STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES
OFFICE OF ADMINISTRATIVE LAW

IN THE MATTER OF THE PETITION OF	)	
ATLANTIC CITY ELECTRIC COMPANY	)	
FOR APPROVAL OF A VOLUNTARY	)	**BPU DKT. NO. EO18020190**
PROGRAM FOR PLUG-IN VEHICLE	)	
CHARGING	)	

DIRECT TESTIMONY OF DAVID E. PETERSON ON BEHALF OF THE NEW JERSEY DIVISION OF RATE COUNSEL

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is David E. Peterson. I am the President of and a Senior Consultant with Chesapeake Regulatory Consultants, Inc. ("CRC"). My business address is 10351 Southern Maryland Blvd., Suite 202, Dunkirk, Maryland 20754.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE IN THE PUBLIC UTILITY FIELD?

A. I graduated with a Bachelor of Science degree in Economics from South Dakota State University in May of 1977. In 1983, I received a master's degree in Business Administration from the University of South Dakota. My graduate program included accounting and public utility courses at the University of Maryland.

In September 1977, I joined the Staff of the Fixed Utilities Division of the South Dakota Public Utilities Commission as a rate analyst. My responsibilities at the South Dakota Commission included analyzing and testifying on ratemaking matters arising in rate proceedings involving electric, gas and telephone utilities.

Since leaving the South Dakota Commission in 1980, I have continued performing cost of service and revenue requirement analyses as a consultant. In December 1980, I joined the public utility consulting firm of Hess & Lim, Inc. I remained with that firm until August 1991, when I joined CRC. Over the years, I have analyzed filings by electric, natural gas, propane, telephone, water, wastewater, and steam utilities in connection with utility rate and certificate proceedings before federal and state regulatory commissions. A copy of my curriculum vitae is provided in Appendix A attached to my testimony.

Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY IN PUBLIC UTILITY RATE PROCEEDINGS?

A. Yes. I have presented testimony in 175 other proceedings before the state regulatory commissions in Alabama, Arkansas, California, Colorado, Connecticut, Delaware, Indiana, Kansas, Maine, Maryland, Montana, Nevada, New Jersey, New Mexico, New York, Pennsylvania, South Dakota, West Virginia, and Wyoming, and before the Federal Energy Regulatory Commission. Collectively, my testimonies have addressed the following topics: the appropriate test year, rate base, revenues, expenses, depreciation, taxes, capital structure, capital costs, rate of return, cost allocation, rate design, life-cycle analyses, affiliate transactions, mergers, acquisitions, and cost-tracking procedures.

In addition, I testified twice before the Energy Subcommittee of the Delaware House of Representatives on the issues of consolidated tax savings and tax normalization. Also, I have presented seminars on public utility regulation, revenues requirements, cost allocation, rate design, consolidated tax savings, income tax normalization and other ratemaking issues to the Delaware Public Service Commission, to the Commissioners and Staff of the Washington Utilities and Transportation Commission, and to the Colorado Office of Consumer Counsel.

Q. HAVE YOU TESTIFIED IN OTHER PROCEEDINGS BEFORE THE NEW JERSEY BOARD OF PUBLIC UTILITIES (“BOARD”)?

A. Yes, I have. I have submitted testimony in the following proceedings before the Board:

Utility	Docket No.
South Jersey Gas Company	GR8704329
	GR03050413
	GR03080683
	GR10010035
New Jersey-American Water Company	WR88070639
	WR91081399J
	WR92090906J
	WR94030059
	WR95040165
	WR98010015
	WR03070511
	WR06030257
	WR17090985
	WR19121516
ACE/Delmarva Merger	EM97020103
Atlantic City Electric Company	ER03020110
	ER11080469
	ER17030308
	ER18020196
FirstEnergy/GPU Merger (JCP&L)	EM00110870
Jersey Central Power & Light	ER02080506
	ER05121018
	ER12111052
	EM14060581
	EM15060733
	ER18070728
Rockland Electric Company	ER02100724
	ER06060483
	ER09080668
	ER19050552
Public Service Electric and Gas	EM00040253
	GR09050422
	GO12030188
	EO18101115
Exelon/PSE&G Merger	EM05020106

Exelon/Pepco Holdings Merger	EM14060581
Conectiv/Pepco Merger (ACE)	EM01050308
Elizabethtown Gas Company	GR02040245 GR09030195
The Southern Company/AGL Resources	GM15101196
United Water New Jersey, Inc.	WR07020135
United Water Toms River	WR15020269
New Jersey Natural Gas Company	GR07110889

Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A. My appearance in this proceeding is on behalf of the Division of Rate Counsel ("Rate Counsel").

