

Capital Reporting Company
Formal Case No. 1119 03-31-2015

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PUBLIC SERVICE COMMISSION OF THE
DISTRICT OF COLUMBIA

-----: :
IN THE MATTER OF THE JOINT : :
APPLICATION OF EXELON CORPORATION, : :
PEPCO HOLDINGS, INC., POTOMAC : :
ELECTRIC POWER COMPANY, EXELON : Formal Case
ENERGY DELIVERY COMPANY, LLC AND : 1119
NEW SPECIAL PURPOSE ENTITY, LLC : :
FOR AUTHORIZATION AND APPROVAL OF : :
PROPOSED MERGER TRANSACTION. : VOLUME II
-----: :

Washington, D.C.

Tuesday, March 31, 2015

The evidentiary hearing in the
above-captioned matter began at 10:04 a.m., at the
Public Service Commission of the District of Columbia,
1333 H Street, Northwest, Washington, D.C., 20005.

BEFORE: BETTY ANN KANE, Chairman
 JOANNE DODDY FORT, Commissioner
 WILLIE L. PHILLIPS, Commissioner

Reported by: Denise M. Brunet, RPR

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(Appearances continued on the next page.)

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1	C O N T E N T S				
2	WITNESS:	DIRECT	CROSS	REDIRECT	RECROSS
3	CHRISTOPHER CRANE				
4	BY MR. COYLE		304		
5	BY MR. SPECK		425		
6	BY MS. WHITE		466		
7	BY MS. WEIN		475		
8	BY MR. GRAY		549		
9					
10	EXHIBIT NO.		MARKED		RECEIVED
11	DC SUN Cross 1		453		556
12	Joint Applicants' (A),				
13	(A)-1, (3A), (3A)-1,				
14	(4A), (4A)-1 and (4A)-2				552
15	OPC Cross 1 through 7				553
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19	35 and 36				555
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1 P R O C E E D I N G S

2 CHAIRMAN KANE: Good morning. We are in
3 session for the second day of the evidentiary
4 hearings in formal case 1119, the proposed
5 acquisition of PEPCO by Exelon, et al. And the
6 only preliminary matter this morning is we will
7 intend to adjourn at 5:00 p.m. today due to some
8 evening commitments with the D.C. Government. So
9 we will start with -- unless any of the parties
10 have any preliminary matters. Yes, sir.

11 MR. COYLE: Good morning, Madam Chair.
12 John Coyle for the D.C. government. Just a
13 housekeeping matter. I wanted to ask the Chair's
14 indulgence. I will be taking some exhibits out of
15 order this morning, but I'd prefer not to renumber
16 them because I'm going to get through all of them,
17 so if I could just leave them with their original
18 numbers, if there's no objection from the Chair,
19 so we don't have to redo that.

20 CHAIRMAN KANE: It is a little less
21 confusing if they're all going to be used.

22 MR. COYLE: They are all going to be

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1 used. Thank you very much.

2 CHAIRMAN KANE: I will indulge that. And
3 I believe --

4 MR. COYLE: And I'm up.

5 CHAIRMAN KANE: -- Mr. Crane, if you'd
6 return to the witness stand. I remind you you are
7 still under oath. Good morning.

8 Mr. Coyle?

9 MR. COYLE: Thank you, Chair.

10 WHEREUPON,

11 CHRISTOPHER CRANE,

12 called as a witness, and after having been
13 previously sworn by the secretary, was examined
14 and testified as follows:

15 CROSS-EXAMINATION

16 BY MR. COYLE:

17 Q Good morning, Mr. Crane.

18 A Good morning.

19 Q My name is John Coyle. I represent the
20 District of Columbia government. I've got a few
21 questions for you this morning -- well, maybe more
22 than a few.

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1 I wonder, would you first turn to your
2 direct testimony, Joint Applicants' A, at page 22,
3 lines 13 to 21. And I just ask you to read that
4 to yourself and let me know when you're ready.

5 A 13 to -- page 22, 13 to --

6 Q Lines 13 to 21, sir.

7 A Yes.

8 Q Now, you say there that Exelon is an
9 industry leader in adopting renewable energy
10 technology, as evidenced by the nearly
11 1300 megawatts of wind generation and
12 approximately 240 megawatts of utility scale and
13 distributed solar generation owned and operated by
14 its generating companies.

15 Do you see where I am?

16 A Yes.

17 Q Okay. I wanted to ask you some questions
18 this morning about the makeup of Exelon's
19 generation fleet, a subject near and dear to my
20 heart.

21 A Sure.

22 Q First, I'd like to ask you to take a look

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1 at what's been marked for identification as
2 Exhibit DCG 36.

3 A Yes, I have it.

4 Q Now, if all has gone well, that should be
5 a list that I compiled yesterday of the Exelon
6 nuclear units, their nameplate capacity and their
7 locations; is that right?

8 A Yes.

9 Q Would you take a look through
10 Exhibit DCG 36 and sort of generally satisfy
11 yourself that the information there is accurate?

12 A It looks accurate, yes.

13 Q Okay. If I could briefly summarize the
14 exhibit with a couple of questions. Is it
15 accurate to say, Mr. Crane, that Exelon owns
16 approximately 22,845 megawatts nameplate capacity
17 nuclear units?

18 A Yes.

19 Q And then -- we're not going to get into
20 the same level of detail on this, but the rest of
21 the mix is about 9500 in fossil units,
22 9500 megawatts?

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1 A Yeah, it's close to 10,000, yes --

2 Q Okay.

3 A -- with the expansion of two more --

4 three -- four more sites under construction now.

5 Q Okay. And I believe you said yesterday
6 those were located basically all over the country.

7 There are some in Canada, correct?

8 A We do have a unit in Alberta.

9 Q And then -- I know that this will come up
10 in perhaps greater detail with Mr. Gould, but I
11 wanted -- oh. Withdrawn. Let me go back to
12 something.

13 Is it -- Mr. Crane, is it true that
14 certain of Exelon's nuclear generating facilities
15 have been identified by Exelon and others as
16 facing financial challenges?

17 A Yes.

18 Q And would these challenged facilities
19 include the R.E. Ginna -- G-I-N-N-A for the
20 reporter's benefit -- plant in Ontario, New York?

21 A The Ginna plant, yes.

22 Q Ginna?

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1 A Yes.

2 Q Sorry. I didn't know how to pronounce
3 it. Thank you.

4 Exelon recently concluded a cost to
5 service-based power purchase agreement with
6 Rochester Gas and Electric with respect to that
7 plant, correct?

8 A Yes.

9 Q For area reliability services?

10 A Yes, through 2018.

11 Q Okay. And is it fair to say the reason
12 that Exelon pursued that agreement was because the
13 market revenues that the plant was deriving from
14 the New York ISO used the term, in air quotes,
15 organized market, was not producing sufficient
16 revenues to support the plant?

17 A The unit is not competitive in the
18 current market -- with the current market
19 fundamentals which drive the price of the
20 commodity.

21 Q And other Exelon plant names, in addition
22 to the Ginna plant, that have been associated in

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1 the trade press with the idea of confronting
2 financial challenges would include the Clinton
3 plant; is that correct?

4 A Yes.

5 Q Quad Cities?

6 A Yes.

7 Q Byron?

8 A Yes.

9 Q Oyster Creek?

10 A Yes, Oyster Creek. Oyster Creek is
11 scheduled to shut down in 2019.

12 Q Okay. And Nine Mile Point unit 1?

13 A Yes, Nine Mile Point.

14 Q Okay. Now, in a basic sense, is it
15 accurate to say that, when we speak of those
16 plants as being financially challenged, first of
17 all, they are all located -- all of those plants
18 are located in -- within the footprint of regional
19 transmission organizations, correct?

20 A Yes.

21 Q Okay. And so the plants depend, to a
22 degree, for revenue from the markets that are

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1 operated -- energy and capacity markets and
2 ancillary services markets that are operated by
3 the regional transmission organizations?

4 A Yes.

5 Q And the revenues, in Exelon's view, that
6 those plants can derive from those markets are not
7 sufficient to support the carrying cost of the
8 facilities?

9 A Under this market design, in current
10 market fundamentals, that's correct.

11 Q And I think you touched on this briefly
12 yesterday, but I wanted to bring us back to the
13 point. Part of the issue with financial
14 challenges to the nuclear fleet breaks down into
15 two basic causes, I think I heard, and I want to
16 confirm this with you. One is after the great
17 recession began in late 2008, 2009, there was a
18 drop in load and electricity consumption as a
19 result of the economy; is that correct?

20 A That's correct.

21 Q Okay. And so that factor has tended to
22 depress prices in regional transmission

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1 organization markets, right?

2 A In some locations, that's correct.

3 Q And then the other factor I think I heard
4 mentioned was the availability of relatively
5 low-cost natural gas, typically from shale
6 deposits, right?

7 A That is a factor also.

8 Q And that's a factor because typically
9 within -- particularly within PJM, the marginal
10 unit that sets the clearing price in the RTO
11 markets for energy and ancillary services is a
12 natural gas-fired unit usually?

13 A The majority of the time on the eastern
14 interconnect, that's correct, and there is a
15 portion of the time on the west -- the Illinois
16 location where it's about 50/50 coal and gas.

17 Q The challenges confronting these plants
18 that we've been talking about -- Ginna, Clinton,
19 Quad Cities, Byron, Oyster Creek, Nine Mile Point
20 unit 1 -- are they a matter of significant concern
21 to Exelon?

22 A On our decision-making, yes. As we look

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1 at these plants, there's market design issues that
2 they're not being compensated adequately for their
3 firm fuel, the nature of the capacity. They're
4 not an intermittent source; they're a highly
5 reliable source. And as we saw during the polar
6 vortex, the units operated at a very high capacity
7 factor when other units couldn't get natural gas
8 or, due to mechanical issues, couldn't start in
9 the cold weather.

10 So there's been market design actions
11 that are being taken by the ISO and by FERC to
12 firm up the -- the capacity market design. That
13 will help compensate these units for the
14 reliability they provide.

15 The other is price formation, looking at
16 how the prices are being formed. The L&Ps, the
17 design work on that will help as we refine the
18 market rules.

19 The other issue that we have with these
20 units is they're in locations where a significant
21 amount of wind has been built, and the wind has
22 been -- 16 percent of the nighttime hours where

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1 these plants are at, there is excess wind coming
2 in from Iowa and in Illinois and causing negative
3 prices. And so essentially the units have to pay
4 to stay online. It's been a concern for those
5 units. So working on that has also been a focus.

6 The quick business decision would be to
7 shut the units down. If they can't compete, we
8 take units offline. We've done it with coal
9 units. We've done it with natural gas units.
10 And -- but these units provide a significant
11 contribution within the state.

12 As I may have mentioned yesterday, the
13 State of Illinois, after reading some of these
14 analyst reports and understanding that they were
15 challenged, commissioned studies to look at the
16 value of them to the state and to the citizens of
17 the state. They -- the Clinton plant, very quick
18 business decision would have been to shut that
19 down last year, stop the loss, decommission the
20 plant, and it would be okay.

21 But we have the responsibility also to
22 look at what that means to the community. The tax

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1 basis of DeWitt County in Illinois are
2 significantly supportive: The schools, the roads,
3 the parks. If there is a market design that is a
4 competitive market design that can compensate the
5 plants adequately for what they provide the
6 community and what they provide the marketplace,
7 we're willing to take the time before we shut the
8 units down, because they are long-lived assets. I
9 believe Clinton could operate under its extended
10 license to 2048, in that ballpark.

11 So it's a -- it's a significant
12 carbon-free generation that will help the state
13 make its clean air requirement. So it's something
14 we take seriously. There's a responsibility that
15 we think that we have not to act too quickly, but
16 to work as we can with the stakeholders to come up
17 with a market base fix.

18 Q And on that subject, Mr. Crane, there are
19 also cost consequences to Exelon associated with
20 shutting plants down, right, nuclear plants?

21 A On some plants we would have to take
22 accelerated write-downs. But it's not an

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1 operating cost. It's a GAAP, generally accepted
2 accounting practices. So there would be
3 write-downs.

4 But -- all but one plant has its
5 decommissioning trust fund fully funded. And so
6 the actual -- there isn't actually an operating
7 issue. Once you offload the core and surrender
8 the license to the NRC, you proceed with utilizing
9 the funds that have been set aside to
10 decommission.

11 Q Which is the one that's not funded
12 completely for decommissioning?

13 A Clinton.

14 Q Thank you. Next I want to ask you about
15 the 13 -- I'd say it's actually closer to 1400,
16 now, megawatts of wind that you referred to in
17 your testimony.

18 A I think we just announced another project
19 in Texas of 85 megawatts, and we're continuing to
20 build that pipeline.

21 Q Now, Exelon owns wind projects in ten
22 states; is that correct?

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1 A I'd have to verify, but I think that's
2 correct.

3 Q Tell you what. Let me run through --

4 A I have an app that shows them all.

5 Q I actually had to look them up. Let me
6 run down a list of --

7 A I'll get you the app.

8 Q Let me run down a list, and I want to --
9 just to set the stage for this. I want to make
10 sure I'm accurate. You have 128, roughly,
11 megawatts of nameplate wind capacity in Idaho?

12 A Yes.

13 Q And 8.4 megawatts in Tiskilwa, Illinois?

14 A Yes.

15 Q And a total of about 116.5 in Kansas?

16 A Yes.

17 Q In Maryland, you have the Criterion Wind
18 Project out in the panhandle in Garrett County at
19 about 110 megawatts?

20 A Yeah. I think we're developing another
21 one out there, too, but I'd have to -- the name is
22 lost.

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1 Q Okay. In Michigan, there's a total of
2 402 megawatts nameplate in wind?

3 A Yes.

4 Q In Minnesota, 72 megawatts nameplate?

5 A Sounds right, yes.

6 Q In Missouri, four projects with an
7 aggregate nameplate capacity of 162.5 megawatts?

8 A Yes.

9 Q New Mexico, 27 megawatts?

10 A Sounds right.

11 Q Oregon, 74.5 megawatts?

12 A Sounds correct.

13 Q And in Texas, a total of 13 projects with
14 an aggregate nameplate capacity of 282 megawatts,
15 roughly?

16 A That sounds correct. There's another, I
17 think, 85 that we just started construction on.

18 Q Of those 13, do they all come from
19 Exelon's acquisition of John Deere Renewables in
20 December 2010 or were there others?

21 A So a good portion of them came with the
22 acquisition of John Deere. They also had a

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1 pipeline that we continued to build out, and those
2 would be mostly the Michigan facilities. And
3 since then we've acquired a couple more projects
4 in development stage that we've completed and put
5 online, and are continuing to do that.

6 Q The Texas wind projects are all located
7 within the footprint of the southwest power pool;
8 is that correct?

9 A I believe that's correct. We have a
10 new -- we have -- the Brownsville project is
11 not -- I think that is in ERCOT, but the majority,
12 I think, are within the south -- the southwest
13 pool.

14 Q And just for the Commission's benefit,
15 the difference between a project located in the
16 southwest power pool versus one in the Electric
17 Reliability Council of Texas, or ERCOT, is what?
18 ERCOT is not synchronously connected to the rest
19 of the United States, generally speaking, right?

20 A Right. It's an island of its own and
21 regulated outside of the FERC interstate
22 requirements.

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1 Q And they like it that way in Texas.

2 A They do.

3 Q I can't blame them sometimes.

4 Now, does that pretty much cover the
5 ballpark on wind projects?

6 A I think it does, yeah, without opening
7 the app up here to verify.

8 Q You can do that if you feel the need, but
9 I think you got everything I know about, anyway.

10 How many of these wind projects are
11 located in the areas in which an Exelon utility
12 owns the electric distribution system serving
13 retail loads?

14 A I do not believe we have any in the
15 footprint of -- yeah. I believe the ones in
16 Maryland are in the Allegheny footprint. Not
17 verifying that that's -- that's correct.

18 Q Basically two choices in Garrett County;
19 they're either Potomac Edison or Somerset Electric
20 Co-Op, right?

21 A Right.

22 Q Okay. How about the -- well, actually,

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1 staying with Garrett County, do I understand
2 correctly the entire output of those Garrett
3 County projects is under contract to the Old
4 Dominion Electric Cooperative on a long-term PSA,
5 power sales agreement?

6 A The original -- yes. I believe that's
7 correct. And then there's a expansion project
8 underway that I believe that are at Merchant now.

9 Q Okay. Then -- you're going to have to
10 check me out on this. This was a research project
11 I didn't manage to finish. The AgriWind, the 8.4
12 megawatt project in Tiskilwa, Illinois, I couldn't
13 tell whether Bureau County, Illinois is part of
14 Commonwealth Edison's service territory or not.
15 Do you know?

16 A I don't believe it is, but I'd have to
17 verify it myself.

18 Q All right. Could you check that out over
19 a break, maybe, and get back to us on that?

20 A Sure.

21 Q Thank you. So subject to your checking
22 on AgriWind, it is true that out of the almost

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1 1400 megawatts of wind generation that Exelon
2 owns, none of it is located in areas in which
3 Exelon Utilities owns the electric distribution
4 system?

5 A That would be correct.

6 Q And Exelon is proposing here to acquire
7 the utility that owns the electric distribution
8 system in the District of Columbia?

9 A Yes.

10 Q Do you know whether Exelon Utilities, the
11 distribution companies, have any power purchase
12 agreements for the output of any of the wind
13 facilities that Exelon Generation owns?

14 A I don't believe there is contracts, but
15 I'd have to verify that.

16 Q Now, let me ask you a couple of questions
17 about the solar generation, if I could.

18 A Sure.

19 Q Exelon owns the 230-megawatt Antelope
20 Valley solar ranch located in Lancaster,
21 California; is that right?

22 A Yes.

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1 Q By the way, did you know Lancaster,
2 California was the boyhood home of Frank Zappa?

3 A No, I did not know that.

4 Q It's amazing the things you learn in this
5 business.

6 The output of -- the entire output of
7 that Antelope Valley solar ranch facility is sold
8 under a 25-year contract to Pacific Gas and
9 Electric Company, correct?

10 A Yes.

11 Q And is it true that Exelon bought that
12 facility from First Solar in around 2011?

13 A Yes.

14 Q Was the purchase price approximately
15 \$75 million?

16 A I do not recall the purchase price. I
17 thought it was more than that, but I'd have to
18 verify that.

19 Q If you care to check over a break and
20 update your answer, I will not object if
21 Mr. Lorenzo wants to get back to you on that on
22 redirect.

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1 Was there a federal loan guarantee
2 associated with the Antelope Valley solar ranch
3 project from -- under the ARRA, American Recovery
4 and Reinvestment Act?

5 A I believe there was.

6 Q Okay. Do you recall how much it was?

7 A No.

8 Q Does \$600 million ring a bell?

9 A That does not. It seems a little bit
10 higher, but I'd have to verify that.

11 Q Okay.

12 A That was some years ago we did that.

13 Q And if I went to FERC's electronic
14 quarterly report website, I would find that the
15 purchase price paid by Pacific Gas and Electric
16 for the output of that facility is in the
17 neighborhood of \$129 a megawatt hour; is that
18 right?

19 A That sounds correct.

20 Q Do you know who the original developer of
21 the Antelope Valley solar ranch was before First
22 Solar?

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1 A I do not. We acquired the development
2 project from First Solar, and I don't think I knew
3 where it started before that.

4 Q Okay. Would you have picked up anywhere
5 along the line whether the original developer of
6 the Antelope Valley solar ranch project had some
7 previous affiliation with Pacific Gas and
8 Electric?

9 A I wouldn't. I didn't know that.

10 Q And, finally, we have Exelon Solar City.
11 Are you familiar with that project?

12 A This is the one in Chicago?

13 Q That's correct.

14 A Yes, sir.

15 Q So that is located within the service
16 area of an Exelon distribution utility, correct?

17 A Yes.

18 Q It's in the Pullman neighborhood in
19 Chicago?

20 A It is.

21 Q On a former brownfield site?

22 A Yes.

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1 Q So out of the 1400 megawatts of wind
2 generation that Exelon owns and the 240 megawatts
3 of solar generation --

4 A Utility scale solar.

5 Q Utility scale -- well, are you counting
6 Exelon Solar City as utility scale?

7 A Yes.

8 Q Okay. All right. Now I understand your
9 distinction. Thank you.

10 A Because we have a significant holding in
11 rooftop solar, not at residential but on
12 commercial, industrial, the airport in Denver,
13 schools in Arizona, things like that, that are not
14 counted in that number that you quoted.

15 Q Got you. Thank you for that
16 clarification.

17 The 240 megawatts of utility scale solar,
18 only ten megawatts is located in an area where an
19 Exelon utility owns the electric distribution
20 system, right?

21 A Yes. And that's without a loan
22 guarantee.

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1 Q Thank you. Now, as you pointed out,
2 Exelon affiliates own other solar installations
3 primarily in the nature of distributed generation,
4 rooftop solar?

5 A Yes.

6 Q And Mr. Gould is going to be testifying
7 on that subject in some detail?

8 A Yes, he will.

9 Q I wasn't going to get into that with you
10 because I wouldn't expect the CEO of the company
11 to know about every rooftop installation you might
12 own, but --

13 A It's not on the app, but in aggregate,
14 it's a couple of hundred megawatts.

15 Q I'm not surprised.

16 The same question, though, in general
17 terms, if you know. I noticed, for example, that
18 Mr. Gould refers to a lot of rooftop solar
19 installations in Arizona, in California, in
20 various other locations in which Exelon --

21 A Maryland.

22 Q Okay. Do you have a rough idea, with

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1 respect to the rooftop solar, how much is within
2 the footprint of Exelon distribution utilities
3 versus how much is not?

4 A I don't. I'd have to go back and look at
5 that. I know we're one of the larger developers
6 of solar and renewables in Maryland, but the split
7 between Arizona, Colorado, and, to my
8 recollection, Maryland are the three biggest
9 locations that we have it in, but I'd have to
10 verify.

11 Q The Maryland -- in fact, generally, the
12 rooftop solar business, no matter where it is,
13 comes to you via the Constellation acquisition; is
14 that right?

15 A Yes, that's where -- it's a market-facing
16 product is how we term it, and we provide it to
17 our commercial and industrial customers. We have
18 also been working on some federal contracts.

19 Q Okay. Now, if you would -- I'm sorry, if
20 you would bear with me for a second, Mr. Crane,
21 I'm going to go back to the nuclear units. I
22 wanted to ask you to take a look at Exhibit

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1 DCG 35.

2 A Yes.

3 Q Would you take a look through Exhibit
4 DCG 35 and let me know whether you've seen it
5 before.

6 A I have seen this before.

7 Q Okay. Great. That's a write-up by UBS,
8 which stands for what, United Bank of Switzerland,
9 I think?

10 A Yes.

11 Q And they're active in terms of market
12 commentary in various generation markets?

13 A This analyst is, yes.

14 Q Which analyst was that, sir?

15 A Julien Dumoulin-Smith.

16 Q Okay. All right. And you said you're
17 familiar with what the article is about?

18 A Yes.

19 Q Okay. Great. I wanted to ask you a
20 couple of questions about that without going into
21 detail about the article, although we can. I'll
22 wrap up and ask you about the article. But

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1 without reference to the article, in general, the
2 article is about bidding for Exelon's nuclear --
3 some of Exelon's nuclear units in connection with
4 the May 2014 base residual auction in PJM?

5 A Yes.

6 Q Okay. And Mr. Bonney (phonetic) knows,
7 I'm something of a student in capacity markets, at
8 least I try to be.

9 A As all of us -- constantly evolving.

10 Q In general terms, is it correct that
11 Exelon had originally intended to bid the output
12 of several of its nuclear facilities, and there
13 was an issue that arose with the PJM market
14 monitor about the price at which you could bid
15 them?

16 A We are required, if we -- there's a term
17 called a price taker, which you just bid zero and
18 whatever the market clears at for your location,
19 or the RTO, the remaining portion of the
20 transmission operation -- we committed in a
21 previous proceeding with the market monitor that
22 we would bid zero or go show our calculations,

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1 that the market monitor would independently verify
2 that we're correct.

3 And so it was not a dispute with the
4 market monitor in 2014. It was the first time
5 that we had to bid our avoided cost recovery
6 calculation because the units were losing money.

7 And so we went to the market monitor,
8 cleared the market monitor's independent review,
9 and then subsequently was cleared by PJM, the RTO
10 operator, that these were the correct ACRs.

11 Q Okay. But ultimately is it correct that
12 those plants did not participate in the auction?

13 A No, they did participate. They bid into
14 the auction, and some of them did not clear.

15 Q Okay. And that would have been Byron,
16 Quad Cities and Oyster Creek, correct?

17 A I believe -- I'd have to go back on
18 Oyster Creek. I thought it cleared. But those
19 would be the ones.

20 Q Okay. And the sum of what didn't clear
21 was about 4,225 megawatts?

22 A Approximately, that would be right.

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1 Q Okay. Now, the arrangement you had with
2 the independent market monitor was a function of
3 the independent market monitor's conclusion that,
4 given the size of those plants and locational
5 characteristics of the transmission system, Exelon
6 would have market power within the locales in
7 which those plants are situated; is that right?

8 A I don't understand that. No.

9 Q Okay. Let me ask the question a
10 different way.

11 A We passed the market power tests on our
12 facilities.

13 Q Okay. Let me ask you a different -- let
14 me ask the question a different way. Do you have
15 an understanding as to why you had this
16 arrangement with the market monitor that you would
17 either bid as a price taker essentially at a zero
18 price or bid your verified -- whatever costs they
19 were?

