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March 3, 2017

David J. Collins
Executive Secretary
Public Service Commission of Maryland
William Donald Schaefer Tower
6 St. Paul Street, 16th Floor
Baltimore, MD 21202-6808

Re: Case Nos. 9226 and 9232

Dear Mr. Collins:

Enclosed please find an original and seventeen (17) copies (five three-holed punched) of the Second Supplemental Direct Testimony of Susan A. DeVito in Case Nos. 9226 and 9232.

Please contact me if you have any further questions.

Sincerely,



Matthew K. Segers

Enclosure

cc: All Parties of Record

**DELMARVA POWER & LIGHT COMPANY AND
POTOMAC ELECTRIC POWER COMPANY**

**BEFORE THE
MARYLAND PUBLIC SERVICE COMMISSION
SECOND SUPPLEMENTAL DIRECT TESTIMONY OF SUSAN A. DEVITO
CASE NOS. 9226 AND 9232**

1 **Q1. Please state your name and position.**

2 A1. My name is Susan A. DeVito. I am Director, Pricing and Regulatory Services at
3 Pepco Holdings, LLC (PHI). I am testifying on behalf of Delmarva Power & Light
4 Company (Delmarva Power) and Potomac Electric Power Company (Pepco)
5 (collectively, the Companies).

6 **Q2. What is your educational background and experience?**

7 A2. My educational background and experience can be found in my Direct Testimony
8 filed on February 18, 2014 in this proceeding.

9 **Q3. Have you previously testified in regulatory proceedings?**

10 A3. Yes, I have previously presented testimony before the Delaware Public Service
11 Commission in Case Nos. 13-348, 13-349-F, 14-0295F, 14-0296 and 15-0671. I have
12 also testified before the Maryland Public Service Commission (the Commission) in Case
13 No. 9210 and as well as in this proceeding.

14 **Q4. What is the purpose of your Second Supplemental Direct Testimony?**

15 A4. The purpose of my Second Supplemental Direct Testimony is to update the
16 Companies' calculations of their proposed Standard Offer Service (SOS) Administrative
17 Charges based upon the recent Pepco and Delmarva Power base rate case decisions
18 issued by the Commission in Case Nos. 9418 and 9424, respectively. As a courtesy, I
19 will also present calculations for the Companies' SOS Administrative Charges according
20 to Order No. 87891 issued by the Commission on November 17, 2016 in Case No. 9221.

1 **Q5. Please explain what the Companies are requesting as it relates to the Administrative**
2 **Charge.**

3 A5. As I explained in my Supplemental Direct Testimony filed on July 23, 2015 in
4 this proceeding, the Companies are proposing three changes to their current
5 Administrative Charges. These changes are:

- 6 1. Set the Incremental Cost component to actual for all rate classes;
- 7 2. Set the actual Cash Working Capital (CWC) component to actual for all rate
8 classes; and
- 9 3. Remove any CWC deemed or otherwise included in the utility return and set
10 the Utility Return to 1.5 mills.

11 As for the residential Uncollectible component, the Companies propose to
12 continue to establish this component in a rate case and will consist of their allocation of
13 the supply component. The Companies are further requesting that the non-residential
14 Uncollectible component use the current method of updating to actual uncollectible
15 expense on an annual basis. In addition, the Companies are proposing to continue to
16 include an Administrative Adjustment in the Administrative Charge calculation. My
17 Supplemental Direct Testimony also explains how the Companies will set the initial rates
18 for their Administrative Charges and how the Companies intend to true up to the actual
19 expenses in the following period.

1 **Q6. Did you previously provide a calculation of each component of the SOS**
2 **Administrative Charges as proposed by the Companies?**

3 A6. Yes. My Supplemental Direct Testimony filed on July 23, 2015 in this
4 proceeding included Schedule (SAD)-2, which provided a calculation for each
5 component of the SOS Administrative Charges as proposed by the Companies.

6 **Q7. Have you updated your calculations in Schedule (SAD)-2 based upon the recent**
7 **base rate case decisions issued by the Commission in Case Nos. 9418 and 9424?**

8 A7. Yes. See Schedules (SAD-S)-1 and (SAD-S)-2 for my updated calculations for
9 each component of the SOS Administrative Charges as proposed by the Companies, after
10 accounting for the Commission's recent base rate case decisions in Case Nos. 9418 and
11 9424. Schedule (SAD-S)-1 shows the current rates in effect for Pepco in Section I, and
12 the updated SOS Administrative Charges being proposed by the Company in Section II;
13 Schedule (SAD-S)-2 shows the current rates in effect for Delmarva Power in Section I,
14 and the updated SOS Administrative Charges being proposed by the Company in Section
15 II. For residential customers, the Utility Return component proposed by the Companies
16 continues to equate to approximately a 2% return on expenditures, which is lower than
17 the 3% that was justified by Company Witness Graves in his July 24, 2015 Direct
18 Testimony.

