelling units that have been converted to individual metering within each of the last three calendar years and in calendar year 2023 to date;
c. The numbers of MMA accounts and dwelling units that are currently in the process of converting to individual metering and the expected timing of each conversion;
d. The numbers of MMA accounts and dwelling units for which Pepco is aware of plans for conversion to individual metering.

RESPONSE:

a. The process of an MMA account conversion is typically initiated by the customer. Upon initial contact with the customer, Engineering will create and maintain an Excel spreadsheet with the details of the communication with the customer (e.g., the number of units to be converted to individual metering and the conversion timeline). As the unit installations are completed and added to the system, Engineering sends a form to Billing, detailing the number of new accounts added/removed and their installation or removal date. Engineering will also notify Meter Operations of the job requirements through an installation order in the system.

   Meter Operations checks that all the installation orders sent from Engineering are dispatched by the customer need date. The progress of conversions is tracked in oneMDS (one Mobile Dispatch Solution), which is a platform where field employees receive work, access information and capture data in the field. Note that the customer need date may change due to field conditions and/or discrepancies with the installation service orders sent by Engineering. Once the job is complete, Meter Operations notifies Engineering via email and in the system by closing the meter task.

b. This information is still being compiled and will be provided within the next week.

c. This information is still being compiled and will be provided within the next week.

d. This information is still being compiled and will be provided within the next week.

SPONSOR: The Company

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA
PEPBSAR AND FORMAL CASE NOS. 1139 AND 1156
RESPONSE TO AOBA DATA REQUEST NO. 3

QUESTION NO. 8

Re: Please document the numbers of accounts that have been transferred from one rate schedule to another within Calendar Year 2023 as a result of Pepco's annual review of customer usage showing:

a. The numbers of accounts transferred from each rate class in each month and the numbers of accounts assigned to each new rate schedule;
b. The twelve months of actual usage for each transferred account on which the customer transfer was premised.

RESPONSE:

a. Refer to the table below for the number of accounts transferred from one rate schedule to another within Calendar Year 2023 as a result of Pepco's annual review of customer usage:

Former Rate Schedule	New Rate Schedule	Number of Accounts Transferred
GSLV	MGT LV	16
GSLV	GS ND	250
MGT LV	GSLV	1
MGT LV	GTLV	1
GS ND	GSLV	151

b. Pepco cannot provide actual usage by customer as requested under both relevant District law and Commission regulations.

SPONSOR: The Company

CERTIFICATE OF SERVICE

I hereby certify that on this 11th day of September 2023, a copy of Pepco's Public Responses to AOBA Data Request No. 3 was sent by electronic mail to all parties in Docket PEPBSAR, Formal Case 1139 and Formal Case 1156.

Ms. Brinda Westbrook-Sedgwick
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/s/ Dennis P. Jamouneau

Dennis P. Jamouneau

Attachment B
Formal Case No. 1156

CONFIDENTIAL

Pepco Confidential Responses to AOBA BSA Data Request No. 1

Pepco Confidential Responses to AOBA BSA Data Request No. 3

Note:

Pepco's responses to certain AOBA requests in AOBA BSA Data Request No. 1 state that the responses are confidential and were only provided to the Commission purportedly to protect customer confidentiality. AOBA hereby incorporates those responses into these Comments.

CERTIFICATE OF SERVICE
Formal Case No. 1156

I hereby certify on this 13th day of November 2023, that the attached Public Comments regarding the Atrium Economics, LLC Pepco DC BSA Audit Report was filed electronically on behalf of the Apartment and Office Building Association of Metropolitan Washington and copies were electronically delivered to the service list below:

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AOBA
APARTMENT AND OFFICE BUILDING ASSOCIATION OF METROPOLITAN WASHINGTON

November 20, 2023

By Electronic Filing

Brinda Westbrook-Sedgwick
Commission Secretary
D.C. Public Service Commission
1325 G Street, N.W., Suite 800
Washington, D.C. 20005

Re: **Formal Case No. 1156**
In the Matter of the Application of the Potomac Electric Power Company for Authority to Implement a Multiyear Rate Plan for Electric Distribution Service in the District of Columbia

Dear Ms. Westbrook-Sedgwick:

Enclosed please find the Reply Comments of the Apartment and Office Building Association of Metropolitan Washington in response to Potomac Electric Power Company's Comments filed on November 13, 2023 in the above-referenced proceeding.

If you have any questions, please contact me at ffrancis@aoba-metro.org or call my cell at (301) 518-9700. Thank you for your attention in this matter.

Sincerely,

Frann G. Francis

Frann G. Francis, Esq.

cc: All parties of record

BEFORE THE
PUBLIC SERVICE COMMISSION
OF THE DISTRICT OF COLUMBIA

IN THE MATTER OF	*	
	*	
The Application of	*	
Potomac Electric Power Company	*	
For Authority to Implement a	*	**Formal Case No. 1156**
Multi-Year Rate Plan for	*	
Electric Distribution Service	*	
In the District of Columbia	*	

REPLY COMMENTS OF THE
THE APARTMENT AND OFFICE BUILDING
ASSOCIATION OF METROPOLITAN WASHINGTON

In conformance with the Commission's October 4, 2023 Notice in Formal Case No. 1156, the Apartment and Office Building Association of Metropolitan Washington ("AOBA"), hereby files its Reply to Potomac Electric Power Company (hereinafter "Pepco" or "the Company") November 13, 2023, Comments regarding the Final Atrium BSA Audit Report. As will be explained herein, AOBA strongly disagrees with Pepco's assessment of the Atrium Final Report and the actions the Commission should take on the basis of that report.

Urgent Need for Billing Determinants Update

Contrary to the representations of Pepco and Atrium, AOBA finds no clear and urgent need for Pepco to update the billing determinants used to design distribution rates and BSA revenue targets. If there is a problem related to the Company's billing determinants forecasts, it is reflective of Pepco's inability to forecast billing determinants with reasonable accuracy, particularly for its demand-metered commercial rate classes. Given that reasonable and reliable estimation of future period billing determinants is at the heart of Pepco's proposals to further pursue a multi-year rate plan ("MYP") approach to ratemaking, the Company's claim that there is an urgent need for billing determinants updates undermines the entire concept of continued reliance multi-year ratemaking. Moreover, discussions of "billing determinants" tend to focus on measures of kWh and/or kW requirements, but it should be understood that Pepco's argued need for billing determinants updates, particularly for the GT-LV rate class, is driven by the inaccurate estimates of future period number of customers much more so than its inaccurate estimates for kWh or kW requirements. AOBA notes that for several years Pepco has been permitted to update the kWh billing determinants used to compute BSA rate adjustment charges in its monthly BSA filings. Yet, there is no evidence that those updated forecasts of kWh requirements between rate cases[1] have had substantial impact on the Company's claimed overall BSA revenue under-recoveries.

Furthermore, to the extent that the Commission entertains the concept of more frequent billing determinants updates, the Commission must recognize that any such updates and related adjustment to the Company's revenue per customer calculations and/or annual class revenue requirements are wholly **inappropriate outside of a litigated base rate proceeding** in which Commission determinations are premised on **fully developed evidentiary record**.

[1] AOBA submits that Pepco's annual updates of its kWh forecasts by rate class, for which no evidentiary review is provided, already represent at best questionable regulatory policy.

AOBA submits that a major flaw in Pepco's existing BSA mechanism is the underlying assumption that as the number of customers in a rate class increases, the Company's costs of providing service to the class increase proportionately. However, that relationship is not supported by Pepco's actual experience. Specifically, AOBA observes that (because Pepco severely understated its forecasted numbers of Rate Schedule GT-LV customers in Formal Case No. 1156, the Company has subsequently claimed large increases in its "Allowed" BSA Revenues. (See Table 1 below.)

Table 1

Comparisons of Compliance Filing and BSA Allowed Revenue
For Pepco's GT-LV Rate Class
(Dollars in Millions)

Period	Compliance Filing Authorized Revenue	Reported BSA Allowed Revenue	GT-LV Revenue Requirement Increase	% Increase
Jul 21 – Dec 21	$43.1	$ 50.3	$ 7.2	16.8%
Jan 22 – Dec 22	$89.2	$108.5	$ 19.2	21.6%
Jan 23 – Jun 23	$47.2	$58.4	$ 11.3	23.9%

Table 2 demonstrates that the Company's claimed increases in authorized revenues for the GT-LV class are driven by the errors in Pepco's estimation of forecasted numbers of GT-LV customers.

Table 2

Pepco's GT-LV Compliance Filing and Actual Average Numbers of Customers

Period	Compliance Filing Ests. of Nos. of Customers	Reported Actual Nos. of Customers	Increase in GT-LV Customer Count	% Increase
Jul 21 – Dec 21	276.7	323.2	46.5	16.8%
Jan 22 – Dec 22	276.5	336.1	59.6	21.5%
Jan 23 – Jun 23	276.3	342.3	66.0	23.9%

Importantly, Table 3 shows that there has been some erosion of GT-LV revenues since new rates were implemented as a result of the Commission's final order in Formal Case No. 1156 that may be attributable to reduced customer electricity usage. However, the revenue short-fall attributable to reduced kWh and/or kW billings accounts for only a 6% revenue loss for the Company from the GT-LV class over the 24-month (i.e., two-year period from July 2021 through June 2023).

Table 3

Comparisons of Compliance Filing and Actual Revenue For Pepco's GT-LV Rate Class (Dollars in Millions)

Period	**Compliance Filing Authorized Revenue**	**Reported Actual Collected Revenue**	**Actual Revenue Under-Recovery**	**% Under-Recovered**
Jul 21 – Dec 21	$43.7	$ 38.5	$ 5.2	11.9%
Jan 22 – Dec 22	$89.2	$85.7	$ 3.5	3.9%
Jan 23 – Jun 23	$47.2	$45.1	$ 2.1	4.4%
Jul 21 – Jun 23	**$180.1**	**$169.3**	**$10.8**	**6.0%**

Furthermore, if the Commission compares Pepco's allocations of rate base and of O&M expenses to the GT-LV class between Formal Case No. 1156 and Formal Case No. 1176, it will find that the revenue increases that the BSA provides to Pepco in terms of "Allowed" revenues are not **cost-based**. Between Formal Case No. 1156 and Formal Case No. 1176 Pepco's allocated rate base for the GT-LV class have increased by only 2.73%. Similarly, Pepco's allocated O&M expenses for the GT-LV rate class have increased only 7.0%.

Given the above observations, AOBA can only conclude that Atrium's limited review of Pepco's BSA mechanism was insufficient to justify the conclusion and recommendation contained in Atrium's Final Report. The foregoing data also demonstrate that Pepco's representations regarding the dollar amounts for which it is "**at-risk**" are dramatically overstated. Again, over the July 2021 to June 2023 period Pepco's actual revenue collections are only on average 6.0% below the revenues authorized by the Commission and reflected in Pepco's Compliance Filings.[2]

Pepco must be held accountable for the accuracy of its own forecasts of numbers of GT-LV customers. The lion's share of Pepco's **claimed** BSA revenue deferral balance is the direct result of Pepco's poor estimation of its numbers of GT-LV customer accounts for future periods. As such, most of Pepco's current claimed BSA revenue deferral balance is a fiction that should never justify additional revenue collections from its customers in the District of Columbia. Furthermore, if Pepco had more correctly estimated its future numbers of GT-LV customers, the revenue per customer amounts computed for the GT-LV rate class in the Company Compliance Filings in Formal Case No. 1156 would have been significantly lower. As a result, any actual increase in the numbers of GT-LV accounts served above reasonably forecasted levels, would have produced significantly less in incremental BSA "allowed" revenue for that class. Atrium does not address this issue.

The Adequacy of Pepco's BSA Control Procedures

The representations in the Atrium Report and Pepco's November 13, 2023 Comments that suggest the Company "*operates and maintains an appropriate suite of BSA controls*" are greatly undermined by the additional manual adjustments to BSA deferred revenue balances since the filing of the Atrium's Final Report. In both Pepco's August 10, 2023 monthly BSA Filing and its November 10, 2023 monthly BSA filing, the

[2] See Pepco's Updated June 24, 2021 Compliance Filing and its January 11, 2023 Compliance Filing for CY 2023 rates.

Company has made additional manual adjustments to its deferred revenue balances to reflect problems in its customer counts covering periods of multiple years that the Atrium Report does not identify and does not discuss.

Those recent examples of shortcomings in Pepco's BSA controls that Atrium characterizes as "robust," coupled with Atrium's failure to fully investigate the Company's November 2022 adjustment to the GT-LV BSA deferred revenue balance, erode all confidence in the thoroughness of Atrium's review and the reliability of the findings and recommendations presented in the Atrium Report. AOBA submits that there are important facts relating to Pepco's November 2022 Manual Adjustment to its Deferred Revenue Balance for the GT-LV rate class that have not be developed and exposed. Clearly, there is more to the story behind the Company's November 2022 manual adjustment. In the absence of an explanation for why meters remained active at a site, where the customer had indicated the building was going to be "razed/demolished," it is pertinent to understand why there is a need for continued recognition of a GT-LV customer at that site.

Industry Best Practices

Pepco's Comments on the Final Atrium Report perpetuate the "sham" that the Company's BSA mechanism and associated methods and control procedures reflect "*best practices*" for the industry. There is absolutely nothing in the Atrium report that specifically identifies any industry "*best practices*" and/or explains why one practice employed by other utilities in the industry is better than, or should be preferred to, the practices Pepco employs.

Conclusion

These Reply Comments when combined with AOBA's previously filed comments regarding Atrium's Draft and Final BSA Audit Reports provide compelling reasons for this Commission to reject the findings and recommendations the Atrium Report presents.

Dated: November 20, 2023

Respectfully submitted,

Frann G. Francis

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CERTIFICATE OF SERVICE
Formal Case No. 1156

I hereby certify on this 20th day of November 2023, that the attached Reply Comments was filed electronically on behalf of the Apartment and Office Building Association of Metropolitan Washington and copies were electronically delivered to the service list below:

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Attachment C
Referenced Data Request Responses
Formal Case No. 1176

AOBA Data Request 1-2

AOBA Data Request 1-3

AOBA Data Request 1-11

AOBA Data Request 3-13

AOBA Data Request 6-1

AOBA Data Request 6-2

AOBA Data Request 7-2 with Attachment

AOBA Data Request 7-11 with Attachment

AOBA Data Request 7-25

AOBA Data Request 10-22 with Attachment

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA FORMAL CASE NO. 1176
RESPONSE TO AOBA DATA REQUEST NO. 1

QUESTION NO. 2
Re: Exhibit Pepco (A), page 5, lines 11-19. Please identify the metrics the Company uses to determine what constitutes a "Climate Ready Grid" for the District of Columbia.

RESPONSE:

As stated in Witness O'Donnell's Direct Testimony, Page 3, Lines 18-20, a "Climate Ready Grid" is a series of investments into infrastructure and processes that advance system-readiness and support customers through the energy transformation. The Company has not developed metrics associated with the Climate Ready Grid. However, as discussed in Witness Cantler's Direct Testimony, on page 8, lines 1-23 and page 9, lines 1-12, reliability is an integral component of a Climate Ready Grid that is quantifiable and measurable by well-established metrics within the utility industry.

SPONSOR: Elizabeth M. D. O'Donnell and Jaclyn Cantler

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA FORMAL CASE NO. 1176
RESPONSE TO AOBA DATA REQUEST NO. 1

QUESTION NO. 3

Re: Exhibit Pepco (A), page 5, lines 11-19. Using the metrics specified in the Company's response to AOBA Data Request 1-1, please:

a. Compare the current status of Pepco's District of Columbia distribution system to the criteria that will need to be achieved to have a "Climate Ready Grid" in the District of Columbia.
b. Indicate the progress that Pepco proposes to achieve in 2023 and in each year of the proposed multi-year plan with respect to each identified metric for a "Climate Ready Grid."

