STATE OF NEW JERSEY
OFFICE OF ADMINISTRATIVE LAW
BEFORE THE HONORABLE JACOB S. GERTSMAN

IN THE MATTER OF THE PETITION OF ATLANTIC CITY ELECTRIC COMPANY FOR APPROVAL OF AMENDMENTS TO ITS TARIFF TO PROVIDE FOR AN INCREASE IN RATES AND CHARGES FOR ELECTRIC SERVICE PURSUANT TO N.J.S.A. 48:2-21 AND N.J.S.A. 48:2-21.1 AND FOR OTHER APPROPRIATE RELIEF (2017)	)	**BPU DOCKET No. ER17030308** **OAL DOCKET No. PUC 04989-17**

DIRECT TESTIMONY OF DAVID PETERSON ON BEHALF OF THE 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 a Senior Consultant employed by Chesapeake Regulatory Consultants, Inc. ("CRC"). Our business address is 1698 Saefern Way, Annapolis, Maryland 21401-6529. I maintain an office in Dunkirk, Maryland.

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 159 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.

II. SUMMARY

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
ACE/Delmarva Merger	EM97020103
Atlantic City Electric Company	ER03020110
	ER11080469
FirstEnergy/GPU Merger (JCP&L)	EM00110870
Jersey Central Power & Light	ER02080506
	ER05121018
	ER12111052
	EM14060581
	EM15060733
Rockland Electric Company	ER02100724
	ER06060483
	ER09080668
Public Service Electric and Gas	EM00040253

	GR09050422
	GO12030188
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").

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

A. I was asked by Rate Counsel to review and to analyze the Petition, testimonies and exhibits filed by Atlantic City Electric Company ("ACE" or "the Company") supporting the rates it proposes to implement at the conclusion of this proceeding. The purpose of my testimony is to present the results of my analyses of ACE's embedded class cost of service study and proposed delivery service rates to Your Honor and the Board.

Q. ARE YOU FAMILIAR WITH ACE'S RATE DESIGN PROPOSALS IN THIS PROCEEDING?

A. Yes, I am. I have carefully reviewed the Direct Testimony and Exhibits sponsored by ACE's witness relating to the issues that I address herein. Mr. Elliott P. Tanos presents the results of the Company's class cost of service studies. He also recommends a spread of the increase among the classes of service and a rate design for each service class. My review also included an evaluation of the Company's responses to data requests of Rate Counsel and the Board Staff relating to the issues that I address in my testimony.

Q. BEFORE DISCUSSING YOUR SPECIFIC FINDINGS AND RECOMMENDATIONS, PLEASE SUMMARIZE ACE'S REQUESTS RELATING TO THE ISSUES THAT YOU ADDRESS IN YOUR TESTIMONY.

A. ACE's initial filing in this proceeding purportedly shows a $70.2 million ($74.8 million including Sales and Use Tax) revenue deficiency associated with the Company's delivery service throughout its New Jersey service territory. A change in revenues of this magnitude to correct the alleged deficiency would increase distribution revenues under current rates by 18.8 percent. The Company used a test year consisting of the twelve months ended July 31, 2017, to calculate this alleged revenue deficiency.

In his Direct Testimony, Mr. Tanos presented a class cost of service study for the twelve months ended December 31, 2016. In Mr. Tanos's cost study, ACE's distribution service related costs were allocated among nine customer classes. Following is a summary of the earned rates of return by customer class from Mr. Tano's study.

Table 1

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

Class	Rate of Return	Unitized ROR
Residential	1.88%	0.50
Monthly GS Secondary	8.36%	2.22
Monthly GS Primary	9.67%	2.57
Annual GS Secondary	5.03%	1.34
Annual GS Primary	5.45%	1.45
GS Subtransmission	17.01%	4.52
GS Transmission	31.56%	8.38
Street and Private Lighting	5.37%	1.42
Direct Dist. Conn.	25.92%	6.88
Total Company	3.77%	1.00