20 A Yeah, from the previous proceeding that
21 we had -- I believe it was in the Constellation,
22 and it could go back also to the PECO/Exelon, but

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1 the Constellation for sure -- that basically
2 because of the nature of the baseload power, that
3 they wanted to take a closer look at us and on the
4 way we bid our capacity, yes.

5 Q So I think the substance of your answer
6 is -- I probably misstated in my earlier question.
7 The requirement of your arrangement with the
8 independent market monitor is based on market
9 power concerns but not on any finding actually
10 that Exelon has market power --

11 A That's correct.

12 Q -- with respect to -- okay.

13 Now, we can go to the precise page, if
14 necessary -- let me see if I can find it.
15 Unfortunately, my pages are not numbered,
16 Mr. Crane, but let me count for you. Ten pages
17 from the back of the article.

18 A Ten pages from the back?

19 Q From the back. Yeah. See a page that is
20 headed Exelon and has figure 19, a table on it.

21 A Yes, I'm there.

22 COMMISSIONER FORT: I'm sorry, Mr. Coyle.

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1 I was talking while you were talking. Did you say
2 how many pages?

3 MR. COYLE: It was ten pages from the
4 back of the exhibit.

5 CHAIRMAN KANE: Let me ask you, before
6 these are submitted final, that the pages be
7 numbered.

8 MR. COYLE: Yes, ma'am, be happy to do
9 that. Sorry about that.

10 COMMISSIONER FORT: And since you're
11 going to have to number the pages, then there's a
12 question of whether or not we should go back and
13 do the exhibits with the numbers that, you know,
14 you are using, 1 and 2. We have to have the pages
15 numbered because, if we cite them in the record,
16 we have to cite to a particular page, and so
17 without a page number, we can't do that.

18 MR. COYLE: If I could make a
19 counteroffer, I'll be happy to provide --

20 CHAIRMAN KANE: We're not negotiating.
21 Go ahead.

22 MR. COYLE: I'd be happy to provide a

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1 substitute exhibit with numbered pages, but
2 keeping the same numbering, if that's agreeable to
3 you.

4 CHAIRMAN KANE: You are referring to them
5 now by the exhibit number --

6 MR. COYLE: Correct.

7 CHAIRMAN KANE: -- the original exhibit
8 number. You're going to put them all in the
9 record --

10 MR. COYLE: Right.

11 CHAIRMAN KANE: -- with those same
12 exhibit numbers, but I note that none of them --
13 the contents of each of the exhibits, each page
14 does not have a number, and that does make it
15 difficult in following. So at least if you --
16 when you're referring to them, if you would refer
17 to what page, even by counting them.

18 MR. COYLE: If the Chair will indulge me,
19 I'll count from the front, and we can do that.

20 CHAIRMAN KANE: Yes. Well, for each
21 individual exhibit, start -- as is normal, start
22 the number. You're on Exhibit 35; is that

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1 correct?

2 MR. COYLE: Yes.

3 CHAIRMAN KANE: And page 10, including
4 the cover page?

5 MR. COYLE: If you want to include the
6 cover page --

7 CHAIRMAN KANE: Yes, if the cover page is
8 part of the exhibit, then that's got to be page 1.

9 MR. COYLE: Okay. Let me count from the
10 front and tell you where we are.

11 CHAIRMAN KANE: If you can, because they
12 are not numbered, again, when you are doing that,
13 refer to -- at least identify what is the first
14 line on the page.

15 Mr. Caldwell is familiar with our
16 procedure here in numbering pages, so I'm sure he
17 can help you.

18 MR. COYLE: When you get my page-numbered
19 exhibits, this will be page 18 of Exhibit DCG 35.

20 CHAIRMAN KANE: And the first line on
21 that page is?

22 MR. COYLE: Exelon, underscored, colon.

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1 Punctuation.

2 CHAIRMAN KANE: Thank you.

3 BY MR. COYLE:

4 Q Are with me, Mr. Crane?

5 A I'm with you.

6 Q Recognizing that the information
7 presented on this page is Mr. Dumoulin-Smith's,
8 and not yours, is it your sense that it's
9 generally accurate? Let me be more specific.
10 That was a terrible question. Let me ask that
11 again.

12 Mr. Dumoulin-Smith recites there that UBS
13 had assumed that Exelon's fleet would realize
14 about \$703 million in capacity payments for 2017
15 based on an \$80 a megawatt day clearing price.
16 Let's start there.

17 A Yes.

18 Q Realizing that you're not responsible for
19 UBS' forecasts, is that calculation generally in
20 the ballpark of what Exelon's thinking was at the
21 time, if you know?

22 A I do not recall the numbers at the time

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1 or our estimates on where we thought the clearing
2 price was.

3 Q Going a little bit further in the same
4 paragraph, Mr. Dumoulin-Smith reports that the
5 clearing price as a result of Quad Cities, Byron
6 and Oyster Creek not clearing, bidding their
7 costs, as you put it, was that the aggregate
8 capacity payments to the rest of Exelon's fleet
9 increased to approximately 900 million. Is that
10 accurate?

11 A I'd have to go back and validate that. I
12 don't have that number.

13 Q All right. If you could, again, confirm
14 that over a break and let us know, I'd be happy to
15 hear it. Thank you.

16 A Do we publicly state that? I'd have to
17 verify that, too. I guess I can't ask my counsel
18 a question, I'm sorry.

19 We have to verify if that's public or we
20 give it in a confidential --

21 Q Either way, Mr. Crane, I'm fine with it.

22 A Sure.

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1 Q We need the information.

2 Let me change topics here for a minute,
3 Mr. Crane, and ask you about jobs. To do that,
4 I'd like you to go to -- first, to your
5 Exhibit (4A)-2, page 4, paragraph 17.

6 A Yes.

7 Q You discussed this with, I think,
8 Mr. Gray yesterday, but I wanted to come back to
9 it briefly. I'm referring specifically in
10 paragraph 17 to the -- I want to make sure I have
11 your words correct -- the good faith effort to
12 hire within two years of the merger closing date
13 at least 102 union workers in the District, right?

14 A Yes.

15 Q Okay. And then paragraph 18 is the
16 commitment to transfer PEPCO Energy Services'
17 Arlington, Virginia operations into the District,
18 right?

19 A Yes.

20 Q With respect, first, to paragraph 18, are
21 the 50 PEPCO Energy Services employees covered by
22 a collective bargaining agreement, do you know?

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1 A I do not know. I don't know.

2 Q For the District of Columbia workers, the
3 102, it says union. So your assumption, and mine,
4 would be that they are covered, right?

5 A Yes, they'll be represented.

6 Q Okay. Do you know approximately what
7 percentage of the PEPCO work force currently
8 consists of District of Columbia residents?

9 A No, I don't know that.

10 Q Of the 102 bargaining unit positions that
11 you talk about in paragraph 17, is there an
12 intention that specified -- or a certain
13 percentage of those be District of Columbia
14 residents?

15 A I have not had that conversation.

16 Q So presently the answer would be no, or,
17 I don't know?

18 A "I don't know" would be safer.

19 Q Okay. And with respect to the 50 PEPCO
20 Energy Services jobs, do you know how many of
21 those 50 people are District of Columbia
22 residents?

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1 A No, sir.

2 Q Could be none of them, right?

3 A It's a possibility. I don't know.

4 Q And with respect to the -- I'm going to
5 test your powers of recall so we don't have to
6 open up another exhibit for this. All right?

7 A Okay.

8 Q And if your powers of recall aren't up to
9 it, that will be okay too.

10 But with respect to the between 1506 and
11 2407 new jobs, or job hours, a matter of some
12 controversy, projected by Dr. Tierney in her
13 testimony, do you know how many of those job hours
14 will go to D.C. residents?

15 A I do not.

16 Q Would anyone know of the witnesses that
17 we're likely to hear from?

18 A I don't -- I don't believe we have done
19 that study. So I couldn't refer you to --

20 Q Okay. Same question with respect to the
21 102 bargaining unit jobs. Do you have any -- you
22 don't have any idea, as you sit here, how many of

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1 those would go to District of Columbia residents?

2 A No.

3 Q And there isn't a witness, to your

4 knowledge, that knows that that we're going to

5 hear from?

6 A Not to my knowledge.

7 Q Same thing with respect to the 50 PEPCO

8 Energy Services positions. We're not going to

9 hear from a witness that would know how many are

10 District residents?

11 A We can get that information for you.

12 Carim Khouzami can answer that when he's up.

13 Q Great. Thank you very much.

14 Changing topics again, would you turn to

15 page 4 of your direct testimony, Mr. Crane.

16 That's Joint Applicants' A.

17 A I'm there.

18 Q Okay. Read to yourself, please, from

19 line 20 on page 4 over to page 5, line 3 and let

20 me know when you're ready.

21 A Yes.

22 Q Okay. Now, you testified that the merger

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1 agreement between Exelon and PHI was entered into
2 on April 29th, 2014, correct?

3 A Yes.

4 Q Surely, there were preliminary
5 negotiations leading up to that merger agreement?

6 A Yes.

7 Q And you were involved in those
8 negotiations, correct?

9 A Yes.

10 Q I'd ask you now to take a look at Exhibit
11 DCG 1, which is an excerpt from the definitive
12 proxy statement that PEPCO filed with the
13 Securities Exchange Commission on August 12th,
14 2014.

15 A Okay.

16 MR. COYLE: If the bench will indulge me,
17 this is paginated per the original, but I have not
18 separately paginated the exhibit. My proposal
19 would be to examine the witness with respect to
20 the page numbers appearing on the bottom of the
21 page. But since -- that way, there would only be
22 one set of page numbers. But I will certainly

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1 follow the bench's direction in however you want
2 me to proceed with the format of the exhibit
3 ultimately. Bottom of the page okay?

4 CHAIRMAN KANE: Yes.

5 MR. COYLE: Great. Thank you.

6 BY MR. COYLE:

7 Q Now, Mr. Crane, I put this exhibit in
8 front of you basically as an aid to your memory.
9 I know it's not an Exelon exhibit and I know you
10 didn't participate in the writing of it. But it's
11 relatively convenient for my purposes anyway --
12 chronological narrative, and I wanted to ask you
13 to -- take you through some of it and ask you
14 about the factual accuracy of some of the
15 statements, if that's okay.

16 A Okay.

17 Q First, on page 25, which is the first --
18 looking at the page numbers on the bottom of the
19 page -- you don't have to count. It's the page of
20 the exhibit -- the first page of the exhibit
21 following the cover sheet.

22 A I have it.

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1 Q It says -- Merger consideration and
2 background of the merger is the opening headers.

3 If you go to the third paragraph, you
4 will see there that it states that on
5 January 28th, 2014, the day after Mr. Rigby
6 announced his retirement, you called him up and
7 expressed Exelon's interest in acquiring PHI. Do
8 you see that?

9 A Yes.

10 Q And is that statement accurate?

11 A Yes.

12 Q Then over in the next column, first full
13 paragraph, it begins, On the evening of
14 February 5th, 2014, Mr. Rigby had dinner with
15 Mr. Crane.

16 Do you see that?

17 A Yes.

18 Q And at that dinner, you discussed the
19 economics of an all-cash transaction, right?

20 A Yes.

21 Q Okay. Why did Exelon propose an all-cash
22 transaction?

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1 A Because of the different nature of the
2 business strategies. Utilities are regulated
3 entities with or without generation. We're
4 trading at a premium to competitive integrated
5 entities. So there wasn't a relative value
6 equation that you could put for a stock-for-stock
7 on that.

8 The Exelon shareholders, in -- in one
9 view, were trading at a discount to the regulated
10 entities based off of market fundamentals. So to
11 make it -- to make the trade, to make the
12 acquisition, the logic would be a cash acquisition
13 where you would cash out the PHI shareholders.

14 Q I've heard it said, without attribution,
15 that an all-cash offer was easier for the PEPCO
16 holding shareholders to understand. Is that kind
17 of the same thing you were telling me?

18 A Yeah. I mean, it's the two things. One,
19 it's very clear what they're getting and what the
20 long-term investment thesis is. They're bought
21 out. They don't share any upside as the future.
22 And that's where the premium size comes in.

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1 Q Okay. So between January 28th and
2 February 5th, Exelon internally -- and possibly
3 before January 28th -- Exelon did some analysis
4 where it figured out the price per share at which
5 to start this negotiation, correct?

6 A Yes.

7 Q Okay. Now let me break the question down
8 again. Had you investigated that question, that
9 is, looking at PEPCO Holdings, what price per
10 share would be a suitable offer -- had you looked
11 at that question prior to hearing about
12 Mr. Rigby's retirement on January 27th?

13 A Yes.

14 Q Okay. And who was involved in that
15 investigation?

16 A It's an analysis. It would be our
17 corporate development organization under our
18 senior executive VP of strategy.

19 Q And who is that, sir?

20 A Mr. von Hoene.

21 Q Okay. All right. And when was that
22 done, if you know?

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1 A It would have been in the late fall,
2 early winter time frame. We constantly are
3 reviewing potential growth investments, and the --
4 PHI seemed like a natural to assess because of the
5 geographic location and what we thought we could
6 bring to bear by getting this consolidated or
7 larger system on the east coast.

8 Q Okay. So in the fall of 2013, you had
9 begun looking at PHI as a possible subject of an
10 acquisition?

11 A PHI would have been on the list around
12 that time, with others.

13 Q Okay. All right. Now, following the
14 discussion at dinner with Mr. Rigby about the \$22
15 a share offer, Mr. Rigby -- looking again at
16 page 25, last full paragraph in the right-hand
17 column -- it says Mr. Rigby had a phone call with
18 you on Valentine's Day 2014 as a follow-up to your
19 February 5th conversation.

20 What happened in that phone call, if you
21 recall?

22 A That -- I think he informed members of

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1 his board that they were going to have a call and
2 have a further conversation, if my recollection --
3 I need to read this.

4 Q Sure.

5 A Yes.

6 Q All right. So Mr. Rigby, on
7 February 14th, didn't react yes or no to the offer
8 of \$22 a share. He just told you, I'm going to
9 take it up with my board and we'll get back to
10 you?

11 A Yeah, I believe that he had some
12 conversations with some of the leaders on his
13 board, and he was going to engage, I think in the
14 next board meeting, to talk to them more.

15 Q Okay. And then on -- turning the page,
16 on February 20 and 21, Mr. Rigby had a phone call
17 with you and the chief executive officer of
18 another bidder that had emerged, I guess,
19 subsequent to your February 5th dinner?

20 A Yes.

21 Q Okay. And what transpired in the call
22 with you and Mr. Rigby?

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1 A I believe it was that the board was
2 taking it seriously and they were interested in
3 potentially entering into a process of -- from
4 their strategic standpoint, should they be selling
5 the company or should they stay with their own
6 current strategic plan.

7 Q Okay. Now, going over to the second
8 paragraph -- first full paragraph on the second
9 column, beginning, Between February 28th, 2014 and
10 March 4th, 2014 -- it says, Mr. Rigby contacted
11 the chief executive officer, and then Lazard --
12 who I take it was PHI's financial advisor; is that
13 right?

14 A Yes.

15 Q -- also contacted the CEO and other
16 senior officers and basically outlined the bidding
17 process; is that right?

18 A Yes.

19 Q Okay. And how many suitors were there?
20 Do you recall?

21 A I don't recall the number. It's
22 somewhere in here.

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1 Q I get about six. Does that sound right
2 to you?

3 A It does.

4 Q So the process proceeds -- I'm going to
5 skip ahead now, Mr. Crane. I'm not going to take
6 you through the whole proxy statement, you'll be
7 pleased to know.

8 The bidding war proceeds. Various --
9 excuse me. The bidding proceeds. Various parties
10 drop out. And there comes a point at which final
11 offers are made. And that, if we go to page --
12 bear with me -- 30, page 30 on the bottom of the
13 page -- are you with me?

14 A Yes.

15 Q We get down to the end of the bidding.
16 On the left-hand column there's a paragraph three
17 up from the bottom that begins, After the
18 April 24th, 2014 discussions between PHI's
19 director of senior management and advisors at the
20 board meeting at PHI's direction, Lazard,
21 et cetera, right?

22 At that point, Lazard was informing

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1 Exelon that PHI found Exelon's proposal less
2 attractive on price and transactions terms than
3 another proposal with PHI had received, right?

4 A Yes, sir.

5 Q Okay. Was that communication made to you
6 or was it made to someone else at Exelon, if you
7 recall?

8 A I think I -- I think it went through
9 Mr. von Hoene, then to me, if I recall properly.

10 Q Okay. And then in the right-hand column,
11 second paragraph, April 27th, there was a board
12 meeting somewhere between the 25th and the 27th.
13 Exelon had improved its offer to \$27 per share in
14 cash, right?

15 A There was a range that the board
16 approved, authorized me to bid at. That was the
17 offer that was made.

18 Q Okay. Now, let me ask you about that,
19 Mr. Crane, because it's one of those things I am
20 fascinated by. Exelon originally, we've seen,
21 when you first spoke to Mr. Rigby on February 5th,
22 said \$22 a share.

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1 A That was a directional number. It was
2 the first lob over the fence to start the
3 conversation.

4 Q Okay. Who at Exelon was developing the
5 range -- I assume there was a recommendation made
6 to your board, say, we would like to make a bid
7 for PEPCO Holdings and we need your authority to
8 bid up to X dollars a share, right?

9 A That's correct.

10 Q And your board, being sophisticated
11 folks, they know PEPCO Holdings market shares are,
12 what, 252 million at the time, shares outstanding?

13 A I'll take your word for it. You do good
14 research.

15 Q So -- well, would you accept that,
16 subject to check?

17 A Yes.

18 Q Okay. So people at this level get pretty
19 good at doing math in their head. They can
20 multiply 252 million by whatever the share price
21 is and figure out what the total cost is going to
22 be. Who at Exelon was involved in figuring out

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1 what your maximum bid was going to be, what's your
2 recommendation to the board for a maximum --

3 A So at that point, it would have been
4 corporate development. We do use advisors
5 ourselves that help inform us, financial --
6 outside financial advisors, and we come up with a
7 number that we think is acceptable to start the
8 conversation, knowing that there is -- no due
9 diligence has been done at that time on
10 confidential matters of PHI. So you would come in
11 with what the market is performing in at that
12 time, and with a small premium, but a premium
13 would be suggested.

14 Q And ultimately -- so you're telling me
15 \$22 a share involved a small premium?

16 A It did.

17 Q I think you said it was implied by price
18 earnings multiples?

19 A It was.

20 Q Okay. Obviously, 27.25 a share was where
21 you ended up, correct?

22 A Yes.

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1 Q And that's a lot higher than what's
2 indicated --

3 A There was multiple things that came into
4 play at that point. One is that the sector went
5 up, and PHI went up with the sector. The
6 multiples expanded, and so that was part of it.
7 The other is it was a competitive process.

8 Q From your perspective on the competitive
9 process, what was driving Exelon's considerations
10 in coming to a \$27.25 a share bid price?

11 A It was return on investment. The -- the
12 ultimate is being able to make an investment that
13 provides a fair risk -- risk recovered return.

14 Q Okay. In the interest of moving things
15 along, page 31, you -- we're kind of getting down
16 to the short strokes on the bidding here.
17 April 28th, Exelon raised its bid to 27.25 a
18 share, correct?

19 A Yes.

20 Q All right. And then there was a board
21 meeting, a PHI board meeting, on the 29th in which
22 you and other members of Exelon senior management

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1 ultimately joined the board meeting and spoke to
2 the PHI board?

3 A Yes.

4 Q And as a result -- was it as a result of
5 that meeting that the agreement on the merger was
6 concluded?

7 A Yes.

8 Q And prior to that point, of course, you
9 had your financial advisors and probably not small
10 armies of lawyers engaged in drafting merger
11 agreements and various things?

12 A We did.

13 Q Okay. All right. Now, I would like you
14 next to take a look at -- we're done with DCG 1
15 for now. I'd like you to take a look at next at
16 Exhibit DCG 2, and in particular, at -- it would
17 be the 13 -- it would be page 13 counting the
18 cover sheet. It's slide 11 of the PowerPoint
19 presentation.

20 A Okay.

21 Q And the heading on the slide is,
22 Transaction economics are attractive?

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1 A Yes.

2 Q Okay. Just to give the Commission some
3 context, Mr. Crane, this is a PowerPoint that
4 Exelon used in connection with an analyst call
5 concerning the announcement of the acquisition of
6 PHI, correct?

7 A Yes.

8 Q All right. And can you briefly explain
9 to the Commission what an analyst call is?

10 A Most investment banks have sector
11 analysts that review and write on companies'
12 pro formas, their outlook. And so this would be a
13 call that we would inform Wall Street and the
14 investment bankers of this transaction and the
15 financial and operational insights into the
16 combination of the companies.

17 Q Okay. And the analysts have questions
18 for you, and you answer the questions, right?

19 A They typically do, yes, sir.

20 Q The way it goes is you present your
21 thesis --

22 CHAIRMAN KANE: Excuse me. Thank you,

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1 Mr. Coyle. The Commissioners are well familiar
2 with analyst calls, but that is useful
3 information, at least for the public. Thank you.

4 MR. COYLE: Thank you.

5 BY MR. COYLE:

6 Q Take a look at the first line -- excuse
7 me -- the first bullet on slide 11, page 13 of
8 Exhibit DCG 2. It reads, Significantly, earnings
9 accretive starting first full year after closing,
10 anticipate run rate accretion in the 15 to 20 cent
11 per share -- of 15 to 20 cents per share starting
12 in 2017.

13 Do you see where I am?

14 A Yes, sir.

15 Q Okay. What does that mean exactly? Let
16 me start with that.

17 A Our earnings are divided by our
18 outstanding shares. And so we closed this last
19 year at Exelon -- I think it was \$2.38 a share.
20 We have a projected range for this year, but from
21 Exelon, as a stand-alone entity, to combining
22 PHI -- that would, alone, increase the earnings.

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1 At this point, it was calculated from 15 to 20
2 cents a share on top of what we would be earning
3 from our ongoing businesses.

4 Q The fourth bullet on the page says,
5 Approximately \$3.1 billion of regulated CapEx --
6 shorthand for capital expenditures, right?

7 A Yes.

8 Q -- during 2015 to 2017 adds attractive
9 rate base growth opportunities.

10 In effect, that's a separate
11 consideration from the 15 to 20 cent a share
12 accretion, is it not? In other words, you're not
13 going to start earning money on that CapEx until
14 the rate base is in service, right?

15 A That's correct.

16 Q Okay. So the 15 to 20 cents a share
17 would come from something other than the expansion
18 of capital expenditures, right?

19 A It would be based off of the current LRP
20 that PHI -- long-term plan that PHI had in place
21 for its earnings. I would imagine some portion of
22 this investment was projected in that long-term

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1 plan that they shared with us coming over.

2 Q That's the 3.1 billion, right?

3 A Yes.

4 Q I'm talking about whether there's a
5 relationship -- whether there's any relationship
6 between the 3.1 billion in regulated capital
7 expenditures and the anticipated accretion of 15
8 to 20 cents in earnings per share.

9 A I believe some portion of that is in the
10 15 to 20 cents per share.

11 Q It would be a pretty small portion,
12 wouldn't it? Because the --

13 A I don't know that number.

14 Q Who would know that, Mr. Crane?

15 A I think Carim Khouzami would be the one
16 to talk about that.

17 Q Okay. And then the last bullet on that
18 page I wanted to talk about was the second one
19 from the bottom. It says, Preserves power market
20 recovery upside.

21 A Yes.

22 Q Okay. Now, that's an expression I've

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1 heard used a lot, and I wonder if I could ask
2 you -- I think the simplest way to do it is for me
3 to tell you what I think it means and you can tell
4 me whether I'm right or wrong. Fair enough?

5 A Okay.

6 Q All right. I see that phrase, and when I
7 see power market recovery upside, I take that to
8 mean wholesale power market prices are currently
9 depressed, as we've discussed earlier, in the wake
10 of the great recession and because the
11 availability of relatively low-cost shale gas
12 tends to depress prices in -- using air quotes
13 again -- RTO organized markets.

14 Are you with me?

15 A Yes.

16 Q And when you talk about a power market
17 recovery upside, you are talking about power
18 market prices -- wholesale power market prices
19 rebounding from those factors and rising to a
20 higher level than that which prevails today.

21 A Yes.

22 Q Okay. All right. And is it fair to say

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1 that Exelon, as part of its regular business
2 activities, projects a power market recovery
3 upside? You study that, don't you?

4 A We do.

5 Q Okay. At this time, April 30, 2014, did
6 you have a date in mind when the power market
7 recovery upside might be expected to occur?

8 A We had milestones in mind that would
9 change the fundamentals and the characteristics of
10 the forward strength of markets. March of 2015,
11 the coal generating assets within the eastern
12 interconnect -- well, across the country, but
13 where our market is affected, we're required to
14 either comply with the MATS rules, the clean air
15 standards, or they have to be offline. So that
16 would tighten the stack some.

17 And those were -- they were setting the
18 lower cost marginal price and location. So that,
19 with load growth economic expansion, would have --
20 our projection was, over the next couple of years,
21 we should see heat rate improvements, efficiencies
22 in the market, and prices to rebound.

