

**STATE OF NEW JERSEY
OFFICE OF ADMINISTRATIVE LAW
BEFORE THE HONORABLE IRENE JONES**

IN THE MATTER OF THE PETITION)	
OF ATLANTIC CITY ELECTRIC)	
COMPANY FOR APPROVAL OF)	
AMENDMENTS TO ITS TARIFF TO)	
PROVIDE FOR AN INCREASE IN)	BPU DOCKET No. ER11080469
RATES AND CHARGES FOR)	OAL DOCKET No. PUCRL 09929-2011
ELECTRIC SERVICE PURSUANT TO)	
<u>N.J.S.A. 48:2-21</u> AND <u>N.J.S.A. 48:2-21.1</u>)	
AND FOR OTHER APPROPRIATE)	
RELIEF)	

**DIRECT TESTIMONY OF DAVID PETERSON
ON BEHALF OF THE
DIVISION OF RATE COUNSEL**

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1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS**
3 **ADDRESS.**

4 A. My name is David E. Peterson. I am a Senior Consultant employed by
5 Chesapeake Regulatory Consultants, Inc. ("CRC"). Our business address is 1698
6 Saefern Way, Annapolis, Maryland 21401-6529. I maintain an office in Dunkirk,
7 Maryland.

8
9 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE**
10 **IN THE PUBLIC UTILITY FIELD?**

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

16
17 In September 1977, I joined the Staff of the Fixed Utilities Division of the South
18 Dakota Public Utilities Commission as a rate analyst. My responsibilities at the
19 South Dakota Commission included analyzing and testifying on ratemaking
20 matters arising in rate proceedings involving electric, gas and telephone utilities.

21
22 Since leaving the South Dakota Commission in 1980, I have continued
23 performing cost of service and revenue requirement analyses as a consultant. In
24 December 1980, I joined the public utility consulting firm of Hess & Lim, Inc. I
25 remained with that firm until August 1991, when I joined CRC. Over the years, I
26 have analyzed filings by electric, natural gas, propane, telephone, water,
27 wastewater, and steam utilities in connection with utility rate and certificate
28 proceedings before federal and state regulatory commissions.

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

A. Yes. I have presented testimony in 130 other proceedings before the state regulatory commissions in Alabama, Arkansas, 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, in 2006 I testified twice before the Energy Subcommittee of the Delaware House of Representatives on the issues of consolidated tax savings and tax normalization. Also in 2006, I presented a one-day seminar to the Delaware Public Service Commission on consolidated tax savings, tax normalization and other utility-related income tax issues. In the spring of 2011, I co-presented along with Mr. Scott Hempling, the then-director of NRRI, a three-day seminar on public utility ratemaking principles and issues to the Commissioners and Staff of the Washington Utilities and Transportation Commission.

1 **II. SUMMARY**

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

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

5
6 **Q. HAVE YOU TESTIFIED IN OTHER PROCEEDINGS BEFORE THE
7 NEW JERSEY BOARD OF PUBLIC UTILITIES ("BOARD")**

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

10 <u>Utility</u>	11 <u>Docket No.</u>
12 South Jersey Gas Company	12 GR8704329
	13 GR03050413
	14 GR03080683
15	
16 New Jersey-American Water Company	16 WR88070639
17	17 WR91081399J
18	18 WR92090906J
19	19 WR94030059
20	20 WR95040165
21	21 WR98010015
22	22 WR03070511
23	23 WR06030257
24	
25 ACE/Delmarva Merger	25 EM97020103
26 Atlantic City Electric Company	26 ER03020110
27	
28 FirstEnergy/GPU Merger (JCP&L)	28 EM00110870
29 Jersey Central Power & Light	29 ER02080506
30	30 ER05121018
31	
32 Rockland Electric Company	32 ER02100724
33	33 ER06060483
34	34 ER09080668
35	
36 Public Service Electric and Gas	36 EM00040253
37	37 GR09050422

1	Exelon/PSE&G Merger	EM05020106
2		
3	Conectiv/Pepco Merger (ACE)	EM01050308
4		
5	Elizabethtown Gas Company	GR02040245
6		GR09030195
7		
8	United Water New Jersey, Inc.	WR07020135
9		
10	New Jersey Natural Gas Company	GR07110889
11		
12		

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

15 A. I was asked by Rate Counsel to review and analyze the Petition, testimonies and
16 exhibits filed by Atlantic City Electric Company (“ACE” or “the Company”)
17 supporting the rates it proposes to implement at the conclusion of this rate
18 proceeding. The purpose of my testimony is to present the results of my analysis
19 of ACE’s embedded class cost of service study and proposed delivery service
20 rates to Your Honor and the Board.