II. SUMMARY

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

A. The purpose of my testimony is to present Rate Counsel's cost allocation and rate design issues with Atlantic City Electric Company's ("ACE" or "the Company") proposed plug-in vehicle charging initiatives ("the "PIV Program"), with a specific interest on the impacts of the PIV program on ACE's residential customers.

Q. BEFORE YOU DISCUSS YOUR FINDINGS AND RECOMMENDATIONS, PLEASE PROVIDE A VERY BRIEF OVERVIEW ON ACE'S PROPOSAL IN THIS PROCEEDING.

A. ACE's original Petition in this matter was filed on February 22, 2018. The PIV Program outlined in that Petition was subsequently altered and expanded upon in an Amended Petition filed on December 17, 2019. ACE's Amended Petition seeks Board approval for the Company's expanded PIV Program. ACE's most recent proposed PIV Program is a multi-year, $42.107 million initiative consisting of thirteen separate rate, rebate and incentive offerings for PIV charging and PIV bus conversion. The thirteen offerings and their primary features are summarized below.

- **Offering #1**: Residential Whole House Time-of-Use ["TOU"] Rates.
- **Offering #2:** Off-Peak, Off-Bill Incentive for Residential Customers with Existing, Installed EVSE.
- **Offering #3:** Level 2 EVSE and Installiation Rebates for Residential Customers without Existing Chargers, Plus Off-Peak Incentive.
- **Offering #4:** Rebates for Level 2 EVSE and Installation, and Demand Charge Offset Incentive for MDUs with dedicated on-site parking, currently without existing EVSE.
- **Offering #5:** Rebates for Level 2 EVSE for Workplaces, Plus Demand Charge Offset Incentive**.**
- **Offering #6:** Rebates for Level 2 EVSE for Electric Vehicle Fleets, Plus Demand Charge Offset Incentive.
- **Offering #7:** Public Charging – Utility-Owned and Operated DCFCs.
- **Offering #8:** Public Charging – Utility-Owned Level 2 EVSEs.
- **Offering #9:** Demand Charge Incentive for "Make Ready" Work Incentives for Non-Utility Owned Public DCFCs.
- **Offering #10:** The Innovation Fund.
- **Offering #11:** Electric School Bus Fund.
- **Offering #12:** New Jersey Transit Bus Electrification.
- **Offering #13:** The Green Adder.

For each of the Offerings, ACE proposes to establish two regulatory assets: (1) a Program Regulatory Asset to capture all non-capital related costs incurred in connection with Offerings 1 through 12; and (2) a Green Adder Regulatory Asset for renewable energy-related costs (Offering 13). As proposed, the Program Regulatory Asset will accrue a carrying charge, equal to the Company's most recent approved weighted cost of capital and will be amortized in rates over a five-year period beginning with the Company's next base rate case. The proposed Green Adder Regulatory Asset will track renewable energy costs on a dollar-for-dollar basis each year corresponding to the Company's purchase of renewable energy credits. The proposed Green Adder Regulatory Asset also includes an annual true-up mechanism to ensure the matching of revenues and expenses.

Q. WHAT IS YOUR OVERALL IMPRESSION OF THE COMPANY'S PROPOSED PIV PROGRAM?

A. From a cost allocation and rate design standpoint, my overall impression is not favorable. ACE's PIV Program is inconsistent with cost-based ratemaking principles in that it is intentionally designed to force ACE's general body of customers to subsidize the Company's costs of providing PIV service to relatively few electric vehicle customers. My specific cost allocation and rate design concerns, as they relate to the residential class, are explained in more detail in the following section of my testimony.