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1 Q One or two expressions you used that
2 might require a little bit of clarification -- for
3 me, anyway. The expression "tighten the stack"
4 means that bidding would be higher in the --
5 particularly in the energy market because the
6 available supply, if lower cost coal plants were
7 retired, would have a higher cost associated with
8 them?

9 A Yeah. The coal units that are retiring
10 had not had the environmental CapEx spent on them,
11 and they would -- most of them had been in a
12 salvage mode, just running without a lot of
13 maintenance capital being put into them. So
14 they're a lower cost unit, less environmentally
15 friendly, but a lower cost unit.

16 Q Okay. And when you say this transaction
17 preserves the power market recovery upside, PHI
18 doesn't bring any generation to the table. PHI
19 was fully divested -- I think they got rid of
20 their last couple of hundred megawatts of
21 renewables in 2013, 2014.

22 A What this refers to is the way that we

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1 acquired the company for cash and used a
2 50 percent equity issuance and a 50 percent
3 debt -- or approximately that much. Our corporate
4 holding company debt-to-equity ratio is about
5 60 percent equity, 40 percent debt. So we didn't
6 have to use full dilutive issuance of shares.

7 So the current shareholders --
8 maintaining that debt-to-equity structure, we were
9 able to maintain some of the upside of the
10 recovery of the power markets without issuing a
11 hundred percent equity in diluting the shares.

12 Q Thank you, Mr. Crane. Now, if you
13 turn -- since you got to it, turn to the next
14 page, please. It's headed, Transaction economics,
15 slide 12 of the presentation.

16 A Yes.

17 Q You see there a graphic on the
18 acquisition being earnings-accretive in both 2016
19 and 2017, but in 2017 you achieve what's referred
20 to as run rate accretion. Do you see that?

21 A Yes.

22 Q What does run rate accretion mean?

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1 A Steady state contributions to earnings in
2 the future years.

3 Q The other question is about Exelon's
4 consolidated, Standard & Poor's FFO-to-debt ratio
5 in the graphic immediately below
6 earnings-accretive, first full year.

7 A Yes.

8 Q FFO is a shorthand for funds from
9 operations; is that correct?

10 A Yes.

11 Q And what is the FFO-to-debt ratio?

12 A It's the free cash flow. It's a
13 measurement used by the rating agencies to judge
14 the soundness of the free cash flows coming in
15 from operations to cover and service the debt
16 requirements that the entity has.

17 And so based off of the risk profile of
18 each business, the rating agencies will assign a
19 target to maintain based off of the business
20 characteristics.

21 Q And yours-- Standard & Poor's had
22 assigned -- or Exelon's, I mean to say -- had

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1 assigned a 22 percent FFO-to-debt ratio? Or what
2 is the significance of those figures?

3 A Our target for FFO-to-debt for the
4 consolidated Exelon is, I believe, 20 percent, but
5 we maintain margins above that for potentially
6 anticipated items, as we discussed yesterday, to
7 raise debt to acquire plants, or if there's
8 potential liabilities on the books that may be
9 coming to settlement, we need to have room. So we
10 maintain margins cushion, if you want to call it
11 that, to not be right at what the rating agencies'
12 requirements are.

13 Q Okay. Now --

14 A And that's related to maintaining a
15 strong investment grid.

16 Q You also mentioned the company was
17 contemplating roughly a 50/50 equity/debt
18 composition or funding of the acquisition. I
19 wanted to explore that with you a little bit more
20 for background.

21 A Sure.

22 Q The acquisition price is 6.8 billion

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1 total, correct?

2 A Yes.

3 Q All right. And the -- I guess the
4 easiest way to do this is subject to check. Would
5 you accept, subject to check, that PHI has valued
6 the acquisition premium at \$1.6 billion in the in
7 the proxy statement we were looking at earlier?

8 A Yes.

9 Q Does Exelon value the premium
10 differently?

11 A No.

12 Q So 6.8 billion -- you were planning on
13 funding that \$3-1/2 billion with debt; is that
14 right, approximately?

15 A Yes.

16 Q Is that still the plan?

17 A It's debt and cash on hand.

18 Q Okay. Debt and cash on hand. There were
19 some asset sales that were contemplated, correct?

20 A Yeah.

21 Q And those are -- do those constitute the
22 cash on hand or is that -- I'm trying to get the

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1 breakdown.

2 A Yeah. It is -- we have an increased cash
3 on hand due to asset sales, other cash on hand
4 from operations. And then the presumed amount of
5 debt we would have to issue from there.

6 Q Okay. Is the presumed amount of debt
7 you'd have to issue still 3.5 billion?

8 A I don't have that updated number.

9 Q And who would know that, if anyone, among
10 the witnesses?

11 A Carim Khouzami.

12 Q And again, as the original plan was
13 explained, there's also some convertible
14 securities that are going to be issued; is that
15 right?

16 A Yes.

17 Q Approximately how much of the
18 convertibles?

19 A I don't have that number off -- Carim
20 can --

21 Q Mr. Khouzami?

22 A Khouzami.

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1 Q Okay. Great. And then about a billion
2 dollars worth of asset sales was contemplated at
3 the time, right?

4 A Yes.

5 Q And have those sales taken place?

6 A All but one has taken place.

7 Q Okay. Now let me ask you to take a look
8 at Exhibit DCG 3, which is the transcript of your
9 presentation to the analysts. Now, again, for the
10 record, Mr. Crane, this edited transcript from
11 Thomson Reuters StreetEvents is a transcript of
12 your analyst call on April 30, 2014, right?

13 A Yes.

14 Q Okay. So when you refer to slides in
15 this transcript, you're referring to slides of the
16 PowerPoint that we just looked at, DCG 2, right?

17 A Yes.

18 Q Okay. I wanted to ask you -- Mr. von
19 Hoene was not on this call, right?

20 A He would have been in the room.

21 Q Would have been in the room. Okay. But
22 speaking on the call for Exelon was primarily you

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1 and Mr. Jack Thayer, correct?

2 A Yes.

3 Q All right. And Mr. Thayer is the
4 executive vice president and chief financial
5 officer of Exelon?

6 A Yes.

7 Q Okay. Let me see if I can't cut to the
8 chase here so I can stop taxing the bench's
9 patience, and ask you to turn to page 16 of the
10 transcript. The heading on the page is, April 30,
11 2014, 3:00 p.m., EXC, Q1 2014 Exelon Corp.,
12 et cetera.

13 If we go down, there are boxes of
14 dialogue, first from Mr. Thayer, then from you,
15 then from a Jonathan Arnold, and then from
16 Mr. Thayer again. And I wanted to focus you on
17 the business from Mr. Thayer in that fourth box.
18 Are you with me?

19 A Yes.

20 Q Okay. Mr. Thayer there talks about
21 \$250 million of synergies, net of costs, over a
22 five-year period; then it says, corrected by

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1 company after the call.

2 Is that still the ballpark, 250 million
3 in synergies over the first five years?

4 A There has been some update on that, and
5 Mr. Khouzami would be the best one to get that
6 number from.

7 Q Great. Okay. And then Mr. Arnold asked
8 another question, and Mr. Thayer responds again
9 below. And I wanted to focus you on Mr. Thayer's
10 comment and ask you a question about it.

11 Mr. Thayer says, And second of all, as
12 you do the math, you will see that synergies is a
13 very small element of the accretion in this
14 transaction.

15 Are you with me?

16 A Yes.

17 Q Okay. Mr. Thayer goes on to say, It's
18 really the opportunity for incremental leverage at
19 the holding company that this transaction affords.
20 It's the monetization of certain assets at a
21 higher value than what would be implied in our PE
22 multiples, and synergies are an important but very

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1 modest contributor to that 15 to 20 percent -- 15
2 to 20 cents per share.

3 A Yes.

4 Q Okay. Apart from the synergies, what's
5 the other contribution? Or what are the other
6 contributions, if there's more than one?

7 A Would be the earnings from PHI.

8 Q And Mr. Crane, is it fair to say that
9 those earnings result in significant part from
10 leaving PH -- leaving the rate structures in place
11 of the existing PHI operating utilities while
12 replacing their capital structures with something
13 different than what those rates were based on?

14 A No, there's no -- there would be nothing
15 that would change the capital structure of PHI,
16 PEPCO or Delmarva or ACE.

17 Q You're buying stock valued at
18 \$6.8 billion with \$3-1/2 billion worth ever debt
19 and \$1 billion worth of convertibles. That
20 implies certainly a different capital structure
21 underlying the transaction than the one the rates
22 are based on.

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1 A The capital structure is at the holding
2 company. At the holding company, we're
3 maintaining a 60 percent equity of 40 percent
4 debt. The way that we recover on the investments
5 and rate base and what the rate base in -- the
6 debt-to-equity ratios on each individual PHI
7 entity is maintained the same. That's not
8 affected by this at all.

9 Q Even though all of the PHI stock will be
10 retired as a result of your purchase?

11 A Yeah. I don't -- I don't know how we
12 correlate a stock value to a rate recovery
13 mechanism. Stock is valued based off of the
14 earnings projection of the entity, where the
15 recovery mechanism is -- as you know, is based off
16 of the rate base on the balance sheet of the
17 entity with an allowed percentage of return on
18 that equity.

19 That's not affected by this transaction
20 at all.

21 Q At least as you envision the transaction,
22 it's not affected?

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1 A Envision -- I'm not sure what that means,
2 envision. We are not changing or pushing down any
3 of the effects of the acquisition onto the balance
4 sheets of the PHI entities, and I believe that's
5 in the commitment.

6 Q The accretion of 15 to 20 cents a share,
7 I think we can agree, depends on leaving the
8 current PHI operating company rates in place, both
9 PEPCO, Delmarva, Atlantic City Electric, right?
10 All those rates won't change, as Exelon envisions
11 the transaction, as a result of the acquisition.

12 A There are assumptions on rate recoveries
13 which are less than allowed in the calculation.
14 That has also been updated, and the 15 to
15 20 percent -- or cents per share has decreased.
16 And I think Mr. Khouzami can update the details on
17 that. As PHI has updated their long-term plan,
18 certain assumptions from the previous one that we
19 valued this on have decayed or decreased.

20 Q Okay. Let me move on to Exhibit DCG 4,
21 which is a data request response by you -- at
22 least I'm interested in your part of it. Could

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1 you read it quietly to yourself and read your
2 response and let me know when you're finished.
3 It's really just your response to item A,
4 Mr. Crane.

5 A What is DCG 1-9?

6 Q Let me --

7 MR. COYLE: Should we do this, Richard?

8 I think Mr. Lorenzo and I would like to
9 do a stipulation that might make your answer a
10 little easier.

11 COMMISSIONER FORT: I'm waiting to hear
12 it, because I need to know that I can understand
13 it as well.

14 MR. COYLE: Richard.

15 MR. LORENZO: We could stipulate that the
16 9-1 in answer A was a typographical error, and it
17 should be 1-9 in that answer, as in all of -- I
18 think there's another typographical error for
19 another witness also in that response.

20 So if we can interlineate it, just change
21 that to a 1-9 from -- so the answer should -- so
22 the answer should read that Mr. Crane was aware of

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1 all of the attachments to joint applicants'
2 response to DCG 1-9 when they were initially
3 received.

4 And the same would be true for the answer
5 to C with Mr. O'Brien, where it's, again, put down
6 as 9-1, but it should be 1-9.

7 COMMISSIONER FORT: So my question is
8 what were the attachments that you're referencing
9 and do we have them here?

10 MR. COYLE: Yes. The attachments -- with
11 the bench's indulgence, I'll just go through that
12 with the witness so the record is clear. Sorry.

13 MR. LORENZO: On that point, the
14 attachments were submitted as confidential
15 attachments. So to the extent that they're
16 admitted into the record, we would like to have
17 them admitted as confidential. We've worked out
18 with Mr. Coyle that his questioning on the record
19 of the excerpts for any attachments could be done
20 in public session.

21 CHAIRMAN KANE: Proceed.

22 BY MR. COYLE:

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1 Q Mr. Crane, I just -- with reference to
2 your response to Exhibit DCG 4, data request
3 9-1 -- I apologize for the confusion. Would you
4 take a look briefly through Exhibits DCG 5, 6, 7,
5 8, 9, 10 and 11, and tell me whether those are
6 some of the analyst reports on the merger, on your
7 announcement of the merger, that you're saying you
8 were aware of that were attachments to the
9 response to 1-9, DCG 1-9 attachment A, that you're
10 saying you were aware of in the response to 9-1,
11 Exhibit DCG 4?

12 A Up to 9, you said?

13 Q Up to DCG 11.

14 A 11?

15 Q Yeah.

16 COMMISSIONER FORT: I'm sorry. I just
17 need to make sure I understand what we're doing.
18 So the exhibits that you're looking at that you
19 just asked him to identify are all confidential
20 exhibits, right?

21 MR. COYLE: That's correct.

22 COMMISSIONER FORT: So that we need to

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1 have them marked at least so our records show that
2 these are confidential exhibits first, so that
3 there's no issue of whether or not they can be
4 released -- you know, so they can be protected.
5 So we need to mark each of those individually as
6 confidential exhibits. Right?

7 MR. COYLE: They have been so marked.

8 COMMISSIONER FORT: Well, you marked
9 them, but it's different for us to mark them for
10 the record. So it is not marked -- the Chair has
11 allowed you a lot of leeway that we generally
12 don't allow. But she did it. You're lucky. You
13 know. But you're not lucky on this part because
14 the secretary and the reporter needs to mark each
15 of those as confidential exhibits so that we treat
16 them properly going forward. That's issue
17 number 1.

18 So each of those that you identified are
19 each confidential exhibits and should be so
20 reflected. Right?

21 MR. COYLE: Yes, ma'am. That's correct.

22 COMMISSIONER FORT: My second question

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1 is, are those documents as I read them on the
2 cover sheet the same documents that are referred
3 to in that first data request?

4 MR. COYLE: Yes, ma'am, they are.

5 COMMISSIONER FORT: The one where 9-1 and
6 1-9 --

7 MR. COYLE: That's correct, yes, ma'am.

8 COMMISSIONER FORT: -- were changed.

9 MR. COYLE: I'll ask Mr. Lorenzo to
10 confirm that.

11 MR. LORENZO: That are excerpts from our
12 production for 1-9. So they're not a complete set
13 of analyst reports, but they're excerpts from
14 them.

15 CHAIRMAN KANE: And they do have page
16 numbers?

17 MR. COYLE: Yes, ma'am.

18 CHAIRMAN KANE: And each of those pages
19 at the top is -- as I page through them, is marked
20 confidential, not just the cover sheet.

21 I'm sorry. Subject to confirmation, not
22 only is the cover sheet of each of these exhibits

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1 marked confidential, starting with 5, but each
2 individual page is marked confidential, and the
3 attachment and what pages from them are -- each
4 page is numbered and each page is marked
5 confidential.

6 MR. COYLE: Yes, ma'am. May I proceed?

7 CHAIRMAN KANE: Thank you. You may
8 proceed.

9 BY MR. COYLE:

10 Q Mr. Crane, having had the opportunity, at
11 least I hope, to take a look through what had been
12 marked through -- as DCG 5 confidential through
13 DCG 11 confidential, can you confirm for me which
14 of those analyst reports are documents that you
15 were -- had seen, read, were familiar with?

16 A I have seen them all.

17 Q Thank you. I don't propose to take you
18 through each one.

19 A Thank you.

20 Q I did want you to take a look at Exhibit
21 DCG 11 for me, please. I'll ask you to -- and I
22 ask you to take a look at pages 9 through 11 to

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1 DCG 11.

2 A Okay.

3 Q That is a stand-alone Exelon income
4 statement for years 2010 through 2016, estimated,
5 correct?

6 A Yes. Actual through '14, estimated --
7 first quarter of '14, and estimated from there
8 out.

9 Q Okay. Does DCG 11, to your
10 understanding, reflect an effort by Deutsche Bank
11 analysts to, in Mr. Thayer's words from the
12 transcript we were just looking at, do the math,
13 figure out where the accretion comes from?

14 A Yes.

15 Q And as you look through DCG 5 through 10
16 confidential, is it true that all of those reports
17 also analyze the thesis presented in your analyst
18 call about earnings accretion as a result from
19 this transaction?

20 A Yes. And the first one being the rating
21 agencies is a little bit more on health and risk
22 of -- of the debt coverage, but yes.

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1 Q Okay. All right. Thank you. This
2 concludes the portion of my examination, I
3 believe -- excuse me. Let me go off the record
4 for a second and let me make sure I'm right about
5 what I was going to say.

6 (Pause.)

7 BY MR. COYLE:

8 Q Sorry, Mr. Crane. You're not quite home
9 free yet. I'm going to change topics.

10 I wanted to ask you next to look at
11 Exhibit DCG 19.

12 A Okay.

13 MR. COYLE: For the bench's reference,
14 the exhibits that I'm skipping over have all been
15 marked as confidential, and I'm not comfortable
16 discussing them in open session, subject to
17 further discussions with counsel. So I propose to
18 pass on those and defer those exhibits to the
19 confidential examination stage. 19 and following
20 are not confidential, and so I can do those now.

21 BY MR. COYLE:

22 Q Have you had a chance to look at the

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1 response to Exhibit D -- to data request DCG 19 --
2 DCG 8-2 which has been marked as Exhibit DCG 19?

3 A Yes.

4 Q The substance of that response with
5 respect to you is that you do not have any
6 merger-contingent compensation, correct?

7 A I personally do not.

8 Q Okay. I wanted next to ask you to take a
9 look at Exhibit DCG 20, which is an excerpt from
10 Exelon's definitive proxy statement, and it's
11 the -- of April 2, 2014, and it's the segment of
12 the proxy statement that deals with executive
13 compensation.

14 A Yes.

15 Q You're familiar with that document, are
16 you not?

17 A Yes.

18 Q Okay. Is it a fair summary, Mr. Crane,
19 to say that Exelon's executive compensation scheme
20 is heavily weighted toward contestable
21 compensation?

22 A Compensation at risk, yes.

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1 Q Okay. Fair enough. Do you know, as you
2 sit here today, what portion, if any, of your 2015
3 compensation is at risk if the merger is not
4 concluded?

5 A That's a board and the compensation
6 committee's call. I don't know how much would be
7 at risk.

8 Q The compensation committee does not,
9 then, communicate its goals and expectations to
10 you at the beginning of the year?

11 A They do. There's quantifiable and
12 qualifiable goals within my performance review.

13 Q Okay. And is the successful conclusion
14 of the merger part of your performance
15 expectations for the year?

16 A It is not -- I do not believe it is in
17 the written goals for 2015, but it is an
18 expectation of the board that we execute on this
19 transaction.

20 Q Would you agree with me, Mr. Crane, that
21 you face some, perhaps unquantified, risk to your
22 compensation if the merger is not successfully

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1 concluded?

2 A I should be held accountable for that,
3 yes.

4 Q Next I'd like you to turn to what's been
5 marked for identification as DCG 21.

6 A Yes.

7 Q Would you just take a look through those
8 and confirm for me that they are, as they're
9 represented to be, the original pages of your
10 rebuttal testimony, pages 12 and -- sorry, your
11 direct testimony, pages 12 and 17, your rebuttal,
12 3, 5, 6 and 10, in Exhibit (3A)-1 paragraph 9?

13 A Yes.

14 Q And those have all been replaced, if you
15 could confirm that for me looking at Exhibit
16 DCG 22, with the pages -- respective replacement
17 pages compiled in Exhibit DCG 22?

18 A Yes.

19 Q Okay. Now, Mr. Crane, with reference to
20 the discussion of the customer investment fund in
21 your original testimony, when this merger
22 application was filed, the customer investment

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1 fund was set at \$14 million; is that right?

2 A Yes.

3 Q Okay. Or approximately \$50 per customer?

4 A Yes.

5 Q And that was based, was it not, on the
6 position that the amount of benefit sharing with
7 customers was constrained by the amount of
8 synergies generated by the merger. Am I right
9 about that?

10 A Yeah. The pool for the investment -- the
11 investment fund was based off of the projected
12 size of the synergies over a period of time.
13 Mr. Khouzami has the detail around how all of that
14 was calculated. There was two ways, one by
15 customer and the other based off of the regions
16 that the savings were coming from. He can explain
17 that in detail. It ends up being about the same.
18 So -- but he managed the calculations.

19 Q I was not going to take you through them
20 in any detail, but --

21 A Okay.

22 Q -- but I appreciate the acuity of your

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1 advance defense.

2 And subsequently, the size of the
3 customer investment fund has been increased to
4 \$33,750,000, correct?

5 A That's correct.

6 Q Okay. Is it Exelon's intention to --
7 that that money would all be deposited at once
8 following consummation with (sic) the merger? I
9 understand Exelon proposes that the Commission
10 would decide how to dispose of it, but is it
11 Exelon's contemplation to deposit a check for
12 33 million with the Commission --

13 A Yes.

14 Q -- upon consummation -- so that
15 33,750,000 would not be paid over time?

16 A That is not my understanding.

17 Q Okay. All right.

18 I'm sorry. I'm reminded that I should
19 clarify your last answer. Your understanding is
20 that the 33,750,000, representing Exelon's current
21 proposal for the customer investment fund, would
22 be paid all at once following consummation of the

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1 merger, correct?

2 A That is my understanding.

3 Q Thank you. Okay.

4 Now, am I correct in my recollection that
5 the \$33,750,000 is represented to be 90 -- the net
6 present value of 94 percent of the first ten years
7 of merger synergies that the company anticipates?

8 A That's my understanding.

9 Q So you weren't as constrained in synergy
10 sharing as your original application suggested,
11 correct?

12 A The original application, we believe, met
13 the test to show the customer benefits and pass
14 the -- what we thought were the hurdles. In
15 further negotiations with certain parties in
16 settlement, it was determined -- and New Jersey
17 being the case -- that to gain approval, we had to
18 increase that. And so we did.

19 Q Okay. Now -- but in New Jersey, you got
20 up to 114, I think, right?

21 A I think that's approximately right, yes.

22 Q Okay. So the 128, does that come from

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1 Delaware or does that come from your proposal in
2 Maryland in your initial brief?

3 A My recollection is they're all valued
4 approximately the same in total. There may be
5 some buckets of -- of expense that are different,
6 but -- from each jurisdiction.

7 Q I just -- I'm reminded I should clarify
8 that my question about 114 and 128 referred to
9 dollars per meter. Is that right?

10 A That's right.

11 Q And that's the way you understood the
12 question when you answered it?

13 A Yes, sir.

14 Q Okay. All right.

15 MR. COYLE: At this point, this concludes
16 the public portion of my examination of this
17 witness.

18 CHAIRMAN KANE: Thank you. We will take
19 a ten-minute break.

20 (Whereupon, a short recess was taken.)

21 CHAIRMAN KANE: So Mr. Coyle, you are
22 finished with the public portion of your --

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1 MR. LORENZO: Your Honor, we have
2 reviewed the material that Mr. Coyle wants to
3 cross Mr. Crane on --

4 CHAIRMAN KANE: Yes.

5 MR. LORENZO: -- on this, and we would --
6 for openness purposes, we don't mind him crossing
7 on those exhibits as long as the exhibits are
8 entered into the record as confidential exhibits.
9 So we have no objection to having this take place
10 in open session.

11 CHAIRMAN KANE: Okay. So you want to go
12 back now and pick up those ones that you skipped
13 over?

14 MR. COYLE: Yes, ma'am, that's my
15 intention.

16 CHAIRMAN KANE: Okay. Proceed.

17 BY MR. COYLE:

18 Q Sorry, Mr. Crane. I thought you were off
19 the hook. I'd just like the record to reflect
20 that it was your counsel who threw you in on this.

21 A Well, this might be more efficient.

22 Q Mr. Crane, I would first like to ask you

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1 to take a look at Exhibit DCG 16, confidential
2 Exhibit DCG 16.

3 A Okay.

4 Q Just take a quick look through that
5 exhibit quietly to yourself. Let me know when
6 you've had a chance to generally familiarize
7 yourself with it. I do not have detailed
8 questions on this.

9 A Yes.

10 COMMISSIONER FORT: Can you, for the
11 record at least, identify what the exhibit is,
12 the --

13 MR. COYLE: Yes, ma'am. I was --

14 COMMISSIONER FORT: -- title, so that
15 people know what they're looking at.

16 MR. COYLE: What about to do that, ma'am.

17 Thank you.

18 BY MR. COYLE:

19 Q This document is part of joint
20 applicants' response to data request DC SUN 5-7,
21 attachment A, pages 176 to 178, and it is a letter
22 from Mr. Crane to the Exelon board of directors.

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1 I believe it's undated, but I think Mr. Crane
2 could probably tell us approximately when it was
3 dated. If you would, Mr. Crane.

4 A This would have been in the spring of --
5 early spring of 2014 -- or, excuse me. No, no.
6 This would be before the board strategy retreat.
7 It would be in the fall of 2014.

8 Q Okay. So this letter was written in
9 anticipation of a strategy retreat of the Exelon
10 board?

11 A Yes.

12 Q In general terms, without disclosing any
13 confidential information about how those things
14 generally work, a strategy retreat is like the
15 title suggests, the board gets together and talks
16 with executive management about what's going on in
17 the business, what you need to worry about, where
18 you want to go in the coming year?

19 A Yes.

20 Q Your description on the first page of Our
21 current reality -- do you see that heading?

22 A Yes.

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1 Q Does that tally generally with the
2 discussion that we had earlier about the
3 challenges confronting Exelon's generation fleet,
4 and particularly its nuclear generation fleet, in
5 regional transmission organization markets?