21
22 **Q. ARE YOU FAMILIAR WITH ACE’S RATE DESIGN PROPOSALS IN**
23 **THIS PROCEEDING?**

24 A. Yes, I am. I have carefully reviewed the Direct Testimonies and Exhibits
25 sponsored by ACE’s witnesses relating to the issues that I address herein. These
26 include the testimonies of Mr. Elliott P. Tanos, who presents the class cost
27 studies, and Mr. Joseph F. Janocha, who presents ACE’s proposed distribution of
28 the increase among the classes of service and rate design. I also reviewed the
29 Company’s responses to data requests of Rate Counsel and the Board Staff, again
30 relating to the issues that I address in my testimony.

31

1 **Q. BEFORE DISCUSSING YOUR SPECIFIC FINDINGS AND**
2 **RECOMMENDATIONS, PLEASE SUMMARIZE THE COMPANY'S**
3 **REQUESTS RELATING TO THE ISSUES THAT YOU ADDRESS IN**
4 **YOUR TESTIMONY.**

5 A. On August 5, 2011, ACE filed a Petition with the Board requesting an increase in
6 distribution revenues of \$70,529,000 (excluding Sales and Use Tax) or 24.6
7 percent increase in charges for delivery service throughout its New Jersey service
8 territory. Later, on February 24, 2012, ACE filed its "12 + 0" update revenue
9 requirement determination. In this analysis, ACE replaced the estimated costs
10 and sales data contained in its original filing with actual operating results for the
11 test year ended December 31, 2011. ACE's 12 + 0 filing purports to show a
12 \$90,286,240 revenue deficiency for the test year ended December 31, 2011.
13 ACE's proposed rates were designed to produce an 8.56 percent rate of return on
14 rate base.

15
16 Mr. Tanos presented a class cost of service study for the year ended March 31,
17 2011, wherein ACE's service related costs were allocated among nine classes of
18 service. Following is a summary of the earned rate of return for each rate class
19 from Mr. Tanos' study.

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Table 1
Atlantic City Electric Company
Earned Rates of Return – ACE Allocation Method
Under Existing Rates

Class	Rate of Return	Unitized ROR
Residential	4.30%	0.62
Monthly GS Secondary	14.11%	2.03
Monthly GS Primary	8.47%	1.22
Annual GS Secondary	11.08%	1.59
Annual GS Primary	11.62%	1.67
GS Subtransmission	17.60%	2.53
GS Transmission	115.91%	16.66
Street and Private Lighting	4.27%	0.61
Direct Dist. Conn.	18.65%	2.68
Total Company	6.96%	1.00

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Mr. Janocha relied on the results of Mr. Tanos' cost study to realign class revenue responsibilities. Mr. Tanos' cost study indicated that the Residential and the Street and Private Lighting classes are contributing less than the system average rate of return. Therefore, Mr. Janocha proposed a higher than average (on a percentage basis) revenue increase for those two classes. Mr. Janocha proposed lower than average increases for the remaining classes, with rates for one class (General Service Transmission) actually decreasing from the present level. Table 2, below, shows Mr. Janocha's proposed allocation of the requested increase among the nine classes of service along with the resulting percentage increase for each rate class.

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Table 2
Atlantic City Electric Company
Company-Proposed Spread of Requested Increase

Class	Increase Amount	Increase Percent
Residential	\$54,467,733	37.0%
Monthly GS Secondary	\$14,133,764	29.5%
Monthly GS Primary	\$ 125,539	27.0%
Annual GS Secondary	\$14,171,154	37.2%
Annual GS Primary	\$ 2,092,376	30.6%
GS Subtransmission	\$ 533,332	18.4%
GS Transmission	\$ (336,479)	(9.3)%
Street and Private Lighting	\$ 5,080,160	45.0%
Direct Dist. Conn.	\$ 636	0.1%
Total Company	\$90,268,240	34.9%

6
7
8 Mr. Janocha also proposed certain rate design changes for individual rate classes.
9 The most significant change is a steep increase in the residential monthly service
10 charge. Rate Schedule RS (residential) customers now pay a \$2.73 monthly
11 service charge (including Sales & Use Tax) regardless of kWh usage. Mr.
12 Janocha proposes to increase this charge to \$5.74; representing a 110 percent
13 increase in the monthly service charge. Mr. Janocha also proposes to reduce the
14 differential between the first and second rate blocks for RS (residential) customers
15 in the winter heating season in an effort to move towards eliminating the
16 declining block rate.

17
18 **Q. PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS**
19 **ON ACE'S COST ALLOCATION AND RATE DESIGN PROPOSALS.**

20 A. Following is a brief summary of my findings and recommendations.
21

1 • **Embedded cost of service study.** Mr. Tanos relied on class diversified
2 peak demands to allocate distribution costs to the various service classes.
3 Using this method, Mr. Tanos calculated a 0.62 unitized rate of return for
4 the RS (residential) class. In the past, however, the Board has required
5 that cost studies also reflect class energy usage (i.e., kWh).¹ In fact,
6 pursuant to the Stipulation in ACE's 2009 base rate case, the Board
7 ordered ACE to prepare a class cost study for this proceeding using the
8 peak and average allocation method. Mr. Tanos included as an exhibit to
9 his testimony a class cost of service study using the peak and average
10 allocation method. Under the peak and average method, the unitized rate
11 of return for the RS class is only slightly higher at 0.66. Thus, under both
12 cost allocation methods, rates for the RS class yield less than the system-
13 wide average rate of return.