19 **Q8. Has the Commission recently issued an order setting forth how the SOS**
20 **Administrative Charge should be calculated for another utility?**

21 A8. Yes. On November 17, 2016, the Commission issued Order No. 87891 in Case
22 No. 9221, which set forth how the SOS Administrative Charge should be calculated for
23 Baltimore Gas and Electric Company (BGE). In relevant part, the Commission: (a)

1 accepted BGE's proposal to set the CWC cost component of BGE's SOS Administrative
2 Charge at BGE's currently authorized rate of return; and (b) accepted the proposal of
3 Commission Staff and the Office of People's Counsel to set the Utility Return (SOS
4 Margin/Return) component of BGE's SOS Administrative Charge at the difference
5 between calculating the SOS-related CWC revenue requirement at the cost of short-term
6 debt and calculating the SOS CWC revenue requirement at the full rate of return.

7 **Q9. Have you performed a calculation of what the CWC and Utility Return components**
8 **of the Pepco and Delmarva Power SOS Administrative Charges for the Companies**
9 **would be if they were calculated according to Order No. 87891?**

10 A9. Yes. As a courtesy, I have calculated what the amount of the CWC and Utility
11 Return components of the SOS Administrative Charges for the Companies would be if
12 they were calculated according to Order No. 87891. See Schedules (SAD-S)-3 and
13 (SAD-S)-4 for these calculations.

14 **Q10. Please explain how you performed these calculations.**

15 A10. The Companies are already proposing to set the CWC cost component of their
16 SOS Administrative Charges at their currently authorized rate of return, which is the
17 same calculation accepted by the Commission in Order No. 87891. Therefore, this part
18 of the Companies' SOS Administrative Charges remained unchanged from Schedule
19 (SAD-S)-1 and (SAD-S)-2. For the Utility Return component, I performed the same
20 Utility Return (SOS Margin/Return) calculation that was performed by Staff Witness
21 Smith in Case No. 9221 (see Schedule (SAD-S)-5), the results of which were accepted by
22 the Commission in Order No. 87891. Specifically, I calculated the Companies' respective
23 Utility Return Components as the difference between calculating the SOS-related CWC

1 revenue requirement at the cost of short-term debt and calculating the SOS CWC revenue
2 requirement at the full rate of return. In doing so, I utilized revenue and expense lag
3 days, as well as the approved rates of return, from the Commission's recent base rate case
4 decisions in Case Nos. 9418 and 9424. In addition, I updated the Companies' average
5 2016 short term debt rates. Moreover, I updated the SOS sales for the year ended
6 December 31, 2016.

7 **Q11. Are the Companies advocating for the Commission to accept the SOS**
8 **Administrative Charges that were calculated according to Order No. 87891?**

9 A11. No. The Companies maintain their position that the SOS Administrative Charge
10 should be calculated as previously proposed by the Companies in their Direct Testimony
11 filed on July 24, 2015 in these proceedings, for the reasons specified therein as well as in
12 the Companies' Rebuttal Testimony filed on October 27, 2015.

13 **Q12. Does this complete your Second Supplemental Direct Testimony?**

14 A12. Yes, it does.

POTOMAC ELECTRIC POWER COMPANY

Standard Offer Service Maryland - Administrative Charge Components

SECTION I: Administrative Components currently in effect:

Per Settlement Agreement

Customer Types	Residential	Type I	Type II	Hourly
Admin Charge Components	\$/kWh mills	\$/kWh mills	\$/kWh mills	\$/kWh mills
Administrative Adjustment	\$ 0.0004102	\$ 0.0025294	\$ 0.0035432	\$ -
mills	0.4102	2.5294	3.5432	-
Utility Return Rate / Margin	\$ 0.0015000	\$ 0.0020000	\$ 0.0020000	\$ 0.0022500
mills	1.5000	2.0000	2.0000	2.2500
Administrative Incremental Cost	\$ 0.0005000	\$ 0.0003140	\$ 0.0003140	\$ 0.0004500
mills	0.5000	0.3140	0.3140	0.4500
Uncollectibles Cost	\$ 0.0015898	\$ 0.0005254	\$ 0.0000324	\$ 0.0001500
mills	1.5898	0.5254	0.0324	0.1500
Admin Charge	\$ 0.0040000	\$ 0.0053688	\$ 0.0058896	\$ 0.0028500
mills	4.0000	5.3688	5.8896	2.8500
Cash Working Capital	\$ -	\$ 0.0001312	\$ 0.0001104	\$ 0.0001500
mills	-	0.1312	0.1104	0.1500
TOTAL	\$ 0.0040000	\$ 0.0055000	\$ 0.0060000	\$ 0.0030000
mills	4.0000	5.5000	6.0000	3.0000

Total Utility Return Rate and CWC	\$ 0.0015000	\$ 0.0021312	\$ 0.0021104	\$ 0.0024000
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POTOMAC ELECTRIC POWER COMPANY

Standard Offer Service Maryland - Administrative Charge Components

SECTION II: Proposed Administrative Components:

Proposed Administrative Components:

Customer Types	Residential	Type I	Type II	Hourly
Admin Charge Components	\$/kWh mills	\$/kWh mills	\$/kWh mills	\$/kWh mills
Administrative Adjustment	\$ 0.0004776	\$ 0.0028420	\$ 0.0038350	\$ 0.0003172
mills	0.4776	2.8420	3.8350	0.3172
Utility Return Rate / Margin	\$ 0.0015000	\$ 0.0020000	\$ 0.0020000	\$ 0.0022500
mills	1.5000	2.0000	2.0000	2.2500
Administrative Incremental Cost	\$ 0.0001326	\$ 0.0001326	\$ 0.0001326	\$ 0.0001328
mills	0.1326	0.1326	0.1326	0.1328
Uncollectibles Cost	\$ 0.0015898	\$ 0.0005254	\$ 0.0000324	\$ 0.0001500
mills	1.5898	0.5254	0.0324	0.1500
Admin Charge	\$ 0.0037000	\$ 0.0055000	\$ 0.0060000	\$ 0.0028500
mills	3.7000	5.5000	6.0000	2.8500
Cash Working Capital	\$ 0.0008307	\$ 0.0007821	\$ 0.0007037	\$ 0.0006335
mills	0.8307	0.7821	0.7037	0.6335
TOTAL	\$ 0.0045307	\$ 0.0062821	\$ 0.0067037	\$ 0.0034835
mills	4.5307	6.2821	6.7037	3.4835

	\$ 0.0023307	\$ 0.0027821	\$ 0.0027037	\$ 0.0028835
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DELMARVA POWER & LIGHT COMPANY				
Standard Offer Service Maryland - Administrative Components				
SECTION I: Administrative Components currently in effect:				
Per Settlement Agreement	IN EFFECT			
Customer Types	Residential	Type I	Type II	Hourly
		March 1, 2008	March 1, 2009	June 1, 2010
Admin Charge Components	\$/kWh mills	\$/kWh mills	\$/kWh mills	\$/kWh mills
Administrative Adjustment	\$ 0.0006200	\$ 0.0026320	\$ 0.0031180	\$ -
mills	0.6200	2.6320	3.1180	-
Utility Return Rate	\$ 0.0015000	\$ 0.0020000	\$ 0.0020000	\$ 0.0022500
mills	1.5000	2.0000	2.0000	2.2500
Administrative Incremental Cost	\$ 0.0005000	\$ 0.0005500	\$ 0.0005500	\$ 0.0004450
mills	0.5000	0.5500	0.5500	0.4450
Uncollectibles Cost	\$ 0.0013800	\$ 0.0001680	\$ 0.0001820	\$ 0.0001550
mills	1.3800	0.1680	0.1820	0.1550
Admin Charge	\$ 0.0040000	\$ 0.0053500	\$ 0.0058500	\$ 0.0028500
mills	4.0000	5.3500	5.8500	2.8500
Cash Working Capital	\$ -	\$ 0.0001500	\$ 0.0001500	\$ 0.0001500
mills	-	0.1500	0.1500	0.1500
TOTAL	\$ 0.0040000	\$ 0.0055000	\$ 0.0060000	\$ 0.0030000
mills	4.0000	5.5000	6.0000	3.0000
Total Utility Return Rate and CWC	\$ 0.0015000	\$ 0.0021500	\$ 0.0021500	\$ 0.0024000