6 A Yes.

7 Q Generally speaking, that's a result of
8 low natural gas prices and the hangover from the
9 great recession?

10 A Yes. I may have misspoke on the year
11 here. I said fall of 2014. I believe it's fall
12 of 2013.

13 Q I think you said it correctly the first
14 time, but I'll take the correction.

15 A Okay. I'm just looking at the dates that
16 I've used. We would -- I'm referencing things to
17 transpire in 2014. But we'll verify that.

18 Q With regard to your recommendations to
19 the board -- again, without discussing anything
20 that you want to keep confidential -- was it your
21 recommendation either in this letter or in the
22 strategic retreat that follows that Exelon pursue

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1 the acquisition of one or more regulated
2 distribution utilities?

3 A We would have discussed M&A as a
4 potential on continuing to diversify the business.

5 Q Did the question come up in connection
6 with the fall 2013 strategic retreat of the Exelon
7 board of directors that Exelon should be looking
8 for an acquisition opportunity with regard to a
9 distribution utility with a regulated return?

10 A It would have been -- most likely would
11 have been part of the conversation, growing
12 organically, looking at growing and diversifying
13 the generation fleet and other acquisitions to
14 continue the regulated side of the business growth
15 in there.

16 Q And one of the advantages to that
17 approach is that the regulated return from a
18 regulated distribution utility provides a
19 reasonably steady set of free cash flow, correct?

20 A It does have that characteristic, yes.

21 Q As opposed to Exelon's generation fleet
22 which faces the challenges that we had discussed

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1 in the wholesale marketplace?

2 A We're still investing and growing the
3 generation business. And so we would have
4 discussed what technologies -- we would have
5 briefed on what technologies were emerging in not
6 only central station generation natural gas, but
7 also renewables, fuel cells, things like that.

8 So we're not focused on just growing one
9 side of the business; we're focused on growing
10 both sides of the business.

11 Q Sure. But you have a considerable fleet
12 of assets -- the nuclear fleet in particular -- or
13 a chunk of the nuclear fleet facing economic
14 challenges due to low natural gas prices and
15 resulting low power market prices. You need some
16 money to get that asset through the difficult
17 times ahead. No?

18 A No. The generation company overall is
19 profitable. It maintains a strong balance sheet.
20 It has an investment grade rating. We maintain
21 margins. We're not limping along on the
22 generating company. We have assets that are

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1 under-earning or losing money because the market
2 is not compensating for that.

3 The easiest way to fix that is to shut
4 them down, but we're not taking that quickly.
5 We've shut other units down. We've shut coal
6 units down. We retired some natural gas units and
7 some oil units. You -- you constantly are
8 recycling capital and making sure you're investing
9 in assets that fit your portfolio.

10 But just so we have the characterization
11 right, this is not a broken car. This is an
12 entity with assets that are losing money, and
13 either we figure out how to make them profitable
14 or we shut them down.

15 Q I didn't mean to suggest it was a broken
16 car, Mr. Crane, but there are financial challenges
17 that affect the generation business.

18 A There are financial challenges, but we do
19 not need the regulated revenue to fund or make up
20 for any of that challenge. We have adjusted our
21 corporate commitments on our dividend to be sized
22 to the cyclicalality and the low points of the

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1 market that we're in right now. So...

2 Q Would you turn next to Exhibit DCG 15,
3 please, confidential Exhibit DCG 15.

4 A Yes.

5 Q And confirm for me whether those are the
6 minutes from the Exelon board of directors annual
7 strategic retreat, September 23rd to 24th, 2013?

8 A Yes.

9 Q Is this the strategic retreat in
10 anticipation of which you wrote the letter which
11 we've just been talking about as DCG 16?

12 A I believe that these tie together, yes.

13 Q Without a specific reference, but I'll
14 invite your attention to page 2 of the minutes,
15 what does the expression "nuclear cliff" mean?

16 A So nuclear units are originally licensed
17 for a 40-year operation, and there is currently a
18 process almost all of our units have gone through,
19 an extra 20-year extension.

20 But starting in -- well, the first unit
21 will come off in 2019, but starting in 2029, the
22 nuclear units, through almost 2050, will be

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1 retiring and -- based off the end of their useful
2 and permanent life. So that's been coined
3 internally the nuclear cliff.

4 So for us, over the next decade, we need
5 to ensure that we have the right investment
6 strategy how we diversify and continue to sustain
7 the company in a long term.

8 Q Still with regard to page 2 of Exhibit
9 DCG 15, the challenges associated with the impact
10 of state renewable portfolio standards -- again,
11 I'm not asking you to disclose anything specific
12 to the text of the document, but do those
13 challenges include distortions in energy markets
14 and shutting down otherwise sound generation
15 assets or causing other assets to operate in the
16 negative?

17 A Yes. It has -- primarily in Illinois it
18 has that effect. The renewable portfolio
19 standards were put together and agreed upon by all
20 when the projected load growth over that period of
21 time on the implementation of the RPS standards
22 was expected to grow.

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1 So what has happened, as we pointed out,
2 since 2008 we haven't had load growth. We've had
3 negative load growth. Only in the utility sector
4 could we come up with that. We've had -- we've
5 lost load, we've lost demand on the system while
6 we continued to build out the renewable portfolio
7 standards.

8 So -- I've spoke about this publicly, the
9 unintended consequences of mandating generation to
10 be built that does not match to a load profile
11 that's growing.

12 Now, there is some protection in Illinois
13 on rate caps, so the consumers are not overly
14 affected, but that's the situation that we've
15 described. And what we're asking in this --
16 with -- working with the state is that, what's the
17 outcome you're looking for? If it's carbon-free
18 generation, let's look at all sources the same
19 way. It's -- that would be the issue that we're
20 having primarily in Illinois.

21 Q In the southwest power pool you're on the
22 other side of the equation, aren't you?

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1 A It's a regulated -- yeah. It doesn't
2 have the same situation.

3 There also is a much greater willingness
4 by the RTO down there to expand transmission for
5 more than just reliable -- reliability issues.
6 We're building a lot of wind west of Illinois and
7 in Illinois, and we're not doing the transmission,
8 planning to move that further east so it can be
9 utilized in other load pockets.

10 Q One of those effects in the southwest
11 power pool, though, at least, is you end up with
12 negative prices due to the wind and the -- I
13 forget the expression -- the time of day at which
14 the wind is --

15 A Right.

16 Q -- the wind energy is available?

17 A We're seeing -- in Illinois the
18 characteristics of the wind profile are primarily
19 operating at night and when load is -- when load
20 is low.

21 Q Would you take a look next at
22 Exhibit DCG 17, please, confidential Exhibit

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1 DCG 17.

2 A Yes.

3 Q That document was prepared for
4 presentation to the Exelon executive committee; is
5 that correct?

6 A Yes.

7 Q Is it a fair assumption that you sit on
8 the executive committee?

9 A Yes.

10 Q Have to go to all the meetings?

11 A It's my meeting.

12 Q Okay. And in general terms, again,
13 without speaking to any specifics that corporate
14 policy leads you to want to keep confidential,
15 this document, DCG 17, is both a valuation of
16 Exelon's generation fleet generally and a
17 valuation of Exelon's nuclear fleet specifically,
18 correct?

19 A Yes.

20 Q Okay. If you would turn to --

21 MR. COYLE: And I apologize in advance to
22 the bench; these were not page numbered.

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1 BY MR. COYLE:

2 Q Counting the cover sheet, 1, 2, 3, 4, 5,
3 6, 7 -- the eighth page of Exhibit DCG 17. I'm
4 sorry, there's a 7 at the bottom of the --

5 A I'm there.

6 Q Looking at the bottom box on the
7 right-hand side under the heading SPP wind, it
8 says that certain merchant wind farms will become
9 uneconomic when the production tax credits for
10 those facilities are exhausted.

11 A Yes.

12 Q Is that still the case?

13 A Yes.

14 CHAIRMAN KANE: Mr. Coyle, let me confirm
15 again. This is marked confidential, but counsel
16 is all right with your asking these specific
17 questions about this page?

18 MR. LORENZO: Yes, Your Honor.

19 CHAIRMAN KANE: Thank you.

20 BY MR. COYLE:

21 Q Turning three pages past where we were,
22 Mr. Crane, we come to the heading 2014 nuclear

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1 fleet evaluation.

2 A Yes.

3 Q And I would like to invite your attention
4 to the page numbered 15 in the lower left. The
5 heading on the page is, Nuclear fleet valuation:
6 Identify and preserve options to maximize value.

7 Are you with me?

8 A Yes.

9 Q Again, without disclosing anything that
10 counsel has suggested, or corporate policy would
11 suggest you want to keep confidential, we see on
12 that page the identification of the six nuclear
13 units that you and I discussed earlier as being
14 financially challenged.

15 A Yes.

16 Q Okay. And you have suggested responses
17 to the challenges that those units are seen as
18 facing, correct?

19 A Yes.

20 Q Who developed this presentation, by the
21 way?

22 A This would have been under Mr. von

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1 Hoene's direction in his group. I'm not sure of
2 the actual individuals.

3 Q Who signs off on the execution of these
4 suggested strategies?

5 A We will agree and debate in my executive
6 committee, and then I'll essentially give the
7 final approval if we're taking one of these paths
8 forward, which -- most of these we have been very
9 public about in the Illinois regulatory situation
10 in what we would like to do with the renewable
11 resources and compensate all for their carbon-free
12 generation to EPA rule 111(d) -- that is something
13 we've been public about. And then the market
14 design issues.

15 Q Right. Just to tie this up -- and this
16 is a non-confidential question, Mr. Crane -- do
17 market outcomes in the PJM regional transmission
18 organization affect the price that is paid for
19 standard offer service in the District of
20 Columbia, to your understanding?

21 A Let me make sure -- could you repeat
22 that? I'm sorry.

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1 Q Sure. Do market outcomes in the PJM
2 regional transmission organization markets affect
3 the price for standard offer service in the
4 District of Columbia?

5 A The price for the standard offer service
6 is a competitively bid price. If PJM or its
7 tariffs have -- they have a weighting on that on
8 how energy providers get their power to, but it's
9 primarily the market fundamentals and the bidding
10 aggressiveness of each company that's
11 participating in trying to fill that bid.

12 Q Let's take a concrete example real
13 briefly. PJM operates a capacity market. You and
14 I talked about that, right?

15 A Yes.

16 Q If that capacity market produces a higher
17 price relative to a prior auction, you would
18 expect to see that increase flow through in the
19 price of standard offer service, would you not?

20 A Yes.

21 Q Thank you. Would the same be true with
22 energy, generally speaking, if the price of energy

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1 is more expensive in PJM, then the price of energy
2 should also be expected to be more expensive in
3 standard offer acquisition?

4 A The price of energy is going to be
5 determined based off of the commodities and the
6 fundamentals of the cost of generation.

7 And so if natural gas prices go up or
8 coal prices go up or significant regulation comes
9 in, then energy prices will correspondingly
10 respond.

11 Q Let me ask you to take a look next at
12 confidential Exhibit DCG 18.

13 A Yes.

14 Q This was another executive committee
15 presentation, so I take it you were there?

16 A No --

17 COMMISSIONER FORT: Excuse me, Mr. Coyle.
18 By now you know I'm going to ask you to do
19 something that you didn't do. Let's do it.

20 MR. COYLE: I apologize, Commissioner.
21 Thank you.

22 BY MR. COYLE:

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1 Q Exhibit DCG 18, Mr. Crane, is marked
2 confidential. It's a document that's a
3 presentation to the Exelon executive committee
4 concerning the Northern Pass transmission project;
5 is that correct?

6 A That's the --

7 COMMISSIONER FORT: I'm sorry. For our
8 record, it's joint -- on your cover sheet, you
9 marked this as joint applicants' response to
10 DC SUN -- am I not reading that correctly?

11 MR. COYLE: You are.

12 COMMISSIONER FORT: -- DC SUN 5-7.
13 That's how we mark documents for our records. And
14 then you can discuss with him what's contained in
15 that document.

16 MR. COYLE: Thank you, Commissioner. I
17 appreciate your indulgence.

18 BY MR. COYLE:

19 Q Exhibit DCG 18, confidential document,
20 joint applicants' response to DC SUN data
21 request 5-7, attachment A. And this particular
22 exhibit is pages 132 through 143 of that

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1 attachment entitled, Northern Pass transmission
2 project, Exelon executive committee, October 23,
3 2014. Correct?

4 A That's what it states. The first time I
5 saw this document was in preparations for the
6 Maryland hearing. There was not an executive
7 committee meeting on that date, and I had not had
8 it presented to me prior to prepping for that
9 hearing.

10 Q Who is Dan Allegretti, Mr. Crane?

11 A He is a regulatory manager that works in
12 the northeast, New York and up into New England.

13 Q Since you did see the document in
14 connection with your testimony in Maryland, can
15 you tell us -- first of all, let me back up and
16 ask a couple of background questions. What's the
17 Northern Pass transmission project?

18 A There's a line that's in the process of
19 being developed that runs from Canada through New
20 Hampshire and terminates down into Massachusetts
21 and -- to flow power from the Canadian hydro
22 facilities down into the New England,

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1 Massachusetts and Connecticut low pockets.

2 Q And is it fair to say, if you know, if
3 the design concept behind the Northern Pass
4 transmission project is to provide a high-voltage
5 DC -- direct current interconnection for the
6 importation of Canadian hydroelectric power?

7 A For a portion of it, it is, yes.

8 Q Okay. Total capacity of about
9 1200 megawatts, if that rings a bell?

10 A It's my understanding.

11 Q Okay. And is it true that this project
12 was perceived as a -- some form of commercial
13 threat to Exelon's generation interests in New
14 England?

15 A It would have an effect on the market,
16 yes.

17 Q Okay. So it would lower, you would
18 expect -- the Northern Pass project would lower
19 the amount of money you could realize from
20 Exelon's generation assets in New England?

21 A Yes, according to what was written. It
22 was 4 to \$5 million a year impact on the assets

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1 that we owned at that time.

2 Q Among those assets is approximately
3 3,000 megawatts of fossil fuel generation in the
4 Mystic station; is that right?

5 A Yes.

6 Q Near Boston?

7 A Yes.

8 Q And do you know whether Exelon, in fact
9 implemented Mr. Allegretti's recommendations with
10 respect to the Northern Pass transmission project?

11 A Recommendations, I'm not sure. It's a
12 status update on the line and who is opposing it
13 and what's happening, and an update on some other
14 non-market-based design projects. I'm not sure I
15 see recommendations here.

16 Q Was Exelon in general supportive of
17 building transmission to import Canadian hydro
18 into New England?

19 A My position has been -- and the direction
20 to our organization is we remain neutral to
21 anything that's market-based, and in this case, I
22 believe it's market-based, so we should have had a

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1 neutral position.

2 Q Do you know whether that's, in fact, the
3 position that was taken by Exelon with respect to
4 this project?

5 A I believe it has.

6 Q Let me ask you to turn next to Exhibit
7 DCG 13, please -- sorry, confidential Exhibit
8 DCG 13, which has been marked for identification
9 as joint applicants' response to -- joint
10 applicants' confidential response to Exhibit
11 DC SUN 5-7, attachment A, pages 9 through 22,
12 excerpts from an Exelon draft strategic plan. Are
13 you familiar with this document?

14 A Yes.

15 Q Could you explain to us briefly what
16 Exelon's strategic planning process involves?

17 A So it's constantly under review and --
18 but we have an annual cycle where we -- at the
19 beginning of the year, all the businesses are
20 operating and executing their long-range plans and
21 their strategic plans within that calendar year,
22 but we have -- the strategy group gets together

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1 and we have a couple of sessions on discussing
2 trends, where do we see things going, and that
3 could be regulatory trends; a huge part of this
4 now is technology trends. And from there, we put
5 together an evolving plan that we share with the
6 board each -- ends up being in October of each
7 year, and that informs our execution plans going
8 into the next year.

9 Q Do you know approximately when the
10 document that's been marked for identification as
11 Exhibit DCG 13 was prepared?

12 A I don't have the date exactly, no.

13 Q 2012? 2013? Within a year?

14 A It's probably 2013.

15 Q Could I ask you to turn to the page
16 marked 34 in the lower left hand.

17 A Yes.

18 Q Page 21 of 178 on the top.

19 A Yes.

20 Q First heading on the page, after
21 confidential and proprietary, is, option 2, paren,
22 utility is, quote, network service

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1 provider/integrator, close quote, et cetera.

2 A Yes.

3 Q Looking at the second paragraph under
4 item 2, I don't want you to -- I'm sorry,
5 option 2, the second paragraph on the page, would
6 you read that paragraph that begins, The hybrid
7 model for competitive market design -- read it to
8 yourself, and then I wanted to ask you some
9 questions about it.

10 COMMISSIONER FORT: Mr. Coyle, while he's
11 reading that, let me ask you a question about your
12 cover sheet which says that this are excerpts, and
13 there are attachments, page number 9 through 22.
14 We're now talking about page 34?

15 MR. COYLE: Yes, ma'am. I think I can
16 clarify that for you.

17 The document, as we received it, was an
18 exhibit to a deposition that had been taken in
19 another proceeding. So this document is
20 sequentially paginated as it was provided to us,
21 and it is excerpted in the deposition as an
22 exhibit to the deposition.

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1 COMMISSIONER FORT: Well, I don't have a
2 problem with that. What I have a problem with is
3 there's a description that says it's pages 9
4 through 22. It's not paginated at all for our
5 purposes.

6 So just so we can track what we're
7 looking at -- you know, it appears to be something
8 other than what's described on your first page.
9 You know, maybe you're saying that it has 22 pages
10 in it. I don't know that to be true, but whatever
11 the descriptor is needs to be the same as what
12 we're looking at, because we can't be talking
13 about page 34 if the cover says it's 9 to 22.

14 MR. COYLE: Again, my -- my thanks to the
15 commissioner for indulgence. If you look at the
16 top of the pagination on the documents, you will
17 see on the page immediately following the cover
18 sheet, confidential D.C. 1119, DC SUN DR 5-7,
19 attachment A, page 9 of 178. And that pagination
20 continues throughout the document.

21 That's where we got pages 9 through 22
22 from. It's consistent with the way the document

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1 was paginated when we received it, which is
2 consistent with its production to us in discovery.
3 I'd be happy to substitute a different pagination
4 scheme at the direction of the Commission.

5 COMMISSIONER FORT: Mr. Coyle, all I'm
6 saying is you've asked Mr. Crane to look at
7 page 34. So if you want to use that same
8 pagination that you've paginated this page for our
9 record, so when we go back and try to check what
10 we're doing, could you use your pagination on your
11 top upper left-hand corner? That's what you're
12 using.

13 MR. COYLE: I will do it, Commissioner.
14 Thank you very much.

15 BY MR. COYLE:

16 Q Mr. Crane, forget what I said about 34.
17 Go to the page that at the top reads, Confidential
18 D.C. 1119, DC SUN DR 5-7, attachment A, page 21 of
19 178.

20 Are you with me?

21 A Yes.

22 Q Okay. And that's the same segment you

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1 were reading before, right?

2 A Yes.

3 Q Okay. So you've had a chance to look at
4 the second paragraph on the page beginning, The
5 hybrid model for competitive design?

6 A Yes.

7 Q Could you describe for the Commission
8 what is meant by the hybrid model for competitive
9 market design in this document?

10 A So as we look towards the future in the
11 2013 time frame, we're starting to see a lot more
12 technology evolve, and a lot more around the
13 concept of the grid of the future. And so, as
14 with any business, what we're trying to do is
15 figure out where we're going to make our
16 investments and what we would potentially have for
17 business models going forward.

18 This was -- if I recall the discussion,
19 which has continued to evolve through 2014 and
20 what we're doing in 2015 at each one of our
21 utilities and at our Constellation business -- but
22 this was a hybrid model that maybe you have a

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1 competitive market with long-term contracts,
2 off-take contracts, that type of concept going
3 forward.

4 I believe we've stepped away from this
5 concept as we further evaluated it throughout the
6 year, but that would be just grasping for
7 different business designs that we invest in.

8 Q As you say, stepped away from the
9 concept -- you mean it's not one that Exelon cares
10 to pursue?

11 A No. What -- what we're doing right now,
12 by the end of this year, we should have pilot
13 microgrid projects at each one of our utilities.
14 We have won a grant to develop one of the first
15 microgrid controllers in Illinois, and we are
16 working on -- in parallel, watching what's going
17 on in New York with the REV proceeding and trying
18 to figure out, what is the business model?

19 I think our central station generation
20 will stay in the market as long as it's
21 competitive in a competitive market. And if it
22 can't compete, with the exception of the Clinton

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1 station, we wouldn't be looking for long-term
2 contracts for them.

3 Q Again, with reference to the paragraph we
4 were just talking about, does Exelon perceive
5 distributed generation as a threat?

6 A In the SWOT analysis, which was also in
7 this, but the page isn't here -- we do a standard
8 SWOT, threats and opportunities -- we believe that
9 distributed generation, properly done, which would
10 be mean it have some societal benefits to the
11 consumer or facilitate some -- with proper
12 protection for the consumers, is an enabling
13 technology. And that's why we're moving in that
14 direction to do the amount of research and
15 development for the advancement of that
16 technology, also looking in spending significant
17 resources on research and investment in storage
18 companies.

19 Q Since you mentioned it, Mr. Crane, let me
20 ask you to take a look at confidential Exhibit
21 DCG 14, which has been marked, confidential, joint
22 applicants' response to DC SUN 5-7, attachment A,

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1 pages 73 through 108, and ask you to look at the
2 page beginning in the upper left margin,
3 confidential, D.C. 1119, DC SUN DR 5-7,
4 attachment A, page 94 of 178.

5 A Yes.

6 Q Does that begin what you referred to as
7 the SWOT analysis: Strengths, weaknesses,
8 opportunities and threats?

9 A It does.

10 Q Okay. And if I turn to the next page,
11 confidential D.C. 1119, DC SUN DR 5-7,
12 attachment A, page 95 of 178, looking at figure 6
13 entitled, External assessment of opportunities and
14 threats, is distributed generation discussed on
15 that page?

16 A Yes.

17 Q Is there a reference to a threat on that
18 page associated with distributed generation?

19 A Yes.

20 Q And what is that threat in general terms?

21 A New entrants, emerging technologies in
22 energy and the utility markets.

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1 Q Is it because that is a challenge to a
2 business model premised on central station
3 generation?

4 A It is partially that, and also the
5 complications of operating a distribution system
6 with an undefined control mechanism for reliable
7 operations with distributed generation.

8 Q Let me ask you briefly about that,
9 Mr. Crane. Exelon embarked in the not too distant
10 past on a joint venture with a company called
11 Anbaric, A-N-B-A-R-I-C, to develop microgrids,
12 correct?

13 A Yes.

14 Q So Exelon has some interest and, is it
15 fair to say, some level of investment in pursuing
16 the idea of microgrids?

17 A We -- we do. We believe that there is a
18 demand in certain jurisdictions, not all, to
19 explore the use of a greater amount of distributed
20 generation sources. And as any company that wants
21 to maintain relevance with its consumers, we see
22 that we should be uniquely positioned, operating

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1 distribution systems, to help evolve the
2 technology to support and facilitate that kind of
3 system design.

4 Technology in our sector has in the last
5 couple of years been advancing faster than my
6 whole career. I think many of us see that, and
7 with the technology evolving, how do you best
8 remain relevant, engage in the technology, look at
9 what the consumers want, and figure out how to
10 best provide it to them?

11 Q Is it the underlying assumption in the
12 business construct of your joint venture with
13 Anbaric that Exelon or the joint venture would own
14 the microgrids?

15 A There is a potential. It has not gone
16 far enough, as I'm updated on it now in New York.
17 But New York, in the proceeding in New York,
18 has -- is asking for outside bids into the
19 microgrids, and then make the investment so we
20 would have a capital investment in it.

21 It's not clear to me yet who operates it,
22 if it would be the incumbent distribution provider

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1 or -- which we think it has to be to keep the
2 system reliable, but...

3 Q One last question on this line. There is
4 a draft technical standard for the construction of
5 microgrids, correct?

6 A Yes.

7 Q IEEE standard 1457.8; is that right?

8 A I'll take your word on it. I've -- I've
9 started to read through it. It's quite a
10 complicated engineering document. But, yes, it
11 describes some of the design standards, some of
12 the summing devices, some of the things that have
13 to be considered, and some technologies that have
14 to evolve.

15 Q But for purposes of engineering
16 deployment and whether the technology works, the
17 technology itself is indifferent to ownership,
18 correct?

19 A Yes.

20 Q Let me change topics, Mr. Crane, and ask
21 you to take a look at Exhibit DCG 12, what's been
22 marked for identification as Exhibit DCG 12, which

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1 is a confidential exhibit, joint applicants'
2 response to data request AOBA 1-23, attachment A,
3 Exelon Project Olympus PowerPoint, April to
4 June 2014. And that is paginated in the upper
5 right as confidential D.C. 1119, AOBA DR 1-23,
6 attachment A, unredacted, beginning page 1 of 78,
7 correct?

8 A Yes.

9 Q Let me ask you to take a look at page --
10 well, let me ask you, first, what that document
11 describes in general terms.

12 A It looks like it's an updated document
13 that consolidates PHI's baseline synergy to the
14 cost to achieve and the allocation estimates
15 during phase 1 and 2 of the due diligence.