III. PIV – Rate Design Considerations

Q. WHAT CATEGORIES OF COSTS ARE EXPECTED TO BE INCURRED UNDER THE PROPOSED PIV PROGRAM?

A. ACE's witnesses have identified two broad categories of costs that will be incurred under its PIV Program, capital costs and regulatory asset-related costs. Capital costs, which include time-of-use meters and PIV charging equipment, account for approximately $15 million of the total expected cost of the PIV Program. Regulatory Asset-related costs account for the remaining $27 million of total estimated PIV Program Costs. ACE witness Michael T. Normand identified the following subcategories of costs to be included in his proposed Program Regulatory Asset account:

- Rebates on electric vehicle servicing (charging) equipment (a/k/a EVSE);
- Rebates on installation costs;
- Rate incentives;
- Community and Transit Funds/Grants;
- Recurring Network & Data costs;
- Program Implementation and Administrative costs; and
- Incremental Depreciation and Operation and Maintenance ("O&M") expenses.[1]

Q. WHICH OF THE COMPANY'S OFFERINGS IMPACT ACE'S RESIDENTIAL CUSTOMERS?

A. The Offerings that impact ACE's residential customers are identified in ACE witness Mr. Normand's Schedule (MTN)-3, page 4, attached to his Direct Testimony in this proceeding. Therein, it is shown that capital and regulatory assets costs incurred under Offerings #1, #2, and #3 are 100 percent allocated to the residential class. In addition, capital and/or Program Regulatory Asset costs incurred under Offerings #7, #8, #10, #11 and #12 are, in part (59 percent), to be allocated to the residential class. That is, any costs incurred in connection with

[1] Normand Schedule (MTN)-3, page 1.

these PIV Offerings that are not directly paid for by the PIV customer will be allocated to the general body of residential customers and become part of base rates for that service class. In total, Mr. Normand determined that $21.9 million, or 52 percent, of the $42.1 million estimated total cost will be allocated to the residential class.[2]

Q. WHAT IS YOUR OBJECTION TO OFFERING #1 – WHOLE HOUSE TIME OF USE ("TOU")?

A. My objection to Offering #1 is the same as it is for the other Offerings – i.e., ACE's proposal results in non-PIV residential customers paying for a service they do not receive. For example, Mr. Normand estimates that the Company will spend $120,000 in capital costs for TOU electric meters for PIV customers seeking service under Offering #1. TOU meters are more expensive than non-TOU meters presently used by residential customers. Yet, Mr. Normand does not propose to increase the monthly customer charge for Offering #1 customers to recover the additional cost of the TOU meter. Rather, he proposes that all customers pay for the additional TOU meter costs. This treatment is inconsistent with proper cost allocation and rate design principles which dictate that customers receiving service benefits pay the related costs. This principle has been a fundamental cost allocation and rate design principle in every ACE base rate proceeding in which I have been involved and is the guiding principle in class cost of service studies previously filed by ACE in base rate proceedings. Mr. Normand's proposed cost recovery procedures in this proceeding do not meet this basic objective, however.

I have the same objection for the $428,000 of Program Regulatory Assets that ACE projects to accrue in connection with Offering #1. Non-PIV residential

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[2] Normand Schedule (MTN)-3, page 4.

customers do not receive any benefit for the service to be provided under Offering #1. Therefore, the Program Regulatory Asset costs should not be charged to non-PIV residential customers.

Q. ARE YOUR OBJECTIONS TO OFFERINGS #2 AND #3 ANY DIFFERENT THAN YOUR OBJECTIONS TO OFFERING #1?

A. No. Offerings #2 and #3 feature off-peak rates for PIV charging and incentives and rebates for installing in-home residential charging stations, which are not all included in Offering #1, but the regulatory principle is the same. Non-PIV residential customers receive no identifiable direct benefit from the PIV services provided under Offerings #1, #2 and #3. It is only the relatively few PIV customers that will benefit from any of these three Offerings. Therefore, the large body of residential non-PIV customers should not be required to pay for the incentives that ACE is willing to extend to its small subclass of residential PIV customers. The users that require ACE to incur the costs and who receive the service benefits should pay for those costs.

Q. EARLIER YOU STATED THAT THE RESIDENTIAL CLASS WOULD BE ALLOCATED 59 PERCENT OF THE CAPITAL AND PROGRAM REGULATORY ASSET COSTS ASSOCIATED WITH OFFERINGS #7, #8, #10, #11, AND #12, UNDER MR. NORMAND'S PROPOSED COST ALLOCATION SCHEME. DO NON-PIV RESIDENTIAL CUSTOMERS RECEIVE ANY DIRECT BENEFITS FROM THE SERVICES TO BE PROVIDED UNDER ANY OF THESE OFFERINGS?