RESPONSE:

a. Question No 3 refers to AOBA Data Request 1-1, the Company is responding with the assumption that the question should refer to AOBA Data Request 1-2. The Direct Testimony of Company Witness Cantler describes the Company's distribution system and the types of planned upgrades to facilitate a Climate Ready Grid. See, for example, Pepco (H) at 5:7-14 for the types of projects that the Company plans to make throughout the MYP. Furthermore, please refer to Question 11 (pg. 6, lines 14-22) of Company Witness Cantler's Direct Testimony, which specifically outlines the Company's Capital Investment Strategy in support of a Climate Ready Grid.

b. See the Company's response to DR1176 AOBA 1-2 and refer to Pepco's Distribution Construction Program Report attached to Witness Cantler's Direct Testimony for additional details regarding proposed projects for 2023 and each year of the proposed MYP.

SPONSOR: Elizabeth M. D. O'Donnell and Jaclyn Cantler

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA FORMAL CASE NO. 1176
RESPONSE TO AOBA DATA REQUEST NO. 1

QUESTION NO. 11
Re: Exhibit Pepco (A), page 10, lines 15-17. Please:

a. Provide the Company's forecasts of the "growth in electrification" it antici-pates within each year of its current planning horizon, as well as the workpapers, analyses, data, studies, and other documents relied upon to make such forecasts for its District of Columbia distribution system.
b. Detail the impacts of the referenced "growth in electrification" on the Company's forecasted units of service (i.e., customers, kWh deliveries, and kW demands by rate class) for each year of the Company's proposed multi-year rate plan.
c. Provide the Company's forecasts by year of the numbers of current users of gas heating customers heating systems that the Company expects to convert from gas service to electric service.

RESPONSE:

a. Currently, the Company does not directly include electrification into its 10-year capacity/load forecasts. While identified and specific near-term usage and planned capacity additions have been incorporated, electrification has not been projected at levels that would be required to meet the District's anticipated goals for electrification.

   For a detailed explanation of the Company's capacity planning forecasting and methodology, please see PEPCO (H)-1, Chapter 1 entitled "Load Growth."

b. Please see Pepco's response to part (a) and note that, for distribution system planning purposes, as identified in the question, Pepco does not perform detailed analyses down to the rate class level regarding forecasted units of service.

c. Pepco has not included conversions of gas heat to electrical heating sources in its most recent Ten-Year Forecast.

SPONSOR: Jaclyn Cantler

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA FORMAL CASE NO. 1176
RESPONSE TO AOBA DATA REQUEST NO. 3

QUESTION NO. 13

Re: Exhibit Pepco (D), page 5, lines 18-19. Please:

a. Provide citations to the pages and paragraph numbers in each Commission Order reviewed by Witness Gardiner in her evaluation of the consistency of the Company's allocations in this proceeding with those previously approved by the Commission;
b. Provide the workpapers, data, and analyses relied upon by Witness Gardiner to assess the consistency of the allocations within the CCOSS sponsored by Witness Gardiner in this proceeding with those previously approved by the Commission.
c. Identify each cost allocation method employed by Witness Gardiner in the CCOSS that she sponsors in this proceeding that has not been specifically approved by the Commission in a prior order.

RESPONSE:

a. The allocations presented in the instant proceeding are the same allocations accepted in FC 1156 with the exception of allocation changes described in Company Witness Gardiner's Direct Testimony. Please see Company Witness Gardiner's Direct Testimony, Pepco (D), 6:4 through 14:1.
b. Please see response to AOBA DR 3-10.
c. Please see response to 3-13, subpart (a).

SPONSOR: Laura E. Gardiner

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA FORMAL CASE NO. 1176
RESPONSE TO AOBA DATA REQUEST NO. 6

QUESTION NO. 1
Re: Exhibit Pepco (D)-1. Please provide a full printout of the CCOSS allocations that constitute the full detail of Pepco's Class Cost of Service Study allocations to rate classes and its development of allocation factors and direct cost assignments for that study.

RESPONSE:

For the sub-functional analyses and related tabs, please refer to FC 1176 AOBA DR 6-1 Attachment. The total CCOSS results are available in Pepco (D) 1 – 5. After discussions with AOBA, the Company has agreed to provide a public, printable version. An electronic version of Pepco (D)-1 is accessible through a web-based document management service – eBridge. Please email Dorothy Bonds at dmbonds@pepcoholdings.com to obtain access.

SPONSOR: Laura E. Gardiner

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA FORMAL CASE NO. 1176
RESPONSE TO AOBA DATA REQUEST NO. 6

QUESTION NO. 2

Re: Exhibit Pepco (D)-2, the electronic version of Exhibit Pepco (D)-2, and the comparable analysis shown on the tab of the electronic version of Exhibit Pepco (D)-1 that is labeled "Unbundled – Func. Summaries." All of the entries in both referenced electronic workbooks are "hard entries" (i.e., numeric entries without any cell references or formulas to explain their derivation). Please:

a. Provide electronic versions of the reference files that show the cell references and cell formulas used to determine each entry for each tariff class;

b. Provide a written explanation of the methods and data used to determine Sales Revenue (Present Rates) for each sub-function for each rate class.

RESPONSE:

a. Pepco (D)-2 is not available in the requested format as the CCOSS uses a macro that copies and pastes the results shown in Pepco (D)-2 as hardcoded values from the CCOSS (sub)function tab in Pepco (D)-1. Please refer to Pepco (D)-1, (sub)functions tab to review a public, electronic version of the CCOSS with all cell references and formulas. An electronic version of Pepco (D)-1 is accessible through a web-based document management service – eBridge. Please email Dorothy Bonds at dmbonds@pepcoholdings.com to obtain access.

b. The Sales Revenue (Present Rates) is the Revenue – Retail Sales amount resulting from each (sub)funtions' return on rate base at present rates plus the total O&M Expenses, Depreciation and Amortization expenses, Taxes, and Other Taxes and Expenses. Please refer to Pepco (D)-1, (sub)functions tab to review a public, electronic version of the CCOSS to see the calculation of the Sales Revenue (Present Rates).

SPONSOR: Laura E. Gardiner

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA FORMAL CASE NO. 1176
RESPONSE TO AOBA DATA REQUEST NO. 7

QUESTION NO. 2
Re: Exhibit Pepco (H), page 12, Table 1. Table 1 shows an average of over $65 million per year for New Business Connections. Please:

a. Provide the workpapers, analyses, and assumptions upon which the Company has relied to project its capital additions for "New Business Connections" for its DC system for the Bridge Year and for each MYP year;

b. Provide workpapers, analyses, and assumptions to support Pepco's assessment of the dollar amounts of CIAC billed to DC customers and their timing of the Company's receipt of CIAC payments for:

   1. DC Residential New Business Connections
   2. DC Commercial New Business Connections

c. Provide supporting detail for the Company's 2022 DC "New Business Connections" showing supporting detail by type of plant or equipment for:

   1. Residential New Business Connections
   2. Commercial New Business Connections

d. Provide workpapers that document the dollar amounts and timing of CIAC billed to DC customers for capital expenditures incurred by the Company in 2022 for:

   1. Residential New Business Connections
   2. Commercial New Business Connections

RESPONSE:

a. There are no specific workpapers responsive to this request. The budgets for this category are based on historic spending as well as known and forecasted projects in the upcoming years.

b. There are no specific workpapers responsive to this request. The projected CIAC dollars are based on historical billings as well as known and forecasted projects in the upcoming years. The Company obtains payment before commencing construction for both Residential and Commercial New Business Connections.

c. New Business residential and commercial equipment includes both primary and secondary assets and charges include primary extension, transformers, and secondary mainline. Primary assets are primary conduit and cables, switches, tap holes, taphole modules, re-closures, ACR (Automatic Circuit Reclosers), mainline conduit, line manholes, and poles. Secondary assets are secondary conduit and cables, transformers, secondary network protectors, and transformer vaults/manholes, splice boxes.

d. As stated in the Company's response to 7-2(b.) there are no specific workpapers responsive to this request. The Company uses the terms and conditions as a fundamental reference to calculate the Customer Contribution in Aid of Construction (CIAC) for their projects before the initial construction phase begins. This CIAC amount is billed to the residential and commercial new business connection, and it represents the financial participation required from the customers for the project. The assessment for CIAC billed to residential and commercial NB connections and the timing of its receipt will be prior to the execution of the project. The company utilizes a signed cost letter by the customer, noting the CIAC dollar amount. The Company complies with all relevant government regulations and legal requirements and guidelines on CIAC calculations and billing procedures.

   For dollar amounts associated with CIAC billed to DC customers in 2022 for both residential and commercial New Business Connections, please FC 1176 AOBA DR 7-2(d) Attachment.

SPONSOR: Jaclyn Cantler

The following table denotes the dollar amounts associated with CIAC billed to DC Customers in 2022 for both residential and commercial New Business Connections:

Row Labels	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Grand Total
New Business	**$ (1,201,168.74)**	**$ (2,394,929.97)**	**$ (1,424,532.01)**	**$ 285,576.73**	**$ (3,454,179.93)**	**$ 87,304.64**	**$ (1,346,120.57)**	**$ (2,139,982.99)**	**$ 0.00**	**$ 125,510.01**	**$ (904,772.79)**	**$ (1,824,066.93)**	**$ (14,191,362.55)**
75092_Residential_DC	$ (70,425.82)	$ (157,306.29)	$ (160,904.36)	$ 32,323.33	$ (202,404.75)	$ 6,100.55	$ (91,442.90)	$ (17,103.71)		$ (101,201.67)	$ (46,116.05)	$ 1,619.24	$ (806,862.43)
75093_Commercial_DC	$ (981,323.23)	$ (1,948,307.14)	$ (902,149.74)	$ 199,591.59	$ (3,197,560.71)	$ 81,204.09	$ (817,378.79)	$ (1,566,874.97)	$ 0.00	$ 351,626.41	$ (858,656.74)	$ (1,375,070.61)	$ (11,014,899.84)
75095	$ (149,419.69)	$ (289,316.54)	$ (361,477.91)	$ 53,661.81	$ (54,214.47)		$ (437,298.88)	$ (556,004.31)	$ (0.00)	$ (124,914.73)	$ 0.00	$ (450,615.56)	$ (2,369,600.28)

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA FORMAL CASE NO. 1176
RESPONSE TO AOBA DATA REQUEST NO. 7

QUESTION NO. 11
Re: Exhibit Pepco (H)-1, Page 66 of 82, Section 6, Customer Driven Projects, Subsection 6.1 Overview of Projects. The referenced page and Subsection states:

Depending on the technical criteria of a customer request, and according to the Tariff, customers requesting customer-driven projects may be required to pay for some or all of the costs associated with modifications to Pepco infrastructure. The budgets established by Pepco are the net anticipated expenditures after taking into consideration historical levels of contributions in aid of construction.

With respect to that statement, please:

a. Identify in detail the costs for Customer Driven Projects that Pepco has budgeted for the Bridge Year and for each MYP Rate Year, showing separately costs budgeted for Commercial service requests and costs budgeted for Residential service requests;

b. Identify the elements of the Company's budgeted costs for Commercial Customer Driven Projects for the Bridge Year and for each MYP Rate Year for which Pepco has not received and/or does not expect to receive Contributions in Aid of Construction ("CIAC") that fully offset Pepco's budgeted project costs;

c. Provide by month for each month of calendar years 2019, 2020, 2021, 2022, and 2023 to date the CIAC contribution dollar amounts received by Pepco from:

   1. Commercial customers in the District of Columbia
   2. Residential customers in the District of Columbia

d. Verify that under the Company's General Terms and Conditions for the District of Columbia Contributions in Aid of Construction must be paid by the customer prior to the start of construction of the facilities for which the CIAC assessments are made.

RESPONSE:

a. Please see the following table showing costs for the bridge year and MYP years associated with Customer Driven Projects, as described in Chapter 6 of the Pepco (H)-1:

Customer-Driven Projects ($'s in '000s):	**2023**	**2024**	**2025**	**2026**
New Business Connections (Commercial)	$39,365	$41,024	$51,957	$44,787
New Business Connections (Residential)	$20,898	$25,078	$20,092	$20,411
New Business Connections (Total)	$60,263	$66,103	$72,049	$65,198
Facilities Relocation	$21,047	$14,282	$10,701	$5,123

b. Elements for commercial customer driven projects not fully offset by CIAC normally include both primary and secondary assets and charges include primary extension, transformers, and secondary mainline. Primary assets are primary conduit and cables, switches, tap holes, taphole modules, re-closures, ACR (Automatic Circuit Reclosers), mainline conduit, line manholes, and poles. Secondary assets are secondary conduit and cables, transformers, secondary network protectors, and transformer vaults/manholes, splice boxes.

c. Please see FC 1176 AOBA DR 7-11(c) Attachment for CIAC dollar amounts received by Pepco on a monthly basis from 2019-2023 for both residential and commercial customers:

d. Pepco requires CIAC in accordance with the General Terms and Conditions. Pepco has established a practice of requiring the payment of CIAC, when required, prior to construction.

SPONSOR: Jaclyn Cantler

2019:

Row Labels	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Grand Total
New Business	**$ (570,503.50)**	**$ (106,338.55)**	**$ 25,640.22**	**$ (865,446.59)**	**$ (879,463.35)**	**$ (564,740.33)**	**$ 94,738.87**	**$ (595,150.29)**	**$ (1,690,517.45)**	**$ (135,400.83)**	**$ (2,792,204.01)**	**$ (302,756.84)**	**$ (8,382,142.65)**
75092_Residential_DC	$ (18,060.50)	$ (682.40)	$ 458.51	$ (71,413.39)	$ (57,603.72)	$ 4,377.00	$ 695.75	$ (63,519.13)	$ (96,302.46)	$ 11,131.11	$ (104,886.43)	$ (72,261.59)	$ (468,067.25)
75093_Commercial_DC	$ (552,443.00)	$ (105,656.15)	$ 25,181.71	$ (794,033.20)	$ (821,859.63)	$ (569,117.33)	$ 94,043.12	$ (531,631.16)	$ (1,594,214.99)	$ (146,531.94)	$ (2,687,317.58)	$ (230,495.25)	$ (7,914,075.40)

2020:

New Business	**$ (1,315,502.28)**	**$ (1,609,183.84)**	**$ 256,342.04**	**$ (3,344,032.46)**	**$ 254,288.02**	**$ (5,793,363.01)**	**$ (1,691,484.63)**	**$ 269,647.28**	**$ (1,672,031.93)**	**$ (1,975,774.59)**	**$ 154,613.43**	**$ (1,044,852.17)**	**$ (17,511,334.14)**
75092_Residential_DC	$ (108,264.58)	$ (163,616.23)	$ (12,383.25)	$ (252,997.93)	$ 12,688.92	$ (83,802.13)	$ (202,956.64)	$ 30,318.70	$ (92,067.98)	$ (64,607.39)	$ 3,474.21	$ (83,444.06)	$ (1,017,658.36)
75093_Commercial_DC	$ (1,090,366.70)	$ (1,417,404.54)	$ 262,396.69	$ (2,656,070.48)	$ 184,705.27	$ (4,517,310.32)	$ (1,405,125.99)	$ 227,522.43	$ (1,579,963.95)	$ (1,611,003.27)	$ 135,190.25	$ (952,959.32)	$ (14,420,389.93)
75095	$ (116,871.00)	$ (28,163.07)	$ 6,328.60	$ (434,964.05)	$ 56,893.83	$ (1,192,250.56)	$ (83,402.00)	$ 11,806.15		$ (300,163.93)	$ 15,948.97	$ (8,448.79)	$ (2,073,285.85)

2021:

New Business	**$ (3,812,070.21)**	**$ 208,280.06**	**$ (1,176,911.21)**	**$ (4,724,933.26)**	**$ (1,801,776.93)**	**$ (1,324,308.06)**	**$ (1,596,600.94)**	**$ (1,762,819.32)**	**$ (980,992.12)**	**$ (1,127,779.19)**	**$ (636,468.39)**	**$ (660,251.06)**	**$ (19,396,630.63)**
75092_Residential_DC	$ (24,605.04)	$ 1,651.97	$ (23,621.77)	$ (37,159.31)	$ (36,116.38)	$ (86,829.75)	$ (42,579.44)	$ (100,012.87)	$ (52,407.93)	$ (17,703.70)	$ (32,165.85)	$ (47,498.53)	$ (499,048.60)
75093_Commercial_DC	$ (3,688,682.17)	$ 192,644.64	$ (990,072.85)	$ (2,849,364.98)	$ (1,601,148.57)	$ (1,237,478.31)	$ (1,554,021.50)	$ (1,594,953.42)	$ (933,024.06)	$ (778,945.78)	$ (615,484.38)	$ (612,752.53)	$ (16,263,283.91)
75095	$ (98,783.00)	$ 13,983.45	$ (163,216.59)	$ (1,838,408.97)	$ (164,511.98)		$ -	$ (67,853.03)	$ 4,439.87	$ (331,129.71)	$ 11,181.84		$ (2,634,298.12)