14
15 • **Distribution of the revenue increase/decrease.** Mr. Janocha's
16 proposed distribution of ACE's calculated revenue deficiency attempts to
17 move each class closer to its cost of service by moving the class unitized
18 rates of return closer to 1.0. All classes are moved closer to a unitized rate
19 of return of 1.0 under both ACE's preferred allocation method and under
20 the alternative peak and average allocation method. Applying Mr.
21 Janocha's proposed increase for the RS class to the alternative peak and
22 average allocation method results in a unitized rate of return that is nearly
23 identical to (and still below 1.0) that is produced under ACE's preferred
24 allocation method. Therefore, I do not object to Mr. Janocha's proposed
25 distribution of the increase. Rate Counsel's case, however, provides

¹ *I/M/O The Petition of Jersey Central Power & Light Company for Approval of Increased Base Tariff Rates and Charges for Electric Service and Other Tariff Revisions ("JCP&L 1993 Board Order")*, BRC Docket No. ER91121820J, Final Decision and Order, page 16 (June 15, 1993).

1 evidence that ACE's revenue deficiency is significantly lower than that
2 calculated by ACE. Therefore, I used Mr. Janocha's method of allocating
3 the revenue requirement among the rate classes as a guide to allocate
4 among the rate classes the total revenue change that Rate Counsel revenue
5 requirement witness Andrea Crane calculated.

- 6
- 7 • **Rate design.** Mr. Janocha's proposed rates will result in ACE having the
8 highest monthly service charge among the State's four regulated electric
9 utilities. The adverse affects of the proposed increase in the monthly
10 service charge will fall disproportionately on small volume users, which
11 Mr. Janocha estimates is approximately 21 percent of RS customers. I
12 recommend that there be no increase in the RS monthly service charge.
13 Also, I am not recommending any change in the revenue requirement for
14 the Monthly General Service class. Therefore, I recommend that the
15 existing monthly service charge for the Monthly General Service ("MGS")
16 rate classes also be maintained at their present levels. Mr. Janocha has
17 proposed increasing the monthly service charge to GS customers by 25
18 percent.

19

20 I have no objection to Mr. Janocha's recommendation to begin eliminating
21 the declining block rate for RS customers during the winter heating
22 season.

23

24

25 The basis for these findings and recommendations are explained in more detail in
26 the following sections of this testimony.

1 **III. COST ALLOCATION**

2 **Q. HAVE YOU REVIEWED ACE'S EMBEDDED CLASS COST OF**
3 **SERVICE STUDY?**

4 A. Yes, I have. ACE's witness Elliot P. Tanos prepared an embedded class cost of
5 service study using costs and class load data for the twelve months ended March
6 31, 2011. Studies of this nature, if performed carefully and objectively, can be
7 useful tools in fairly apportioning revenue responsibility among rate classes and
8 in designing unit charges within rate classes.

9
10 **Q. WHICH ALLOCATION PROCEDURE DID MR. TANOS USE IN HIS**
11 **STUDY?**

12 A. Over 70 percent of ACE's plant investment at issue in this proceeding is in
13 distribution facilities; including station equipment, conductors, poles, towers, and
14 transformers. The remaining 30 percent represents facilities that provide service
15 to individual customers (i.e., meters, services, and other customer installations)
16 and street lighting. With such a large percentage of plant being distribution-
17 related, the outcome of the cost study is highly dependent on the procedures used
18 to allocate the costs of those facilities. Mr. Tanos used class maximum
19 diversified demands to allocate the majority of ACE's distribution-related
20 investment and associated costs. His allocation procedures gave no recognition to
21 average demands or annual usage.

22
23 **Q. HAS THE BOARD FOUND IT APPROPRIATE TO CONSIDER ANNUAL**
24 **USAGE IN ADDITION TO PEAK DEMAND IN DETERMINING**
25 **DEVELOPING ALLOCATION FACTORS?**

26 A. Yes, it has. The Board found it appropriate to consider the "dual demand/energy
27 dimension of T&D system planning and operation" in developing class allocation
28 factors in Jersey Central Power and Light's ("JCP&L") 1991 base rate proceeding

1 (BRC Docket No. ER91121820J). In its Order approving an allocation method
2 that recognized both peak demand and annual usage for JCP&L’s transmission
3 and distribution facilities, the Board stated:

4
5 The record in this proceeding contains two distinct approaches to
6 the classification and allocation of non-production transmission,
7 subtransmission and distribution system (hereafter “T&D”) costs. The
8 DOD/FEA approach classifies plant costs functionalized in accounts 360-
9 368 on an exclusive demand basis, allocating them based upon voltage
10 specific non-coincident peaks. The other approach is a voltage level
11 specific average and excess method advocated by Rate Counsel and
12 included in the [Modified System Planning Method] studies advanced by
13 the Staff and the Company.