A. No. The services to be provided under all these Offerings are not even remotely related to residential service. Rather, they target utility-owned and non-utility owned public charging stations, grants and subsidies to be provided to school districts, and the New Jersey Transit system for the purchase and support of distribution upgrades and charging equipment for electric buses. As such, residential customers will not receive any direct benefit from any of these Offerings. Thus, there is no cost of service justification for allocating any of these non-residential PIV-related costs to the residential service class.

Q. DO YOU HAVE ANOTHER CONCERN WITH THE PROGRAM REGULATORY ASSET THAT MR. NORMAND PROPOSES?

A. Yes, I do. For PIV-related capital costs incurred, Mr. Normand proposed to include those investments in plant in service, with no deferral. However, Mr. Norman proposes that the associated depreciation expense and O&M expenses on those plant investments be included in the Program Regulatory Asset account. Including depreciation expense and O&M expenses in the Program Regulatory Asset account, however, will result in some double recovery of those two costs.

Under Mr. Normand's proposal, the accumulated Program Regulatory Asset, which will also include a carrying charge, will be amortized through rates over a five-year period beginning with ACE's next base rate case. But, some or all of ACE's depreciation and O&M expenses on its PIV capital costs will have already been recovered in base rates. Thus, some amount of double recovery of depreciation and O&M expenses will occur.

Q. PLEASE EXPLAIN.

A. ACE's present base rates include expense allowances for depreciation and O&M expenses on the assets in service at the time of ACE's last base rate proceeding. Those two expenses, coupled with test year sales volumes also from ACE's last base rate proceeding, result in a unit charge rate allowance for depreciation and O&M expenses. Under Mr. Normand's proposed rate design for Offerings #1, #2, and #3, residential PIV customers will continue to pay ACE's current distribution charges, including the unit charge amounts for depreciation and O&M expenses, on all sales volumes, ***including the incremental PIV-related kWh sales.*** It is the unit charge amounts for depreciation and O&M expenses included in base rates as applied to the incremental PIV-related kWh sales that provides some amount of cost recovery for the incremental depreciation and O&M expenses on incremental PIV-related capital facilities. Moreover, ACE will continue to collect the rate of return and depreciation expense allowances that are embedded in the Company's current base rates relating to the non-TOU meters that are retired for residential customers choosing Offering #1. Therefore, if the entire balance of the depreciation and O&M expenses on PIV assets are deferred and recovered through the Program Regulatory Asset amortization as Mr. Normand proposes, some level of double recovery of those costs surely will follow. The precise amount of the double recovery will of course depend on the level of incremental PIV-related kWh sales, which cannot be determined with certainty at this time. Nevertheless, a double recovery is certain to occur.

Q. GIVEN YOUR CONCERNS, WHAT IS YOUR CONCLUSION AND RECOMMENDATION TO THE BOARD IN THIS PROCEEDING?

A. My primary conclusion is that ACE's proposed PIV Program fails the fundamental and long-standing cost allocation and ratemaking principle that customers receiving service benefits from the utility should pay the associated costs incurred to provide that service. In this proceeding, however, ACE has intentionally designed a cost recovery scheme that results in the general body of non-PIV customers subsidizing the cost of PIV service for a relatively few PIV customers. This subsidization is unreasonable and discriminatory, especially for those residential customers who do not own any vehicle, let alone an electric vehicle, and must rely on public transportation.

The decision to purchase an electric vehicle is a matter of economics. As with any purchase, the expected benefits must outweigh the costs, including consideration of alternative costs. For example, the purchase of an electric vehicle will reduce the number of trips to a gasoline filling station. But that saving must be netted against the cost of PIV charging. A false economic savings will result if the prospective buyer relies on subsidized costs of PIV charging, as will occur under ACE's PIV Program initiatives. The false economic savings occur because ACE's general body of non-PIV customers have been forced to subsidize the PIV Program, conferring a non-cost-based benefit on a select few customers that are able to purchase an electric vehicle. This subsidy is contrary to long-standing ratemaking principles and should be rejected by the Board.