2022:

Row Labels	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Grand Total
New Business	**$ (1,201,168.74)**	**$ (2,394,929.97)**	**$ (1,424,532.01)**	**$ 285,576.73**	**$ (3,454,179.93)**	**$ 87,304.64**	**$ (1,346,120.57)**	**$ (2,139,982.99)**	**$ 0.00**	**$ 125,510.01**	**$ (904,772.79)**	**$ (1,824,066.93)**	**$ (14,191,362.55)**
75092_Residential_DC	$ (70,425.82)	$ (157,306.29)	$ (160,904.36)	$ 32,323.33	$ (202,404.75)	$ 6,100.55	$ (91,442.90)	$ (17,103.71)		$ (101,201.67)	$ (46,116.05)	$ 1,619.24	$ (806,862.43)
75093_Commercial_DC	$ (981,323.23)	$ (1,948,307.14)	$ (902,149.74)	$ 199,591.59	$ (3,197,560.71)	$ 81,204.09	$ (817,378.79)	$ (1,566,874.97)	$ 0.00	$ 351,626.41	$ (858,656.74)	$ (1,375,070.61)	$ (11,014,899.84)
75095	$ (149,419.69)	$ (289,316.54)	$ (361,477.91)	$ 53,661.81	$ (54,214.47)		$ (437,298.88)	$ (556,004.31)	$ (0.00)	$ (124,914.73)	$ 0.00	$ (450,615.56)	$ (2,369,600.28)

2023:

Sum of Activity Amount	Column Labels							
Row Labels	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Grand Total**
New Business	**$ (2,228,833.98)**	**$ 717,274.90**	**$ (1,949,088.05)**	**$ (1,504,601.80)**	**$ (594,238.80)**	**$ (4,294,673.61)**	**$ 4,158,566.41**	**$ (5,695,594.93)**
75092_Residential_DC	$ (29,692.89)	$ 9,009.71	$ (12,089.58)	$ (61,981.22)	$ (7,359.99)	$ (118,502.46)	$ 11,073.85	$ (209,542.58)
75093_Commercial_DC	$ (1,453,438.34)	$ 603,690.22	$ (1,552,817.59)	$ (1,334,292.42)	$ (582,424.03)	$ (3,840,233.37)	$ 3,372,535.41	$ (4,786,980.12)
75095	$ (745,702.75)	$ 104,574.97	$ (384,180.88)	$ (108,328.16)	$ (4,454.78)	$ (335,937.78)	$ 774,957.15	$ (699,072.23)
Grand Total	**$ (2,228,833.98)**	**$ 717,274.90**	**$ (1,949,088.05)**	**$ (1,504,601.80)**	**$ (594,238.80)**	**$ (4,294,673.61)**	**$ 4,158,566.41**	**$ (5,695,594.93)**

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA FORMAL CASE NO. 1176
RESPONSE TO AOBA DATA REQUEST NO. 7

QUESTION NO. 25
Re: Exhibit Pepco (H)-2. For each project addressed in the referenced exhibit, please document with supporting workpapers and analyses the Company's consideration and evaluation of considered alternatives, including any benefit-cost analyses prepared.

RESPONSE:

By agreement of counsel, additional information responsive to this request is being compiled and will be filed when completed.

UPDATED RESPONSE – August 30, 2023:

As discussed in the Direct Testimony of Company Witness Cantler on pg. 19, in footnote 7; not all distribution projects have alternatives considered due to the specific nature of the work (i.e., emergent work, programmatic, and/or corrective maintenance work). Additionally, as outlined again in the Direct Testimony of Company Witness Cantler on pg. 23, lines 18-21 & continued on pg. 24, lines 1-8, projects budgeted over $1.5 million are required to be presented and reviewed for senior management approval. During this authorization process the project will go through additional scrutiny to determine that the designated project's scope of work is the acceptable solution over the other considered technical alternatives. When evaluating any project, the Company considers project costs as well as quantifiable and non-quantifiable project benefits as part of the project authorization. Other factors considered may include, but are not limited to, project duration, number of customers affected by proposed project work, labor and manpower required, etc. For a listing of alternatives that were considered at project inception (when applicable) budgeted throughout this MYP, please refer to Pepco (H)-2 under the subheading "alternatives."

In regard to benefit cost analysis (BCA) as part of the authorization process prior to undertaking every project, the Company does not perform BCAs for every project it undertakes. Such an endeavor would be impractical because a utility does not determine system investments based exclusively on a BCA analysis, but rather on its obligation to serve all its customers reliably and safely, among other factors.

BCAs are typically performed for projects that require an analysis of a societal benefit and which are beyond the scope of Pepco's normal business, such as for advanced metering infrastructure (AMI) or as directed specifically by the Commission.

Please see FC 1176 AOBA 7-25 Confidential Attachments A – NN.

SPONSOR: Jaclyn Cantler

POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA FORMAL CASE NO. 1176
RESPONSE TO AOBA DATA REQUEST NO. 10

QUESTION NO. 22
Re: Exhibit Pepco (2A), page 21, Footnote 21. Please:

a. Quantify, and provide supporting workpapers to demonstrate, the increases in allowed revenues under the BSA that have resulted from Pepco's understatement of actual numbers of GT-LV customers in the design of rates for the GT-LV rate class under the approved FC 1156 MYP;

b. Provide the workpapers, data, analyses, assumptions, and studies Pepco relies upon to support a finding that the increases the Company's actual numbers of GT-LV customers since the implementation of its approved FC 1156 MYP have caused the Company to incur increases in its actual costs of service that equal or exceed the increases in Pepco's allowed revenues for the GT-LV class that Pepco has computed in its monthly BSA filings.

RESPONSE:

a. Please refer to FC1176 AOBA DR 10-22 Attachment for a comparison of Schedule GT-LV forecast revenues based on the billing determinant forecast and BSA targets approved by the Commission in FC 1156 (per the Company's FC 1156 MYP compliance filing, FC 1156 CY23 billing determinant update compliance filing, and February 2023 FC 1150 5-year EDIT credit shutoff filing) and authorized revenues under the BSA from July 2021 to August 2023. As part of the CY 2023 billing determinant update filing directed in Order No. 20755, the Company proposed to calculate CY 2023 rates and BSA targets using an updated customer count forecast; however, in Order No. 21563 the Commission denied this proposal and directed the Company to continue using its CY 2022 forecast from FC 1156 to calculate rates and BSA targets.

b. The Company has not conducted any specific analysis of the cost of service solely attributable to incremental Schedule GT-LV customer additions since the Company's FC 1156 MYP was approved. The results of the Company's cost of service study for the twelve months ending December 31, 2021, which present RORs and URORs for each rate class, are summarized in PEPCO (E)-2. As shown in column (H) row (33), the Schedule GT-LV class had a UROR of 2.36. As stated in the Company's response to AOBA DR 4-11, this is an increase from the 2.03 UROR for Schedule GT-LV presented in Formal Case No. 1156 based on the twelve months ended June 30, 2019.

SPONSOR: Elizabeth M. D. O'Donnell and Matthew J. Bonikowski

Schedule GT-LV - FC 1156 Forecast vs. Actual Revenue - Jul-21 to Aug-23

	FC 1156 Forecast Customer Count	BSA Targets	Forecast Revenue	Actual Customer Count	BSA Targets	Authorized Revenue	Difference
Jul-21	276	$ 27,013.25	$ 7,455,657	321	$ 27,013.25	$ 8,671,253	$ 1,215,596
Aug-21	276	$ 33,446.89	$ 9,231,342	322	$ 33,446.89	$ 10,769,899	$ 1,538,557
Sep-21	277	$ 23,992.25	$ 6,645,853	323	$ 23,992.25	$ 7,749,497	$ 1,103,644
Oct-21	277	$ 24,736.07	$ 6,851,891	324	$ 24,736.07	$ 8,014,487	$ 1,162,595
Nov-21	277	$ 23,922.97	$ 6,626,663	324	$ 23,922.97	$ 7,751,042	$ 1,124,380
Dec-21	277	$ 22,607.56	$ 6,262,294	325	$ 22,607.56	$ 7,347,457	$ 1,085,163
Jan-22	277	$ 27,278.16	$ 7,556,050	328	$ 27,278.16	$ 8,947,236	$ 1,391,186
Feb-22	276	$ 27,019.49	$ 7,457,379	331	$ 27,019.49	$ 8,943,451	$ 1,486,072
Mar-22	276	$ 27,667.29	$ 7,636,172	331	$ 27,667.29	$ 9,157,873	$ 1,521,701
Apr-22	276	$ 25,204.39	$ 6,956,412	330	$ 25,204.39	$ 8,317,449	$ 1,361,037
May-22	277	$ 25,819.98	$ 7,152,134	340	$ 25,819.98	$ 8,778,793	$ 1,626,659
Jun-22	276	$ 23,958.55	$ 6,612,560	338	$ 23,958.55	$ 8,097,990	$ 1,485,430
Jul-22	276	$ 28,749.78	$ 7,934,939	339	$ 28,749.78	$ 9,746,175	$ 1,811,236
Aug-22	276	$ 35,616.89	$ 9,830,262	339	$ 35,616.89	$ 12,074,126	$ 2,243,864
Sep-22	277	$ 25,591.79	$ 7,088,926	339	$ 25,591.79	$ 8,675,617	$ 1,586,691
Oct-22	277	$ 26,362.46	$ 7,302,401	339	$ 26,362.46	$ 8,936,874	$ 1,634,473
Nov-22	277	$ 25,896.74	$ 7,173,397	340	$ 25,896.74	$ 8,804,892	$ 1,631,495
Dec-22	277	$ 24,091.83	$ 6,673,437	342	$ 24,091.83	$ 8,239,406	$ 1,565,969
Jan-23	277	$ 29,514.47	$ 8,175,508	341	$ 29,514.47	$ 10,064,434	$ 1,888,926
Feb-23	276	$ 29,233.04	$ 8,068,319	340	$ 29,233.04	$ 9,939,234	$ 1,870,915
Mar-23	276	$ 29,937.95	$ 8,262,874	343	$ 29,937.95	$ 10,268,717	$ 2,005,843
Apr-23	276	$ 27,549.45	$ 7,603,648	344	$ 27,549.45	$ 9,477,011	$ 1,873,363
May-23	277	$ 28,227.07	$ 7,818,898	343	$ 28,227.07	$ 9,681,885	$ 1,862,987
Jun-23	276	$ 26,177.53	$ 7,224,998	343	$ 26,177.53	$ 8,978,893	$ 1,753,895
Jul-23	276	$ 31,450.58	$ 8,680,360	344	$ 31,450.58	$ 10,819,000	$ 2,138,639
Aug-23	276	$ 39,009.07	$ 10,766,503	345	$ 39,009.07	$ 13,458,129	$ 2,691,626

Attachment D
Government of the District of Columbia Comprehensive Annual Financial Report, Year Ended September 30, 2022, Exhibits S-2A, Released January 24, 2023
Formal Case No. 1176

Exhibit S-2A
Estimated Value of Taxable Property
Last Ten Fiscal Years ($000s)

Fiscal Year	Estimated Value: Commercial Property	Estimated Value: Residential Property	Total Taxable	Tax Exempt	Total Value	Total Direct Tax Rate	Tax Exempt as a % of Total Value
2013	$ 70,337,945	$ 81,406,777	$ 151,744,722	$ 84,690,034	$ 236,434,756	$ 1.23	35.82%
2014	74,834,806	85,465,264	160,300,070	87,287,954	247,588,024	1.24	35.26
2015	82,287,797	94,623,356	176,911,153	90,854,809	267,765,962	1.32	33.93
2016	86,644,638	102,457,968	189,102,606	91,429,157	280,531,763	1.32	32.59
2017	89,970,074	111,600,290	201,570,364	96,439,565	298,009,929	1.22	32.36
2018	91,138,075	120,243,383	211,381,458	99,987,708	311,369,166	1.28	32.11
2019	94,454,918	125,671,114	220,126,032	102,087,904	322,213,936	1.28	31.68
2020	95,678,551	133,008,766	228,687,317	108,517,588	337,204,905	1.29	32.18
2021	112,714,515	131,700,420	244,414,935	110,856,650	355,271,585	1.40	31.20
2022	102,668,201	146,094,307	248,762,508	106,983,246	355,745,754	1.44	30.07

Notes:
Assessed value is 100% of estimated market value.
Residential Property: After Homestead Deductions and other credits were applied against tax for 2013 - 2022; Does not reflect the 2013 - 2022 Cap Assessment of 10% for Class 01 with Homestead Deductions; 2022 reflects Taxable Assessed Value.
Total Direct Tax Rate: This is the weighted rate of all taxable real property, obtained by multiplying the weighted rate by the percentage of the total value of real property for each class.

Source:
Office of Tax and Revenue

Exhibit S-2B
Direct Property Tax Rates
Last Ten Fiscal Years (Per $100 Assessed Valuation)

Fiscal Year	Direct Property Tax Rate: Basic Rate	Direct Property Tax Rate: General Obligation Debt Service	Direct Property Tax Rate: Total Direct
2013	1.12	0.11	1.23
2014	1.13	0.11	1.24
2015	1.18	0.14	1.32
2016	1.16	0.16	1.32
2017	1.08	0.14	1.22
2018	1.14	0.14	1.28
2019	1.13	0.15	1.28
2020	1.12	0.17	1.29
2021	1.24	0.16	1.40
2022	1.28	0.16	1.44

Note:
Total Direct Tax Rate: This is the weighted rate of all taxable real property, obtained by multiplying the weighted rate by the percentage of the total value of real property for each class.

Source:
Office of Tax and Revenue

AOBA (B)

Before the

PUBLIC SERVICE COMMISSION
OF THE
DISTRICT OF COLUMBIA

IN THE MATTER OF	)	
	)	
The Application of Potomac Electric	)	
Power Company for Authority to Increase	)	**Formal Case No. 1176**
Existing Retail Rates and Charges	)	
For Electric Distribution Service	)	

VOLUME II OF II: DIRECT TESTIMONY OF AOBA WITNESS
TIMOTHY B. OLIVER

January 12, 2024

Apartment and Office Building Association
of Metropolitan Washington
1025 Connecticut Ave, NW, Suite 1005
Washington, D.C. 20036
(202) 296-3390

FRANN G. FRANCIS
EXCETRAL K. CALDWELL
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DIRECT TESTIMONY OF TIMOTHY B. OLIVER
DCPSC Formal Case No. 1176

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DIRECT TESTIMONY OF TIMOTHY B. OLIVER
DCPSC Formal Case No. 1176

LIST OF EXHIBITS AND ATTACHMENTS

DIRECT TESTIMONY OF TIMOTHY B. OLIVER
DCPSC Formal Case No. 1176

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE RECORD.

A. My name is Timothy B. Oliver. My business address is 7103 Laketree Drive, Fairfax Station, Virginia, 22039.

Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

A. I am employed by Revilo Hill Associates, Inc. I serve as Vice President and Senior Consultant for the firm.

Q. ON WHOSE BEHALF DO YOU APPEAR IN THIS PROCEEDING?

A. I am appearing on behalf of the Apartment and Office Building Association of Metropolitan Washington (AOBA).

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony in this proceeding is to provide the Commission with a greater perspective regarding a number of key elements of the rate increase request and proposals for tariff changes that the Potomac Electric Power Company (hereinafter “Pepco” or “the Company”) has presented in this proceeding. This testimony addresses Pepco’s capital structure, return on equity, overall rate of return, and revenue requirement. This testimony also responds to portions of the pre-filed direct and supplemental direct testimonies of Pepco witnesses McKenzie, Holden, and Leming.