14
15 Exclusive demand approaches to the allocation of T&D costs –
16 such as that advanced by the DOD/FEA – were rejected in the April 9,
17 1992, Order in JCP&L’s last base rate proceeding [BPU Docket No.
18 ER89110912J] after the Board determined that “there is a dual demand
19 and energy dimension to transmission and distribution system planning
20 and operation which should henceforth be reflected in cost allocation.”
21 See, JCP&L Order, p. 6. In that proceeding, we adopted the average and
22 excess approach advocated by Rate Counsel and supported by Staff as an
23 interim step toward a more complete investigation of the proper allocator
24 for these costs. The difficulty with this prior version of the average and
25 excess method was its use of system load factor to classify T&D costs into
26 demand and energy components. The employment of voltage level
27 specific load factors to classify costs in the Rate Counsel, Staff and
28 Company cost studies in the instant proceeding addresses the concerns
29 raised in our April 9, 1992, Order.

30
31 Accordingly, we CONCUR with the Initial Decision that the
32 voltage level specific average and excess method is the appropriate basis
33 for the classification and allocation of T&D costs and ORDER that it be
34 employed in this and future JCP&L proceedings until such time that a
35 more precise methodology is developed. We REJECT the exclusive
36 demand approach advanced by the DOD/FEA based upon its failure to
37 reflect the aforementioned dual demand/energy dimension of T&D system
38 planning and operation.²

² JCP&L 1993 Board Order, page 16.

1
2 Thus, the Board found that both annual usage (i.e., kWh) and class demands are
3 appropriate to consider in developing allocation factors for transmission and
4 distribution facilities. In fact, the Board's Order in ACE's 1992 base rate
5 proceeding, BPU Docket No. ER03020110, required ACE to present the results of
6 a class cost study using the peak and average cost allocation method. The
7 Stipulation in ACE's 2009 base rate proceeding, BPU Docket No. ER0908664,
8 also required the Company to prepare a cost allocation study that includes energy
9 usage in the allocation process. The peak and average allocation method
10 incorporates class energy usage into the allocation process. In accordance with
11 the Stipulation, Mr. Tanos prepared a second version of his class cost study using
12 the peak and average allocation method. Results under the peak and average
13 method were included as Schedule EPT-5 attached Mr. Tanos' Direct Testimony
14 in this proceeding.

15
16 **Q. HOW DO THE RESULTS UNDER ACE'S PREFERRED ALLOCATION**
17 **METHOD COMPARE WITH THOSE USING THE BPU-REQUIRED**
18 **PEAK AND AVERAGE METHOD?**

19 A. The following table shows the unitized rate of return that Mr. Tanos calculated for
20 each rate class under both allocation methods. The unitized rate of return is a
21 measure of each class's relative contribution to the system-wide rate of return.
22 Mathematically, the unitized rate of return is the ratio of each class's rate of return
23 to the system-wide average rate of return. Thus, a unitized rate of return of less
24 than 1.0 indicates that the particular class is contributing relatively less to the
25 Company's overall rate of return than one or more of the other classes.

Table 3
Atlantic City Electric Company
Unitized Class Rates of Return
Under Existing Rates

Rate Class	Unitized ROR ACE Method	Unitized ROR P&A Method
Residential	0.62	0.66
Monthly GS Secondary	2.02	2.11
Monthly GS Primary	1.22	1.81
Annual GS Secondary	1.59	1.34
Annual GS Primary	1.67	1.19
GS Subtransmission	2.53	2.12
GS Transmission	16.66	16.66
Street and Private Lighting	0.61	0.67
Direct Dist. Conn.	2.68	1.86
Total Company	1.00	1.00

As shown in Table 3 above, both allocation methods produce similar results in this case. The unitized rates of return for the Residential and Street and Private Lighting classes are less than 1.0 under both methods. The unitized rates of return exceed 1.0 by significant amounts for the Monthly GS Secondary and Primary, GS Subtransmission, GS Transmission and Direct Distribution Connection rate classes under both methods.

Q. HOW DID MR. JANOCHA USE THE RESULTS OF MR. TANOS' STUDY TO DISTRIBUTE ACE'S REQUESTED REVENUE INCREASE AMONG RATE CLASSES?