DELMARVA POWER & LIGHT COMPANY				
Standard Offer Service Maryland - Administrative Components				
SECTION II: Proposed Administrative Components:				
	PROPOSED			
Customer Types	Residential	Type I	Type II	Hourly
Admin Charge Components	\$/kWh mills	\$/kWh mills	\$/kWh mills	\$/kWh mills
Administrative Adjustment	\$ 0.0006001	\$ 0.0031121	\$ 0.0035981	\$ 0.0002286
mills	0.6001	3.1121	3.5981	0.2286
Utility Return Rate	\$ 0.0015000	\$ 0.0020000	\$ 0.0020000	\$ 0.0022500
mills	1.5000	2.0000	2.0000	2.2500
Administrative Incremental Cost	\$ 0.0002199	\$ 0.0002199	\$ 0.0002199	\$ 0.0002214
mills	0.2199	0.2199	0.2199	0.2214
Uncollectibles Cost	\$ 0.0013800	\$ 0.0001680	\$ 0.0001820	\$ 0.0001500
mills	1.3800	0.1680	0.1820	0.1500
Admin Charge	\$ 0.0037000	\$ 0.0055000	\$ 0.0060000	\$ 0.0028500
mills	3.7000	5.5000	6.0000	2.8500
Cash Working Capital	\$ 0.0011308	\$ 0.0011920	\$ 0.0008687	\$ 0.0005216
mills	1.1308	1.1920	0.8687	0.5216
TOTAL	\$ 0.0048308	\$ 0.0066920	\$ 0.0068687	\$ 0.0033716
mills	4.8308	6.6920	6.8687	3.3716
Total Utility Return Rate and CWC	\$ 0.0026308	\$ 0.0031920	\$ 0.0028687	\$ 0.0027716

SOS Cash Working Capital Revenue Requirement Estimate 12 months ended December 31, 2016								Staff			
								Rate of Return (ST Debt Rate)		Rev Req	SOS Margin
								Expenses	Rev Lag Days	Expense Lag Days	Net Lag (B-C)
A	B	C	D	E	F	G	H	I	J		
Residential Mwh	\$ 361,561,126	49.60	13.52	36.08	10.69%	\$ 35,740,070	\$ 3,820,613	0.13%	\$ 4,966.80	\$ 3,815,647	
							4,599,485,914		4,599,485,914	4,599,485,914	
							\$ 0.00083066	\$ 0.00000108	\$ 0.00082958		
Type I	\$ 19,050,954	49.60	14.07	35.53	10.69%	\$ 1,854,467	\$ 198,243	0.13%	\$ 257.72	\$ 197,985	
							253,480,726		253,480,726	253,480,726	
							\$ 0.00078208	\$ 0.00000102	\$ 0.00078106		
Type II	\$ 63,739,524	49.60	14.15	35.45	10.69%	\$ 6,190,592	\$ 661,774	0.13%	\$ 860.31	\$ 660,914	
							940,344,077		940,344,077	940,344,077	
							\$ 0.00070376	\$ 0.00000091	\$ 0.00070284		
HPS	\$ 10,765,565	49.60	12.41	37.19	10.69%	\$ 1,096,908	\$ 117,259	0.13%	\$ 152.44	\$ 117,107	
							185,088,624		185,088,624	185,088,624	
							\$ 0.00063353	\$ 0.00000082	\$ 0.00063271		
Short Term Debt Rate (12 month avg 2016)		0.13%									
Grossed up for Taxes		0.13%									
Tax Rates											
MD State Income Tax		8.25%									
Federal Income Tax		35.00%									
Combined Income Tax		40.3625%									
Gross Receipts Tax		2.00%									
PSC Assessment		0.1958%									
Total Various		2.195800%									
		58.3300%									