16 Q Turning to page 36 of 78 in that
17 document, again, with the pagination on the upper
18 right --

19 A Yes.

20 Q -- we come to a document entitled, The
21 details on steady-state O&M synergies - labor
22 synergies, right?

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1 A Yes.

2 Q Okay. Without getting into the specifics
3 of the document, does the column synergy (FTE)
4 toward the right hand side of the document
5 indicate in the bottom line an elimination of 397
6 full-time equivalent positions at PHI?

7 A Yes.

8 Q That -- go ahead.

9 A I don't know if it's specifically PHI or
10 holding company, but that was at a point estimate,
11 it looks like, in time.

12 Q And I take it from your answer that that
13 construct may have changed as Exelon's views of
14 merger synergies have evolved in the course of
15 this proceeding?

16 A I am sure it has. I have not been
17 updated on it. But Mr. Khouzami is leading that
18 portion of the merger integration and can get into
19 it with you.

20 Q Great. Thank you.

21 MR. COYLE: I have no further questions
22 at this point. The bench would advise me when I

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1 should move my exhibits, either wait or do it now.

2 CHAIRMAN KANE: As announced at the
3 beginning, we will move the exhibits when we're
4 finished with this portion -- with this witness.

5 It is ten minutes to 1:00. I believe we
6 will take a lunch break at this point and then
7 come back and start with DC SUN. We will come
8 back at 2:00.

9 (Whereupon, at 12:49 p.m., a lunch recess
10 was taken.)

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1 AFTERNOON SESSION

2 (2:08 p.m.)

3 CHAIRMAN KANE: Very good. We're now
4 back on the record in the evidentiary hearing in
5 formal case 1119. I believe the next party and
6 next intervenor to cross-examine this witness is
7 DC SUN.

8 MR. SPECK: Thank you, Madam
9 Chair.

10 CROSS-EXAMINATION

11 BY MR. SPECK:

12 Q Mr. Crane, good afternoon.

13 A Good afternoon.

14 Q My name is Randy Speck, and I represent
15 DC SUN in this proceeding. I would like to given
16 with a document that you've discussed a bit with
17 Mr. Coyle this morning, DCG 14. If you could find
18 that, please. This is confidential Exhibit
19 DCG 14.

20 A Yes, sir.

21 MR. LORENZO: Commissioners, we -- the
22 company has agreed to follow the same procedure

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1 with regard to the confidential document. The
2 questions can be in public session, but the
3 document will be kept confidential. Thank you.

4 CHAIRMAN KANE: Mr. Speck, I remind you,
5 the same concerns we have about identifying this
6 document.

7 MR. SPECK: Yes, I was just --

8 CHAIRMAN KANE: When you use them -- and
9 also this lacks the page numbers.

10 MR. SPECK: Yes, I'm aware of that now.
11 This was -- also, I might add, was identified as
12 one of our confidential exhibits which we'll no
13 longer need. It's also --

14 CHAIRMAN KANE: Does your confidential
15 exhibit have page numbers?

16 MR. SPECK: It's exactly the same as this
17 one.

18 CHAIRMAN KANE: All right. Thank you.

19 MR. SPECK: Also exactly the same as this
20 one is OPC (2E)-5. And that's an exhibit to
21 Mr. Morgan's amended direct testimony. And so
22 when that comes up, there will be a duplicate in

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1 the record for those documents.

2 CHAIRMAN KANE: Also without page
3 numbers, I assume.

4 MR. SPECK: It's exactly the same, Your
5 Honor. It's exactly the same as was produced to
6 us.

7 BY MR. SPECK:

8 Q This document, as was identified earlier
9 today, was a document produced to the parties as
10 confidential D.C. 1119, DC SUN DR 5-7,
11 attachment A. And it begins with page 72 and goes
12 through, I believe, page 108. And this is the
13 strategic plan that was the subject of Mr. Coyle's
14 examination of you this morning; is that correct?

15 A It was, yes. Or it is.

16 Q And it was from September of 2014; is
17 that right?

18 A I believe it is, yes.

19 Q And would you look at your testimony,
20 your -- excuse me, your rebuttal testimony at
21 page 11, please, at lines -- I'll let you get
22 there.

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1 A Yes, I have it.

2 Q Your rebuttal testimony, page 11,
3 lines 13 through 16. Could you read that to
4 yourself, please?

5 A I don't have the right one, I'm sorry.
6 Yes, I'm there now, sorry.

7 Q Could you read lines 13 through 16 to
8 yourself, please.

9 A Yes.

10 Q And isn't it true that, among other
11 things, Exelon addressed the financial risk to
12 substantial nuclear generation at its
13 September 2014 meeting to discuss its strategic
14 plan?

15 A Could you restate that?

16 Q Certainly. I'm talking about the 2014
17 strategic plan that is Exhibit DCG 14.

18 A Yes.

19 Q And am I correct that, among other
20 things, Exelon addressed the financial risks to
21 substantial nuclear generation in its strategic
22 plan?

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1 A Yes, we did discuss that.

2 Q And this was a comprehensive plan that
3 was presented at board at that September 2014
4 retreat; is that correct?

5 A Yes.

6 Q And you attended that meeting?

7 A Yes.

8 Q And the board approved this comprehensive
9 strategic plan at its retreat, didn't it?

10 A They approved where -- the direction that
11 we were heading, yes.

12 Q So as of September 2014, this plan
13 reflects the direction you were heading?

14 A Yes.

15 Q And would you look, please, at what is
16 identified as page 78 of 178.

17 A Yes.

18 Q This is the heading on the upper
19 left-hand side. And there it identifies five key
20 trends driving the view of the energy system of
21 the future. And the first of those is
22 conventional base load generation is being

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1 squeezed. Do you see that?

2 A Yes.

3 Q Don't you understand conventional

4 base load generation in the strategic plan to be a

5 reference to Exelon's substantial power generation

6 fleet?

7 A It's to our power generation fleet, yes.

8 Q Well, I think you agreed with Mr. Coyle

9 this morning that about 22,845 megawatts of that

10 generation fleet is nuclear and another 10,000 is

11 non-nuclear?

12 A Yes.

13 Q So the substantial part of the base load

14 generation would be nuclear; is that correct?

15 A Two-thirds, yes.

16 Q Is the full 10,000 megawatts of

17 non-nuclear all base load?

18 A No.

19 Q What proportion of that would be

20 base load?

21 A I don't have that off the top of my head.

22 Q Do you have an approximation?

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1 A No.

2 Q Would you look, please, at your testimony
3 at page 9, your rebuttal testimony at page 9.

4 A Yes.

5 Q At lines 18 through 20 -- excuse me. I'm
6 sorry. This is in your direct testimony, I
7 believe. Yes, your direct testimony at page 9,
8 lines 18 through 20.

9 A Yes.

10 Q And there you identify the proportions of
11 Exelon's pro forma earnings projected for 2015 and
12 '16 that will be derived from its regulated
13 distribution business. Is the flip side of that
14 also true, then, that about 42 percent to
15 39 percent would be attributable to the generation
16 business?

17 A Yes.

18 Q Now, would you look again at Exhibit
19 DCG 14, confidential Exhibit DCG 14, at page 5
20 where we were before. And does the strategic plan
21 attribute the squeeze on the conventional
22 base load generation to two factors: The impact

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1 of increasing renewables penetration and the
2 increasing distributed generation?

3 A Yes. From what we're modeling. It's not
4 a reality at this point, but what we suspect the
5 penetration to be.

6 Q And in this context, distributed
7 generation includes distributed solar generation
8 on rooftops, doesn't it?

9 A Yes.

10 Q And the increase in distributed
11 generation is attributed, at least in part, to the
12 increasing pace of game-changing leapfrog
13 technologies; is that correct?

14 A Yes.

15 Q And the increasing market share for
16 renewable generation is driven by increasing
17 social preference for clean energy, government
18 subsidization and technological improvements; is
19 that correct?

20 A Yes.

21 Q Would you look, please, at the page
22 that's identified in the upper left-hand corner as

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1 99 of 178.

2 A I'm there.

3 Q And if you look at the third bullet on
4 that page, did Exelon conclude in September of
5 2014 that environmental policy on greenhouse
6 gases, pollution control, subsidies and renewable
7 portfolio standards is changing the supply stack,
8 resulting in the conventional base load generation
9 squeeze following the increased penetration of
10 renewables?

11 A Yes, that's what it says.

12 Q And that was the policy that was
13 considered at that September 2014 retreat; is that
14 correct?

15 A No, it's the reality of the national and
16 local policies on greenhouse gases and pollutants
17 that are causing that outcome.

18 Q And that outcome was one of the factors
19 that was driving your strategic plan; is that
20 correct?

21 A Yes. We're modeling the numbers that you
22 saw previously. We believe that that will be the

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1 penetration of distributed generation and
2 continued renewables coming in.

3 Q Well, this environmental policy that's
4 described on page 99 of 178, could you tell me
5 whether that's the same policy that's referred to
6 on page 89 of 178? If you look in the first
7 numbered paragraph on that page in the next to the
8 last line, where it refers to continued policy
9 support for renewables, is that the same policy
10 that is being referred to on page 99?

11 A No.

12 Q How does it differ?

13 A 99 is referring to the EPA standards
14 where the EPA is not driving a technology; they're
15 driving an outcome. 111(d), the MATS rules, those
16 type of policies are creating the situation on 99.

17 On 89, that would be more of the tax base
18 incentives and/or the renewable portfolio
19 standards that are calling for a technology versus
20 an outcome.

21 Q Well, if I could call your attention to
22 page 99 in that third bullet point, reference to

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1 subsidies and renewable portfolio standards.

2 A Yes. Okay. That's in there too, but
3 it's also -- the environmental policy at the
4 beginning is the EPA --

5 Q There's fair. It's broader than on
6 page 99?

7 A Yes, sir.

8 Q Okay. So as reflected in the strategic
9 plan that the board adopted in September of 2014,
10 Exelon is concerned that renewable portfolio
11 standards that are designed to increase the
12 penetration of renewables will lower the demand
13 for conventional base load generation, lower
14 wholesale energy prices, and thereby squeeze the
15 margins for Exelon's competitive market nuclear
16 generation plants; is that correct?

17 A What this document does is it allows us
18 to tell the board what we think the trends are.
19 And we think it is a reality, and nobody has
20 modeled the numbers, I believe, the way that we've
21 modeled them, but we think there's going to be a
22 10 percent penetration of distributed generation.

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1 It's a reality, so we believe it's a
2 reality. It's our projection of the future, and
3 we need to adjust our investment theses, our
4 business plans and our strategic plans to reflect
5 that.

6 Q And the reality is that that increased
7 penetration is going to have an impact on your
8 generation business; is that correct?

9 A It -- well, it could have -- it will have
10 an impact, the way we model it, on the central
11 base load generation, but we're also modeling our
12 investment in development in that business inside
13 of the GenCo. So it's a shift of where capital is
14 going, and we have to evaluate it for further
15 central power plants that we're building. We have
16 plants in Texas that are on the drawing board. We
17 have a plant in Maryland. We have a plant in
18 Massachusetts. So it informs how you derive your
19 investment theses going forward.

20 Q Would you look, please, at your rebuttal
21 testimony on page 15.

22 A Okay.

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1 Q At line 9, there's a question number 25:
2 But doesn't Exelon have an incentive to maximize
3 generation prices?

4 Isn't the answer to that yes?

5 A We have the incentive to maximize
6 generation profits. We don't -- it's not legal to
7 manipulate prices.

8 Q But within the law, you have actually a
9 fiduciary responsibility to maximize profits for
10 your generation business, don't you?

11 A We do, within reason.

12 Q Within the law?

13 A Within the law. And good business
14 practices.

15 Q Okay. Would you look again at DCG 14,
16 the 2014 strategic plan, and look, please, at the
17 page that is numbered 86 of 178. Do you have that
18 page?

19 A Yes.

20 Q Look at the first bullet, please. And
21 there's a reference there to government
22 subsidization.

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1 A Yes.

2 Q What do you include in government
3 subsidization?

4 A The primary is the production tax credits
5 on wind or investment tax credits on solar.

6 Q Would you also consider retail net
7 metering to be a subsidy?

8 A Yes, we do.

9 Q Do you understand the strategic plan to
10 include retail net metering as one of the implicit
11 subsidies for uneconomic distributed generation?

12 A I believe that net metering at the
13 conception did not understand some of the
14 unintended consequences of its reality. What we
15 have been vocal about is subsidizing one economic
16 class on the back of another economic class. So
17 those that can afford the solar panel and sign a
18 long-term contract and enjoy the capability of
19 selling their excess power at a full retail rate
20 back on the system, we believe has impact on those
21 that are not utilizing solar or cannot afford
22 solar.

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1 So what we've been looking at is, what is
2 a fair way to allow the solar generator to be able
3 to utilize the grid while paying their fair share?

4 Q But you still considered net metering to
5 be a government subsidy; is that correct?

6 A Yes.

7 Q In the strategic plan, this squeeze from
8 increased renewable penetration and increased
9 distributed generation being applied to
10 conventional base load generation was considered a
11 threat to Exelon's business, wasn't it?

12 A To its current business plan, yes.

13 Q And you identified that several times in
14 this strategic plan --

15 A Yes.

16 Q -- correct?

17 A In the steps that we potentially could
18 take to accommodate in -- within our business
19 modeled that potential reality.

20 Q And the strategic plan identifies
21 renewable legislation as part of that threat,
22 doesn't it?

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1 A I believe it does, yes.

2 Q And didn't the strategic plan conclude
3 that cannibalization of our core business is the
4 most obvious risk as distributed generation and
5 microgrids both reduce load growth and provide
6 energy that could be served by Exelon's
7 centralized nuclear power generation fleet?

8 A Yes.

9 Q And that -- by cannibalization you mean
10 it was a reduction in demand from the central
11 stations, right?

12 A Yes. Not only Exelon's central stations.
13 Central station plants in the interconnect.

14 Q So isn't it a risk that if Exelon's
15 utilities facilitate the growth of distributed
16 generation, it would cannibalize Exelon's
17 competitive generation business?

18 A We're not trying to stop distributed
19 generation in this analysis. What -- we're trying
20 to say it's a reality, and how do we adjust the
21 business plan to do that?

22 We believe it's a reality. We're

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1 modeling a 10 percent penetration. How do we
2 adjust our business plan and our investment theses
3 to support that?

4 Q But the reality, as you analyzed it, was
5 that if distributed generation increases, it would
6 cannibalize the business on the generation side.

7 A It's not if. We believe it is, and this
8 document says that.

9 Q Let me change subjects now. Could you
10 please go to your Exhibit JA (4A)-2, which is the
11 compilation of the commitments.

12 A Okay.

13 Q Does this exhibit include all of the
14 formal commitments that the joint applicants have
15 made in this proceeding with regard to the
16 proposed merger?

17 A I believe it does, yes.

18 Q And I believe you were asked yesterday by
19 Mr. Gray some questions with regard to the
20 Commission's public interest factors, and
21 particularly public interest factor 7. Do you
22 recall that?

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1 A Yes.

2 Q And public interest factor 7 is the
3 conservation of natural resources and preservation
4 of the environment. Can you identify for me which
5 of the commitments in Exhibit JA (4A)-2
6 specifically address the public interest factor
7 seven, the conservation of natural resources and
8 preservation of the environment?

9 A Item 6, the investment fund, could
10 potentially go for energy efficiency, which would
11 be one. Energy efficiency and demand response,
12 continuing to maintain that.

13 Q That's commitment 23?

14 A Yes.

15 Q On page 4?

16 A Yes. I think those are the two primary
17 that would go under that.

18 Q Let's talk about each of those. First of
19 all, with regard to commitment number 6, there's
20 nothing in commitment number 6 that requires any
21 funds to be allocated to programs that will
22 promote public interest factor 7, is there?

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1 A There is a reference to that they could
2 be directed towards that, but we've left that to
3 the Commission to decide.

4 Q And so there's no commitment from Exelon
5 that any of that money goes to those projects, is
6 there?

7 A No. It's referenced as a recommendation,
8 but not a commitment.

9 Q And I believe Mr. Coyle asked you this
10 morning that if this merger is approved and the --
11 these particular commitments are adopted and the
12 customer investment fund is adopted as it is
13 proposed, there would be a check cut for
14 \$33.75 million; is that right?

15 A Yes.

16 Q Okay. Let's look at commitment
17 number 23. This commitment only addresses the
18 maintenance and promotion of existing energy
19 efficiency and demand response programs; is that
20 correct?

21 A Yes.

22 Q And do you know whether all of those

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1 existing programs have been approved by this
2 Commission?

3 A I do not know that.

4 Q And commitment 23 doesn't include any
5 additional programs beyond what already exists; is
6 that correct?

7 A It does not.

8 Q And is it your understanding that PHI and
9 PEPCO have current commitments to maintain and
10 promote their existing energy efficiency and
11 demand response programs?

12 A I'm not aware of them as being
13 commitments. I'd have to verify that.

14 Q Do you know if they're required by orders
15 of this Commission?

16 A I do not.

17 Q Do you have any reason to believe that in
18 the absence of a merger, PHI and PEPCO will not
19 maintain and promote their existing energy
20 efficiency and demand response programs?

21 A You would have to ask Mr. Rigby that.

22 Q I certainly will.

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1 Do you have any idea what the current
2 existing energy efficiency programs are that
3 Exelon commits to maintain and promote?

4 A I read through them quite a while ago. I
5 don't have them off the top of my head.

6 Q Do you know what role the utility plays
7 in the District of Columbia for energy efficiency
8 programs relative to the sustainable energy
9 utility?

10 A I know they're to administer those
11 programs.

12 Q Okay. Well, if you look, please, at your
13 rebuttal testimony at the first page, please.

14 A Yes.

15 Q And lines 16 through 18.

16 A Rebuttal testimony?

17 Q Your rebuttal testimony, lines -- the
18 first page, lines 16 through 18.

19 A Yes.

20 Q When you referred to the numerous
21 commitments there, the only ones that you're
22 referring to that relate to public interest

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1 factor 7 are number 6 and number 23; is that
2 correct?

3 A I believe so, from that review.

4 Q And that's true also on page 3 when you
5 refer to numerous commitments at lines 12 and 13?

6 A Yes.

7 Q And am I correct that there's no
8 commitment addressing how the joint applicants
9 plan to adapt to the evolving role of distribution
10 utilities, including dealing with new and evolving
11 technologies?

12 A No. I haven't seen anybody that has a
13 plan on that yet. We're developing pilots at
14 three of our utilities right now to understand
15 that better, and we're participating in the New
16 York proceeding to understand how this will all
17 evolve. I haven't seen a real clear road map on
18 the technology application and the operation
19 utilization of that within a system.

20 Q And this is what you called this morning,
21 I believe, the grid of the future?

22 A Yes.

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1 Q But there's no commitment related to the
2 grid of the future that Exelon is making in this
3 proceeding?

4 A We have not in this proceeding. We have
5 in a partial settlement in other proceedings.

6 Q Would you look at your rebuttal testimony
7 at page 8, please. At lines 12 through 15, could
8 you just read that to yourself, please.

9 A Yes.

10 Q Has Exelon historically attempted to
11 implement best practices, as you describe that
12 term in your testimony, at its distribution
13 utilities?

14 A We do.

15 Q And do those best practices apply to
16 programs that are intended to address conservation
17 of natural resources and preservation of the
18 environment?

19 A Yes, they do.

20 Q How exactly does Exelon go about
21 identifying what the best practices are?

22 A We have peer groups that -- across the

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1 companies with corporate functional area managers
2 that identify, through gap analysis or through
3 specific goal-setting, safety practices,
4 lock-out/tag-out practices, most efficient way to
5 manage outages, those type of things.

6 And in the environmental space, you know,
7 the SF6 reduction in our breakers and the
8 specification of more environmentally friendly
9 components, looking at gas-cooled transformers
10 versus oil-cooled transformers, PCB removal
11 projects, things like that, remediation of
12 manufactured gas facilities, sharing of best
13 practices and lessons learned on those type of
14 things.

15 Q Does that apply as well to distributed
16 generation and particularly to renewables?

17 A The utilities -- each one has a little
18 bit different -- aren't allowed to develop the
19 generation. Developing the microgrid concept to
20 facilitate the generation has been the focus.

21 None of the utilities have renewables.
22 They -- through regulatory proceedings, they

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1 contract for the renewables, so they don't own the
2 generation themselves.

3 We do have a group, a peer team that we
4 put together to -- across the companies to learn
5 and share the technology and what's going on with
6 the microgrids and how you better facilitate
7 distributed generation. It's new. Nobody has the
8 clear road map. And, you know, we're working with
9 EPRI and other outside organizations to tap
10 everybody's mind and, as I said, stay very close
11 to New York.

12 Q And you would agree, Mr. Crane, wouldn't
13 you, that utilities have a role in facilitating
14 distributed generation, things like
15 interconnections for instance; is that correct?

16 A They do.

17 Q And so have you looked to other utilities
18 to determine best practices with regard to things
19 like interconnections for distributed generation?

20 A We have.

21 Q So is it your testimony, then, that
22 your -- that these best practices have been

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1 implemented in the distribution utilities that
2 currently exist at Exelon? I'm talking about
3 ComEd, PECO and BGE.

4 A You know, this is very new. We do not
5 have significant penetration of distributed
6 generations within our footprints now.
7 Mr. O'Brien, when he's up, who is directly
8 responsible for the utilities, could answer more.
9 Some of the things that have been in discussion
10 is, how do you identify constrained zones, how do
11 you facilitate the projects, and who pays for the
12 projects that makes the grid more available to
13 distributed -- there are some -- as you know,
14 there are some areas that are constrained just
15 based off of the design of the system. That kind
16 of thing has been -- is being discussed.

17 Q Would you say that ComEd has implemented
18 best practices with regard to things like
19 interconnections for distributed generation?

20 A I think they have practices. But again,
21 to say they're the best right now, because this is
22 very new -- you know, we have to continue to learn

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1 and evolve in that area, but -- you know, it's a
2 heavily urban-based system, and it's just now
3 starting to have more conversation about more
4 distributed generation coming in.

5 The real focus at ComEd has been a pilot
6 project with the Illinois Institute of Technology,
7 a police station and a hospital on developing a
8 microgrid that will have distributed generation on
9 it owned by those facilities, but how we develop
10 the controller, the microgrid controller, to
11 support the distributed generation and the
12 improved reliability for those facilities.

13 Q Have you made any assessment to determine
14 whether PEPCO has best practices with regard to
15 facilitating distributed generation and that
16 they're, in fact, better than ComEd?

17 A I have not myself personally looked at
18 that.

19 Q Is there anyone who is going to be
20 testifying who has looked at that?

21 A You could ask Mr. O'Brien.

22 Q Okay. Are best practices for

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1 conservation of natural resources and preservation
2 of the environment reflected in Exelon's corporate
3 guiding principles that are approved by the
4 company's executive committee?

5 A The guiding principles would be at the
6 forefront of our management model. And within the
7 management model, the management control documents
8 would be identified that -- for the environmental
9 area like that, yes.

10 Q Has it been Exelon's corporate guiding
11 principle since June of 2013 that state law should
12 be -- should strictly limit the size of customer
13 generation facilities to on-site generation need?

14 A I'm not aware of what you're speaking of.

15 Q Could you look, please, at the exhibit
16 that we've preliminarily identified as DC SUN 7.

17 MR. SPECK: And, Your Honor, I would
18 point out that this is also identified as
19 DC SUN (A)-4 and accompanies Ms. Schoolman's
20 testimony. I don't know whether we should mark it
21 separately or just leave it and reference that
22 exhibit. I'll do whatever you would like.

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1 CHAIRMAN KANE: This is not an exhibit
2 that's duplicated in D.C. government exhibits;
3 this is a separate new one?

4 MR. SPECK: This is a different exhibit.
5 It's from the same document response, I believe.

6 CHAIRMAN KANE: But it's a different
7 exhibit. Different pages, different --

8 MR. SPECK: Yes.

9 CHAIRMAN KANE: Then you need to mark it
10 separately.

11 MR. SPECK: Okay. We'll mark this as
12 DC SUN 1, Cross Exhibit 1.

13 CHAIRMAN KANE: So marked.

14 (DC SUN Cross Exhibit Number 1 was marked
15 for identification.)

16 MR. SPECK: And I believe this is a
17 confidential exhibit, but I will, again, avoid
18 going into things that I think will be
19 confidential. I think these are all -- can be
20 examined in the public hearing.

21 CHAIRMAN KANE: Mr. Lorenzo?

22 MR. LORENZO: We have no objection, Your

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1 Honor.

2 BY MR. SPECK:

3 Q If you would look, please, at what's been
4 marked as DC SUN Cross Exhibit 1, and would you
5 look, please, at the page that is marked -- let me
6 first identify it. This is entitled, EU states
7 net metering update. And EU, I believe,
8 Mr. Crane, refers to Exelon Utilities; is that
9 correct?

10 A Yes.

11 Q And it's dated February 19th, 2014. And
12 it appears to be a PowerPoint presentation. And
13 the pages are numbered after the first cover page,
14 and I'm going to be referring to those numbers
15 that are in the lower left-hand corner. If you
16 could look, please, at page 1. It's headed,
17 Exelon guiding principles for net metering policy.

18 And if you look at the fourth bullet, was
19 it Exelon's -- one of Exelon's guiding principles
20 that state laws should strictly limit the size of
21 customer generation facilities to on-site
22 generation need?