A. My understanding is that Mr. Janocha attempted to move each class closer to a 1.0 unitized rate of return. For the Residential and Street and Private Lighting classes, who each had a unitized rate of return of less than 1.0, Mr. Janocha proposed a greater than average (in percentage terms) increase. Mr. Janocha

1 proposed a less than average increase for those classes that had a unitized rate of
2 return of greater than 1.0. Mr. Janocha also proposed a rate reduction for the GS
3 Transmission class. Even though there is movement towards a unitized rate of
4 return of 1.0 for each class, Mr. Janocha's revenue distribution proposal was
5 unable to achieve a uniform 1.0 unitized rate of return for all classes because the
6 rate impact principally on the Residential class that would result is far too great
7 for those customers to bear at this time.

8
9 **Q. GIVEN THAT THERE ARE TWO COST STUDIES TO CONSIDER IN**
10 **THIS PROCEEDING HOW CAN MR. JANOCHA'S PROPOSED**
11 **REVENUE DISTRIBUTION BE EVALUATED?**

12 A. Mr. Janocha's proposed revenue distribution was developed principally from the
13 results of Mr. Tanos' class cost study using class maximum diversified demands
14 as the primary allocation factor. His revenue distribution can also be evaluated
15 for its effects on class returns under the peak and average allocation method.

16
17 **Q. HAVE YOU PERFORMED THIS ANALYSIS?**

18 A. Yes, I have. My calculations are summarized on Exhibit___(DEP-1) attached to
19 this testimony. On Schedule 1 of this exhibit I calculated the class rates of return
20 that Mr. Janocha's proposed revenue distribution would produce under the peak
21 and average allocation method. The class rates of return and unitized rates of
22 return are summarized on Columns G and H of this schedule. Table 4 below,
23 summarizes the unitized rates of return under both ACE's preferred allocation
24 method and under the peak and average allocation method that results from Mr.
25 Janocha's proposed revenue distribution.

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Table 4
Atlantic City Electric Company
Resulting Unitized Rates of Return
Under Mr. Janocha's Proposed Revenue Distribution

Class	ACE Method	Peak & Average Method
Residential	0.83	0.86
Monthly GS Secondary	1.51	1.57
Monthly GS Primary	1.11	1.50
Annual GS Secondary	1.30	1.13
Annual GS Primary	1.33	1.03
GS Subtransmission	1.76	1.51
GS Transmission	4.95	4.95
Street and Private Lighting	0.76	0.80
Direct Dist. Conn.	1.00	0.69
Total Company	1.00	1.00

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Mr. Janocha tempered the revenue impact somewhat by not forcing each class's unitized rate of return exactly to 1.0. As shown in Table 4 above, when Mr. Janocha's proposed revenue spread is applied to the peak and average allocation method, in many cases the resulting class unitized rate of return is closer to 1.0 than what is achieved under Mr. Tanos' preferred allocation method. Thus, I conclude that Mr. Janocha's proposed revenue spread produces reasonable results under both allocation methods.

1 **Q. IN THIS PROCEEDING, MS. CRANE IS RECOMMENDING THAT**
2 **ACE'S BASE ANNUAL REVENUES BE INCREASED BY \$5,474,000,**
3 **BEFORE THE ROLL-IN OF THE RARC REVENUES. HOW SHOULD**
4 **RATE COUNSEL'S INCREASE BE DISTRIBUTED AMONG RATE**
5 **CLASSES?**

6 A. Earlier I concluded that Mr. Janocha's preferred spread of the increase was
7 reasonable, based on the Company's claimed cost of service. Therefore, I used
8 the unitized rates of return that resulted from Mr. Janocha's proposed distribution
9 as my initial target. Setting class returns in this manner, however, results in what
10 I consider to be excessive revenue increases for the Residential and Street and
11 Private Lighting rate classes and revenue reductions for all of the other rate
12 classes. For example, revenues for the RS class would have to be increased by
13 approximately \$11.2 million or roughly twice the overall increase that Ms. Crane
14 is recommending to produce Mr. Janocha's target unitized rate of return for that
15 class. Similarly, revenues in the Street and Private Lighting class would have to
16 be increased by more than 3.5 times the system-wide average percentage increase
17 to yield Mr. Janocha's target unitized rate of return. Under these circumstances, I
18 recommend that except for the Residential and Street and Private Lighting rate
19 classes, the present rate levels should be maintained (i.e., zero increase) for the
20 other classes of service. The \$5,474,000 revenue increase that Ms. Crane has
21 determined that ACE requires at this time should be distributed between the
22 Residential and Street and Private Lighting classes based on the relative size of
23 the allocated rate base for each class. This distribution is illustrated in my
24 Exhibit__(DEP-2). Also on this exhibit, if we compare the unitized rates of
25 return by rate class before (line 8) and after (line 19) my proposed distribution of
26 the revenue increase we can see that each class's unitized rate of return has moved
27 closer to unity under my rate proposal. Thus, my proposed distribution of the
28 increase achieves Mr. Janocha's goal of moving each class's unitized rate of

1 return closer to unity. The following table summarizes the revenue requirement
2 changes for each class that I am recommending.