Mr. Tanos relied on the results of his cost study, as well as his judgment, to realign class revenue responsibilities. His cost study indicates that the Residential class is contributing less than the system average rate of return. This is shown by a unitized rate of return of less than 1.00 for the Residential class. A unitized rate of return is the ratio of the individual class rate of return to the total Company rate of return. A unitized rate of return of less than 1.00, as is the case with the Residential class, indicates that the rate class is contributing less than the system-wide average rate of return. Because the unitized rate of return is less than 1.00 for the Residential class, Mr. Tanos proposed a higher than average revenue increase, on a percentage basis, for the Residential rate class. Mr. Tanos assigned approximately the system average increase to the Annual General Service ("GS") – Secondary class. He proposed lower than average increases for the remaining classes, except for the GS Transmission and GS Subtransmission General Service and the Direct Distribution Connection rate classes, where he recommended

maintaining the existing rates for those customers. Table 2, below, shows Mr. Tanos's proposed spread of ACE's initially claimed revenue deficiency among the nine classes along with the resulting percentage increase for each rate class.

Table 2

Atlantic City Electric Company
ACE Proposed Class Revenue Increases

Class	Increase	Percent Increase
Residential	$50,574,581	23.3%
Monthly GS Secondary	$ 6,291,133	9.5%
Monthly GS Primary	$ 95,203	6.5%
Annual GS Secondary	$10,334,967	19.3%
Annual GS Primary	$ 1,442,111	14.2%
GS Subtransmission	$ 0	0.0%
GS Transmission	$ 0	0.0%
Street and Private Lighting	$ 1,422,585	8.5%
Direct Dist. Conn.	$ 0	0.0%
Total Company	$70,160,580	18.8%

Concerning rate design, Mr. Tanos recommends very few rate design changes for the residential rate class. For the Rate Schedule RS (residential rate class), he proposed to increase the currently effective monthly service charge ($4.44, including Sales & Use Tax) by $2.00; or by 45 percent. For the remaining RS class revenue deficiency that is not paid for by the increase in the monthly service charge, Mr. Tanos proposed to increase volumetric (i.e., per kWh) charges by an equal percentage.

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

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

- **Embedded cost of service study.** As he has done in prior ACE rate proceedings, Mr. Tanos has once again relied on class diversified peak demands to allocate distribution costs to the various service classes. Using this method, Mr. Tanos calculated a 0.50 unitized rate of return for the RS (residential) class. In the past, however, the Board has required that cost studies also reflect class energy usage (i.e., kWh).[1] Mr. Tanos' testimony also included a class cost of service study using the "Peak and Average" cost allocation method, which recognizes relative class energy usage. Under the Peak and Average method, the unitized rate of return for the RS class is somewhat higher at 0.56. But, under either cost allocation method, present rates for the RS class yield less than the system-wide average rate of return.

- **Spread of the revenue increase.** Mr. Tanos's proposed spread of ACE's calculated revenue deficiency attempts to move each class closer to its cost of service by moving the class unitized rates of return closer to 1.0. All classes are moved closer to a unitized rate of return of 1.0 under ACE's preferred allocation method. Applying Mr. Tanos's proposed increase for the RS class to the alternative peak and average allocation method results in a .81 unitized rate of return, which is higher than the .77 unitized rate of return that results from ACE's preferred allocation method

[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,* BRC Docket No. ER91121820J, Final Decision and Order, page 16 (June 15, 1993).

under current rates. Under either allocation method, however, Mr. Tanos's proposed revenue increase to the RS class produces a unitized rate of return for the RS class that is less than 1.0. Given that Mr. Tanos's proposed revenue increase by rate class shows significant progress towards equalizing class rates of return for the rate classes under the peak and average allocation method and that the increase to the Residential class is somewhat higher than the system-wide average, I do not object to his proposed distribution of the ACE's purported revenue deficiency. While Mr. Tanos advocates a limit to class revenue increases equal to 1.5 times the overall system wide average percentage increase, the percentage increase that he recommends for the residential class (23.3%) is approximately 1.24 times the system wide increase that ACE is requesting (18.8%). I support limiting the increase to the residential class at the same 1.24 times the system wide percentage increase that Mr. Tanos proposes. Rate Counsel's case, however, provides evidence that ACE's revenue deficiency is significantly lower than that calculated by ACE. Therefore, I used Mr. Tanos's method of allocating the revenue requirement among the rate classes and a 1.24 times the system wide percentage increase limitation for the residential class as a guide to allocate among the rate classes the total revenue change that Ms. Crane calculated.