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1 A Yes. That's the recommendation from the
2 team is that the net metering should be limited to
3 the on-site facilitation versus larger industrial
4 installations.

5 Q And in the next to the last bullet on
6 that page, was it also a guiding principle that
7 states should not permit virtual net metering or
8 community generation?

9 A Yes. We think there's inequities that
10 are in the current net metering legislation or
11 guidelines that is causing in some states a
12 significant issue, and before that happens within
13 our areas, we think it should be addressed to
14 remove those inequities.

15 California is a perfect example of the
16 situation there. There has been a significant
17 incentive to put rooftop solar in in California.
18 Next year they project negative prices of \$300 a
19 megawatt hour because of overgeneration not
20 matching load requirements to the subsidized
21 components, and those that are paying for that,
22 those subsidies, and that perturbation in prices,

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1 are the low-income inland families. And we're
2 seeing that in Arizona and you're seeings in
3 Hawaii.

4 And so before it gets too large, we think
5 that something should be done to address the
6 inequities.

7 Q Would you look, please, at page 16 of
8 your rebuttal testimony.

9 A Yes.

10 Q Beginning at line 18 and continuing over
11 to page 17 at line 1, could you just read that to
12 yourself, please.

13 A Yes.

14 Q Am I correct that Exelon will continue to
15 participate in the dialogue with legislators and
16 regulators about what will be in the public
17 interest?

18 A Yes.

19 Q If this merger is approved, will Exelon
20 advocate for its corporate guiding principles with
21 respect to community solar with legislators and
22 regulators in the District of Columbia?

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1 A If it is a law in the District, we'll
2 honor the law. If it's the -- if it's the will,
3 we think we should have a voice. We think we
4 should point out the pros and cons, like everybody
5 has the right to -- to speak. But whatever the
6 outcome is, we honor the outcome.

7 Q But in terms of advocacy and the dialogue
8 that you talk about in your testimony, is it fair
9 to say that you will advocate for your corporate
10 principles in legislation in the District of
11 Columbia?

12 A Yes.

13 Q Will Exelon advocate for its corporate
14 guiding principle with respect to limiting the
15 size of customer generation facilities to on-site
16 generation need?

17 A We think that's the most fair and
18 equitable approach, yes, for all consumers.

19 Q Will Exelon advocate for limitations on
20 the renewable portfolio standard objectives in the
21 District of Columbia?

22 A No.

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1 Q Is that a commitment?

2 A It's a position we've taken. We're not
3 advocating for or against. What we would like for
4 many jurisdictions, and it's optional within D.C.
5 if they're going to participate with 111(d), then
6 instead of pointing to technologies, the solar
7 industry or the wind industry or the nuclear
8 industry, that we look at the outcomes that we're
9 trying to create for the investments that we're
10 making. If it's clean air, zero carbon or low
11 carbon, then let's come up with a plan that
12 addresses the market for something like that
13 versus a technology.

14 Q Am I correct that Exelon did advocate for
15 limiting the renewable portfolio standards in
16 Maryland?

17 A I believe there was -- there was advocacy
18 not to increase the renewable because of the
19 impact on the consumers. It did not have a rate
20 cap.

21 So in other jurisdictions, there's rate
22 caps. There's aspirational goals, but there's

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1 consumer protection built in. And an increase of
2 use of technology for no goal or outcome desired
3 and exposing the consumer to that we do not think
4 it should be increased just because the wind
5 industry or the solar industry wants to sell more
6 product.

7 Q But you would defer, wouldn't you, to the
8 will of the council in the District of Columbia
9 and the citizens of the District of Columbia?

10 A We'll always ask to preserve the right to
11 state our opinion. If you get to state your
12 opinion in the proceeding, we should be able to
13 state our opinion in the proceeding. Whatever
14 commission or legislative body approves at the
15 end, we'll support the implementation. If we
16 think consumers are being harmed by a bad policy,
17 we're not going to step back and -- and not say
18 anything. It's just not the way you operate a
19 utility.

20 Q Let me change the subject a bit now and
21 go -- if you could, could you locate
22 Ms. Schoolman's testimony. That's DC SUN (A),

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1 Exhibit (A).

2 A Oh, DC SUN.

3 Q It's -- you have a very efficient
4 assistant.

5 A I need one, because I can't keep up with
6 this paper.

7 Q I know, it's a chore. Looking at your
8 rebuttal testimony, if you could, at page 22 at
9 lines 1 and 2 --

10 A Yes.

11 Q -- you indicate that many of the
12 intervenors' proposals seemingly have little or
13 nothing to do with this case.

14 And I just wanted, first of all, to know
15 whether you intended to include Ms. Schoolman's
16 proposals as well?

17 A Where would I find her proposal?

18 Q Page 54 through about page 60.

19 A Okay. Yeah. There are items in here
20 that we don't feel are part of this proceeding for
21 us to be increasing solar developing or providing
22 finance for distributed generation. I'm not sure

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1 why PEPCO should be held responsible to finance
2 somebody else's solar generation. There's things
3 like that in here that are not -- we don't think
4 are part of this proceeding and think they are a
5 stretch.

6 Q Did you --

7 A We should make sure that we're able to
8 make interconnects on a very timely fashion.
9 There's things in here that you should do as a
10 utility, and other things we think are a stretch
11 to be asking for.

12 Q Let me just go through some of those, but
13 first of all, did you look at Ms. Schoolman's
14 testimony before you prepared your testimony?

15 A I think I saw some parts of it. I would
16 have breezed it through it. I wouldn't have read
17 it in full detail.

18 Q Well, let me ask you about some specific
19 things in her testimony, then. For instance, on
20 page 54, at lines 3 through 4, she proposed that
21 Exelon commit to specific solar usage objectives
22 each year for each ward in the District.

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1 Is it your position that that has -- that
2 proposal has nothing -- little or nothing to do
3 with the public interest factor 7?

4 A I don't -- somebody could link it to 7,
5 but coming up with objectives for a technology to
6 be utilized without a stated desired outcome
7 besides you want to sell more solar panels or
8 install more solar panels is not something that we
9 think we should do. Who is going to subsidize
10 that?

11 The people that can afford the solar
12 panels are going to -- they have a great credit
13 rating, they can sign the 20-year contract, they
14 can do all of that. Somebody is going to end up
15 paying for that on the system because of the net
16 metering design of the current net metering rules.

17 Q So do you have an objection, then,
18 Mr. Crane, to the existing specific solar usage
19 objectives that are set in the District of
20 Columbia?

21 A No. This is saying that we are supposed
22 to set them for the wards going forward.

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1 Q Would you -- I think what Ms. Schoolman
2 is suggesting here is that they commit to doing
3 that. And you're -- you're saying you don't think
4 that has anything to do with this case.

5 A I think if there needs to be a dialogue
6 on solar and how much solar is subsidized in
7 advance in the District, then that should be a
8 conversation. I don't think that we should be
9 taking -- just because it's a negotiated or we
10 would be into some negotiated settlement or take a
11 term that has no outcome, understanding clearly
12 the outcome of this objective and how it affects
13 the consumer.

14 So to blindly say we're going to support
15 something going forward without voicing our
16 opinion or committing to something, I don't think
17 that's right.

18 Q Looking at Ms. Schoolman's testimony at
19 page 54, lines 12 through 13, I think I understood
20 you a minute ago to say that you agreed that her
21 proposal that Exelon commit to expedited
22 procedures for distributed solar interconnections

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1 and net metering does have something to do with
2 this proceeding.

3 A I think, regardless of this proceeding,
4 if there is an interconnect request within a
5 jurisdiction that has a net metering policy that
6 supports distributed generation, a utility should
7 ensure they have a prompt support of that request.
8 That's what I said.

9 Q Would you look at page 54, lines 14
10 through 15.

11 A Yes.

12 Q Would you agree that Ms. Schoolman's
13 proposal that Exelon commit to expedited
14 distribution system upgrades where necessary to
15 provide support for solar installations -- you
16 agree that that has something to do with this
17 proceeding?

18 A I don't. I think if we're going to have
19 a conversation about large-scale distributed
20 generation being put on the system, that we need
21 to know who is going to pay for it. Just because,
22 as I said, somebody can afford a solar panel

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1 doesn't mean the lower income or those that can't
2 can afford that should be subsidizing it. There
3 is an expense to a large-scale build-up.

4 Let's have the conversation about who is
5 going to bear the expense. Is the solar panel
6 provider that's selling these solar panels going
7 to contribute to that or is it going to be on the
8 back of the other customers that aren't? It's a
9 basic equity issue here.

10 Q Well, talking about the equity issue,
11 would you look at Ms. Schoolman's testimony at
12 page 55, line 17 through 19.

13 A Yes.

14 Q Is it also your view that Ms. Schoolman's
15 proposal that Exelon commit to partner with
16 public, private and civic organizations in
17 low-income communities to market solar has nothing
18 to do with this proceeding?

19 A I don't think it does. Again, we have to
20 know what's the larger plan, what's the outcome,
21 what's the objective, and who is going to pay for
22 it.

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1 Q And that's true with the other proposal
2 that Ms. Schoolman's makes? Is that your
3 testimony?

4 A Yes.

5 Q Thank you. Mr. Crane, I have no further
6 questions.

7 CHAIRMAN KANE: Thank you. Ms. White has
8 left the room for a moment. If someone would let
9 her know. Thank you, Ms. Francis.

10 (Pause.)

11 CHAIRMAN KANE: Ms. White, it is your
12 turn.

13 MS. WHITE: Thank you. Thank you, Madam
14 Chair.

15 CROSS-EXAMINATION

16 BY MS. WHITE:

17 Q Good afternoon, Mr. Crane. You'll be
18 glad to know that my colleagues have covered
19 virtually every question that I have for you.
20 Nonetheless, I do have a couple of questions that
21 came up in their cross of you.

22 In discussions with OPC counsel,

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1 Mr. Gray, yesterday, you were discussing at one
2 point the D.C. undergrounding legislation, and you
3 called the PLUG legislation unique. Can you
4 elaborate on that for me?

5 A I think the financing mechanism that's
6 being utilized -- it's not something that I've
7 seen typically. It's -- you know, if we're doing
8 a large-scale project buildout of a system or a
9 hardening of a system, the capital is accessed
10 through the capital market or the debt markets by
11 the utility.

12 The support that the city was able to
13 create with the bonds and the recovery mechanism,
14 it may be in water systems and other systems;
15 that's more typical. But in electric
16 infrastructure, and gas infrastructure, it is
17 unique, and we think it's a good model.

18 Q So if I'm an Exelon shareholder, should I
19 view the undergrounding legislation in the
20 District as a beneficial element of your
21 acquisition?

22 A I think, yes, because we're putting

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1 capital to work and we'll get a return on the
2 share of equity that's raised from the
3 shareholders. They'll get a return on it.

4 Q And -- I apologize, Mr. Crane. I'm
5 appearing on behalf of the District of Columbia
6 Water and Sewer Authority, in reference to water.

7 A Yes, I knew that.

8 Q I hadn't introduced myself.

9 You were also talking to Mr. Gray about
10 the Maryland multi-party settlement?

11 A Yes.

12 Q And you were -- in those discussions, you
13 were talking about whether certain elements would
14 be ratepayer-funded or Exelon-funded. Do you
15 recall that discussion?

16 A Yes.

17 Q Do you have that available to you,
18 please? It was OPC 7.

19 A Okay.

20 Q I'm looking at page 9. It's actually
21 page 27 of 70 at the right-hand top corner.

22 A Okay. Exhibit (sic) 9. Okay. What

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1 page?

2 Q Page 27 of 70.

3 A Okay.

4 Q In paragraph 9, the settlement discusses
5 a green sustainability fund. Do you see that?

6 A Yes.

7 Q How are those amounts set forth in
8 paragraph 10 of the green sustainability fund
9 allocated among jurisdictions, if you know?

10 A I think it's proportional as we've done
11 everything else, is my understanding.

12 Q On a customer count basis?

13 A Yes, ma'am.

14 Q Okay. And how -- do you anticipate that
15 any of the Exelon utilities will recover the green
16 sustainability commitment in their rates or is
17 this an Exelon non-ratepayer-funded investment?

18 A Non-ratepayer-funded investment.

19 Q Thank you. Now, if you could turn to
20 page 64 of that same exhibit.

21 A Yes.

22 Q I believe that's your -- Exelon's letter

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1 agreement with Prince George's County; is that
2 correct?

3 A Yes.

4 Q And in that letter agreement, I believe
5 that Exelon has -- commits to develop certain
6 solar facilities on Prince George's County assets?

7 A Yes.

8 Q Now, will those solar facilities -- will
9 the cost of those solar facilities be recovered in
10 PEPCO's Maryland rates?

11 A My understanding is they will not.

12 Q You also had discussions yesterday and
13 then again this morning with Mr. Coyle where you
14 were discussing the CIF and how it was developed.

15 A Yes.

16 Q And in those discussions, you
17 mentioned -- I believe I heard you correctly --
18 that you thought that the CIF dollars, say the
19 \$128 that we're talking about in this case, would
20 be assigned on a meter basis?

21 A Yes.

22 Q Not on a customer basis?

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1 A No, it's a meter basis.

2 Q So, for example, a customer like the
3 General Services Administration that has who knows
4 how many hundreds of meters across the District,
5 they would get \$128?

6 A I may have misspoke. Khouzami is the
7 best one to ask that. It's think it's on
8 meters -- I believe it's meters. But -- he is not
9 in the room, but he'll be able to answer that too.

10 Q Okay. Thank you.

11 Staying with the CIF for a minute,
12 yesterday in your discussions with Ms. Francis
13 about development of the CIF -- and I understand
14 that Mr. Khouzami has the details, but you were
15 discussing this issue with Ms. Francis, and I
16 believe you testified that the joint applicants
17 came up with the idea to allocate the pot of CIF
18 dollars between jurisdictions on a customer count
19 basis because that approach had been approved in a
20 prior proceeding.

21 A Yes. It's that, and also it was
22 validated based off of where the synergies would

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1 come from in the different areas, but Carim can
2 cover that in detail with you.

3 Q The other thing that you testified to
4 yesterday, I think you confirmed this, but --
5 here's my confusion. If you are stating that the
6 allocation of the CIF between jurisdictions was
7 adopted because of something that the Maryland
8 commission did in the Constellation/Exelon merger,
9 that doesn't quite make sense to me because the
10 Constellation/Exelon merger only involved one
11 jurisdiction. Do you see my confusion?

12 A No, it was a way -- do you distribute it
13 by load? Do you distribute it by demand? Do you
14 distribute it by just the raw customer account?

15 There's multiple ways -- as I said
16 yesterday, I don't think it's an art. I think
17 Ms. Francis pointed out, well, why didn't you do
18 it by rate base? There are -- even within a
19 single jurisdiction, there's multiple ways that
20 you could allocate it. And by customer count
21 seemed like the fairest on the upfront
22 methodology. And then, as the synergies continue

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1 to flow through rates, it will be based off of --
2 if it's a volume metric, based off of demand.

3 Q Okay. Do you have AOBA Exhibit Number 1
4 available to you, please?

5 A I do.

6 Q That's the order in the Constellation
7 case. Sorry, AOBA 11.

8 A I have it.

9 Q My recollection of the Constellation case
10 is that the customer investment fund was not a
11 proposal by either Exelon or Constellation, or
12 even by the settling parties in that case, but
13 it's an idea that the Maryland commission itself
14 came up with.

15 Is that your recollection as well?

16 A It had been used in multiple proceedings
17 in Maryland. I think it was used in the
18 Allegheny/FirstEnergy. It was used in a
19 settlement with EDF and Constellation, and that's
20 why we used it in the Constellation/Exelon
21 proceeding.

22 Q Are you talking about the direct bill

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1 credit or the customer investment fund?

2 A No, no, no. You're right. I confused
3 the two. You're right. You're right.

4 Q Okay. So you've just unconfused me.

5 A Okay. Sorry.

6 Q Thank you.

7 A I was mixing up my...

8 Q Can you turn to your -- page 2 of your
9 rebuttal testimony, please.

10 A I'm there.

11 Q At lines 22 and 23 -- line 23
12 specifically -- you make reference to the unique
13 challenges the District faces. Could you
14 elaborate on that for me?

15 A You know, there's infrastructure issues.
16 There's employment issues. As we talked through
17 with the different leaders in the wards hearing --
18 even the wards have different problems. Ward 3
19 and 4, 6, 7 and 8 -- so it's those type of issues.

20 Q Okay.

21 MS. WHITE: That's all I have, Madam
22 Chair.

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1 Thank you, Mr. Crane.

2 THE WITNESS: Thank you.

3 CHAIRMAN KANE: Thank you.

4 Yes, NLC.

5 MS. WEIN: Thank you.

6 CROSS-EXAMINATION

7 BY MS. WEIN:

8 Q Mr. Crane, good afternoon.

9 A Good afternoon.

10 Q I'm Olivia Wein with the National

11 Consumer Law Center, also representing National

12 Housing Trust and National Housing Trust

13 Enterprise today.

14 And to provide a context for the few

15 questions I have left, because a lot of what I was

16 going to cover has been covered, our organizations

17 have an interest in energy efficiency and

18 affordable multi-family housing, as well as

19 preserving low-income consumer access to

20 affordable energy.

21 Perhaps to make the few questions I have

22 easier, there are three documents primarily -- the

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1 New Jersey settlement, Joint Applicants' (4A)-1,
2 OPC Exhibit 7, the Maryland settlement, and the
3 current commitments in the Joint Applicants'
4 (4A)-2. And I just have a few questions on those
5 three --

6 A Okay.

7 Q -- documents.

8 So first turning to the New Jersey
9 settlement commitment, page 15 of 42, I believe?

10 A Page -- I'm sorry --

11 Q I'm sorry. Page 15 of 42 or, if you look
12 at the bottom, I think it's page 13, maybe.

13 A Yes, I'm there.

14 Q Okay. I'm looking at the commitment
15 regarding low-income consumers, commitment 24.

16 A Yes.

17 Q And it says there that the joint
18 applicants have agreed to maintain, enhance and
19 promote programs that provide assistance to
20 low-income consumers?

21 A Yes.

22 Q And then sort of turning to the Maryland

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1 settlement, Exhibit 7, OPC Exhibit 7, commitment 6
2 on page 2 in Exhibit B. It's also the low-income
3 commitment.

4 A Yes.

5 Q Okay. Again, there, there's similar
6 language about a commitment to maintain, enhance
7 and promote programs that provide assistance to
8 low-income customers?

9 A What was the page again? I'm sorry.

10 Q Oh. It is page 2 in Exhibit B. It's
11 commitment 6 regarding low-income customers in
12 Maryland -- in the Maryland settlement.

13 A Okay. I'm aware that they're worded the
14 same, yes.

15 Q Yes. And so then -- now, turning to the
16 current commitments in D.C., in (4A)-2, looking at
17 the low-income commitment 21, 4 of 17, I
18 believe --

19 A Yes.

20 Q Okay. The wording is a little bit
21 different. It says that PEPCO will maintain its
22 low-income customer assistance programs pursuant

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1 to current requirements and commitments. So it's
2 maintain, but not enhance and promote as in the
3 other two settlements.

4 So my question is was there some
5 consideration by the joint applicants not to
6 enhance and promote the low-income programs in the
7 District of Columbia?

8 A There was -- it was determined in
9 settlement conversations with entities, National
10 Housing Trust of Maryland, that that was
11 important, and so that's why it was revised to be
12 worded the way it is in the settlement.

13 Q Turning to your rebuttal testimony,
14 page 19, lines 7 to 21. It's the section starting
15 with, NCLC has requested an increase in the CIF.

16 A Yes.

17 Q Okay. Understanding that the company is
18 not recommending a specific manner for the
19 distribution of the customer investment fund, is
20 it fair to say that you believe investing a
21 portion of the CIF in energy efficiency and
22 low-income housing would be consistent with the

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1 company's own policies?

2 A It would be.

3 Q And would that also extend to investment
4 in affordable multi-family energy efficiency?

5 A It would.

6 Q Thank you. And then, finally, turning
7 back to the Maryland settlement, the green
8 sustainability fund that you were -- that was just
9 the discussion previously.

10 A Which page is that?

11 Q That is commitment -- it starts with
12 commitment 9, page -- 9 on the bottom of OPC
13 Exhibit 7. The green sustainability fund.

14 A I'm aware of it. For some reason I'm not
15 getting there. I'm on Exhibit Number 9.

16 Q It's Exhibit 7. OPC's Exhibit 7, sorry.

17 A As you can see, I take a lot of
18 maintenance here. Okay. Thanks.

19 Q Okay. Just some clarifications. So it
20 looks like this green sustainability fund was
21 designed to apply to all of the jurisdictions and
22 not just Maryland; is that correct?

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1 A Yes.

2 Q Okay. So in terms of clarification, it
3 looks like this is a fund that would be available
4 for 20 years and that loans could -- let's see.
5 20 percent of the funds -- the goal is that
6 20 percent of the funds would be for interest-free
7 loans to qualifying programs for non profits,
8 charitable organizations and affordable
9 multi-family housing.

10 I'm looking at the last sentence in
11 commitment 13.

12 A Yes.

13 Q So this view of what this type of green
14 sustainability fund would do in the Maryland
15 settlement, is that sort of envisioned to apply to
16 all the jurisdictions, this sort of commitment
17 earmarking 20 percent for the charitable
18 organizations, nonprofits and affordable
19 multi-families?

20 A I believe so.

21 Q Thank you.

22 MS. WEIN: That concludes my questions.

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1 CHAIRMAN KANE: Thank you very much.

2 I believe the other parties do not have
3 questions for this witness? Is that our
4 conclusion? Because they are not here. I just
5 want to say that for the record, that they do not
6 have questions for this witness.

7 So we will then turn to questions from
8 the Commissioners. We'll start with Commissioner
9 Phillips.

10 COMMISSIONER PHILLIPS: Good afternoon,
11 Mr. Crane.

12 THE WITNESS: Commissioners.

13 COMMISSIONER PHILLIPS: It's my privilege
14 to now go first among the commissioners. I'm
15 usually the low man on the totem pole. Feeling
16 myself a little bit this afternoon.

17 I know we've talked a lot today and
18 yesterday about jobs and work force development.
19 I want to talk a little bit more about that with
20 you, sir.

21 So directing your attention to your
22 rebuttal testimony, pages 4, lines 6 through 7,

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1 you state that -- and you've talked about this --
2 We now anticipate that in the District the merger
3 will have a positive impact on jobs. "Positive"
4 in bold. You also state, page 4, line 16, We will
5 make good faith efforts to, within two years, hire
6 an additional 102 union employees in the District.

7 And I don't want to get into -- we don't
8 need to get into good faith. I'm straight on what
9 that is.

10 THE WITNESS: Okay.

11 COMMISSIONER PHILLIPS: You also
12 testified today on cross-examination that you do
13 not know what percentage of the additional 102
14 union employees will be D.C. residents. And you
15 also stated that some of the new jobs will be
16 construction-related, correct?

17 THE WITNESS: Yes.

18 COMMISSIONER PHILLIPS: Do you know
19 whether any of the additional 102 union employee
20 jobs are counted in any current or proposed PEPCO
21 projects?

22 THE WITNESS: I do not believe they are.

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1 COMMISSIONER PHILLIPS: Thank you. Do
2 you know whether the additional 102 jobs are also
3 counted in any existing collective bargaining
4 agreement commitments with PEPCO?

5 THE WITNESS: I believe it is in a
6 collective bargaining agreement that, if the
7 merger closes, that we will make that good faith
8 effort to make the hires.

9 COMMISSIONER PHILLIPS: To clarify a
10 little bit, would the 102 new hires be in addition
11 to any collective bargaining commitments or would
12 they be included in already-existing collective
13 bargaining commitments?

14 THE WITNESS: Just so -- I'm making sure
15 I answer you correctly, Commissioner. There was
16 contract extensions that were negotiated between
17 all of the PHI unions. In those negotiations,
18 there was a commitment to hire these positions.

19 To be honest, I have not read the -- the
20 ratified agreements. Mr. Rigby negotiated those
21 with his team, and he would be able to tell you
22 the line item where it's at there.

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1 COMMISSIONER PHILLIPS: Do you know
2 whether the 102 additional jobs will be permanent
3 or temporary positions?

4 THE WITNESS: My intent is permanent,
5 that we'll hire them as permanent employees, put
6 them through our training programs.

7 COMMISSIONER PHILLIPS: You mentioned
8 training. I want to talk about that a little bit.
9 On cross-examination -- and I don't remember which
10 party you were talking with -- you mentioned that
11 the training and the testing can be a challenge.

12 THE WITNESS: It can be.

13 COMMISSIONER PHILLIPS: And you talked
14 about how it can take years. With that training
15 and/or testing -- in particular, I want to focus
16 on the testing. Is it anticipated that the
17 testing will take place in the District of
18 Columbia?

19 THE WITNESS: I would imagine it would,
20 yes.

21 COMMISSIONER PHILLIPS: You also
22 testified on cross-examination about anticipated

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1 retirements and the need to support workforce
2 development. Are you aware of any commitments
3 that the joint applicants have made in other
4 jurisdictions regarding workforce development?

5 THE WITNESS: We did make commitments in
6 Prince George's and Montgomery County to help
7 facilitate or finance development programs, but we
8 have also made commitments in those districts on
9 hiring with the union folks within that area also.