Delmarva Power

SOS Cash Working Capital Revenue Requirement Estimate

12 Months ended December 31, 2016

								Staff		
	Expenses	Rev Lag Days	Expense Lag Days	Net Lag (B-C)	Rate of Return (Per 9418)	CWC Asset (A*D/365)	PHI Rev Requirement (E*F)	Rate of Return (ST Debt Rate) (12 month avg)	Rev Req (F*H)	SOS Margin (G-I)
	A	B	C	D	E	F	G	H	I	J
Residential	\$ 136,566,090	66.53	13.74	52.79	\$ 19,751,572	9.94%	\$ 1,963,306	0.50%	\$ 9,816.53	\$ 1,953,490
Mwh							1,736,181,244		1,736,181,244	1,736,181,244
							\$ 0.00113082		\$ 0.00000565	\$ 0.00112516
Type I	\$ 12,972,603	66.53	12.92	53.61	\$ 1,905,373	9.94%	\$ 189,394	0.50%	\$ 946.97	\$ 188,447
							158,881,911		158,881,911	158,881,911
							\$ 0.00119204		\$ 0.00000596	\$ 0.00118608
Type II	\$ 17,328,474	66.53	15.39	51.14	\$ 2,427,885	9.94%	\$ 241,332	0.50%	\$ 1,206.66	\$ 240,125
							277,799,212		277,799,212	277,799,212
							\$ 0.00086873		\$ 0.00000434	\$ 0.00086438
HPS	\$ 492,233	66.53	19.24	47.29	\$ 63,775	9.94%	\$ 6,339	0.50%	\$ 31.70	\$ 6,307
							12,154,132		12,154,132	12,154,132
							\$ 0.00052157		\$ 0.00000261	\$ 0.00051896

Short Term Debt Rate

(12 month avg 2016)

0.49%

Grossed up for Taxes

0.50%

Tax Rates

MD State Income Tax

8.25%

Federal Income Tax

35.00%

Combined Income Tax

40.3625%

Gross Receipts Tax

2.00%

PSC Assessment

0.1483%

Total Various

2.148300%

58.3600%

Exhibit JAS-1

Baltimore Gas and Electric Company
SOS Cash Working Capital (CWC) Revenue Requirement
For the Year 2014
(Thousands)

	BGE							Staff		
	Average Daily Expense	Revenue Lag Days	Expense Lag Days	Net Lag Days	CWC Asset	Rate of Return	Revenue Requirement	Rate of Return	Revenue Requirement	SOS Margin/Return
	(A)	(B)	(C)	(B - C) (D)	(A * D) (E)	(F)	(E * F) (G)	(H)	(E * H) (I)	(G - I) (J)
<u>Residential</u>										
Commodity & Transmission Cost	\$2,137	47.33	12.50	34.83	\$74,432	11.35%	\$8,448	0.29%	\$213	\$8,235
POLR Mwh, 1/14 - 12/14							8,928		8,928	
SOS CWC Rate (per Mwh)							\$0.95		\$0.02	\$0.93
<u>I & C</u>										
Commodity & Transmission Cost	\$739	39.70	12.50	27.20	\$20,101	11.35%	\$2,281	0.29%	\$58	\$2,224
POLR Mwh, 1/14 - 12/14							3,344		3,344	
SOS CWC Rate (per Mwh)							\$0.68		\$0.02	\$0.66
I & C Split:										
Type I							\$564		\$14	\$549
POLR Mwh, 1/14 - 12/14							860		860	
SOS CWC Rate (per Mwh)							\$0.66		\$0.02	\$0.64
Type II							\$1,383		\$35	\$1,348
POLR Mwh, 1/14 - 12/14							1,948		1,948	
SOS CWC Rate (per Mwh)							\$0.71		\$0.02	\$0.69
Hourly							\$335		\$8	\$327
POLR Mwh, 1/14 - 12/14							536		536	
SOS CWC Rate (per Mwh)							\$0.63		\$0.02	\$0.61
Total (Residential + I & C)							\$10,729		\$271	

Exhibit JAS-2

Baltimore Gas and Electric Company
Capital Structure & Return
Per Case No. 9355
As Of August 31, 2014

Description	Ratio	Return	Weighted Return	Gross-Up for Taxes
Long-Term Debt	42.00%	4.95%	2.08%	2.13%
Short-Term Debt	1.70%	0.28%	0.00%	0.00%
Preferred Stock	4.00%	7.02%	0.28%	0.48%
Common Equity	52.30%	9.75%	5.10%	8.74%
Total	100.00%		7.46%	11.35%

Short-Term Debt	100.00%	0.28%	0.28%	0.29%
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Tax Rates

Maryland State Income Tax	8.2500%
Federal Income Tax	35.0000%
Combined Income Tax Rate	40.3625%

Gross Receipts Tax	2.0000%
PSC Assessment	0.2136%
Total Various	2.2136%

Complement of Tax Rate	58.3200%
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CERTIFICATE OF SERVICE

I hereby certify that on behalf of Potomac Electric Power Company and Delmarva Power and Light Company, the Second Supplemental Direct Testimony of Susan DeVito was sent by first class mail, postage prepaid this 3rd day of March 2017 to all parties of record in Case Nos. 9226 and 9232.

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