3
4 **Table 5**
5 **Atlantic City Electric Company**
6 **Rate Counsel's Proposed Spread of the Revenue Reduction**
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8

Class	Revenue Increase	Percent Change
Residential	\$4,956,480	3.36%
Monthly GS Secondary	\$0	0%
Monthly GS Primary	\$0	0%
Annual GS Secondary	\$0	0%
Annual GS Primary	\$0	0%
GS Subtransmission	\$0	0%
GS Transmission	\$0	0%
Street and Private Lighting	\$518,126	4.58%
Direct Dist. Conn.	\$0	0%
Total Company	\$5,474,606	2.10%

9
10 **Q. IF THE BOARD AUTHORIZES A RATE INCREASE GREATER THAN**
11 **THE \$5.47 MILLION RECOMMENDED BY MS. CRANE, HOW SHOULD**
12 **THE ADDITIONAL REVENUE REQUIREMENT BE DISTRIBUTED**
13 **AMONG THE RATE CLASSES?**

14 A. The rate increases that I proposed for the Residential and Street and Private
15 Lighting classes, based on Ms. Crane's recommended \$5.47 million overall
16 increase, already result in an increase for the Residential class that is 1.6 times the
17 overall percentage increase. My recommended increase for the Street and Private
18 Lighting class is 2.18 times the overall percentage increase for the system.
19 Ideally, in order to moderate the impact of the increase on customers within each
20 rate class, no class should receive an increase more than 1.5 times the system-
21 wide average percentage increase. Thus, if the Board grants an increase higher

1 than the \$5.47 million that Ms. Crane recommends, a portion of that additional
2 increase should be distributed to classes other than the Residential and the Street
3 and Private Lighting classes, such that in the end, the percentage increases to the
4 Residential and Street and Private Lighting classes are no greater than 1.5 times
5 the overall percentage revenue increase granted by the Board.
6

7 **IV. RATE DESIGN**

8 **Q. WHAT CHANGES TO RATE SCHEDULE RS (RESIDENTIAL SERVICE)**
9 **DID MR. JANOCHA PROPOSE?**

10 A. In addition to increasing the energy rates to generate the additional revenues ACE
11 is seeking in this case, Mr. Janocha proposed a significant increase in the monthly
12 service charge for residential customers. He also proposed to begin eliminating
13 the declining block rate structure for this class by reducing the rate differential
14 between the first and second energy blocks in the winter months.
15

16 **Q. BY HOW MUCH DID MR. JANOCHA PROPOSE TO INCREASE THE**
17 **MONTHLY SERVICE CHARGE FOR RESIDENTIAL CUSTOMERS?**

18 A. Presently, residential customers pay \$2.73 per month in service charges, including
19 the Sales and Use Tax. Mr. Janocha proposed to increase this amount to \$5.74, or
20 by 110 percent.
21

22 **Q. WHAT IS THE REASONING BEHIND THE LARGE INCREASE IN THE**
23 **MONTHLY SERVICE CHARGE THAT MR. JANOCHA PROPOSED?**

24 A. It appears that Mr. Janocha's primary concern is that the present monthly service
25 charge fails to recover all costs in Mr. Tanos' study that are classified as
26 customer-related costs. This, he claims, results in inaccurate pricing signals. Mr.
27 Janocha further claims that Mr. Tanos' cost study proves that the average
28 customer-related cost per residential customer is \$13.42 per month.

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Q. DO YOU AGREE THAT THE “CORRECT” CUSTOMER CHARGE IS CLOSER TO THE \$13.42 PER MONTH COST CALCULATED FROM MR. TANOS’S COST STUDY?

A. No, I do not. It does not necessary follow that all costs classified as customer-related for class allocation purposes must also be recovered through the monthly service charge. For many costs that are classified as being customer-related there simply is no other reasonable basis for classification other than the relative number of customers. Classifying these costs as customer costs, however, does not mean they are dependent on the number of customers or are incremental to the number of customers served. There is no precise nexus between costs classified as customer-related and those that are appropriately recognized in the monthly service charge.

Q. DOES THE BOARD TYPICALLY INCLUDE ALL CUSTOMER-CLASSIFIED COSTS IN THE DETERMINATION OF THE SERVICE CHARGE?

A. No, not that I am aware of. My understanding is that the Board has taken a restrictive view of what costs are recognized in a monthly service charge. I am advised that the Board generally allows only costs that vary directly and linearly with the number of customers served in the calculation of the monthly service charge. It is for this reason that the residential service charges for all New Jersey electric utilities remain relatively low.

Q. WHAT HAS THE BOARD APPROVED FOR OTHER NEW JERSEY UTILITIES?

A. Table 6 below shows the presently approved residential monthly service charge for each New Jersey electric utility regulated by the Board.