- **Rate design.** Increasing the Residential monthly service charge by 45 percent, as Mr. Tanos proposes, is unnecessary and unreasonable. In other instances in his rate design proposal, Mr. Tanos limited certain demand charge increases to 1.5 times the average percentage increase for that particular class, in order to mitigate the burden of rate design changes on

customers.[2] The same type of mitigation effort is reasonable in this case for the Residential monthly service charge as well. To that end, I recommend that the Residential monthly customer service charge be increased by no greater than 1.24 times the percentage revenue increase that is assigned to the Residential class. Using Ms. Crane's recommended revenue increase of approximately $5.4 million and my recommended spread of that increase over the nine service classes, the maximum increase in the Residential monthly customer service charge that I recommend is 2.21 percent. An increase of this amount results in a $4.54 residential monthly customer charge, including Sales and Use Taxes.

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

III. COST ALLOCATION

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

A. Yes, I have. ACE's witness Elliot P. Tanos prepared an embedded class cost of service study using costs and class load data for the twelve months ended December 31, 2016. Studies of this nature, if performed carefully and objectively, can be useful tools in apportioning revenue responsibility fairly among the rate classes and in designing unit charges within rate classes.

[2] For example, Mr. Tanos is proposing to increase the MGS primary and secondary demand charges by 1.5 times the respective overall class distribution revenue percentage increase even though his cost study indicates a much greater increase is warranted. See Direct Testimony of Elliot P. Tanos, page 32, lines 14-16.

Q. WHICH ALLOCATION PROCEDURE DID MR. TANOS USE IN HIS STUDY?

A. Approximately 74 percent of ACE's plant investment at issue in this proceeding is in distribution facilities; including station equipment, conductors, poles, towers, and transformers. The remaining 26 percent represents facilities that provide service to individual customers (i.e., meters, services, and other customer installations), general office facilities, and street lighting. With such a large percentage of plant being distribution-related, the outcome of the cost study can be significantly influenced by the procedures used to allocate the costs of those facilities. Mr. Tanos used class maximum diversified demands to allocate the majority of ACE's distribution-related investment and associated costs. His allocation procedures gave no recognition to average demands or annual usage.

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

A. Yes, it has. The Board found it appropriate to consider the "dual demand/energy dimension of T&D system planning and operation" in developing class allocation factors in Jersey Central Power and Light's ("JCP&L") 1991 base rate proceeding (BRC Docket No. ER91121820J). In its Order approving an allocation method that recognized both peak demand and annual usage for JCP&L's transmission and distribution facilities, the Board stated:

> The record in this proceeding contains two distinct approaches to the classification and allocation of non-production transmission, subtransmission and distribution (hereafter "T&D") costs. The DOD/FEA approach classifies plant costs functionalized in accounts 360-368 on an exclusive demand basis, allocating them based upon voltage specific non-

> coincident peaks. The other approach is a voltage level specific average and excess method advocated by Rate Counsel and included in the MSPM studies advanced by the Staff and the Company.
>
> Exclusive demand approaches to the allocation of T&D costs – such as that advanced by the DOD/FEA – were rejected in the April 9, 1992, Order in JCP&L's last base rate proceeding [BPU Docket No. ER89110912J] after the Board determined that "there is a dual demand and energy dimension to transmission and distribution system planning and operation which should henceforth be reflected in cost allocation." See, JCP&L Order, p. 6. In that proceeding, we adopted the average and excess approach advocated by Rate Counsel and supported by Staff as an interim step toward a more complete investigation of the proper allocator for these costs. The difficulty with this prior version of the average and excess method was its use of system load factor to classify T&D costs into demand and energy components. The employment of voltage level specific load factors to classify costs in the Rate Counsel, Staff and Company cost studies in the instant proceeding addresses the concerns raised in our April 9, 1992, Order.
>
> Accordingly, we CONCUR with the Initial Decision that the voltage specific average and excess method is the appropriate basis for the classification and allocation of T&D costs and ORDER that it be employed in this and future JCP&L proceedings until such time that a more precise methodology is developed. We REJECT the exclusive demand approach advanced by the DOD/FEA based upon its failure to reflect the aforementioned dual demand/energy dimension of the T&D planning process.[3]