Q. PLEASE SUMMARIZE YOUR EXPERIENCE AND QUALIFICATIONS.

A. I have been employed by Revilo Hill Associates, Inc. since 2002. During my employment with Revilo Hill Associates, I have participated in the preparation of a wide range of energy and utility analyses addressing such topics as capital structure, cost of capital, and ROE requirements for gas and electric utilities; utility class cost of service allocations; utility mergers and acquisitions; revenue increase distribution and rate design analyses; the design and operation of revenue decoupling mechanisms; reviews of annual purchase gas cost filings; fuel oil pricing; assessments of issues associated with the siting of proposed LNG facilities, investigation of metering and billing disputes for large building owners, examination of the economics of competitive energy supply alternatives for commercial, governmental, and institutional customers; and evaluation of energy efficiency opportunities in master metered apartment buildings.

I have also prepared or assisted in the preparation of utility rate case analyses and testimony for more than sixty utility electric, gas, and water proceedings in eight different regulatory jurisdictions. Those jurisdictions include the District of Columbia, Maryland, Virginia, Utah, Massachusetts, Rhode Island, Guam, and the Virgin Islands.

I hold a Bachelor of Science degree in Chemistry from the College of William and Mary. I also have a Master of Science degree in Global Energy Management from the University of Colorado Denver Business School, a program that included courses in Regulatory Accounting, Corporate Finance, Energy Economics, Energy Law and Policy, Asset Management, and Strategic Planning.

Q. HAVE YOU PREVIOUSLY APPEARED BEFORE THIS COMMISSION?

A. Yes, I have. I appeared before this Commission in Pepco-related Formal Case Nos. 1103, 1116, 1119, 1121, 1137, 1139, 1142, 1156, and 1167. As well as five Washington Gas proceedings in the District.

Q. HAVE YOU TESTIFIED BEFORE ANY OTHER UTILITY REGULATORY COMMISSIONS?

A. Yes, I have previously submitted testimony before the Virginia State Corporation Commission, the Maryland Public Service Commission, the Utah Public Service Commission, and the Rhode Island Public Utilities Commission.

Q. HAVE YOU ALSO TESTIFIED IN PEPCO PROCEEDINGS IN THE STATE OF MARYLAND?

A. Yes, I have presented testimony in numerous Pepco proceedings before the Maryland Public Service Commission. The Pepco cases in the Maryland in which I have testified include Case Nos. 9336, 9361, 9418, 9443, 9602, and 9655, and have filed direct testimony and will be testifying in the current Case No. 9702, Pepco's pending MYP Application.

Q. DID YOU TESTIFY WITH RESPECT TO PEPCO'S PROPOSED MULTI-YEAR RATE PLAN PROPOSALS IN FORMAL CASE NO. 1156 BEFORE THIS COMMISSION AND CASE NO. 9655 BEFORE THE MARYLAND PUBLIC SERVICE COMMISSION?

A. Yes, I did. I presented Direct, Rebuttal, and Surrebuttal testimonies in both proceedings, encompassing over 200 pages of written testimony and exhibits.

Q. WAS THIS TESTIMONY PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION AND CONTROL?

A. Yes, it was.

II. SUMMARY

Q. PLEASE SUMMARIZE THE KEY ELEMENTS OF YOUR FINDINGS WITH RESPECT TO PEPCO'S PROPOSALS IN THIS PROCEEDING.

A. Key findings from my review of Pepco's filing in this proceeding include the following:

Capital Structure and Rate of Return

- The capital structure, as presented by Pepco, is reasonable for rate-making purposes and is compliant with Merger Commitment No. 93.[1]

- Pepco's requested 10.50% ROE, an increase of more than 122 basis points from the currently authorized ROE, is overstated and does not reflect current market conditions.

- Pepco substantially overstates the equity return it requires for its District of Columbia electric distribution utility operations.

- Pepco's Application demonstrates that in the Historic Test Year, the Company earned a return on equity of 10.122%, more than 90 basis points above its authorized rate of return. Only with substantial accounting manipulation through the utilization of a forecasted bridge year does the Company portray its perceived revenue deficiency, which should be disregarded.

[1] Order No. 18148, Attachment B, Page 18, Commitment No. 48: "Pepco shall maintain a rolling 12-month average annual equity ratio of at least 48%. Pepco will not pay dividends to its parent company if, immediately after the dividend payment, its common equity level would fall below 48%, as equity levels are calculated under the ratemaking precedents of the Commission."

- The large number and wide range of Witness McKenzie's ROE estimates provide an unreasonably large degree of latitude for his exercise of judgment in the presentation of his ROE recommendation.

- Since the filing of Witness McKenzie's Direct Testimony over 8 months ago, there have been significant changes in both market conditions and interest rates, yet Witness McKenzie made no adjustment to his recommendation despite opportunities to file Supplemental Direct Testimony.

- A properly designed MRP should reduce the risk of Pepco's operations in the District of Columbia, and that reduction in risk should be reflected in the level of the Company's authorized ROE.

<u>Revenue Requirements</u>

- Appropriate adjustment of Pepco's requested ROE would eliminate nearly $22 million from the Company's $108 million traditional rate case revenue increase request in this proceeding without any consideration of any other revenue requirements issues.

- Appropriate adjustment of the Company's requested ROE would eliminate $27.6 million of Pepco's $190.7 million revenue increase request for the proposed MRP in this proceeding without any consideration of other revenue requirements issues.

- Pepco's utilization of a "bridge year" for the MYP and a partially forecasted test year for the TTY reduces the transparency of the Company's Application and erodes the value of ties to actual historical data. A fully historic test year can always be adjusted for known changes to costs for the rate effective period. Reliance on forecasted data has been problematic and places undue burdens on intervenors.

- Establishment of a Regulatory Asset for the Reflection of COVID-19 Revenue Under-recoveries that can be identified may be reasonable at this time.

- Removal of Unjustified Capital Projects for both the TTY and MYP is reasonable and would serve to reduce the impact of Pepco's capital expenditures.

- An adjustment to the Customer Connection Costs for both the TTY and MYP is reasonable and appropriate due to the demonstrated overbudgeting for that activity.

- AOBA's adjustments to Pepco's revenue request, including AOBA's ROE recommendation, would eliminate a substantial portion of Pepco's Traditional Test Year revenue request. It would also serve to lower the Company's required revenues for each of the years of Pepco's requested MRP if the Commission elects to approve a MRP in this proceeding.

- AOBA's proposed rate of return, coupled with its adjustments to the Company's traditional rate case revenue requirement, lowers Pepco's revenue deficiency for the Traditional Test Year to not more than $66.7 million.

- AOBA's ROE and ratemaking adjustments reduce Pepco's requested revenue requirements for the MYP period to no more than $138.6 million.

- If the Commission elects to adopt an MYP the cumulative authorized revenue should be distributed evenly across the three years of the MYP period.

Q. WHAT ACTIONS DO YOU RECOMMEND THAT THIS COMMISSION TAKE WITH RESPECT TO PEPCO'S FILING IN THIS PROCEEDING?

A. Based on the findings in this presentation, I recommend that the Commission take the following actions:[2]

Capital Structure and Rate of Return

1. The Commission should accept the Company's proposed capital structure for ratemaking purposes.

2. The Commission should reject the Company's requested 10.50% ROE in this proceeding as not reflective of returns for investments having risk comparable to that for Pepco's distribution utility operations.

3. The Commission should authorize a ROE for Pepco of **9.10%** and an overall rate of return for the Company of not greater than **7.08%**.

[2] Omission from this list of a recommendation presented elsewhere in this testimony is unintentional and does not diminish or negate the importance of a recommendation not included in this list.

Revenue Requirement

4. The Commission should adopt AOBA's Revenue Requirement adjustments presented herein.

5. The Commission should approve an increase in Pepco's traditional rate case revenue requirement of not more than $66.7 million.

III. DISCUSSION OF ISSUES

Q. HOW IS YOUR DISCUSSION OF ISSUES RELATING TO PEPCO'S FILING IN THIS PROCEEDING ORGANIZED?

A. My testimony addresses two major subjects. Section A discusses the Company's proposed Capital Structure and Rate of Return. Section B addresses the Company's Revenue Requirement.

A. CAPITAL STRUCTURE AND RATE OF RETURN

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS REGARDING THE APPROPRIATE CAPITAL STRUCTURE AND COST OF EQUITY FOR PEPCO.

A. The Company's proposed capital structure, comprised of 50.5% common equity and 49.5% long-term debt, is reasonable for ratemaking purposes for the MYP period. The Company's request for a 10.50% return on equity is overstated and does not appropriately reflect the low-risk profile of its District of Columbia distribution operations. My analyses suggest that a downward adjustment to Pepco's currently authorized 9.275% ROE is supported by current market conditions. The results of my analyses, without adjustments, is 8.88%.[3] I am recommending an ROE to reflect gradualism in the adjustment of the Company's ROE. This results in a ROE recommendation of 9.10%, which is within the range of reasonableness. AOBA's recommendation ROE alone reduces the Company's TTY revenue requirement by $21.7 million and the cumulative revenue requirement by $27.6 million.

1. Capital Structure

Q. WHAT FACTORS SHOULD THE COMMISSION CONSIDER WHEN ASSESSING THE APPROPRIATE CAPITAL STRUCTURE FOR RATEMAKING PURPOSES IN THIS PROCEEDING?

A. Any determination regarding the appropriateness of a proposed equity component for Pepco's capital structure for rate-making purposes must reflect a balancing of at least four considerations. Those considerations include:

[3] Exhibit AOBA (B)-1, page 1.

- ✓ Does the proposal reflect a reasonable attempt to minimize the overall costs to ratepayers of financing the Company's utility operations?

- ✓ Does the proposal support the financial stability and health of the Company's utility operations?

- ✓ Does the proposal inappropriately foster subsidization of the activities of non-regulated affiliates?

- ✓ Does the proposal provide the Company with substantial opportunities to improve its profitability by utilizing an actual capital structure that differs from the capital structure approved for ratemaking purposes?

Q. WHAT CAPITAL STRUCTURE DOES PEPCO PROPOSE TO USE FOR RATE-MAKING PURPOSES IN THIS PROCEEDING?

A. The pre-filed direct testimony of Pepco Witness Holden at Exhibit Pepco (C), found in Table 3, on page 16, presents the Company's recommended capital structure. That Capital Structure includes the following components:

Common Equity	50.50%
Long-Term Debt	49.50%
TOTAL	100.00%

Q. WHAT RATES OF RETURN DOES PEPCO REQUEST IN THIS CASE?

A. Pepco seeks authorization for an overall rate of return of 7.77% to 7.79% and a return on common equity ("ROE") of 10.50%. The Company also seeks a cost rate for Long-Term Debt ranging from 4.99% to 5.04% over the proposed MYP period.

Q. IS THE CAPITAL STRUCTURE THAT PEPCO PROPOSES REASONABLE AND APPROPRIATE FOR RATEMAKING PURPOSES?

A. Yes. Pepco's proposed capital structure does address each of the four considerations that the Commission must balance in determination of a capital structure for ratemaking purposes. The percentage of common equity that the Company proposes for ratemaking purposes is above the minimum equity ratio that the Company is bound to adhere to in Merger Condition 93 from Formal Case No. 1119. For ratemaking purposes this satisfies the established floor for the percentage of common equity.[4] Pepco's proposed capital structure while reasonable in composition does not offer any assurance that the capital structure the Company chooses to employ will minimize ratepayer costs, promote financial stability, and not subsidize or provide financial advantage to the Holding Company's non-utility operations. A primary role of the Commission's capital structure determination is to limit the costs of capital included in the rates for Pepco's District of Columbia customers to reasonable and appropriate levels.

[4] Formal Case No. 1119, Order No. 18148, Attachment B, page 18, Commitment 93.

2. <u>Cost of Equity</u>

Q. ARE THE COST RATES THAT PEPCO PROPOSES FOR THE COMPONENTS OF ITS PROPOSED CAPITAL STRUCTURE REASONABLE?

A. I do not take issue with the cost rates that Pepco seeks for Long-Term Debt and Short-Term Debt. However, I find that the Company's claimed 10.50% cost of equity is overstated.

Q. DO YOU HAVE ANY GENERAL OBSERVATIONS REGARDING THE RETURN ON EQUITY REQUEST THAT PEPCO HAS SUBMITTED IN THIS PROCEEDING?

A. I do. With respect to the Company's ROE, Pepco asks for the Commission's approval of a **10.50%** return on equity. That request is based on the Direct Testimony of Pepco Witness McKenzie who concludes that the Company's ROE should fall within a range of 10.00% to 11.00% and recommends that the authorized ROE for Pepco be set at the mid-point of that range.[5] Witness McKenzie's recommendation represents a dramatic **122.5 basis points** increase over the 9.275% ROE level that this Commission approved in Pepco Formal Case No. 1156 and reflects no consideration of gradualism in the adjustment of authorized ROEs. Witness McKenzie's recommendation also fails to account for the lower risk profile of Pepco's District of Columbia distribution operations

[5] Pepco Exhibit (F), the Direct Testimony of Witness McKenzie, page 9, lines 13 through 18.

compared to a proxy group composed entirely of energy holding companies that are more appropriately comparable to Pepco's parent Exelon. Lastly, Witness McKenzie's recommendation does not reflect the significant reduction in risk to Pepco's earnings and revenue recovery expectations that would result in the approval of a MYP.

Q. DO YOU CONTEST THE REASONABLENESS OF THE PROXY GROUP THAT PEPCO WITNESS MCKENZIE USES IN HIS COST OF EQUITY ANALYSES?

A. Given that mergers and acquisitions have effectively eliminated market information regarding the cost of equity for independent electric distribution utilities, the proxy group of primarily holding companies that Witness McKenzie employs may have to suffice as a starting point for an assessment of electric distribution utility ROE requirements. But that does not justify a presumption that the risks and equity return requirements for the holding companies included in Witness McKenzie's proxy group are comparable to, and/or are reasonably representative of, the risks and return requirements of Pepco' distribution utility operations in District of Columbia.

Witness McKenzie' proxy group comprises utility holding companies with investment portfolios that often include significant non-utility and non-price regulated business activities. It is widely understood that electric distribution utilities typically have lesser risk and lower equity return requirements than their parent companies. Thus, reliance on Witness McKenzie's proxy group results, without a downward adjustment for the lesser risk of Pepco's distribution utility operations, overstates Pepco' equity return requirements.

Q. WHAT SUPPORT DOES PEPCO OFFER FOR ITS REQUESTED 10.50% COST OF EQUITY?

A. The Company's support for its requested cost of equity is presented in the Direct Testimony of Witness McKenzie. Witness McKenzie offers cost of equity analyses that are developed using four different approaches to the estimation of the costs of common equity for Pepco. Those approaches include: (1) a constant growth discounted cash-flow ("DCF") model; (2) a Capital Asset Pricing Model ("CAPM"); and (3) an Empirical Capital Asset Pricing Model ("ECAPM"); (4) a risk premium analysis; and (5) an expected earnings analysis.

Q. WHAT IS THE RANGE OF ROE ESTIMATES THAT RESULTS FROM THE COST OF EQUITY ESTIMATION SCENARIOS THAT WITNESS MCKENZIE PRESENTS?

A. The overall range of Witness McKenzie's cost of equity analyses is from 8.9% to 11.4%. This range is sufficiently broad to render it essentially meaningless. His DCF cost of equity estimates range from a low of 8.9% to a high of 10.1%. His CAPM results range from 11.0% to 11.2%. His risk premium and expected earnings methods of assessing equity return requirements produce ROE estimates between 10.6% and 11.4%.

Q. SHOULD THE COMMISSION ACCEPT WITNESS MCKENZIE'S ROE RECOMMENDATION?

A. No. The 10.50% ROE that the witness recommends is well above the cost of equity that Pepco requires for its comparatively low-risk distribution utility operations in the District of Columbia. Witness McKenzie's analyses and rationales do not properly consider the comparative risk of Pepco's electric distribution utility operations in the District of Columbia. Instead, the witness' recommendation is highly dependent upon results for scenarios that do not reflect costs for comparable risk investments. Furthermore, Witness McKenzie's recommendation fails to account for the expected reduced risk that would result from Pepco continuing a MYP paradigm in the District of Columbia.