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Table 6
BPU Approved Residential Monthly Service Charges*
New Jersey Regulated Electric Utilities

Electric Utility	Residential Service Charge
Rockland Electric Company	\$3.88
Atlantic City Electric Company	\$2.73
Public Service Electric and Gas	\$2.43
Jersey Central Power & Light Company	\$2.20
ACE – Proposed	\$5.74

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* Includes Sales and Use Tax

As Table 6 shows, ACE’s existing residential monthly service charge is in line with the monthly service charges the Board has approved for the other electric utilities in the State. Mr. Janocha’s proposed increase would place ACE’s monthly service charge far above the charges being paid by all of the other electric residential customers in the State. Mr. Janocha’s proposed increase also exposes ACE’s low volume customers to disproportionate rate increases – in some cases an increase greater than 100 percent at the lowest residential usage volumes. Therefore, I recommend that ACE’s monthly service charge for Rate Schedule RS not be changed at this time.

19 **Q. DO YOU HAVE ANY OTHER COMMENTS ON THE REMAINING**
20 **ASPECTS OF MR. JANOCHA’S RATE DESIGN PROPOSALS?**

21 A. Yes. I do not object to ACE beginning the process of eliminating the declining
22 block rate structure for RS customers. However, I object to Mr. Janocha’s
23 proposed 25 percent increase in the monthly service charge for MGS customers.
24 Because I am recommending that existing revenue levels be maintained for MGS

1 customers, I recommend that there be no change in their present monthly service
2 charges as well.

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4 **Q. DOES THIS CONCLUDE YOUR TESTIMONY AS THIS TIME?**

5 **A.** Yes, it does.

Supporting Schedules

ATLANTIC CITY ELECTRIC COMPANY

Unitized Rates of Return Under ACE Proposed Spread of the Increase
Using the Peak and Average Allocation Method
Test Year Ended December 31, 2011

	Rate Base	Income Existing Rates	Proposed Revenue Increase	Income from Proposed Increase	After ACE Rate Increase		
					Income	Rate of Return	Unitized ROR
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
1. Residential	\$611,078,957	\$12,735,758	\$54,467,733	\$32,056,814	\$44,792,572	7.33%	0.86
2. Monthly GS Secondary	124,228,047	8,327,024	14,133,784	\$8,318,394	16,645,418	13.40%	1.57
3. Monthly GS Primary	1,039,929	59,979	125,539	\$73,886	133,865	12.87%	1.50
4. Annual GS Secondary	154,986,643	6,582,450	14,171,154	\$8,340,388	14,922,838	9.63%	1.13
5. Annual GS Primary	24,516,605	924,076	2,092,378	\$1,231,463	2,155,539	8.79%	1.03
6. GS Subtransmission	5,081,166	341,531	533,332	\$313,891	655,422	12.90%	1.51
7. GS Transmission	1,866,395	988,080	(336,479)	(\$198,034)	790,046	42.33%	4.95
8. Street Lighting	63,098,824	1,338,954	5,060,160	\$2,978,141	4,317,095	6.84%	0.80
9. Direct Dist. Conn.	1,215,475	71,847	638	\$375	72,222	5.94%	0.69
10. Total Company	<u>\$987,112,041</u>	<u>\$31,369,700</u>	<u>\$90,248,239</u>	<u>\$53,115,318</u>	<u>\$84,485,018</u>	<u>8.56%</u>	<u>1.00</u>

Sources

Columns B,C: Page 2, herein

Column D: ACE Schedule JFJ-1, page 1 (12+0)

ATLANTIC CITY ELECTRIC COMPANY
Allocation of Rate Base and Return - 12+0 Results
Using the Peak and Average Allocation Method
Test Year Ended December 31, 2011

	Total	Residential	Monthly		Annual		GS Subtrans	GS Trans	Street Lighting	Direct Dist. Conn.
	Company		GS Secondary	GS Primary	GS Secondary	GS Primary				
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
Cost of Service Results (Schedule EPT-5)										
1. Operating income	\$62,641,122	\$25,431,617	\$16,627,961	\$119,771	\$13,144,278	\$1,845,257	\$681,993	\$1,973,064	\$2,673,713	\$143,468
2. Rate base	900,316,598	557,347,601	113,304,841	948,489	141,358,875	22,360,893	4,634,386	1,702,285	57,550,629	1,108,600
3. Rate of return	6.96%	4.56%	14.68%	12.63%	9.30%	8.25%	14.72%	115.91%	4.65%	12.94%
4. Unitized rate of return	1.00	0.66	2.11	1.81	1.34	1.19	2.11	16.65	0.67	1.86