10 COMMISSIONER PHILLIPS: Would you also
11 agree, subject to check, that there have been
12 settlement agreements in both Delaware and in
13 Maryland?

14 THE WITNESS: Yes. We -- I forgot to
15 mention those. There they're for New Jersey and
16 Delaware also.

17 COMMISSIONER PHILLIPS: That concludes my
18 questioning. Thank you.

19 THE WITNESS: Thank you, sir.

20 CHAIRMAN KANE: Commissioner For.

21 COMMISSIONER FORT: Good afternoon.

22 THE WITNESS: Good afternoon,

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1 Commissioner.

2 COMMISSIONER FORT: So we had -- there
3 have been a number of concerns that the public
4 have raised to us about the possibility of the
5 cost of operating and decommissioning Exelon
6 nuclear plants being incorporated into any costs
7 that D.C. ratepayers would receive. I know in
8 your rebuttal testimony you talk at some length
9 about how decommissioning costs are covered and
10 how direct costs are covered, and so I'm not going
11 to go back over those kind of discussions.

12 But I do want us to have on the record,
13 you know, whether or not it's correct that the
14 Exelon -- I want to talk a bit about the Exelon
15 business service company and how its costs are
16 covered. Okay?

17 THE WITNESS: Yes.

18 COMMISSIONER FORT: You're the right
19 person to talk, at least initially, about that?

20 THE WITNESS: I can get you down -- I'm
21 aware of the Massachusetts model, formula for the
22 business services organization that we use that

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1 allocates cost.

2 COMMISSIONER FORT: Okay. I'm not going
3 to go way down in the weeds, because I knew you
4 would send me someplace else, but just, you know,
5 in general --

6 THE WITNESS: I'm getting a rip here.

7 COMMISSIONER FORT: -- is it correct that
8 the Exelon business service company currently
9 provides services to both the generation side,
10 Exelon Generation, as well as the distribution
11 companies, ComEd, PECO and BG&E currently?

12 THE WITNESS: It does.

13 COMMISSIONER FORT: And currently, how
14 does Exelon ensure that the charges that are paid
15 by the distribution companies do not include any
16 costs related to the nuclear plant costs that
17 should be paid by the Exelon Generation portion of
18 the business?

19 THE WITNESS: So there's nothing in
20 business services that is nuclear. The nuclear
21 costs are contained within the balance sheet of
22 the generation company. The only thing -- as you

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1 pointed out, the business service allocates its
2 costs for its support, IT, HR, that type of thing.

3 What we've made clear is that if we
4 reduce the generating assets, we have to
5 correspondingly reduce the overhead costs of not
6 only the GenCo corporate, but the business
7 services. You'll do away with the IT people at
8 the plants. You do away with the HR people at the
9 plants. You don't need the legal staff, so -- or
10 if you did, they would be compensated out of the
11 decommissioning trust fund.

12 So we would hold the distribution
13 companies harmless in any reduction in size or
14 scale of the generating company.

15 COMMISSIONER FORT: So that would happen
16 upon decommissioning?

17 THE WITNESS: Yeah, it would happen --
18 you know, there would have to be some transition,
19 but once you shut a plant down and cool it down
20 70-some-odd hours, then you offload the core seven
21 to ten days for a full offload, and then you
22 surrender the license to the Nuclear Regulatory

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1 Commission, and you're no longer expensing it in
2 operating expenses. It shifts over to the nuclear
3 decommissioning trust for expense recovery.

4 COMMISSIONER FORT: What about -- we were
5 talking about the operating companies. You talked
6 a bit with counsel from D.C. Government today
7 about the fact that there are five or more nuclear
8 plants that are operating at a loss. Those
9 services that they provided that come from the
10 business service company, how are those costs
11 handled?

12 THE WITNESS: They're paid for by the
13 generating company.

14 COMMISSIONER FORT: And in terms of the
15 allocation, does that mean that the generating
16 company takes a larger allocation and none of
17 those costs are allocated in any way to the
18 distribution companies?

19 THE WITNESS: Right. Just because -- and
20 some of those plants have improved in cash flows
21 and profitability as the market has come back.
22 But keeping with the theme of when all of that was

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1 stated, the costs are still incurred. The
2 distribution of those costs are still incurred on
3 the books for the plants even though they're
4 negative cash flow and -- or earnings-negative.
5 And then they're just dilutive to the overall
6 earnings potential of the generating company, and
7 it does not go back in any distribution just
8 because it's lost to any of the other businesses.
9 It stays on that generating company balance sheet.

10 COMMISSIONER FORT: But if they are still
11 operating companies, they're companies that still
12 use IT, HR, and other corporate services; that's
13 correct?

14 THE WITNESS: Yes.

15 COMMISSIONER FORT: So in terms of how
16 those costs are allocated, the -- as I understand,
17 what you are saying, I think, is that Exelon
18 Generation would still have the same percentage of
19 cost even though the individual plants may not
20 have the operating funds to pay their percentage
21 of cost. Is that how it would work?

22 THE WITNESS: Yeah. And just to be

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1 clear, we consolidate cash at the generating
2 company, not at the plant level, but your premise
3 is the right premise.

4 COMMISSIONER FORT: So in some of the
5 conditions that are in Exhibit (4A), they're
6 conditions that say, in paragraph 77, that
7 controls and procedures will be designed to
8 provide reasonable assurance that PHI subsidiaries
9 will not bear costs associated with business
10 activities of other Exelon affiliates.

11 That would be the type of language that
12 would protect D.C. ratepayers, in particular, from
13 having to pay costs associated with the nuclear
14 generating affiliates; is that correct?

15 THE WITNESS: Yes.

16 COMMISSIONER FORT: The way the language
17 was written, it said it will design controls and
18 procedures. Does that mean that there are not
19 already controls and procedures in effect that
20 work for ComEd and for PECO and BG&E?

21 THE WITNESS: Yes, there are controls in
22 place, and they're audited by those commissions in

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1 those jurisdictions to ensure that they're
2 adequate, I think -- we just went through the PECO
3 one and the ComEd one -- to ensure that we're only
4 allocating costs as properly defined in the
5 Massachusetts -- modified Massachusetts formula.

6 COMMISSIONER FORT: And so would you
7 anticipate that the cost for PEPCO or for the PHI
8 subsidiaries would be -- would be done using
9 similar controls and procedures?

10 THE WITNESS: Yes.

11 COMMISSIONER FORT: Turning now just to a
12 different topic, I was pleased to hear yesterday
13 that you like to have local control and local
14 presence among the executives of the utility. It
15 raises a question for us -- for PEPCO, since PEPCO
16 is PEPCO D.C. and PEPCO Maryland -- we see the
17 companies as separate, even though it's a combined
18 company.

19 So I wanted to know something about the
20 level of decision-making that the executive who
21 sits on the D.C. side of the company would have.
22 How would that be determined?

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1 THE WITNESS: It's -- we intend for it to
2 be consistent with the way it is today. So the
3 president of PEPCO is Donna Cooper. She was here
4 earlier, but she's -- she would -- there she is
5 back there. So she maintains the control. And
6 in -- the operating folks within the District
7 would maintain the same authorities and controls
8 that they do today.

9 COMMISSIONER FORT: So -- then talk to me
10 about your Exhibit (4A)-2 on page 13 which is your
11 delegation of authorities, just so I understand
12 that and understand how that works and how that
13 compares to today. So (4A)-2, it's on page 13 of
14 17. And it says, Proposed delegation of
15 authority, PHI and its utility subsidiaries.

16 THE WITNESS: Yes.

17 COMMISSIONER FORT: So this, as I
18 understand it, goes to the budget authority level
19 that executives would have within a new structure;
20 is that correct?

21 THE WITNESS: Yes.

22 COMMISSIONER FORT: And if I were trying

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1 to determine how much authority the PEPCO
2 executive would have, where would I find that on
3 the chart?

4 THE WITNESS: So the way that it operates
5 today, it would be with the CEO, PHI utility at
6 that level right there. That's where the budgets
7 are approved today and would continue to be
8 approved for that value or that amount in the
9 future. Then it goes up to the board of
10 directors, the PHI board of directors, and then on
11 into the Exelon chain.

12 COMMISSIONER FORT: So, for example, if
13 undergrounding or D.C. PLUG were to come into
14 effect today, how would that decision be made on a
15 project of that magnitude under this delegation of
16 authority?

17 THE WITNESS: We would bring that through
18 the approval process of the PHI board, and then it
19 would go on to the Exelon board.

20 COMMISSIONER FORT: And it would need all
21 of the approvals up the chain?

22 THE WITNESS: No. So -- for sure, it

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1 would get the PHI CEO and PHI utility board, then
2 jump the rest because of the size of the -- the
3 project, and it goes directly to the Exelon board.

4 If it was less than 200 million, it could
5 be the risk and finance committee of the board.

6 If it was less than 100 million, it would be me.

7 If it's less than 50 million, it would be O'Brien
8 and the PHI board.

9 COMMISSIONER FORT: And during that
10 process, does the PEPCO D.C. person participate in
11 that process?

12 THE WITNESS: They would in the process.

13 COMMISSIONER FORT: And how would they
14 participate?

15 THE WITNESS: Most likely present. They
16 would be developing that business case, and then
17 be involved in the approval of it and then the
18 presentation of it.

19 COMMISSIONER FORT: If I can get you to
20 look at your, again, Joint Exhibit (4A)-1 for a
21 moment, which is the New Jersey settlement.

22 THE WITNESS: Yes.

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1 COMMISSIONER FORT: The New Jersey
2 settlement had a series of conditions that, as I
3 read it, were picked up from a prior ACE
4 settlement, and we don't see those kind of
5 conditions. They are -- they're at the very end
6 of the document. I lost my place.

7 On page 31 -- actually, at the top, it
8 says 33 of 42, but it's page 31 in the exhibit.
9 Under item D, it says, Compliance with stipulation
10 of ACE/PEPCO merger order. And a number of those
11 provisions would seem to cover something like the
12 SOS process where Exelon might be participating in
13 the wholesale market and having information that
14 it also gets from its distribution company.

15 Things like on page 32 on item D -- item
16 number 2, Exelon will operate its generation,
17 marketing, trading functions distinct from
18 Atlantic's transmission and distribution business,
19 and protections like that.

20 Was it a conscious decision not to
21 include similar language like this in the (4A)-2
22 exhibit?

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1 THE WITNESS: My understanding is this is
2 a requirement outside of this already, just based
3 on the way that all jurisdictions have
4 restructured. And we are -- we don't, and are
5 prevented to by -- doing affiliate transactions
6 within the tariff.

7 So I think -- I don't know why they
8 wanted to have this again. I think there was a
9 different formation of the -- of PEPCO and
10 Conectiv or PEPCO and ACE at that time -- it was a
11 different time or period. But we're okay to
12 stipulate it again in here, but -- I can verify it
13 with counsel, but I'm confident that we would
14 never be allowed to have an affiliate transaction.
15 We wouldn't do one anyways.

16 COMMISSIONER FORT: But what got my
17 attention in those provisions are that there is
18 language there that recognizes that an affiliate
19 might be participating in the wholesale market in
20 the competitive -- in the supply of competitive
21 energy under the default program within the
22 jurisdiction, as happens here, and there may be a

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1 need to have additional language that looks at
2 protections under those circumstances.

3 THE WITNESS: There could be. My
4 understanding of the standard offer in D.C. is
5 that it is managed and overseen by an independent
6 market monitor. And the way we do that in other
7 jurisdictions, there is a wall between the
8 generating company and the affiliate, and they
9 work through -- in the bidding process, if it's in
10 Illinois, with the Illinois Power Authority,
11 Pennsylvania or whoever. It's not affiliate to
12 affiliate. It goes through a very closed process,
13 and it's done on price. And the affiliate would
14 bid into it. It's independently monitored to make
15 sure that it's fair treatment.

16 COMMISSIONER FORT: We have at least
17 generally those rules set up here, but we've never
18 had to deal with it with somebody who had an
19 affiliate who was participating in the wholesale
20 market.

21 So if I were -- you talk about best
22 practices. If I were to ask you who has the best

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1 practices on that kind of wall-building, as you
2 described it, who would you point me to?

3 THE WITNESS: I think any one of the --
4 Illinois, Pennsylvania, Maryland; they're all
5 somewhat similar. They would all -- and I don't
6 think they're dissimilar to what you have now, but
7 we would definitely -- not negotiate. Whatever is
8 required, we would make sure, because we do not
9 want that to be a perception in any way that there
10 is an affiliate advantage. It's against the law
11 in all jurisdictions, but -- in the competitive
12 market tariffs from FERC.

13 COMMISSIONER FORT: And then, lastly, I
14 just wanted to talk to you a bit about one of the
15 comments that you made earlier today. You
16 indicated that you were following the New York
17 Reforming the Energy Vision, or REV, process. You
18 talked with several counsel today about a new
19 vision or new visions for distribution systems
20 going forward.

21 I think, as counsel for DC SUN indicated,
22 there is a lot of interest and concern that Exelon

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1 does not have the same type of -- would not
2 provide the same supportive -- would not support
3 solar and distributed generation in the same way
4 that PEPCO is doing now.

5 But you seem to say at least you all have
6 looked at what a hybrid model might be, although I
7 heard you said you rejected the hybrid model that
8 was in the documents that you talked to Mr. Coyle
9 about. But you realize that the industry is
10 changing and that the role of the distribution
11 company is changing with the introduction of
12 renewables and distributed generation.

13 What do you see going forward as the role
14 of the new distribution company?

15 THE WITNESS: So we're -- we're trying to
16 define that. I mean, there's a lot of work that's
17 been done and that will continue to be done for
18 suggestions on how it would be -- how we will
19 evolve with this technology. The approach that
20 we're taking at Exelon with the utilities is -- to
21 deny it and stay in the old utility ways reduces
22 the relevance that the company can have in serving

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1 the customers and in being able to continue to
2 invest in the franchises that have been invested
3 in for, in many cases, over a hundred years. So
4 we have to adapt.

5 There are utilities that say, no, there's
6 no need of looking into microgrids or any of the
7 other enabling technology. We, at this point,
8 think that's the wrong approach.

9 And so that's why we've set research and
10 teams together to work with organizations like
11 EPRI, Edison Electric Institute, and try to -- and
12 the national labs -- try to find what these
13 technologies are and how do we design it.

14 We do believe, as I said earlier, there
15 will be a -- at least a 10 percent penetration in
16 distributed generation. Now, that could be a
17 great opportunity to redesign the distribution
18 operating model to be able to support those
19 microgrids coming on. A lot of technology still
20 has to be advanced. I mentioned we got the pilot
21 from the Department of Energy to come up with
22 this -- the microscope grid controller.

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1 There's -- there's a lot of concern that
2 you can weaken the grid from reliability if
3 applying the technology wrong. So we need to have
4 the right controls in place that support grid
5 voltages, impedance. And -- with some of the
6 distributed generation, just the nature of it, it
7 can't take an induction motor and be able to
8 support the start of an induction motor, so an air
9 conditioner or a heat pump. So the system has to
10 be designed to be -- to be capable of allowing
11 those surges to come in, and all of a sudden you
12 get this two-way power flow thing going.

13 So we're really trying to work on the
14 technology and understand what it can be and what
15 it should be. But the other side of that is, how
16 do we work to get the right regulatory construct
17 that supports the advancement of this technology?

18 An assessment that was done in New York
19 describes that -- you know, what microgrids are
20 good for and what they may not be good for if they
21 don't have a societal benefit. If it's not a
22 societal benefit, who pays for it?

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1 And so I think there has to be an equity
2 conversation about not only the microgrid, but the
3 cost of the infrastructure, as I spoke with Randy
4 about. We have a strong belief that you can
5 create inequities with an older rate design that
6 have the disadvantage subsidizing some advantage.

7 So we're not against distributed
8 generation. We're against -- we support
9 distributed generation. We support the technology
10 and spending a lot of money on research and -- for
11 that. But the other side of getting all this new,
12 neat technology is making sure we keep people
13 whole.

14 As I said, we don't have right now an
15 affordable storage mechanism. We get good battery
16 technology. It's another big game changer. Then
17 we can overproduce on distributed generation
18 without having as much impact. You are seeing
19 that in Hawaii right now.

20 But short of that, I think we need to be
21 mindful of the load profile that that generation
22 is going to serve. You can get to a condition

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1 where you've overbuilt, and inequities come out of
2 that. So that's our concern.

3 COMMISSIONER FORT: Phase 2 of the New
4 York REV process looks at the rate structures and
5 the regulatory process. I think that report is
6 due out in June, if they are on time.

7 Are you participating or is somebody from
8 Exelon participating in that process?

9 THE WITNESS: We are. Our D.C. office
10 has been involved, been up there. I've been up a
11 couple of times to see the chairman and a few of
12 the commissioners to understand more of it, but
13 we -- it is the most advanced progress -- or
14 project on any docket now that we see. So we're
15 staying close to it and trying to understand it.

16 COMMISSIONER FORT: Okay. Thank you.

17 CHAIRMAN KANE: Thank you.

18 I do have a number of questions. Some of
19 them are follow-ups on questions of others. A
20 couple of new areas.

21 I want to start, Mr. Crane, with kind of
22 overall, but let me start, first of all, actually,

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1 with something fairly straightforward, and that's
2 the customer investment fund and some follow-up
3 questions on how the dollar amount that would be
4 offered, shall we say, to each jurisdiction was
5 determined, because I'm still not clear, because
6 I've gotten -- I think heard two different answers
7 on how the dollar amount -- now, I'm not talking
8 about what a commission determines to do with
9 whatever the size of the proffered customer
10 investment fund is. We do not want to leave any
11 kind of impression that we're talking about
12 necessarily a bill credit or anything like that.

13 But just the methodology that you use to
14 determine, out of the total lump sum, shall we
15 say, that's available for the four jurisdictions,
16 how you determine to allocate or offer an
17 allocation among the jurisdictions divided up.
18 And I heard two different answers. One was that
19 you did it on customers, so that if one
20 jurisdiction had a million customers and one had
21 half a million customers and one had 250,000
22 customers, et cetera, it would be proportional to

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1 that.

2 Another answer I thought I heard you say
3 to Ms. White, that it was on meters. And that
4 could be a very different allocation. She pointed
5 out the D.C. government, for example, which has a
6 hundred-and-some-odd school buildings, has many,
7 many buildings, other recreation centers,
8 et cetera, might have 300 meters, but it might be
9 one customer or two customers.

10 So when you look at -- and I'm not
11 talking about how much money a, quote, customer
12 would get, but you how you looked at what was the
13 fair share or the equitable share for the District
14 versus other jurisdictions.

15 Can you say how it was actually -- how
16 you actually allocated it?

17 THE WITNESS: My understanding is
18 customers and meters were interchangeable until
19 Ms. Francis' customer base -- they have one meter
20 at an apartment building. We would be counting
21 that as one customer, and -- and it doesn't
22 translate in that case. So it's meters is my

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1 understanding.

2 CHAIRMAN KANE: It's meters not
3 customers. So that if the District government --
4 when you were looking at the numbers, the units,
5 the whole universe and how you were going to
6 divide them up, you looked at the number of meters
7 in each jurisdiction, not the number of customers
8 in each jurisdiction, in each state?

9 THE WITNESS: That is my understanding.
10 It's -- it's -- when we talk about customers, we
11 typically talk about meters. And so I was not
12 thinking about the -- even in our multi-family
13 dwellings in some of our urban areas, they all
14 have individual meters, or many of them do. So --
15 I was using that, but it's meters.

16 CHAIRMAN KANE: It's meters.

17 THE WITNESS: Yes, ma'am.

18 CHAIRMAN KANE: So that if one customer
19 had 40 meters, that would count, in your total,
20 you know, number of units that you were adding up,
21 as 40?

22 THE WITNESS: That is my understanding.

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1 Carim Khouzami is --

2 CHAIRMAN KANE: Will verify it.

3 THE WITNESS: -- going to be able to
4 verify it.

5 CHAIRMAN KANE: Because all I can say is
6 you will get very different -- you will get
7 very -- you could get very different allocations
8 between the four states if you used customers
9 versus using meters.

10 THE WITNESS: I understand that there
11 could be a difference, yes.

12 CHAIRMAN KANE: Thank you.

13 The next question I had -- I'm going to
14 go through these -- I'm going to go through this,
15 be sure that I tick off the things that have
16 already been asked.

17 Let me ask you a follow-up on -- first of
18 all, on the questions that Commissioner Phillips
19 asked about job development, just a couple of
20 clarifications. You said that they would be in
21 the District. Will they be physically located in
22 the District, out of a workplace in the District?

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1 THE WITNESS: Yes.

2 CHAIRMAN KANE: And will they only be
3 doing work in the District?

4 THE WITNESS: I don't know if, with PEPCO
5 being Maryland and the District, if the trucks
6 cross the line. We'd have to ask Mr. Rigby that.

7 CHAIRMAN KANE: They do.

8 THE WITNESS: Okay. So --

9 CHAIRMAN KANE: Very much.

10 THE WITNESS: Yeah.

11 CHAIRMAN KANE: And you may not be aware,
12 but this -- but you should be, actually, if you're
13 wanting to purchase this company, that this has
14 been an ongoing issue, concern, item that we have
15 addressed in each of our rate cases, and the
16 allocation of workforce and other kinds of
17 attention and services between the two
18 jurisdictions, for -- whether it's a call center,
19 whether it's a location where the trucks are
20 dispatched from, whether it is an area not -- you
21 know, not down on Ninth Street, but where the
22 actual linemen and the repair people, et cetera,

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1 are going from, working from, et cetera, the --
2 when people say in the District, for the District.
3 So Mr. Rigby can answer that?

4 THE WITNESS: Yes. And I can get up to
5 speed on it, and the concern also.

6 CHAIRMAN KANE: Thank you. I wanted to
7 follow up, too. You said in answer to, I believe,
8 to Mr. Gray yesterday that PEPCO -- hiring the
9 extra people, that PEPCO, quote, doesn't have the
10 resources to hire these extra people. How do I
11 reconcile that -- I assume by resource, you mean
12 they don't have the money; they just don't have
13 the budget?

14 THE WITNESS: That, and to support the
15 training and -- that's my understanding.

16 CHAIRMAN KANE: And why doesn't PEPCO
17 have that money?

18 THE WITNESS: I believe Mr. Rigby can
19 speak for himself. I believe --

20 CHAIRMAN KANE: I'm concerned, because he
21 just walked out of the room. Maybe we want to
22 hold this until he comes back in the room. Just

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1 so he knows.

2 COMMISSIONER FORT: I'm not sure that
3 transcript will be ready when he gets on tomorrow
4 morning.

5 (Pause.)

6 CHAIRMAN KANE: We're stacking up the
7 questions that are being referred to you for
8 tomorrow, Mr. Rigby, and I had asked Mr. Crane --

9 MR. RIGBY: Do you wanted me to answer
10 this now?

11 CHAIRMAN KANE: No, I do not. We want
12 you under oath when we get the answer.

13 Why PEPCO doesn't have the -- you know,
14 PEPCO either gets revenue from a rate case
15 approved by the Commission or it has stockholders
16 who can voluntarily put extra revenue into
17 operating the company. So -- maybe you can't
18 answer, but -- for Mr. Rigby tomorrow -- why
19 doesn't PEPCO have the money to hire these, or why
20 hasn't PEPCO then come to the Commission to ask
21 for approval, or maybe the stockholders -- excuse
22 me, shareholders are going to volunteer it -- but

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1 I want to reconcile that with the statement that
2 you've also made, when you were talking about
3 reliability and other things, that it was going to
4 be done within the existing operating and
5 reliability budgets. And I can find the place in
6 which you said it, but you've said that a number
7 of times.

8 If PEPCO doesn't have the money in its
9 budget to hire these people and you're not going
10 to increase their operating or their capital
11 budget, how are the people going to be hired? Who
12 is going pay for it?

13 THE WITNESS: So in the first, I believe,
14 first five years of us joining with PEPCO, there's
15 negative cash flows at PEPCO. So we would be
16 flowing cash equity into PEPCO to support the
17 current commitments. PEPCO, on a stand-alone, has
18 got debt commitments, equity payment commitments
19 in the form of dividend and other things to
20 maintain a healthy balance sheet.

21 Our size and scale will allow us not to
22 have to -- or be able to support the investment

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1 into the utility, and that measure is through how
2 much negative cash flow, how much infusion of cash
3 that we'd be putting in. That number I don't have
4 off the top of my head. I know it has been
5 analyzed, and Mr. Khouzami would be able to give
6 you the ballpark of what we're projecting to make
7 as an investment to support the capital
8 initiatives of PEPCO.

9 CHAIRMAN KANE: For capital. What about
10 these people? This is operating. You're hiring
11 linemen.

12 THE WITNESS: Yeah, if you're supporting
13 the capital with the negative cash flows, you're
14 freeing up cash to be able to use over there.

15 CHAIRMAN KANE: So Mr. Khouzami can tell
16 us the dollar amount of that additional resource
17 over five years?

18 THE WITNESS: Of the total negative cash
19 flow, he can give you the number of what that is
20 for PEPCO and PHI.

21 CHAIRMAN KANE: And the source of that
22 cash be Exelon's cash from some other source?

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1 THE WITNESS: Cash from operations at the
2 consolidated --

3 CHAIRMAN KANE: Cash from operations --

4 THE WITNESS: -- level.

5 CHAIRMAN KANE: -- at the consolidated
6 level.

7 And will the company -- will you then
8 expect reimbursement or recovery of that donation,
9 if you will, or advancement of cash after the five
10 years?