Thus, the Board found that both annual usage (i.e., kWh) and class maximum demands are appropriate to consider in developing allocation factors for transmission and distribution facilities. Moreover, the Board specifically rejected the demand-only approach that Mr. Tanos has advanced in this and prior ACE rate proceedings. In fact, in the Board's Order in ACE's 2002 base rate proceeding (BPU Docket No. ER03020110) the Board accepted the Stipulation

[3] *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*, BRC Docket No. ER91121820J, Final Decision and Order, page 16 (June 15, 1993).

that required ACE to present the results of a class cost study using the Peak and Average cost allocation method. ACE has been preparing cost studies that include energy usage in the allocation process in each base rate case since that time. The Peak and Average allocation method incorporates class energy usage into the allocation process. In this proceeding, Mr. Tanos prepared a second version of his class cost study using the Peak and Average allocation method. Results under the peak and average method were included as Schedule (EPT)-5 attached Mr. Tanos' Direct Testimony.

Q. HOW DO THE RESULTS UNDER ACE'S PREFERRED ALLOCATION METHOD COMPARE WITH THOSE USING THE PEAK AND AVERAGE METHOD?

A. The following table compares the unitized class rates of return that Mr. Tanos calculated for each of the two allocation methods.

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	0.50	0.56
Monthly GS Secondary	2.22	2.27
Monthly GS Primary	2.57	5.09
Annual GS Secondary	1.34	1.11
Annual GS Primary	1.45	0.70
GS Subtransmission	4.52	3.75
GS Transmission	8.38	8.38
Street and Private Lighting	1.42	1.61
Direct Dist. Conn.	6.88	3.89
Total Company	1.00	1.0

As shown in Table 3 above, both allocation methods produce similar results; the principle difference is in the order of magnitude. The unitized rates of return for the Residential class is 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 classes, and the Direct Distribution Connection classes under both methods.

Q. HOW DID MR. TANOS USE HIS RESULTS TO SPREAD ACE'S REQUESTED REVENUE INCREASE AMONG RATE CLASSES?

A. My understanding is that Mr. Tanos attempted to move each class closer to a 1.0 unitized rate of return. For the Residential class, which had a unitized rate of return of less than 1.0, Mr. Tanos proposed a greater-than-average (in percentage terms) increase. For the Annual General Service – Secondary rate class, Mr. Tanos proposed approximately the system wide average percentage increase. He proposed a less-than-average percentage increase for the other classes that had a unitized rate of return of greater than 1.0, except for the GS Transmission, GS Subtransmission, and the Direct Distribution Connection rate classes where Mr. Tanos proposed no revenue increase at all. Even though there is movement towards a unitized rate of return of 1.0 for the rate classes under Mr. Tanos's proposed spread of the increase, his revenue distribution proposal was unable to achieve a uniform 1.0 unitized rate of return for all classes because the rate impact, principally on the Residential class, is far too severe. In that regard, Mr. Tanos limited the percentage increase to the Residential classes to 1.24 times the system-wide percentage increase that ACE is requesting. Mr. Tanos also is not proposing to decrease present revenues for any customer class. Limiting the increases for the RS class and not reducing revenues for any class are both

measured steps to gradually move all classes toward an equalized rate of return. I support Mr. Tanos's gradual approach.

Q. GIVEN THAT THERE ARE TWO COST STUDIES TO CONSIDER IN THIS PROCEEDING, HOW CAN MR. TANOS'S PROPOSED REVENUE DISTRIBUTION BE EVALUATED?

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

Q. HAVE YOU PERFORMED THIS ANALYSIS?

A. Yes, I have. A summary of my analysis is shown on Schedule___(DEP-1) attached to my testimony. Table 4, below, summarizes the unitized rates of return that result from Mr. Tanos's proposed spread of the increase under ACE's preferred allocation method and under the alternative Peak and Average allocation method.