Lastly, I echo Dr. Hausman's recommendation that if the Board approves a PIV program in some form that ACE be directed to establish PIV-specific rate schedules for the Residential and for the Commercial and Industrial classes so that costs incurred to provide PIV services to each class can be accounted for and appropriately charged to customers that receive PIV service.[3]

Q. DOES THIS COMPLETE YOUR TESTIMONY AT THIS TIME?

A. Yes, it does, however, I wish to reserve the right to supplement this testimony if new information is received.

[3] Direct Testimony of Ezra D. Hausman, PhD., page 7.

APPENDIX A - CURRICULUM VITAE

DAVID E. PETERSON

STATEMENT OF EDUCATION AND EXPERIENCE
FOR
DAVID E. PETERSON

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Mr. Peterson is employed as a public utility rate consultant by Chesapeake Regulatory Consultants, Inc. Mr. Peterson has over forty-two years of experience analyzing regulated public utility ratemaking and service matters including three years as a member of a state regulatory commission staff and thirty-nine years as a consultant. Mr. Peterson specializes in utility revenue requirement and cost of service analyses. He has presented testimony in more than 170 proceedings before twenty state regulatory commissions, the Delaware House Energy Subcommittee, and the Federal Energy Regulatory Commission. Utilities addressed in Mr. Peterson's analyses and testimonies have included electric, natural gas, propane, telephone, water, steam and sewer companies.

EMPLOYMENT

1991 - Present	Senior Consultant Chesapeake Regulatory Consultants, Inc. Annapolis, Maryland
1980 - 1991	Consultant Hess & Lim, Inc. Greenbelt, Maryland
1977 - 1980	Rate Analyst South Dakota Public Utilities Commission Pierre, South Dakota
1977	Research Assistant Economics Department South Dakota State University Brookings, South Dakota

As a rate analyst and consultant, Mr. Peterson has served a diverse group of public utility consumers and governmental agencies on utility ratemaking and service-related issues. Clients have included state regulatory commissions and their staffs, consumer advocate agencies of state governments, federal agencies, municipalities, privately owned, municipally owned and cooperatively owned utilities, civic organizations, and industrial consumers.

EDUCATION

December 1983	Master of Business Administration University of South Dakota Vermillion, South Dakota
May 1977	Bachelor of Science Degree in Economics South Dakota State University Brookings, South Dakota

EXPERT TESTIMONY

Among the issues that Mr. Peterson has addressed in testimony are the appropriate test year, construction work in progress, cash working capital lead/lag studies, rate base, excess capacity, revenues, expenses, depreciation, income taxes, capital structure, rate of return, cost allocation, rate design, customer service charges, flexible rates, life-cycle analyses, cost tracking procedures, affiliate transactions, mergers, acquisitions and the consequences of industry restructuring. Mr. Peterson has presented testimony to the following regulatory bodies.

Alabama Public Service Commission
Arkansas Public Service Commission
California Public Utilities Commission
Colorado Public Utilities Commission
Connecticut Public Utilities Control Authority

Delaware Public Service Commission
Indiana Public Service Commission
Kansas State Corporation Commission
Maine Public Utilities Commission
Maryland Public Service Commission

Montana Public Service Commission
Nevada Public Service Commission
New Jersey Board of Public Utilities
New Mexico Public Service Commission
New York Dept. of Environmental Protection

New York Public Service Commission
Pennsylvania Public Utility Commission
South Dakota Public Utilities Commission
West Virginia Public Service Commission
Wyoming Public Service Commission

Delaware House of Representatives (Energy Subcommittee)
Federal Energy Regulatory Commission

In addition, Mr. Peterson has presented several utility training seminars, including the following:

Consolidated Tax Savings and Income Tax Normalization
Presented to Delaware Public Service Commission 2006

Public Utility Ratemaking Principles
Presented to Washington Utilities and Transportation Commission 2011

Electric Cost Allocation and Rate Design
Presented to Colorado Office of Consumer Counsel 2012

Public Utility Revenue Requirements
Presented to Delaware Public Service Commission 2012

Electric Cost Allocation and Rate Design
Presented to Delaware Public Service Commission 2013