Revenue Requirement Results										
5. Operating income	\$31,369,700	\$12,735,758	\$8,327,024	\$59,979	\$6,582,450	\$924,076	\$341,531	\$988,080	\$1,338,954	\$71,847
6. Rate base	987,112,040	611,078,957	124,228,047	1,039,929	154,986,643	24,516,605	5,081,166	1,866,395	63,098,824	1,215,475
7. Rate of return	3.18%	2.08%	6.70%	5.77%	4.25%	3.77%	6.72%	52.94%	2.12%	5.91%
8. Unitized rate of return	1.00	0.65	2.11	1.81	1.34	1.19	2.11	16.65	0.67	1.86

Sources:

Lines 1-4: ACE Schedule EPT-5

Lines 5,6, Column B: ACE Schedule JFJ-1, page 1

Lines 5-6, Columns C-K: Ratios applied to produce the unitized rates of return shown on line 4

ATLANTIC CITY ELECTRIC COMPANY
Allocation of Revenue Deficiency - Per Rate Counsel
Test Year Ended December 31, 2011

(A)	Total ACE Retail (B)	Residential (C)	Monthly Gen Serv Secondary (D)	Monthly Gen Serv Primary (E)	Annual Gen Serv Secondary (F)	Annual Gen Serv Primary (G)	Transmission Gen Serv Subtrans (H)	Transmission Gen Ser Transmission (I)	Street Lighting Service (J)	Direct Distribution Connection (K)
Per ACE Class Cost Study										
1. Operating income	\$62,641,122	\$24,608,045	\$16,431,833	\$101,503	\$13,969,475	\$2,131,917	\$712,900	\$1,973,064	\$2,554,859	\$157,526
2. Rate base	900,316,597	571,895,359	116,453,763	1,198,857	126,035,301	18,352,650	4,050,703	1,702,285	59,783,142	844,537
3. Rate of return	6.96%	4.30%	14.11%	8.47%	11.08%	11.62%	17.60%	115.91%	4.27%	18.65%
4. Unitized rate of return	1.00	0.62	2.03	1.22	1.59	1.67	2.53	16.65	0.61	2.68
Revenue Requirement Results										
5. Operating income	\$36,930,000	\$14,507,644	\$9,687,368	\$59,841	\$8,235,688	\$1,256,869	\$420,289	\$1,163,218	\$1,506,214	\$92,869
6. Rate base	509,616,000	323,716,153	65,917,591	678,602	71,341,133	10,388,350	2,292,863	963,563	33,839,702	478,042
7. Rate of return	7.25%	4.48%	14.70%	8.82%	11.54%	12.10%	18.33%	120.72%	4.45%	19.43%
8. Unitized rate of return	1.00	0.62	2.03	1.22	1.59	1.67	2.53	16.65	0.61	2.68
9. Revenue deficiency - per Rate Counsel	\$5,474,606									
10. Income deficiency - per Rate Counsel	3,231,000									
11. Rate of return - per Rate Counsel	7.88%									
Revenue Allocation										
12. Unitized rate of return adjustment factor		0.55	0.50	0.50	0.50	0.50	0.50	0.75	0.38	1.00
13. Unitized rate of return		0.83	1.52	1.11	1.30	1.34	1.77	4.91	0.76	1.00
14. Rate of return (initial target)	7.88%	6.53%	11.94%	8.75%	10.21%	10.52%	13.91%	38.71%	5.98%	7.88%
15. Incremental income	\$3,231,000	\$2,925,213	\$0	\$0	\$0	\$0	\$0	\$0	\$305,787	\$0
16. Revenue expansion factor	1.6944	1.6944	1.6944	1.6944	1.6944	1.6944	1.6944	1.6944	1.6944	1.6944
17. Revenue requirements	5,474,606	4,956,480	0	0	0	0	0	0	518,126	0
18. Final rate of return	7.88%	5.39%	14.70%	8.82%	11.54%	12.10%	18.33%	120.72%	5.35%	19.43%
19. Final unitized rate of return	1.00	0.68	1.86	1.12	1.46	1.54	2.33	15.32	0.68	2.47
Revenue Increase Allocation										
20. Revenues under current rates	\$261,036,546	\$147,501,194	\$48,727,327	\$495,868	\$38,786,159	\$7,270,869	\$2,892,213	\$3,602,866	\$11,306,542	\$453,508
21. Revenue increase/(decrease)	5,474,606	4,956,480	0	0	0	0	0	0	518,126	0
22. Proposed revenues	\$266,511,152	\$152,457,674	\$48,727,327	\$495,868	\$38,786,159	\$7,270,869	\$2,892,213	\$3,602,866	\$11,824,668	\$453,508
23. Percentage increase/(decrease)	2.10%	3.36%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	4.58%	0.00%

Sources:

Lines 1,2,12,13,14: ACE Schedule JFJ-1, page 1 (Supplemental 12+0)

Column B: Lines 5,6, 9,10,16: Rate Counsel witness Andrea Crane

Line 15: Allocated between Residential and Street Lighting based on relative rate base (Line 6).