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

Class	ACE Method	Peak & Average Method
Residential	0.77	0.81
Monthly GS Secondary	1.61	1.64
Monthly GS Primary	1.78	3.44
Annual GS Secondary	1.17	1.00
Annual GS Primary	1.22	0.70

GS Subtransmission	2.77	2.30
GS Transmission	5.15	5.15
Street and Private Lighting	1.00	1.12
Direct Dist. Conn.	4.23	2.39
Total Company	1.00	1.00

Mr. Tanos tempered the revenue impact among rate classes somewhat by not forcing each class's unitized rate of return exactly to 1.0. As shown in Table 4 above, Mr. Tanos's proposed revenue spread under the Peak and Average allocation method, in many cases, results in class unitized rate of return closer to 1.0 than what is achieved under ACE's preferred allocation method. Thus, I conclude that Mr. Tanos's proposed revenue spread produces reasonable results under both allocation methods. The results of ACE's allocation of the increase using Ms. Crane's revenue requirement determination are shown on my Schedule___(DEP-2) and are summarized in the following table:

Table 5

Atlantic City Electric Company
Rate Counsel's Proposed Spread of the Revenue Increase

Class	Revenue Increase	Percent Change
Residential	$6,292,359	2.89%
Monthly GS Secondary	$ 782,727	1.18%
Monthly GS Primary	$ 11,845	0.80%
Annual GS Secondary	$1,285,850	2.40%
Annual GS Primary	$ 179,424	1.76%
GS Subtransmission	$ 0	0.00%
GS Transmission	$ 0	0.00%
Street and Private Lighting	$ 176,994	1.06%
Direct Dist. Conn.	$ 0	0.00%
Total Company	$8,729,198	2.33%

IV. RATE DESIGN

Q. WHAT CHANGES TO RATE SCHEDULE RS (RESIDENTIAL SERVICE) DID MR. TANOS PROPOSE?

A. Mr. Tanos proposed a 45 percent increase in the monthly service charge for residential customers. Presently, residential customers are paying a $4.44 per month service charge, including Sales and Use Tax. Mr. Tanos proposed to increase this charge by $2.00, so that residential customers will pay $6.44 per month, including Sales and Use Tax, if his proposal is approved by the Board. Mr. Tanos also proposed to increase the existing per kWh charges by a uniform percentage to recover the remaining Residential class revenue deficiency.

Q. WHAT IS THE REASONING BEHIND MR. TANOS'S PROPOSED INCREASE IN THE MONTHLY SERVICE CHARGE?

A. Mr. Tanos's primary concern appears to be that the present monthly service charge fails to recover all costs in his study that are classified as customer-related costs. This, he claims, results in inaccurate pricing signals. Mr. Tanos further claims that his cost study proves that the average customer-related cost per residential customer is $17.18 per month.

Q. DO YOU AGREE THAT THE "CORRECT" CUSTOMER CHARGE IS THE $17.18 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 the costs that 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 the New Jersey electric utilities that are regulated by the Board.

Table 6

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

Electric Utility	Residential Service Charge
Rockland Electric Company	$4.54
Atlantic City Electric Company	$4.44
Public Service Electric and Gas	$2.27
Jersey Central Power & Light Company	$2.98
Atlantic City Electric – Proposed	$6.44

* 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. Tanos's proposed increase would place ACE's monthly service charge significantly above the charges being paid by all of the other electric residential customers in the state. Mr. Tanos's proposed increase also exposes ACE's low volume customers to disproportionate rate increases – as much as 45 percent at the lowest residential usage volumes. Therefore, I recommend that ACE's monthly service charge for Rate Schedule RS be increased by no more than 1.24 times the percentage revenue increase that is ultimately approved for the Residential rate class. This is the same limitation that ACE placed on residential customers in allocating the overall revenue deficiency to that rate class. Based on Ms. Crane's recommended revenue deficiency of approximately $5.4 million and my recommended spread of the increase, I recommend that the Residential monthly customer service charge be increased by no greater than 2.21 percent; which results in a $4.54 per month charge, including Sales and Use Tax.

Q. DOES THIS CONCLUDE YOUR TESTIMONY AS THIS TIME?

A. Yes, it does. However, I reserve my right to modify and/or supplement my testimony based on any additional information provided by the Company.