Q. WHAT CRITICISMS DO YOU OFFER OF WITNESS MCKENZIE'S COST OF EQUITY ANALYSES?

A. Despite Witness McKenzie's references to *Hope* and *Bluefield,* his cost of equity analyses fails to maintain appropriate focus on the development of cost of equity estimates for comparable risk investments. Although I appreciate the limitations imposed on cost of equity estimation by the shrinking pool of companies in the electric utility industry that might be reasonably characterized as having only distribution operations that would be of comparable risk to the Company's District of Columbia distribution operations, Witness McKenzie's analyses does not ensure that the proxy group is comprised of comparable risk investments.

Given that neither Pepco nor its District of Columbia operations represent stand-alone entities in which investors can purchase common equity, the task of the Commission is to assess the changes in risk that an investor would face if the investor was able to purchase common equity in Pepco's District of Columbia operations. In that context, the Commission must assess the impacts of a MYP on the risks of an investment in Pepco's District of Columbia operations rather than the impacts of such a change in regulatory practice on Pepco's overall risk profile, the risk profile of its ultimate parent company (i.e., Exelon), or the risk faced by Pepco relative to other utilities or holding companies.

Q. DOES WITNESS MCKENZIE OFFER ANY EVIDENCE THAT THE COMPANIES INCLUDED IN HIS PROXY GROUP HAVE HAD TROUBLE ACCESSING FINANCIAL MARKETS ON REASONABLE TERMS?

A. No. It does not.

Q. ARE THE DATA AND METHODS THAT WITNESS MCKENZIE USES TO ESTIMATE THE COST OF EQUITY REASONABLE AND APPROPRIATE?

A. No. Any rate of return recommendation in this proceeding should be reflective of investments of comparable risk to Pepco's distribution utility operations in the District of Columbia. Witness McKenzie's cost of equity analyses fail to meet that basic threshold requirement. Overall, the companies included in the proxy group upon which he relies to develop his DCF and CAPM analyses are noticeably riskier than Pepco's distribution utility operations. Witness McKenzie fails to demonstrate that the Beta coefficients he employs properly and accurately adjust for the risk differential between distribution utilities and the general market.

Although Witness McKenzie cites those decisions in his Direct Testimony,[6] the concept of comparable risk for Pepco's distribution utility operations in the District is lost in Witness McKenzie's development of his ROE recommendation. Witness McKenzie makes no attempt to adjust the results of his ROE analyses to reflect the lower risk of Pepco's distribution utility operations. For this reason, Witness McKenzie's 10.50% ROE recommendation warrants little, if any, weight in the Commission's ROE determination for Pepco in this proceeding.

Q. PLEASE DESCRIBE THE COST OF EQUITY ANALYSES THAT YOU HAVE DEVELOPED FOR THIS PROCEEDING?

A. In addition to my review of Witness McKenzie's cost of equity presentation, my efforts to estimate a ROE for Pepco in this proceeding include the computation of DCF and CAPM analyses. Those analyses are presented in Exhibit AOBA (B)-1. For my analyses I have expanded the same proxy group chosen by Witness McKenzie to include Company's previously selected by former Pepco ROE Witness Dylan D'Ascendis, and excluded Exelon. Noting the inherent upward bias in ROE estimates that a proxy group dominated by utility holding companies can be expected to yield for an electric distribution utility such as Pepco.

[6] Pepco Exhibit (F), the Direct Testimony of Witness McKenzie, page 5.

Q. HOW ARE YOUR DCF ANALYSES PRESENTED?

A. The detail of my DCF analysis is presented in Exhibit AOBA (B)-1, page 2. That analysis employs annual high and low stock price data and earnings growth projections from Zacks, Seeking Alpha, and Yahoo in a traditional Constant Growth DCF model. Overall proxy group DCF results are summarized for each source of earnings growth estimates on page 1, lines 1-4 of Exhibit AOBA (B)-1. Because no explicit adjustment is made to account for the reduced risk of a distribution utility from that of a holding company the results of the DCF analysis should be viewed as an upper bound for an appropriate return of equity for a distribution utility such as Pepco.[7]

Q. WHAT IS AN APPROPRIATE RISK-FREE RATE FOR USE IN ROE DETERMINATIONS FOR THIS PROCEEDING?

A. The risk-free rate used to estimate the required ROE for Pepco's distribution utility operations should be based on recent actual 30-year treasury rates. Due to the current environment of extremely low 30-Year Treasury rates I have elected to utilize the current rate as November 27, 2023 of 4.57%.

Q. WHAT MEASURES FOR RISK PREMIUMS WERE UTILIZED IN THE DEVELOPENT OF YOUR CAPM ANALYSIS?

[7] Due to gradualism in the adjustment of utility's ROE, utilization of the Company's currently authorized ROE precludes the use of the DCF results as the analytical upper band.

A. My CAPM analysis compensates for the lack of market data on which the assessment of differences in risk and return requirements between Pepco and the proxy group and/or between Pepco and the general market are absent. In the absence of publicly traded Pepco stock, differences in risk associated with stock price volatility are not observable. Witness McKenzie attempts to avoid addressing this problem by assuming that the risk of his proxy group companies provides an appropriate differentiation from the general market through the use of Beta coefficients, but the proxy group risk is not the same as Pepco's risk. I take a different approach, recognizing that appropriate Beta coefficients and/or other market-based measures of risk cannot be computed for a company that does not have publicly traded stock, I elected to account for such risk differentials through adjustments to the assumed risk premiums.

Q. OTHER THAN THE FACT THAT THE VALUE LINE ESTIMATES OF EARNINGS GROWTH DIFFER FROM THOSE FROM OTHER SOURCES, WHY SHOULD THE VALUE LINE EARNINGS GROWTH ESTIMATES BE DISREGARDED?

A. My analysis relating to the Value Line earnings growth estimates on which Witness McKenzie has relied raises significant concerns. Witness McKenzie DCF analysis is unduly influenced by the financial information provided by Value Line. Value Line's projections of earnings are significantly different from earnings growth projections offered by other financial information providers such as Zacks, Yahoo Finance, and Seeking Alpha and should not be relied upon. It appears that Value

Line's earnings growth estimates have not been computed in a manner that eliminates consideration of abnormal or one-time adjustments for earnings. Further, Value Line's deviation from other publicly available financial information persists in Value Line's "adjusted betas." Value Line provided data has become an outlier and should be given significantly less weight by this Commission in its determination of Pepco's return on equity.

Q. WHAT ARE THE RESULTS OF YOUR ANALYTICAL ANALYSES?

A. My analyses suggest that a downward adjustment is appropriate. The average of AOBA's DCF results is 8.589%. The average of AOBA's CAPM results is 8.94%. The results of AOBA's cost of equity analyses combined is 8.876%. This clearly supports a downward adjustment to the Company's current 9.275% ROE.

Q. WHAT IS THE BASIS FOR THE 9.10% ROE THAT YOU ESTIMATE HEREIN?

A. While my analyses clearly support the downward adjustment to Pepco's currently authorized ROE of 9.275%, I am aware of and am sensitive to this Commission's application of gradualism in the adjustment of a utility's ROE. For that reason, I have taken the midpoint between the Company's currently authorized ROE and my analytical result. This results in my recommendation of 9.10%.

3. <u>Overall Cost of Capital</u>

Q. WHAT OVERALL RATE OF RETURN RESULTS FROM YOUR COST OF CAPITAL RECOMMENDATIONS?

A. My recommendation for Pepco is computed in **Exhibit AOBA (B)-2**. That overall rate of return is premised on the Company's proposed capital structure, proposed costs for long-term debt, and my ROE recommendation. The resulting weighted cost of capital for Pepco is 70.8**%**.

B. <u>AOBA'S PROPOSED REVENUE REQUIREMENT</u>

Q. PLEASE DESCRIBE PEPCO'S BIFURCATED REVENUE REQUIREMENT AND RATEMAKING ADJUSTMENT PRESENTATION IN THIS PROCEEDING.

A. Pepco provides two sets of ratemaking adjustments that are sponsored by two different witnesses and span seven separate pieces of testimony. Pepco Witnesses Leming and Holden present the Company's ratemaking adjustments ("RMAs") for a Traditional Test Year filing ("TTY") based on a test year ending 12/31/2023. Witness Leming's Direct Testimony offers 28 proposed ratemaking adjustments to Pepco's for MYP. His October 2023 Supplemental Direct Testimony includes 38 RMAs presented for the TTY.

Q. WHAT IS THE RELEVANCE OF THE BIFURCATED NATURE OF PEPCO'S REVENUE REQUIREMENTS PRESENTATION?

A. The parallel revenue requirement adjustments presented by Witness Leming and Holden contain RMA's with different adjustment numbers but related to similar issues. For example, RMA 26 for the MYP presentation and RMA 36 for the TTY presentation both address the Reflection of the 2021 Lead-Lag study on Cash Working Capital Allowance but have different values. In an effort to avoid confusion in this testimony, I will reference RMAs as "TTY RMAs" and "MYP RMAs."

1. Rate of Return Impact on Revenue Requirement

Q. HOW DOES AOBA'S RATE OF RETURN RECOMMENDATION IMPACT THE COMPANY'S REVENUE INCREASE REQUEST IN THIS PROCEEDING?

A. AOBA's rate of return recommendation presented herein would lower the Company's overall requested return for the Traditional Test Year ("TTY") from \$108.2 million to \$86.5 million and a cumulative reduction of \$27.5 by the end of the MYP period. That lowers Pepco's requested overall rate of return by **58 basis point to 7.08%.**[8]

[8] Exhibit AOBA (B)-2.

Q. HOW DOES AOBA'S RATE OF RETURN RECOMMENDATION IMPACT THE COMPANY'S REVENUE INCREASE REQUEST FOR EACH YEAR OF PEPCO'S MULTI-YEAR RATE PLAN IN THIS PROCEEDING?

A. Based on the record of this proceeding, as well as the Direct Testimony of Bruce Oliver, AOBA does not believe that approval of an MYP for Pepco in this proceeding is reasonable or appropriate. If, however, the Commission elects to allow Pepco to use a MYP, AOBA's position is that the rate of return approved for Pepco should be fixed over the full MYP rate effective period. Moreover, that change in return requirements lowers the Company's cumulative base rate revenue requirement by $46.2 million without consideration of any of the additional adjustments to Pepco's costs that are discussed below.[9]

2. AOBA Ratemaking Adjustments

Q. HOW DID YOU DETERMINE THE AMOUNT BY WHICH PEPCO'S REVENUE REQUIREMENT FOR THE TTY SHOULD BE REDUCED?

A. AOBA proposes to make six adjustments to the Company's proposed TTY revenue requirement. The adjustments include the elimination of three of Pepco's proposed RMA's and three AOBA proposals. The details of these adjustments are presented In Exhibit AOBA (B)-3, page 1, with the impact on the overall revenue requirements. Below is a list of the six adjustments:

[9] Exhibit AOBA (B)-2.

i) Elimination of Reflection of BSA Regulatory Asset in Rate Base (TTY RMA 12);

ii) Establishment of a Reflection of COVID-19 Revenue Under-recoveries;

iii) Elimination of Reflection of Non-Labor Operations and Management Inflation Adjustment (TTY RMA 34);

iv) Elimination of Reflection of 2021 Lead Lag Study Impact on Cash Working Capital Allowance (TTY RMA 36);

v) Proposed Removal of Unjustified Capital Projects;

vi) Proposed Adjustment to Customer Connection Cost.

Q. PLEASE DESCRIBE THE ADJUSTMENT TO ELIMINATE TTY RMA 12-REFLECTION OF BSA REGULATORY ASSET IN BASE RATES?

A. As discussed at length in the Direct Testimony of AOBA Witness Bruce Oliver, Pepco's proposed recovery of costs associated with its BSA Deferred Revenue Balance is unnecessary and reflects inappropriate and unsound ratemaking practice. Moreover, AOBA questions the accuracy and appropriateness dollar amount for which Pepco seeks to earn a return under that proposal. Further, there are substantial elements of Pepco's June 30, 2023 BSA Deferred Revenue Balance that AOBA specifically challenges in this proceeding. Therefore, Pepco's proposed regulatory asset should be denied and exclude from the Commission rate determinations in this proceeding. This would remove approximately $113.8 million of rate base and corresponds to a $12.0 million reduction in the TTY revenue requirement.

Q. PLEASE DESCRIBE THE PROPOSED REGULATORY ASSET FOR THE REFLECTION OF COVID-19 REVENUE UNDER-RECOVERIES?

A. While many facets of the Company's proposed BSA Regulatory asset are problematic and are not appropriate for inclusion in a regulatory asset, AOBA acknowledges that the portion of Pepco's BSA deferred balance attributable to revenue under-recoveries caused by the COVID-19 pandemic are appropriate for treatment as a COVID-19 regulatory asset. As such, AOBA proposes to remove the referenced $39.7 million of identified COVID-19-related under-recoveries from Pepco's BSA Deferred Revenue Balance and allow the Company to amortize the recovery of that regulatory asset with a ten-year amortization period with a return on the unamortized balance. The result of this adjustment increases rate base by $39.7 million and corresponds to a **$3.9 million increase** to the TTY revenue requirement.

Q. SHOULD THE COMMISSION ACCEPT THE COMPANY'S PROPOSED TTY RMA 34- REFLECTION OF NON-LABOR OPERATIONS AND MANAGEMENT INFLATION ADJUSTMENT?

A. No. As demonstrated by my testimonies in Formal Case No. 1156, a non-labor O&M inflation adjustment is not appropriate, and it was eliminated from the Commission's ratemaking considerations in that proceeding. Pepco's TTY RMA 34 in this proceeding should be treated in a similar manner and eliminated from the Company's TTY revenue requirement. Elimination of Pepco's RMA 34 would increase the TTY operating income by $2.3 million while reducing the TTY revenue requirement by $3.2 million.

Q. SHOULD THE COMMISSION ACCEPT THE COMPANY'S PROPOSED TTY RMA 36- REFLECTION OF THE 2021 LEAD LAG STUDY IMPACT ON CASH WORKING CAPITAL ALLOWANCE?

A. No. The Company's proposed significant increase in its Cash Working Capital allowance is premised on a Lead-Lag Study that is highly influenced by the impacts of the COVID-19 pandemic. As explained by AOBA witness Bruce Oliver, Pepco has not properly removed the influence of COVID-19 policies regarding restrictions on the Company's assessment of Late Payment Fee and Service Disconnects that were in place during the pandemic. Without accounting for the influence of those policies on payment lags, Pepco's assessment of its revenue lags and Cash

Working Capital requirements cannot be relied upon to reflect the conditions that are expected to prevail during the rate effective periods for either the TTY or the Company's proposed MYP. For these reasons, AOBA submits that continued reliance on the 2017 Lead-Lag study provides a more appropriate reflection of expected revenue lags during the period's rates will be in effect. The impacts of eliminating TTY RMA 36 and continuing to rely on the Company's 2017 Lead-Lag Study would reduce Pepco's rate base by $13.6 million and reduce the TTY revenue requirement by $1.4 million.

Q. PLEASE DESCRIBE AOBA'S PROPOSED REMOVAL OF UNJUSTIFIED CAPITAL PROJECTS?

A. AOBA Witness Bruce Oliver in his Direct Testimony has identified numerous capital projects for which the Company has not provided substantial support for the budgeted dollar amounts Pepco presents for those projects. The Commission and the parties to this proceeding lack the necessary information for assessing the reasonableness of the capital expenditures Pepco has budgeted for the identified projects. Although the projects identified constitute only a subset of the projects for which Pepco's support for its budgeted expenditures is found lacking, the list of projects identified by AOBA Witness Bruce Oliver for removal from the Commission's ratemaking determinations in this proceeding comprises only those projects with the most extreme unexplained differences between the budgeted cost presented by Pepco in this proceeding and the information contained in the purportedly supporting documents that Pepco has provided to AOBA through discovery in this proceeding.

Q. PLEASE DESCRIBE AOBA'S PROPOSED ADJUSTMENT TO CUSTOMER CONNECTION COSTS?

A. As discussed in the Direct Testimony of AOBA Witness Bruce Oliver, the costs for new customer connections contain inconsistencies that significantly undermine the credibility of Pepco's presentation of its budgeted costs for Commercial New Business Connections. Although AOBA believes the problems identified could justify the complete elimination of Pepco's budgeted costs for Commercial New Business Connection, AOBA recognizes that there is expected to be ongoing Commercial New Business Connection activity. Therefore, AOBA's recommendation is that the Commission eliminate from each year of the Company's budgeted costs only a dollar amount equivalent to the amount of the Company's 2022 budget that Pepco's 2022 Final Reconciliation Filing indicates was not spent in that year. With Pepco's projections of negative overall growth in its numbers of new Commercial accounts, the remaining amounts should be adequate to address emergent new customer connection requirements. AOBA, thus, recommends that the Commission reduce Pepco's budgeted costs for Commercial New Business Connections by $9.2 million per year for each year of the proposed MYP or by an equal one-year amount for the TTY rate effective period. This results in a reduction to Pepco's TTY revenue requirement of $0.9 million.

Q. HOW DID YOU DETERMINE THE AMOUNT BY WHICH PEPCO'S REVENUE REQUIREMENT FOR THE MYP SHOULD BE REDUCED?

A. AOBA proposes to make three adjustments to the Company's proposed MYP revenue requirement. The adjustments include the elimination of one of Pepco's proposed RMA's and two AOBA proposals. The details of these adjustments are presented in Exhibit AOBA (B)-3, page 2, with the impact on the overall revenue requirements. Below is a list of the three adjustments:

i) Elimination of Reflection of 2021 Lead Lag Study Impact on Cash Working Capital Allowance (RMA 26);

ii) Proposed Removal of Unjustified Capital Projects;

iii) Proposed Adjustment to Customer Connection Cost.

Q. SHOULD THE COMMISSION ACCEPT THE COMPANY'S PROPOSED MYP RMA 26- REFLECTION OF THE 2021 LEAD LAG STUDY IMPACT ON CASH WORKING CAPITAL ALLOWANCE?

A. For the same reasons AOBA recommends that the TTY RMA 36 be eliminated AOBA proposes that MYP RMA 26 also be eliminated for the whole MYP period. The impacts of the elimination of Pepco's proposed MYP RMA 26 would reduce the Company's cumulative rate base by $78.4 million, resulting in a MYP cumulative revenue requirement reduction of $7.7 million.

Q. PLEASE DESCRIBE AOBA'S PROPOSED REMOVAL OF UNJUSTIFIED CAPITAL PROJECTS?

A. Similar in nature and concept to the TTY adjustment AOBA proposes to remove unjustified capital projects from each year of the Company's proposed MYP. This adjustment would encompass more than a $167 million reduction to the Company's cumulative revenue requirement resulting in a cumulative revenue requirement decrease of $16.3 million.

Q. PLEASE DESCRIBE AOBA'S PROPOSED ADJUSTMENT TO CUSTOMER CONNECTION COSTS?

A. Again, similar to the proposed TTY adjustment for customer connection costs AOBA proposes to reduce the amount by the overbudgeted amount of $9.2 million for each year of the proposed MYP. This results in a cumulative reduction to rate base of $2.7 million, or $900,000 for each year of the MYP.

3. *AOBA's Revenue Increase Recommendations*

Q. WHAT IS YOUR ASSESSMENT OF THE COMPANY'S PROPOSED SMOOTHING ADJUSTMENT AS IT APPLIES TO PEPCO'S REQUESTED MRP REVENUE REQUIREMENTS?

A. The Company's proposed smoothing adjustment is entirely inappropriate. Any deviation from the full revenue requirement request should be made by this Commission. The "smoothing" adjustment proposed by Pepco is arbitrary and unnecessary. It also serves to distort the overall impact and magnitude of the Company's revenue request. In essence, Pepco is saying that it doesn't actually "require" the full levels of revenue that it computes without "smoothing" adjustments. In that context, Pepco's "smoothing" constitutes a departure from reality that raises further questions regarding the Company's forecasting of its future costs and the credibility of the overall revenue requirements that it computes for the years of its MRP. Deviation from the Company's calculated revenue requirements that are not cost-based have no appropriate role in the determination of the levels of revenue that Pepco requires.

Q. WHAT AMOUNT OF ADDITIONAL REVENUE FOR PEPCO SHOULD THE COMMISSION APPROVE IN THIS PROCEEDING?

A. **Exhibit AOBA (B)-3** provides AOBA's current position with respect to an appropriate revenue increase for the Company. The computations presented in

Exhibit AOBA (B)-3, page 1 indicate that the Commission should **limit** Pepco's requested revenue requirement to no more than **$66.7 million** for the traditional rate case. The computations presented in **Exhibit AOBA (B)-3, page 2** indicate that the Commission should **limit** Pepco's cumulative revenue requirement to no more than **$138.6 million** for a multi-year rate plan, or **$46.2 million** for each year of the MYP. This adjusted revenue requirement reflects a combination of (1) AOBA's recommended return on equity (2) adjustments to Pepco's test year costs and RMA's discussed above, and (3) AOBA proposed adjustments also discussed above. Below Table 1 provides a comparison of the Company's requested revenue requirements and AOBA's proposals, the table excludes the Company's proposed smoothing adjustments.

Table 1
Revenue Requirement Comparison
(Thousands of Dollars)

Traditional Rate Case	
Exhibit Pepco (2B)-1	$ 108.2
Exhibit AOBA (B)-3	$ 66.7

	2024	**2025**	**2026**
Multi-Year Rate Plan	**Year 1**	**Year 2**	**Year 3**
Exhibit Pepco (B) Table 1	$ 116.4	$ 36.9	$ 37.3
Exhibit AOBA (B)-3	$ 46.2	$ 46.2	$ 46.2

Q. DOES YOUR RECOMMENDED REVENUE REQUIREMENTS PRESENTED HEREIN REPRESENT AOBA'S FINAL POSITION?

A. No. AOBA's recommended revenue requirements are solely a reflection of the adjustments to Pepco's proposals that AOBA presents in this proceeding. The adjusted revenue requirements serve as an illustrative basis for how the implementation of AOBA's revenue allocation and the resulting rates both achieve the elimination of negative class rates of return for residential customers and produce reasonable and implementable rates for each year of AOBA's proposed MRP.

Furthermore, AOBA reserves the right to support revenue requirement positions developed by OPC, DC Government, and other intervenors, as well as the inclusion of additional revenue requirement issues that may be developed as this proceeding progresses.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes. It does.

BEFORE THE
PUBLIC SERVICE COMMISSION
OF THE
DISTRICT OF COLUMBIA

IN THE MATTER OF	)	
	)	
The Application of	)	**Formal Case No. 1176**
Potomac Electric Power Company for	)	
Authority to Implement a Multiyear	)	
Rate Plan in the District of Columbia	)	

DECLARATION

I, **Timothy B. Oliver**, do hereby declare under the penalty of perjury that I am authorized to make this Declaration on behalf of the Apartment and Office Building Association of Metropolitan Washington; that the foregoing testimony and exhibits were prepared by me or under my direction and supervision; and that the contents herein are true and correct to the best of my knowledge, information and belief.

Timothy B. Oliver
January 12, 2024

Potomac Electric Power Company
DC PSC FC 1176

Cost of Equity Analysis

Ln No	Analytic Model	Average Dividend Yield	Dividend Growth Component	Adjusted Dividend Yield	Earnings Growth Rate	Indicated Rate of Return
	DCF Cost of Equity					
1	Zacks	3.93%	0.10%	4.03%	5.19%	9.22%
2	Seeking Alpha	3.93%	0.09%	4.02%	4.75%	8.77%
3	Yahoo	3.93%	0.09%	4.02%	4.68%	8.70%
4	**Average of DCF Results**					**8.89%**

Ln No	Analytic Model		Zacks Betas	Seeking Alpha Betas	Yahoo Betas	Average
	CAPM Analysis *(Most Recent Treasury Rate)*					
5	@ 7.00% Adjusted Risk Premium		8.53%	8.64%	8.57%	8.58%
6	@ 8.00% Adjusted Risk Premium		9.10%	9.22%	9.14%	9.15%
7	**Average of CAPM Results**					**8.87%**
8	**Average of DCF and CAPM**					**8.88%**
9	**Current Authorized Pepco ROE**					**9.275%**
10	**Gradualism Approach (Mid-point between Current and Average of AOBA Results**					**9.08%**
11	**AOBA Recommendation**					$\boxed{\textbf{9.10\%}}$

Potomac Electric Power Company
DC PSC FC 1176

Dividend Yields & Earnings Growth Data for Proxy Group Companies

Ln No	Proxy Group Company	Ticker Symbol	Market Price Per Share 1/ High	Market Price Per Share 1/ Low	Market Price Per Share 1/ Average	Indicated Dividend Per Share 1/	Dividend Yield	Projected 5-Year Earnings Growth Zacks 2/	Projected 5-Year Earnings Growth eeking Alpha :	Projected 5-Year Earnings Growth Yahoo 4/
1	ALLETE, Inc.	ALE	$ 67.45	$ 49.29	$ 58.37	$ 2.71	4.64%	8.10%	5.13%	8.10%
2	Alliant Energy Corporation	LNT	$ 57.52	$ 45.15	$ 51.34	$ 1.81	3.53%	6.26%	5.16%	6.09%
3	Ameren Corporation	AEE	$ 92.44	$ 69.71	$ 81.08	$ 2.52	3.11%	6.61%	5.62%	6.20%
4	American Electric Power Company	AEP	$ 100.32	$ 69.38	$ 84.85	$ 3.52	4.15%	4.83%	6.48%	3.70%
5	Avangrid, Inc.	AGR	$ 44.77	$ 27.46	$ 36.12	$ 1.76	4.87%	4.05%	-0.94%	-1.40%
6	Black Hills Corporation	BKH	$ 73.98	$ 46.43	$ 60.21	$ 2.50	4.15%	2.20%	3.81%	-0.10%
7	CenterPoint Energy	CNP	$ 31.52	$ 25.42	$ 28.47	$ 0.80	2.81%	7.51%	-1.07%	5.74%
8	CMS Energy Corporation	CMS	$ 65.72	$ 49.87	$ 57.80	$ 1.95	3.37%	7.50%	1.52%	7.70%
9	Consolidated Edison, Inc.	ED	$ 100.92	$ 80.46	$ 90.69	$ 3.24	3.57%	2.00%	5.09%	5.66%
10	Dominion Energy	D	$ 63.94	$ 39.18	$ 51.56	$ 2.67	5.18%	4.00%	5.92%	-5.12%
11	DTE Energy Company	DTE	$ 122.41	$ 90.14	$ 106.28	$ 3.81	3.59%	6.00%	4.71%	5.10%
12	Duke Energy Corporation	DUK	$ 106.43	$ 83.06	$ 94.75	$ 4.10	4.33%	6.09%	4.84%	6.55%
13	Entergy Corp.	ETR	$ 120.78	$ 87.10	$ 103.94	$ 4.52	4.35%	6.43%	9.99%	11.00%
14	Evergy, Inc.	EVRG	$ 65.39	$ 46.92	$ 56.16	$ 2.57	4.58%	4.32%	8.58%	2.50%
15	Eversource Energy	ES	$ 87.71	$ 52.03	$ 69.87	$ 2.70	3.86%	4.99%	7.59%	4.00%
16	Hawaiian Electric Industries, Inc.	HE	$ 43.71	$ 9.06	$ 26.39	$ 1.44	5.46%	2.92%	2.99%	4.20%
17	NextEra Energy, Inc.	NEE	$ 88.61	$ 47.15	$ 67.88	$ 1.87	2.75%	8.18%	13.29%	8.15%
18	NorthWestern Corporation	NWE	$ 61.24	$ 45.97	$ 53.61	$ 2.56	4.78%	5.16%	1.45%	4.08%
19	OGE Energy Corp.	OGE	$ 41.00	$ 31.25	$ 36.13	$ 1.67	4.62%	3.65%	6.78%	-12.34%
20	Pinnacle West Capital Corporation	PNW	$ 86.03	$ 68.55	$ 77.29	$ 3.52	4.55%	5.90%	2.48%	5.90%
21	PNM Resources, Inc.	PNM	$ 49.60	$ 41.61	$ 45.61	$ 1.47	3.22%	4.49%	4.57%	4.50%
22	Portland General Electric Company	POR	$ 51.58	$ 38.01	$ 44.80	$ 1.90	4.24%	6.02%	2.41%	4.60%
23	PPL Corp	PPL	$ 31.74	$ 22.20	$ 26.97	$ 0.96	3.56%	7.42%	-7.97%	17.21%
24	Pub Sv Enterprise Group	PEG	$ 65.46	$ 53.71	$ 59.59	$ 2.28	3.83%	4.94%	7.76%	5.20%
25	Sempra Energy	SRE	$ 84.13	$ 63.75	$ 73.94	$ 2.38	3.22%	4.95%	8.75%	4.14%
23	Southern Company	SO	$ 75.80	$ 58.85	$ 67.33	$ 2.80	4.16%	4.00%	5.26%	7.10%
24	WEC Energy Group, Inc.	WEC	$ 101.11	$ 75.47	$ 88.29	$ 3.12	3.53%	5.76%	6.04%	5.70%
25	Xcel Energy Inc.	XEL	$ 72.99	$ 53.73	$ 63.36	$ 2.08	3.28%	6.12%	6.65%	6.80%
26	**Mean**		**$ 73.37**	**$ 52.53**	$ 62.95	**$ 2.47**	**3.93%**	**5.19%**	**4.75%**	**4.68%**
27	Exelon Corporation	EXC	$ 44.37	$ 35.71	$ 40.04	$ 1.44	3.60%	6.30%	-6.42%	6.30%

1/ From www.Zacks.com 11-27-2023
2/ From www.Zacks.com 11-27-2023
3/ From www.seekingalpha.com 1-23-2020
4/ From www.finance.yahoo.com 11-27-2023

Potomac Electric Power Company
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Capital Asset Pricing Model (CAPM) Cost of Equity Estimates
With Zacks Betas and Most Recent Risk-Free Rate

Ln No	Proxy Group Company	Ticker Symbol	Zacks Adjusted Betas 1/	Risk Premium 7.00%	Risk-Free Rate 2/ 4.57%	Zacks Adjusted Betas 1/	Risk Premium 8.00%	Risk-Free Rate 2/ 4.57%
1	ALLETE, Inc.	ALE	0.74	5.18%	9.75%	0.74	5.92%	10.49%
2	Alliant Energy Corporation	LNT	0.59	4.13%	8.70%	0.59	4.72%	9.29%
3	Ameren Corporation	AEE	0.47	3.29%	7.86%	0.47	3.76%	8.33%
4	American Electric Power Company	AEP	0.49	3.43%	8.00%	0.49	3.92%	8.49%
5	Avangrid, Inc.	AGR	0.47	3.29%	7.86%	0.47	3.76%	8.33%
6	Black Hills Corporation	BKH	0.64	4.48%	9.05%	0.64	5.12%	9.69%
7	CenterPoint Energy	CNP	0.90	6.30%	10.87%	0.90	7.20%	11.77%
8	CMS Energy Corporation	CMS	0.39	2.73%	7.30%	0.39	3.12%	7.69%
9	Consolidated Edison, Inc.	ED	0.38	2.66%	7.23%	0.38	3.04%	7.61%
10	Dominion Energy	D	0.52	3.64%	8.21%	0.52	4.16%	8.73%
11	DTE Energy Company	DTE	0.64	4.48%	9.05%	0.64	5.12%	9.69%
12	Duke Energy Corporation	DUK	0.45	3.15%	7.72%	0.45	3.60%	8.17%
13	Entergy Corp.	ETR	0.67	4.69%	9.26%	0.67	5.36%	9.93%
14	Evergy, Inc.	EVRG	0.55	3.85%	8.42%	0.55	4.40%	8.97%
15	Eversource Energy	ES	0.54	3.78%	8.35%	0.54	4.32%	8.89%
16	Hawaiian Electric Industries, Inc.	HE	0.57	3.99%	8.56%	0.57	4.56%	9.13%
17	NextEra Energy, Inc.	NEE	0.54	3.78%	8.35%	0.54	4.32%	8.89%
18	NorthWestern Corporation	NWE	0.46	3.22%	7.79%	0.46	3.68%	8.25%
19	OGE Energy Corp.	OGE	0.73	5.11%	9.68%	0.73	5.84%	10.41%
20	Pinnacle West Capital Corporation	PNW	0.52	3.64%	8.21%	0.52	4.16%	8.73%
21	PNM Resources, Inc.	PNM	0.41	2.87%	7.44%	0.41	3.28%	7.85%
22	Portland General Electric Company	POR	0.59	4.13%	8.70%	0.59	4.72%	9.29%
23	PPL Corp	PPL	0.83	5.81%	10.38%	0.83	6.64%	11.21%
24	Pub Sv Enterprise Group	PEG	0.60	4.20%	8.77%	0.60	4.80%	9.37%
25	Sempra Energy	SRE	0.74	5.18%	9.75%	0.74	5.92%	10.49%
23	Southern Company	SO	0.55	3.85%	8.42%	0.55	4.40%	8.97%
24	WEC Energy Group, Inc.	WEC	0.43	3.01%	7.58%	0.43	3.44%	8.01%
25	Xcel Energy Inc.	XEL	0.43	3.01%	7.58%	0.43	3.44%	8.01%
			0.566	3.96%	**8.53%**	0.566	4.53%	**9.10%**