SCHEDULES DEP-1 AND DEP-2

ATLANTIC CITY ELECTRIC COMPANY

Analysis of Proposed Spread of the Increase
Staff Cost Allocation/ACE Proposed Spread of Increase

	Total ACE Retail	Residential	Monthly General Serv Secondary	Monthly General Serv Primary	Annual General Serv Secondary	Annual General Serv Primary	Transmission General Serv Sub-Trans	Transmission General Serv Transmission	Street Lighting Service	Direct Distribution Connection
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1. Operating income per cost study	$47,442,315	$15,476,350	$14,964,996	$410,825	$9,240,347	$971,065	$879,778	$773,716	$4,540,704	$184,534
2. Operating income per rev. req.	65,939,159	21,510,281	20,799,559	570,998	12,842,980	1,349,665	1,222,786	1,075,373	6,311,037	256,480
3. ACE proposed class increase	41,380,467	29,828,712	3,710,489	56,151	6,095,528	850,552	0	0	839,035	0
4. Operating income after incr	$107,319,626	$51,338,993	$24,510,048	$627,149	$18,938,508	$2,200,217	$1,222,786	$1,075,373	$7,150,072	$256,480
5. Rate base per cost study	1,259,487,385	739,115,981	174,935,051	2,142,080	221,880,354	36,669,900	6,229,569	2,451,386	74,805,107	1,257,957
6. Rate base per rev. req.	1,370,621,016	804,333,500	190,370,829	2,331,091	241,458,454	39,905,549	6,779,249	2,667,689	81,405,700	1,368,956
7. Resulting rate of return	7.83%	6.38%	12.87%	26.90%	7.84%	5.51%	18.04%	40.31%	8.78%	18.74%
8. Unitized rate of return	1.00	0.81	1.64	3.44	1.00	0.70	2.30	5.15	1.12	2.39

Sources:
Lines 1,5: ACE Schedule (EPT)-5, pages 2,3.
Lines 2,3, : Column B from ACE Schedule (EPT)-7, page 1 spread to the classes in same proportion as Line 1.
Line 6: Column B from ACE Schedule (EPT)-7, page 1 spread on to the classes in same proportion 5 Line 5.

ATLANTIC CITY ELECTRIC COMPANY

Rate Counsel Spread of the Increase

	Present Distribution Revenues	ACE Proposed Increase	Percent Increase	Revenue Allocation Ratio	Rate Counsel Increase	Rate Counsel Percent
(A)	(B)	(C)	(D)	(E)	(F)	(G)
1. Residential	$217,473,872	$50,574,581	23.26%	1.2392	$3,873,383	1.78%
2. Monthly General Service - Secondary	66,419,143	6,291,133	9.47%	0.5047	481,822	0.73%
3. Monthly General Service - Primary	1,475,810	95,203	6.45%	0.3438	7,291	0.49%
4. Annual General Service - Secondary	53,647,635	10,334,967	19.26%	1.0266	791,530	1.48%
5. Annual General Service - Primary	10,181,006	1,442,111	14.16%	0.7548	110,448	1.08%
6. Transmission -GS Subtransmission	4,383,004	0	0.00%	0.0000	0	0.00%
7. Transmission - GS Transmission	2,953,080	0	0.00%	0.0000	0	0.00%
8. Street Lighting	16,775,396	1,422,585	8.48%	0.4519	108,952	0.65%
9. Direct Distribution Connection	563,579	0	0.00%	0.0000	0	0.00%
10. Total Company	$373,872,525	$70,160,580	18.77%	1.0000	$5,373,427	1.44%

Sources:

Columns B,C,D,E: ACE Schedule (EPT)-7, page 1 of 10

Column F, line 10: Rate Counsel witness Ms. Crane

APPENDIX A

STATEMENT OF EDUCATION AND EXPERIENCE
FOR
DAVID E. PETERSON

Senior Consultant
Chesapeake Regulatory Consultants, Inc.
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410.286.0503

Email: davep@chesapeake.net

Mr. Peterson is employed as a public utility rate consultant by Chesapeake Regulatory Consultants, Inc. Mr. Peterson has over thirty-nine 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-six years as a consultant. Mr. Peterson specializes in utility revenue requirement and cost of service analyses. He has presented testimony in more than 150 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