1/ www.Zacks.com, 11/27/2023
2/ www.treasury.gov, 11/27/2023

Potomac Electric Power Company
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Capital Asset Pricing Model (CAPM) Cost of Equity Estimates
With Seeking Alpha Betas and Most Recent Risk-Free Rate

Ln No	Proxy Group Company	Ticker Symbol	Seeking Alpha Adjusted Betas 1/	Risk Premium 7.00%	Risk-Free Rate 2/ 4.57%	Seeking Alpha Adjusted Betas 1/	Risk Premium 8.00%	Risk-Free Rate 2/ 4.57%
1	ALLETE, Inc.	ALE	0.61	4.27%	8.84%	0.61	4.88%	9.45%
2	Alliant Energy Corporation	LNT	0.57	3.99%	8.56%	0.57	4.56%	9.13%
3	Ameren Corporation	AEE	0.61	4.27%	8.84%	0.61	4.88%	9.45%
4	American Electric Power Company	AEP	0.49	3.43%	8.00%	0.49	3.92%	8.49%
5	Avangrid, Inc.	AGR	0.55	3.85%	8.42%	0.55	4.40%	8.97%
6	Black Hills Corporation	BKH	0.73	5.11%	9.68%	0.73	5.84%	10.41%
7	CenterPoint Energy	CNP	0.66	4.62%	9.19%	0.66	5.28%	9.85%
8	CMS Energy Corporation	CMS	0.54	3.78%	8.35%	0.54	4.32%	8.89%
9	Consolidated Edison, Inc.	ED	0.44	3.08%	7.65%	0.44	3.52%	8.09%
10	Dominion Energy	D	0.55	3.85%	8.42%	0.55	4.40%	8.97%
11	DTE Energy Company	DTE	0.55	3.85%	8.42%	0.55	4.40%	8.97%
12	Duke Energy Corporation	DUK	0.49	3.43%	8.00%	0.49	3.92%	8.49%
13	Entergy Corp.	ETR	0.64	4.48%	9.05%	0.64	5.12%	9.69%
14	Evergy, Inc.	EVRG	0.55	3.85%	8.42%	0.55	4.40%	8.97%
15	Eversource Energy	ES	0.61	4.27%	8.84%	0.61	4.88%	9.45%
16	Hawaiian Electric Industries, Inc.	HE	1.05	7.35%	11.92%	1.05	8.40%	12.97%
17	NextEra Energy, Inc.	NEE	0.77	5.39%	9.96%	0.77	6.16%	10.73%
18	NorthWestern Corporation	NWE	0.52	3.64%	8.21%	0.52	4.16%	8.73%
19	OGE Energy Corp.	OGE	0.59	4.13%	8.70%	0.59	4.72%	9.29%
20	Pinnacle West Capital Corporation	PNW	0.59	4.13%	8.70%	0.59	4.72%	9.29%
21	PNM Resources, Inc.	PNM	0.2	1.40%	5.97%	0.20	1.60%	6.17%
22	Portland General Electric Company	POR	0.52	3.64%	8.21%	0.52	4.16%	8.73%
23	PPL Corp	PPL	0.66	4.62%	9.19%	0.66	5.28%	9.85%
24	Pub Sv Enterprise Group	PEG	0.69	4.83%	9.40%	0.69	5.52%	10.09%
25	Sempra Energy	SRE	0.62	4.34%	8.91%	0.62	4.96%	9.53%
23	Southern Company	SO	0.5	3.50%	8.07%	0.50	4.00%	8.57%
24	WEC Energy Group, Inc.	WEC	0.49	3.43%	8.00%	0.49	3.92%	8.49%
25	Xcel Energy Inc.	XEL	0.5	3.50%	8.07%	0.50	4.00%	8.57%
			0.582	4.07%	**8.64%**	0.582	4.65%	**9.22%**

1/ www.seekingalpha.com, 11/27/2023
2/ www.treasury.gov, 11/27/2023

Potomac Electric Power Company

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Capital Asset Pricing Model (CAPM) Cost of Equity Estimates

With Yahoo Betas and Most Recent Risk-Free Rate

Ln No	Proxy Group Company	Ticker Symbol	Yahoo Adjusted Betas 1/	Risk Premium 7.00%	Risk-Free Rate 2/ 4.57%	Yahoo Adjusted Betas 1/	Risk Premium 8.00%	Risk-Free Rate 2/ 4.57%
1	ALLETE, Inc.	ALE	0.74	5.18%	9.75%	0.74	5.92%	10.49%
2	Alliant Energy Corporation	LNT	0.57	3.99%	8.56%	0.57	4.56%	9.13%
3	Ameren Corporation	AEE	0.49	3.43%	8.00%	0.49	3.92%	8.49%
4	American Electric Power Company	AEP	0.50	3.50%	8.07%	0.50	4.00%	8.57%
5	Avangrid, Inc.	AGR	0.49	3.43%	8.00%	0.49	3.92%	8.49%
6	Black Hills Corporation	BKH	0.64	4.48%	9.05%	0.64	5.12%	9.69%
7	CenterPoint Energy	CNP	0.91	6.37%	10.94%	0.91	7.28%	11.85%
8	CMS Energy Corporation	CMS	0.39	2.73%	7.30%	0.39	3.12%	7.69%
9	Consolidated Edison, Inc.	ED	0.38	2.66%	7.23%	0.38	3.04%	7.61%
10	Dominion Energy	D	0.53	3.71%	8.28%	0.53	4.24%	8.81%
11	DTE Energy Company	DTE	0.65	4.55%	9.12%	0.65	5.20%	9.77%
12	Duke Energy Corporation	DUK	0.46	3.22%	7.79%	0.46	3.68%	8.25%
13	Entergy Corp.	ETR	0.68	4.76%	9.33%	0.68	5.44%	10.01%
14	Evergy, Inc.	EVRG	0.55	3.85%	8.42%	0.55	4.40%	8.97%
15	Eversource Energy	ES	0.56	3.92%	8.49%	0.56	4.48%	9.05%
16	Hawaiian Electric Industries, Inc.	HE	0.57	3.99%	8.56%	0.57	4.56%	9.13%
17	NextEra Energy, Inc.	NEE	0.54	3.78%	8.35%	0.54	4.32%	8.89%
18	NorthWestern Corporation	NWE	0.48	3.36%	7.93%	0.48	3.84%	8.41%
19	OGE Energy Corp.	OGE	0.71	4.97%	9.54%	0.71	5.68%	10.25%
20	Pinnacle West Capital Corporation	PNW	0.51	3.57%	8.14%	0.51	4.08%	8.65%
21	PNM Resources, Inc.	PNM	0.41	2.87%	7.44%	0.41	3.28%	7.85%
22	Portland General Electric Company	POR	0.60	4.20%	8.77%	0.60	4.80%	9.37%
23	PPL Corp	PPL	0.84	5.88%	10.45%	0.84	6.72%	11.29%
24	Pub Sv Enterprise Group	PEG	0.62	4.34%	8.91%	0.62	4.96%	9.53%
25	Sempra Energy	SRE	0.75	5.25%	9.82%	0.75	6.00%	10.57%
23	Southern Company	SO	0.55	3.85%	8.42%	0.55	4.40%	8.97%
24	WEC Energy Group, Inc.	WEC	0.44	3.08%	7.65%	0.44	3.52%	8.09%
25	Xcel Energy Inc.	XEL	0.44	3.08%	7.65%	0.44	3.52%	8.09%
			0.571	4.00%	**8.57%**	0.571	4.57%	**9.14%**

From www.finance.yahoo.com 11-27-2023

2/ www.treasury.gov, 11/27/2023

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AOBA Recommended Overall Cost of Capital

	Ratio	Cost	Required Return	Revenue Impact Calculation
Long-Term Debt	49.50%	5.02% 1/	2.48%	
Common Equity	50.50%	**9.10%** 2/	4.60%	
Total			**7.08%**	
Pepco Requested ROR			7.66%	
AOBA Recommended Reduction in Pepco ROR			-0.58%	
<u>Traditional Rate Case</u>				
DC Unadjusted Rate Base				$ 2,695,518 3/
Change in Required Return				$ (15,623)
Tax Gross-Up Factor				72.4825% 4/
Change in Revenue Requirement				**$ (21,554)**
<u>Multi-Year Rate Plan</u>				
Unadjusted Ending (Year 3) Rate Base				$ 3,416,270 5/
Cumulative Change in Required Return				$ (19,801)
Cumulative Change in Revenue Requirement				**$ (27,318)**

1/ Average Cost of LTD for the MYP period
2/ Exhibit AOBA (B)-1.
3/ Exhibit Pepco (2B)-1.
4/ Exhibit Pepco (B)-1.
5/ Exhibit Pepco (B)-1.
Note: dollars in thousands

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AOBA Revenue Requirements Position for Traditional Rate Case
Twelve Months Ended June 30, 2019 (Thousands of Dollars)

RMA		Pepco Proposed RMAs Rate Base	Pepco Proposed RMAs Operating Income	Pepco Proposed RMAs Revenue Requirement	AOBA Proposed RMAs Rate Base	AOBA Proposed RMAs Operating Income	AOBA Proposed RMAs Revenue Requirement
	Unadjusted Amounts	$ 2,695,518	$ 163,162		$ 2,695,518	$ 163,162	
	Revenue requirement at Party's proposed rate of return			$ 59,759			$ 38,189
RMA							
1	Annualize Test Year Reliability Closings	151294	(2,974)	$ 20,092	151294	(2,974)	$ 18,881
2	Annualize Amortization Expense	(1,830)	(2,330)	$ 3,021	(1,830)	(2,330)	$ 3,036
3	Annualize Depreciation Expense	(3,736)	(5,208)	$ 6,790	(3,736)	(5,208)	$ 6,820
4	Annualize Remainder of Rate Base	64,768	-	$ 6,845	64,768	-	$ 6,326
5	Annualize Regulatory Asset Amortization	(59)	249	$ (350)	(59)	249	$ (349)
6	Annualize Wage Increases	-	(1,655)	$ 2,283	-	(1,655)	$ 2,283
7	Annualize Employee Health and Welfare Costs	-	(9)	$ 12	-	(9)	$ 12
8	Annualize 2023 Pension and Other Post-Employment Benefits (OPEB) Expense	(5,167)	310	$ (974)	(5,167)	310	$ (932)
9	Reflection of Three-Year Average Overtime Level	-	(75)	$ 103	-	(75)	$ 103
10	Reflection of Three-Year Average Regulatory Expense	-	(65)	$ 90	-	(65)	$ 90
11	Reflection of Three-Year Average Storm Costs	-	1,195	$ (1,649)	-	1,195	$ (1,649)
12	**Refection of BSA Regulatory Asset in Rate Base**	113,781	-	$ 12,024	**-**	**-**	**$ -**
13	Reflection of EDIT 5 year Credit Sunset Adjustment	-	-	$ -	-	-	$ -
14	Reflection of Regulatory Asset- 5 year EDIT Credit Over-Return	225	(112)	$ 178	225	(112)	$ 176
15	Removal of DC PLUG Initiative Costs	(11,868)	624	$ (2,115)	(11,868)	624	$ (2,020)
16	Removal of SERP	(1,372)	868	$ (1,343)	(1,372)	868	$ (1,332)
17	Removal of Certain Executive Incentive Plan Costs	(1,018)	1,139	$ (1,679)	(1,018)	1,139	$ (1,671)
18	Removal of adjustments to deferred incentive plan costs	-	22	$ (30)	-	22	$ (30)
19	Removal of executive perquisite expenses	-	48	$ (66)	-	48	$ (66)
20	Removal of employee association costs	-	28	$ (39)	-	28	$ (39)
21	Removal of Industry Contributions and Membership Fees	-	533	$ (735)	-	533	$ (735)
22	Removal of institutional advertising/selling expenses	-	483	$ (666)	-	483	$ (666)
23	Reflection of customer deposit interest expense and credit facility expense and maintenance costs	-	(496)	$ 684	-	(496)	$ 684
24	Reflection of Adjustments BSC Billed Depreciation (Merger Commitment 39)	-	583	$ (804)	-	583	$ (804)
25	Removal of Buzzard Point Environmental Accrual	-	(1,249)	$ 1,723	-	(1,249)	$ 1,723
26	Removal of ARSP Environmental Accrual	-	13,470	$ (18,584)	-	13,470	$ (18,584)
27	Removal of Benning Environmental Accrual	-	(2,926)	$ 4,037	-	(2,926)	$ 4,037
28	Removal of Benning RI/FS Regulatory Asset and Amortization Per Order 21884 (Jan 2023-Jun 2023)	(1,730)	119	$ (347)	(1,730)	119	$ (333)
29	Reflection of Regulatory Asset for COVID-19 related costs	8,314	(1,848)	$ 3,428	8,314	(1,848)	$ 3,362
30	Reflection of HOW Credit Regulatory Asset	21	(97)	$ 136	21	(97)	$ 136
31	Reflection of Electric Vehicle Regulatory Asset	594	(296)	$ 471	594	(296)	$ 466
32	Reflection of PHISCO DDIT	3,818	(848)	$ 1,573	3,818	(848)	$ 1,543
33	Reflection of Current Case Costs	2,337	(935)	$ 1,537	2,337	(935)	$ 1,518
34	**Reflection of Non-Labor O&M Inflation Adjustment**	-	(2,342)	$ 3,231	**-**	**-**	**$ -**
35	Reflection of Updated Depreciation Study Depreciation Rates	(4,163)	(8,325)	$ 11,046	(4,163)	(8,325)	$ 11,079
36	**Reflection of 2021 Lead-Lag Study**	13,598	-	$ 1,437		-	$ -
37	Adjustments to Cash Working Capital Allowance	111	-	$ 12	111	-	$ 11
38	Tax Effect of Pro forma Interest Expense	-	2,129	$ (2,937)	-	2,129	$ (2,937)
39	**Reflection of Regulatory Asset for COVID-19 Revenue Underrecovies**				**39,744**		**$ 3,882**
40	**Removal of Unjustified Capital Projects**				**(56,006)**		**$ (5,471)**
41	**Adjustment to Customer Connection Costs**				**(9,209)**		**$ (900)**
	Total Ratemaking Adjustments	327,918	(9,990)	48,435	175,068	(7,648)	27,650
	Total Revenue Requirement	$ 3,023,436	$ 153,172	$ 108,194	$ 2,728,501	$ 158,488	**$ 66,739**

Gross Up Factor	72.4825%			72.4825%		
Capital Structure						
Long Term Debt	49.50%	5.02%	2.36%	49.50%	5.02%	2.48%
Common Stock	50.50%	10.50%	5.30%	50.50%	9.10%	4.60%
Proposed Rate of Return			**7.66%**			**7.08%**

FIT Rate (Statutory rate)	0.210000
DCIT Rate (Statutory rate)	0.082500
FIT Effective Rate (based on Statutory rate)	0.192675
Effective Tax Rate (based on Statutory rates)	0.275175

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AOBA Revenue Requirements Position for Pepco's Proposed Multi-Year Rate Plan
(Thousands of Dollars)

		HTY			Bridge Year			MYP Year 1			MYP Year 2			MYP Year 3		
		2022			2023			2024			2025			2026		
		Rate Base	Operating Income	Revenue Requirement	Rate Base	Operating Income	Revenue Requirement	Rate Base	Operating Income	Revenue Requirement	Rate Base	Operating Income	Revenue Requirement	Rate Base	Operating Income	Revenue Requirement
Unadjusted amounts based on 9.10% return on equity		$2,510,235	168,621	12,560	$2,753,106	169,596	34,938	$2,993,051	158,571	73,586	$3,222,775	152,233	104,769	$3,412,556	140,418	139,607
RMA																
1	Removal of DC PLUG Initiative Costs	(9,041)	467	(1,527)	(8,711)	565	(1,630)	(8,393)	668	(1,741)	(8,088)	630	(1,659)	(7,792)	532	(1,495)
2	Removal of SERP	(1,161)	507	(813)	(1,387)	907	(1,387)	(1,577)	772	(1,219)	(1,761)	758	(1,218)	(1,928)	798	(1,289)
3	Removal of certain executive incentive plan costs	(880)	1,321	(1,908)	(1,002)	1,296	(1,886)	(1,078)	1,326	(1,935)	(1,155)	1,335	(1,955)	(1,227)	1,363	(2,000)
4	Removal of adjustments to deferred incentive plan costs	-	(106)	146	-	22	(30)	-	22	(30)	-	22	(30)	-	24	(33)
5	Removal of employee association costs	-	27	(37)	-	27	(37)	-	27	(37)	-	27	(37)	-	28	(39)
6	Removal of industry contributions and membership fees	-	376	(519)	-	468	(646)	-	472	(651)	-	485	(669)	-	496	(684)
7	Removal of institutional advertising/selling expenses	-	476	(657)	-	438	(604)	-	473	(653)	-	498	(687)	-	523	(722)
8	Reflection of customer deposit interest expense and credit facility expense and maintenance costs	-	(143)	197	-	(391)	539	-	(428)	590	-	(428)	590	-	(430)	593
9	Removal of executive perquisite expenses	-	47	(65)	-	47	(65)	-	47	(65)	-	47	(65)	-	48	(66)
10	Adjust BSC Billed Depreciation (Merger Commitment 39)	-	577	(796)	-	577	(796)	-	577	(796)	-	576	(795)	-	585	(807)
11	Removal of Benning Environmental Accrual (a)	-	(411)	567	-	-	-	-	-	-	-	-	-	-	-	-
11	Reflection of Benning Regulatory Asset - Actual (b)	-	-	-	-	-	-	2,127	(224)	517	1,903	(224)	495	1,679	(224)	473
11	Reflection of Benning Regulatory Asset - Forecast (c)	-	-	-	-	-	-	268	(59)	108	507	(59)	131	447	(59)	125
12	Reflection of Benning Insurance Proceeds	-	-	-	-	-	-	(970)	1,939	(2,770)	-	-	-	-	-	-
13	Removal of Buzzard Point Environmental Remediation Costs	-	3,495	(4,822)	-	-	-	-	-	-	-	-	-	-	-	-
14	Removal of GAAP BSA Revenue Recognition Reserve	-	10,890	(15,024)	-	-	-	-	-	-	-	-	-	-	-	-
15	Reflection of PHISCO DDIT	-	-	-	-	-	-	3,818	(848)	1,543	2,970	(848)	1,460	2,121	(848)	1,377
16	Refelction of Climate Solumtions Plan (CSP) Programs	-	-	-	-	-	-	1,037	(609)	941	2,814	(1,036)	1,704	2,907	(957)	1,604
17	Refection of Regulatory Asset for COVID-19 related costs	-	-	-	-	-	-	8,314	(1,848)	3,362	6,467	(1,848)	3,181	4,619	(1,848)	3,001
18	Reflection of Real Estate & Facility Costs	-	-	-	-	-	-	-	-	-	-	-	-	4,550	(359)	940
19	DER Interconnection	-	-	-	-	-	-	1,952	(879)	1,403	3,313	(745)	1,351	2,124	(749)	1,241
20	EDIT Balance	-	-	-	-	-	-	217	(109)	172	381	(109)	188	272	(109)	177
21	House of Worship Credit	-	-	-	-	-	-	28	(55)	79	-	-	-	-	-	-
22	Reflection of Current Case Costs	-	-	-	-	-	-	2,337	(935)	1,518	1,402	(935)	1,427	467	(935)	1,336
23	Reflection of Electric Vehicle Regulatory Asset	-	-	-	-	-	-	1,777	(517)	887	1812	-517	890	1,295	-517	840
24	Small DER Cost Sharing Petition	-	-	-	-	-	-	196	(5)	26	572	(8)	67	921	(13)	108
25	Adjustment to Depreication Rates	-	-	-	-	-	-	(4,279)	(8,641)	11,504	(13,248)	(9,313)	11,555	(22,870)	(9,900)	11,425
26	**Reflection of 2021 Lead-Lag Study**		-	-		-	-		-	-		-	-		-	-
27	Adjustments to Cash Working Capital Allowance	-223	-	(22)	(261)	-	(25)	(223)	-	(22)	(242)	-	(24)	(242)	-	(24)
28	Tax Effect of Pro forma Interest Expense	-	16	(22)	-	30	(41)	-	147	(203)	-	94	(130)	-	26	(36)
29	**Removal of Unjustified Capital Projects**			**-**	**(56,006)**	**-**	**(5,471)**	**(34,059)**	**-**	**(3,327)**	**(42,417)**	**-**	**(4,143)**	**(34,838)**	**-**	**(3,403)**
30	**Adjustment to Customer Connection Costs**				**(9,209)**	**-**	**(900)**	**(9,209)**	**-**	**(900)**	**(9,209)**	**-**	**(900)**	**(9,209)**	**-**	**(900)**
	Total adjustments	(11,305)	17,539	(25,302)	(76,576)	3,986	(12,979)	(37,717)	(8,687)	8,301	(53,979)	(11,598)	10,727	(56,704)	(12,525)	11,742
Total Revenue Requirment		$2,498,930	$ 186,160	(12,742)	$2,676,530	$ 173,582	21,959	$2,955,334	$ 149,884	81,887	$3,168,796	$ 140,635	115,498	$3,355,852	$ 127,893	151,349
Incremental Revenue Requirement				$ (12,742)			$ 9,217			$ 59,928			$ 33,611			$ 35,851
Cumulative Revenue Requirement		**$ 138,607**														
Revenue Requirement per year		**46,202**														

Attachment A
Resume of Timothy B. Oliver
Formal Case No. 1176

TIMOTHY B. OLIVER

Revilo Hill Associates, Inc.
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Fairfax Station, VA 22039
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e-mail: ***timoliver@revilohill.com***

PROFESSIONAL EMPLOYMENT

07/19 - Current **Vice President and Senior Consultant**, Revilo Hill Associates, Inc.

- Provides testimony on revenue requirements, costs of capital, class cost of service, rate design, and regulatory policy issues in utility proceedings.
- Evaluates to the merits of proposed utility mergers and acquisitions. Critically assesses the proposed transactions, develops merger settlement positions, presents testimony in utility regulatory proceedings, and evaluates settlement proposals for highly complex mergers between large utility holding companies: including examination of the impacts on the economies of the affected regulatory jurisdictions, the influences on regulatory practices and policies, and the effects of that merger on consumers.
- Participates in technical conferences, working groups, stakeholder meeting, and other similar forums as a subject matter expert in the areas of energy technology, energy efficiency, greenhouse gas emissions reductions, and alternative forms of regulation.

01/12 - 07/19 **Senior Consultant**, Revilo Hill Associates, Inc.

- Performed cost of equity and overall rate of return analyses for numerous gas and electric utility regulatory proceedings.
- Evaluated of the merits of a utility proposal for system wide deployment of Advanced Metering Infrastructure (AMI) including the costs and benefits of the utility proposal and the ratemaking implications of the utility's proposed accounting treatment of its AMI program costs.
- Reviewed in detail utility class cost allocation studies and prepared and presented recommendations for the use of alternative allocation methods with supporting analyses and rationales.
- Examined a utility proposals for natural gas distribution system expansion, the rate and customer impacts of those proposals.

01/08 - 01/12 **Project Manager**, Revilo Hill Associates, Inc.

- Conducted a series of case studies that evaluated the energy efficiency of multi-family apartment buildings of varying age and design in the District of Columbia.
- Reviewed and analyzed annual Distribution Adjustment Charge and Gas Cost Recovery filings submitted by a New England natural gas distribution utility.
- Evaluated proposals for LED Street Lighting programs and related tariff issues.
- Developed issues associated with proposals for the implementation of revenue decoupling for gas and electric utility operations.
- Assessed Net Metering Pilot Program and evaluated proposals for Net Metering tariff changes.
- Designed a program to encourage improved energy efficiency in commercial office buildings and multi-family rental housing in the Washington, DC metropolitan area, and supported the creation of an Energy Managers' Roundtable to provide building energy managers a forum in which to share their experience with respect to energy-efficiency technologies, vendor performance, and best practices.
- Examined the factors contributing to a sharp increase in winter petroleum product prices for consumers in a New England state.
- Participated in an analysis of the impacts of a proposed Liquefied Natural Gas (LNG) terminal facility on energy markets in New England.
- Planned and conducted a focus group comprised of Energy Managers to assess (1) their understandings of energy efficiency issues, (2) needs for information and assistance in the identification of energy efficiency opportunities, and (3) other obstacles to their employment of more energy efficient systems and technologies.

05/06 - 01/08 **Research Associate**, Revilo Hill Associates, Inc.
Assisted in the evaluation of energy pricing alternatives for commercial and institutional electricity and natural gas customers; created a data base to support the marketing of competitive energy services for a major broker/aggregator; provided analytic support for expert testimony in natural gas and electric utility regulatory proceedings in seven different jurisdictions.

10/06- 4/07 **Market Research Team**, Vail Resorts, Vail, CO
Conducted on-mountain and in-town market research for customer satisfaction, brand marketing, and demographics for analysis.

06/03 - 05/06 **Research Analyst**, Revilo Hill Associates, Inc.
Developed a large-scale electronic spreadsheet model of competitive electricity supply costs for one of the nations largest commercial customer based energy aggregations; and assisted in an investigation fuel oil price increases through the analysis of detailed monthly supply, demand, and pricing data for major oil terminal operators within a New England state.

05/02- 8/03 **Research Assistant**, College of William and Mary, Chemistry Department
Preformed extensive mathematical and computer modeling analysis of experimental data to determine the proton affinities of non-protein amino acids and their derivatives; maintained and repaired laboratory equipment including a quadrapole ion trap mass spectrometer.

EDUCATION

2018 MS program, Global Energy Management, University of Colorado at Denver
2009 Building for the Future: Sustainable Home Design, Solar Energy International, Carbondale, CO
2008 Certified Energy Manager, Association of Energy Engineers
2005 BS in Chemistry, College of William and Mary, Williamsburg, VA

RATE CASE PARTICIPATION

SUBMITTED TESTIMONY:

2023	MD	Washington Gas- Base Rates	Case No. 9704
2023	VA	Dominion Energy Biennial Review	Docket No. PUR-2023-00101
2023	VA	Washington Gas – Base Rates	Docket No. PUR-2022-00054
2023	DC	Washington Gas – Base Rates	Formal Case No. 1169
2022	UT	Dominion Energy Utah-Base Rates	Docket No. 22-057-03
2021	MD	Potomac Electric – Base Rates	Case No. 9655
2020	MD	Washington Gas Light Company	Case No. 9651
2020	DC	Washington Gas – Base Rates	Formal Case No. 1162
2019	DC	Potomac Electric – Base Rates	Formal Case No. 1156
2019	DC	Potomac Electric – Base Rates	Formal Case No. 1150
2019	VA	Washington Gas – Base Rates	Docket No. PUR-2018-0042
2019	MD	Washington Gas – Base Rates	Case No. 9605
2019	MD	Potomac Electric – Base Rates	Case No. 9602
2018	MD	Washington Gas – Base Rates	Case No. 9481
2017	DC	AltaGas – WGL Merger	Formal Case No. 1142
2017	MD	AltaGas – WGL Merger	Case No. 9449
2017	MD	Potomac Electric – Base Rates	Case No. 9443
2017	VA	Washington Gas – Base Rates	Docket No. PUE-2016-00001
2016	DC	Potomac Electric – Base Rates	Formal Case No. 1139
2016	DC	Washington Gas – Base Rates	Formal Case No. 1137
2016	RI	National Grid – GCR	Docket No. 4643
2016	MD	Potomac Electric - Base Rates	Case No. 9418

2014	MD	Potomac Electric – Base Rates	Case No. 9336
2014	MD	Washington Gas - Base Rate	Case No. 9335
2013	DC	Potomac Electric Power Company	Formal Case No. 1103

OTHER RATE CASE PARTICIPATION:

District of Columbia

Washington Gas Light Company	Formal Case No. 1154
Potomac Electric Power Company	Formal Case No. 1151
Potomac Electric Power Company	Formal Case No. 1150
AltaGas – WGL Merger	Formal Case No. 1142
Potomac Electric Power Company	Formal Case No. 1139
Washington Gas Light Company	Formal Case No. 1137
Potomac Electric Power Company	Formal Case No. 1130
Exelon-PHI Merger	Formal Case No. 1119
Potomac Electric Power Company	Formal Case No. 1116
Washington Gas Light Company	Formal Case No. 1115
Washington Gas Light Company	Formal Case No. 1093
Potomac Electric Power Company	Formal Case No. 1087
Washington Gas Light Company	Formal Case No. 1079
Potomac Electric Power Company	Formal Case No. 1076

Guam

Guam Power Authority	Docket No. 11-090, Ph II
Guam Power Authority	Docket No. 11-090
Guam Power Authority	Docket No. 07-010

Maryland

AltaGas – WGL Merger	Case No. 9449
Potomac Electric Power Company	Case No. 9443
Washington Gas Light Company	Case No. 9433
Exelon-PHI Merger	Case No. 9361
Washington Gas Light Company	Case No. 9322
Potomac Electric Power Company	Case No. 9311
Potomac Electric Power Company	Case No. 9286
Washington Gas Light Company	Case No. 9267
Potomac Electric Power Company	Case No. 9217

Massachusetts

Investigation of Rate Structures to Promote Efficient Deployment of Demand Management	Docket No. 07-50

Rhode Island – Public Utilities Commission

National Grid – Gas GCR	Docket No. 4719
National Grid – Gas DAC	Docket No. 4708
National Grid – Gas GCR	Docket No. 4647
National Grid – Gas Long-Range Plan	Docket No. 4608

National Grid – Gas GCR	Docket No. 4576
National Grid – Gas DAC	Docket No. 4573
National Grid – Gas GCR	Docket No. 4520
National Grid – Gas DAC	Docket No. 4514
National Grid – Gas GCR	Docket No. 4346
National Grid – Gas DAC	Docket No. 4339
National Grid – Gas On-System Margins	Docket No. 4333
National Grid – Gas Base Rates	Docket No. 4323
National Grid – Gas GCR	Docket No. 4283
National Grid – Gas DAC	Docket No. 4269
National Grid – Electric Backup Service	Docket No. 4232
National Grid – Elec & Gas Revenue Decoupling	Docket No. 4206
National Grid – Gas GCR	Docket No. 4199
National Grid – Gas DAC	Docket No. 4196
National Grid – Gas GCR	Docket No. 4097
National Grid – Gas DAC	Docket No. 4077
National Grid – Electric	Docket No. 4065
National Grid – Gas Portfolio Management	Docket No. 4038
National Grid – Gas GCR	Docket No. 3982
National Grid – Gas DAC	Docket No. 3977
National Grid – Gas GCR	Docket No. 3961

Utah

Dominion Energy Utah-Base Rates	Docket No. PUE 2015-00027

Virgin Islands

Water and Power Authority – Water Rates	Docket No. 613
Water and Power Authority – Electric Rates	Docket No. 612
Water and Power Authority – Water Rates	Docket No. 576
Water and Power Authority – Electric Rates	Docket No. 575

Virginia

Virginia Electric Power Company	Docket No. PUE 2015-00027
Virginia Electric Power Company	Docket No. PUE 2011-00027
Washington Gas Light Company	Docket No. PUE 2010-00139

CERTIFICATE OF SERVICE
Formal Case No. 1176

I hereby certify on this 12th day of January 2024, that the attached **Public Direct Testimony of Bruce Oliver and Timothy Oliver** was filed electronically on behalf of the Apartment and Office Building Association of Metropolitan Washington and copies were electronically delivered to the service list below:

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Frann G. Francis

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