11 THE WITNESS: The way we would get that
12 is when you get back down to a normal spend or a
13 supportable spend and you're paying your dividend
14 up and getting a return on your equity that you've
15 invested. So it's not a loan. Instead of issuing
16 equity, we use cash available from business at the
17 holding company.

18 Today, we're spending \$15 billion over
19 our utility investments over the next five years.
20 We're not using -- we're not issuing equity. Our
21 balance sheet is strong enough and our cash from
22 the consolidated operations can support that.

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1 So at ComEd today, we have an equity
2 issuance going on for the \$2 billion we're
3 investing this year for system hardening. And the
4 way we get a recovery on that is when we start to
5 get return on that equity that's been invested.

6 CHAIRMAN KANE: So that when -- in your
7 direct testimony, for example, at page 5, line 23
8 to page 6, line 1, you say, PHI utilities will
9 join a larger enterprise and, in that way, gain
10 access to a number of additional financial
11 resources, including the financial strength of
12 Exelon.

13 This advancement, if you will, of cash is
14 an example of that?

15 THE WITNESS: It is. And it's the basis
16 for the Moody's Investors Services to call the
17 PEPCO joining -- or PHI coming into the Exelon
18 families is viewed as credit positively.

19 CHAIRMAN KANE: And just to clarify, will
20 you at some point seek recovery of that -- I'm
21 going to call it a cash advance, if you will, to
22 PEPCO from PEPCO customers?

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1 THE WITNESS: Only through the dividend,
2 the return on the installed equity. So -- so if
3 we're putting in a dollar of capital, just based
4 off of the cap structure, 50 cents of that is
5 shareholder equity, and whatever the allowed
6 return is, that would be the earnings that Exelon
7 would get from that equity investment.

8 CHAIRMAN KANE: And that would be in a
9 rate case in the future?

10 THE WITNESS: Yes, it would.

11 CHAIRMAN KANE: Okay. I'll ask about
12 other commitments. In your direct testimony on
13 page 13, starting at line 8 -- return to that.

14 THE WITNESS: Yes.

15 CHAIRMAN KANE: You're talking about, in
16 addition to the lump sum customer investment
17 fund -- excuse me, the question, as you see --
18 sorry, it's not line 8. Yes, line 8:
19 Additionally, Exelon is making commitments to
20 maintain and promote the PHI utilities low-income
21 customer assistance, energy efficiency and demand
22 response programs. Those commitments are separate

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1 and apart from the commitment to create and fund
2 the customer investment fund.

3 I just wanted to ask you, I know you may
4 now want to defer these to other people, but you
5 are going to be the CEO of this --

6 THE WITNESS: Yes.

7 CHAIRMAN KANE: -- company if -- if the
8 merger is approved. And given the chart that you
9 just showed, there's a lot of expenses that now
10 get approved by the CEO of PHI that are going to
11 ends up at a much higher level. So customer
12 assistance. What specific -- do you know what
13 specific customer assistance programs that you're
14 committing to maintain and promote?

15 THE WITNESS: I have -- it's been some
16 time since we've had a presentation on them, but
17 we reviewed what the customer programs were, the
18 low-income and the energy efficiency programs, and
19 saw that they were -- we could support those going
20 forward, and I believe in some cases there's
21 commitments on those.

22 CHAIRMAN KANE: Would you stipulate that

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1 the only customer assistance fund program in the
2 District, aside from federal funds like LIHEAP, is
3 the Residential Aid Discount Program, and that
4 it's paid for by a \$5-1/2 million surcharge on
5 other customers?

6 THE WITNESS: I've heard about that, yes.

7 CHAIRMAN KANE: Thank you. And that that
8 is established -- the authority of the Commission
9 to have that is a matter of D.C. law and that the
10 details of the program, the eligibility, the size
11 of the surcharge, et cetera, is the done by the
12 Commission by order?

13 THE WITNESS: Yes.

14 CHAIRMAN KANE: And that -- so I'm not
15 sure what you mean by maintaining it. Do you mean
16 you'll simply obey our order?

17 THE WITNESS: I think there was concerns
18 in the past that we would change or want to
19 change -- I think these are commitments to obey
20 the order. I mean, it's a flash of the obvious
21 that we're going to do that, but yes.

22 CHAIRMAN KANE: But you're not

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1 committing -- or are you committing to put any
2 additional money into -- would you say -- excuse
3 me -- maintain and promote -- promote could mean
4 going out and encouraging more -- about half of
5 the eligible people apparently appear to be
6 actually enrolled in this program. And it's
7 administered by the city's Department of the
8 Environment, the enrollment and verification of
9 it. It is now paid for by a \$5-1/2 million
10 surcharge on all other District customers.

11 So there's -- I wanted to know, by
12 promote, were you planning to or proposing or
13 offering any additional money that would not be
14 customer money to run this program?

15 THE WITNESS: We --

16 CHAIRMAN KANE: Or if we enrolled -- were
17 successful in enrolling 12, 15 more million --
18 excuse me -- it's about 20,000, so say another
19 10,000; there would be a 50 percent increase in
20 cost. Under the current system, we would increase
21 the surcharge on customers in order to pay for
22 that, or change the -- you know, we'd change the

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1 program.

2 But I'm wondering, when you say -- you
3 know, this is an offer; this is supposed to be a
4 benefit. What's the benefit, besides saying
5 you're going to obey whatever we enact?

6 THE WITNESS: In light of the way you're
7 saying it, it does sound like we're overstating or
8 stating something that's a flash of the obvious.
9 I think there was concerns that -- would we
10 maintain what has been committed to already? And
11 that is, yes.

12 In a promotion, we have to do a lot of
13 work in our jurisdictions of finding, for similar
14 programs, how to get the promotion out and how to
15 get people aware. We try to do it through the
16 call centers and look at bad debt and -- and
17 suggest to those customers they look at the
18 program.

19 So I think we would look at all our best
20 practices around promoting to help -- and if there
21 is something else that we need to look at to
22 revise the program to make it -- to -- not

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1 negotiate, but we're willing to have that
2 conversation.

3 CHAIRMAN KANE: Thank you. On energy
4 efficiency, the second thing you mentioned, that
5 you would maintain the existing one, what
6 PEPCO-sponsored energy efficiency program are you
7 referring to and committing to maintain?

8 THE WITNESS: The program had a name, and
9 I'm not remembering it. But there is an
10 established program that they have currently
11 that -- at least we had a presentation of it, and
12 we would continue to work on that and also share
13 some of the practices that we're experiencing in
14 our other jurisdictions.

15 CHAIRMAN KANE: Are you aware that, under
16 D.C. law, the energy efficiency programs are run
17 by the sustainable energy utility?

18 THE WITNESS: I was made aware of that
19 conversation, but there was some dialogue about
20 PEPCO working with them and --

21 CHAIRMAN KANE: You're aware that that is
22 also paid for by a \$20 million surcharge on

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1 electric and gas customers, 80 percent of which is
2 on the electric customers, distribution customers?

3 THE WITNESS: Yes.

4 CHAIRMAN KANE: And that the programs
5 under the SEU are determined by contract with the
6 D.C. Department of Environment, not by the
7 Commission?

8 THE WITNESS: We're not aware it was not
9 by the Commission.

10 CHAIRMAN KANE: Thank you. And on demand
11 response, what specific -- is there a specific
12 PEPCO demand response program that you're
13 committing to maintain?

14 THE WITNESS: I don't have the details on
15 that.

16 CHAIRMAN KANE: Who would know about
17 that?

18 THE WITNESS: Mr. Rigby --

19 CHAIRMAN KANE: Mr. Rigby?

20 THE WITNESS: -- would know.

21 CHAIRMAN KANE: Thank you. Let me just
22 ask a general question, then. In this commitment

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1 to make -- commitment to maintain and promote the
2 PHI utilities low-income, customer assistance,
3 energy efficiency, demand response program -- and
4 we are focused on D.C. Whatever other
5 jurisdictions do, that's within their purview, but
6 our concern is D.C. Are you committing to do
7 anything in the area of the demand response energy
8 efficiency or customer assistance that PEPCO is
9 not already required to do and would be required
10 to do if there were no merger?

11 THE WITNESS: No. I believe what this is
12 saying is we would continue that and we would not
13 count that as part of any of the CIF, that the CIF
14 is an additional amount of money. So it's -- it
15 doesn't read well in retrospect, it's -- that
16 we're committed to these programs and in support
17 of these programs, and so this fund is above and
18 beyond that program.

19 CHAIRMAN KANE: Couple of questions on --
20 follow-up questions on the solar renewable
21 portfolio standard. Obviously, since you spoke of
22 it, you are aware of the renewable portfolio

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1 standard legislation in the council --

2 THE WITNESS: Yes.

3 CHAIRMAN KANE: -- in the District, and
4 that that is a matter of law not within the -- not
5 within the -- not simply by regulation of the
6 Commission, but it is law.

7 Exelon has renewable generating
8 facilities. Previous -- I think Mr. Coyle ran you
9 through a number of those, of solar facilities,
10 wind facilities, et cetera. Are any of your
11 renewable generating facilities certified by the
12 Commission for use by retail suppliers in order to
13 buy renewable energy credits for satisfying their
14 RPS requirements?

15 THE WITNESS: We have customers in the
16 District, and I believe we have regs so that -- I
17 would say yes to that.

18 CHAIRMAN KANE: You have a solar facility
19 in Chicago, a fairly -- well, it's 11 megawatts,
20 something like that.

21 THE WITNESS: 10 megawatts.

22 CHAIRMAN KANE: 10 megawatts. 10

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1 megawatts. And this facility used to be certified
2 by the District. It is no longer certified. And
3 I'm asking this question to lay a foundation for
4 the next one. Do you know why it is no longer
5 certified?

6 THE WITNESS: No, I do not.

7 CHAIRMAN KANE: So you're not aware that
8 the District council has passed a law that
9 prohibited facilities that are larger than
10 5 megawatts, solar facilities, from being
11 certified in the District --

12 THE WITNESS: No, I was not.

13 CHAIRMAN KANE: -- and that we had to
14 decertify your facility?

15 THE WITNESS: No.

16 CHAIRMAN KANE: Except for facilities
17 owned by the District government or on property of
18 the District government.

19 And so -- back to -- because I want to
20 talk to you about rooftop solar. Because of that
21 legislation, facilities can only be 5 megawatts or
22 smaller in order to be eligible to have a

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1 renewable energy credit issued through
2 certification by this Commission.

3 And at the same time, we have an
4 increasing amount of solar required to meet the
5 RPS. And that solar must be sourced from
6 facilities in the District. And so, given your
7 previous dialogue about the -- about your concerns
8 about rooftop solar, what will Exelon bring to the
9 District that will help meet that solar RPS
10 requirement? Because it's going to be
11 240 megawatts of District-based solar by 2023.
12 It's about 2-1/2 percent of load.

13 THE WITNESS: We have the capability of
14 modeling the most economic way to meet those
15 standards. We provide support, and have in other
16 jurisdictions, for that.

17 Our concern with solar is not the
18 technology. It's the inequities that currently
19 exist with the net metering. That's the only
20 point that we're trying to point out.

21 We have a solar development group and --
22 but, you know, it's not an issue with solar. It's

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1 just making sure it's done in an equitable
2 fashion.

3 CHAIRMAN KANE: Are you familiar with the
4 Community Renewable Facilities Act which has gone
5 into effect in the District about a year ago?

6 THE WITNESS: I've heard it.

7 CHAIRMAN KANE: Are you familiar with
8 the -- I'll call it the funding scheme, but the
9 provisions in that act for how the output of a
10 community renewable energy facility is paid for?

11 THE WITNESS: I believe I was told it was
12 almost like a net metering provision, if I have
13 that right.

14 CHAIRMAN KANE: I think you -- well, it's
15 not right. So you are not aware that that is --
16 was established so that there really was no
17 subsidy, that the price paid for the output of
18 those facilities is the -- it's a tariffed price,
19 the same price at which the SOS provider would be
20 buying electricity.

21 THE WITNESS: Direct.

22 CHAIRMAN KANE: Yes. You might want to

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1 take a look at that law.

2 THE WITNESS: I will.

3 CHAIRMAN KANE: Thank you. My other
4 question has to do with decision-making again and
5 with affiliate transactions and ring-fencing,
6 et cetera. You've proposed a five-year
7 ring-fencing in New Jersey, a ring-fencing
8 provision that would be good for five years and
9 then would be -- could be reevaluated or could be
10 revised. And that's the same as what you're
11 proposing here, at five years?

12 THE WITNESS: Yes. I believe in
13 settlement conversations, we looked at something
14 that was a little bit different in New Jersey
15 yesterday, but the original offer was the five
16 years and -- as it was here.

17 CHAIRMAN KANE: I wanted to -- are you
18 aware that in the D.C. law, in the D.C. code,
19 there is some very specific provisions -- and I'll
20 cite D.C. code 34-1513; I can show it to you or I
21 can read it to you.

22 THE WITNESS: I trust you.

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1 CHAIRMAN KANE: And it says -- and this
2 is our restructuring act -- Other than its
3 provision of standard offer service, the electric
4 company shall not engage in the business of an
5 electricity supplier except through an affiliate.
6 An affiliate of the electric company -- then the
7 affiliate has to have a license. But here, (c) --
8 this is -- I'm slowing down. I know. I'm
9 giving -- sorry, I'm going to slow down. Thank
10 you.

11 This is D.C. code 34-1513(c): The
12 Commission shall develop a code of conduct between
13 the electric company and its affiliate which
14 establishes functional, operational, structural
15 and legal separation between the electric company
16 and its affiliate and which prevents the electric
17 company from subsidizing the activities of the
18 affiliate.

19 And then the code of conduct in this
20 section -- it lists -- excuse me. It lists -- the
21 very -- the section, it lists some very specific
22 things that have to be in the code of conduct, and

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1 I will read those to you.

2 A (sic), a prohibition on the release of
3 proprietary customer information from the electric
4 company to the affiliate.

5 2, a prohibition on the use by the
6 affiliate of office space owned and used by the
7 electric company.

8 3, a prohibition on the sharing of
9 employees by the electric company and the
10 affiliate.

11 4, a requirement that the electric
12 company and the affiliate maintain separate books
13 and records.

14 And, 5, a requirement that the electric
15 company and the affiliate allocate and account for
16 all shared corporate services.

17 As I said, the purpose of this is to
18 prevent the electric company, which is PEPCO, the
19 distribution company, from subsidizing any
20 activities of any affiliate.

21 Now, this is a provision of the D.C.
22 code, so -- which is -- does not sunset after five

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1 years and did not sunset after it was enacted in
2 1999 or 2000. So I'm curious why you're proposing
3 just a five-year or longer ring-fencing.

4 THE WITNESS: I think the terms and the
5 conditions of the ring-fence are -- have similar
6 structural implications or more specifics. Five
7 years was in case there's something -- if there
8 was something of value or some reason that you
9 would come back -- I don't foresee us ever asking
10 for a change in it.

11 We ring-fenced Commonwealth Edison in
12 2004, 2005 and haven't made any changes. PECO is
13 ring-fenced. BGE is now ring-fenced. I
14 think the -- it's a commitment in perpetuity
15 versus saying, you know, maybe we can come back
16 and talk after five years, was the essence of it.

17 But those codes of conduct are very
18 similar to every place we operate. It's the way
19 we do operate. And also, within the tariffs, they
20 are consistent on affiliate transactions, data,
21 information, proprietary stuff.

22 So that's not only here as a -- as a

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1 code. It's in our other locations, and it is also
2 within a FERC tariff.

3 CHAIRMAN KANE: Two things that we have
4 not faced previously in the District, as
5 Commissioner Fort indicated or cited, is the
6 situation where the District -- the distribution
7 company, which is the SOS provider -- and under
8 that way it is set up currently in the District,
9 the distribution company is designated as the SOS
10 provider. That could be changed by the
11 Commission. That's at the discretion of the
12 Commission. But the distribution company, with an
13 independent market monitor that we hire and under
14 commission rules, but nevertheless, conducts the
15 auction and the purchase of the power for the use
16 of those customers who do not choose a competitive
17 electric supplier.

18 I can either pass this out -- enter this
19 as an exhibit, but this is from the District --
20 excuse me -- the Commission's website. But would
21 you agree that Exelon Generation is one of the
22 suppliers, wholesale suppliers, that is

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1 participating under contract in the SOS program?

2 THE WITNESS: Yes.

3 CHAIRMAN KANE: This is from the
4 Commission's website, Winning wholesale suppliers
5 for standard offer service. Eight suppliers in
6 the last auction. The current auction information
7 has not been released, so I'm talking about the
8 existing contract. And currently, under those
9 existing contracts, Exelon has contracts from this
10 year's -- that is, from the 2013-'14 bidding --
11 and from the previous year's bidding, which would
12 have been one year or two years before that.

13 And then there are a number of other --
14 the percentage is confidential, but there are five
15 suppliers SOS -- for SOS, and Exelon is one of
16 those. Do you agree to that?

17 THE WITNESS: Yes.

18 CHAIRMAN KANE: Those auctions have been
19 conducted competitively for -- since the
20 restructuring legislation went into effect. And
21 there was -- PEPCO, as the SOS supplier --
22 provider -- administrator, rather, has no economic

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1 interest currently in who wins, in who is chosen.
2 The only goal and the requirement is that we go
3 with the lowest bidder, that they go with the
4 lowest bidders.

5 If the merger is approved, affiliates of
6 the SOS provider conducting the auction, PEPCO,
7 will -- it will -- will have an economic interest.
8 It will have affiliates that have an economic
9 interest in the outcome of the auction.

10 Have you looked at that and do you think
11 we need to -- if the merger were approved, we
12 would need to put any additional protections into
13 that process or whether PEPCO should remain as the
14 SOS provider in a situation where it has
15 affiliates that are competing and that obviously
16 its parent company stands to win if -- or stands
17 to gain if those affiliates are the ones that are
18 chosen?

19 THE WITNESS: We operate the businesses
20 with a wall between them. There's clear that no
21 affiliate advantages another affiliate, and you
22 follow the rules of the law and the tariffs as

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1 they're designed. So I have full confidence that
2 nobody in the company is going to act that way,
3 and there has never been a case in the past.

4 The independent market monitor provision,
5 as it is in Pennsylvania -- we do the PECO -- we
6 think that provides adequate protection or
7 transparency, because you don't want even the --
8 the hint of some improper sharing of information
9 or an affiliate advantaging them.

10 So, you know, I would have to think about
11 that. We don't want to get into the middle of
12 people suspecting -- we run a very ethical
13 business. We've never had that problem within the
14 past. We wouldn't want to get in the case that
15 people would suspect that if we won a tranche in a
16 future SOS after we're merged, that we encouraged
17 that.

18 So I would have to think about, is there
19 a better way to protect it or us not participate
20 in the SOS? You know, it could be one or the
21 other. We do in other areas, but if I could think
22 about it...

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1 CHAIRMAN KANE: And I have a parallel
2 question on the retail side. There are -- are
3 there Exelon retail -- Exelon has affiliates
4 that -- or subsidiaries or whatever -- units that
5 are retail suppliers.

6 THE WITNESS: Right.

7 CHAIRMAN KANE: And at least one of
8 those, and perhaps more, are licensed as retail
9 suppliers in the District.

10 THE WITNESS: Constellation.

11 CHAIRMAN KANE: Constellation -- that's
12 public information -- is licensed, a very
13 successful retail supplier in the District in our
14 competitive -- where the customer is making the
15 choice. It's not an actor.

16 Again, we have -- currently, the
17 distribution company, which handles the enrollment
18 of customers when they sign -- you know, when they
19 open a new account, when they sign up to get
20 electric service, a new customer -- which handles
21 the information, the switching of customers when
22 they change -- choose to change, when they choose

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1 to go off SOS or back on to SOS, or they want to
2 change between suppliers -- has no economic
3 interest. They're neutral. It doesn't make any
4 difference to their bottom line which customer --
5 which company the customer chooses to buy their
6 power from.

7 We will then -- now, again, if the merger
8 were approved, face a situation or be in a
9 situation where the distribution company, which
10 is -- will be affiliated with and part of a parent
11 company that has an economic interest in
12 Constellation or another company that is
13 affiliated with it, selling, and being successful
14 and selling more.

15 Have you faced that in other
16 jurisdictions where the distribution company and
17 the -- also has affiliates that -- Exelon
18 affiliates that are in the retail market and
19 how -- again, will we need any stronger
20 requirements to both facilitate choice and promote
21 choice, but on a neutral way, and, again, have the
22 right protections?

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1 THE WITNESS: I think this is a little
2 bit different than the SOS. We have been very
3 successful with Constellation marketing gas and
4 electricity within our other jurisdictions and
5 have not been questioned or had an issue.

6 You know, the utility's responsibility is
7 to ensure adequate recordkeeping and make sure
8 that, when customers swap, that it's handled in an
9 expedited manner across all the customers, either
10 going one way or the other. So that has not been
11 a problem anywhere.

12 The SOS I have to think about. I think
13 that's a little bit different.

14 CHAIRMAN KANE: Thank you. Just one more
15 sort of line of questioning, and that has to go
16 with -- do with what I'm going to call policy and
17 law and values and business models.

18 You say -- for example, if you turn to
19 page 8 of your direct testimony, starting on
20 line 14, question -- if you would turn to that.

21 THE WITNESS: I have it.

22 CHAIRMAN KANE: Okay. And the question

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1 is, Have you reviewed the statement of PHI's
2 vision and core values set forth in Mr. Rigby's
3 direct testimony?

4 And you say, Yes, I have. And I concur
5 with Mr. Rigby that while Exelon and PHI each
6 express their vision and values in their own
7 somewhat different words, the important
8 substantive elements of our vision and core values
9 are closely aligned.

10 And yet you said in answer, I believe, to
11 Mr. Gray's questioning yesterday, when you were
12 asked why you set a cash value for the payment to
13 PEPCO stockholders, you were -- instead of a stock
14 exchange, stock-to-stock, as was done -- is done
15 in some other mergers, you said that it was not
16 possible to do a kind of stock-to-stock because
17 PHI was distribution-only and that Exelon was a
18 mixed company in terms of its business, so that
19 the business -- business structure, the business
20 case, the whole business was different, was very
21 different.

22 So I'm trying to put together your

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1 statement that your vision and core values and
2 business are closely aligned and then your
3 statement there that, being a distribution company
4 and being a mixed company, if you will, or a
5 multifaceted company, such as Exelon, were so
6 different that you couldn't change the stock --
7 exchange the stock.

8 THE WITNESS: There are two different
9 things. The vision and the core values that we
10 refer to here -- I think we both list five -- are
11 around customer focus, around safety, around
12 diversity, around community support and relevance
13 within the community. Those are the core values,
14 the vision that we speak of, and where we want to
15 provide for the customer and the safety of the
16 employees in the communities that we serve going
17 forward. That's the vision and core values that
18 we talk about here.

19 I think it would be a good conversation
20 for Mr. Rigby to refresh on why they exited the
21 generation business.

22 CHAIRMAN KANE: Because the law required

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1 them to.

2 THE WITNESS: Well, they -- they split.
3 They could go into affiliates. But, I mean, once
4 they exited the affiliate is what I'm talking
5 about, and the basis behind it. It wasn't that
6 generation was bad and it was bad to have a
7 competitive integrated company. It was cash flows
8 and earnings in the future of where they're going.

9 So he could better describe that. I
10 think size and scale of a generating company and a
11 retail marketing company is what makes them
12 beneficial, and PEPCO did not have that at the
13 time, or the mix of the assets.

14 So what we see from the value of that
15 part of the business, why we continue to have a
16 competitive integrated, times when utilities need
17 cash in growth times, we have other businesses
18 that can support that cash flow going in. There's
19 a counter-cyclical nature that gives us a strong
20 balance sheet, strong cash flows and a
21 diversification that de-risks the company, versus,
22 as has been -- that we're a riskier company.

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1 It's -- we don't believe that's the case.
2 And if you read the Moody's report, they think
3 it's a good thing for PEPCO to come in to the
4 Exelon families.

5 Now, when you get to the valuation versus
6 the values, what's the company's worth, because of
7 the low interest rate environment that we have
8 gone into, utilities, pure-play regulated
9 utilities -- now, that doesn't matter if they have
10 generation or if they're wires only -- had an
11 earnings multiple that was higher than a
12 competitive integrated.

13 So if you're in the utility sector --
14 we're at this 30-year lows -- I mean, low in the
15 30-year Treasury, 2.5 percent interest rate --
16 that's a good buy for an investor to want to get
17 the dividend, which is 4 to 5 percent. So that's
18 why it gets a multiple expansion on the earnings.

19 So if they're earning \$3 a share, you can
20 get a multiple expansion that creates the stock
21 value of maybe 16 percent, where the competitive
22 integrated, if it was making \$3, may get a stock

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1 value at 14 percent, you know, and then on future
2 evenings.

3 So it's not -- it's not a relative
4 valuation because of the multiple expansion on the
5 earnings. And so instead of confusing the
6 shareholder and saying, but we've got this upside
7 of the market coming back, they're looking at, I'm
8 valued at this multiple expansion for this
9 dividend at this much; here is the competitive
10 process that we went through; here is the premium
11 that's competitively bid, and that's why we did it
12 with a cash buyout of the stock.

13 It's not that Joe and I shared different
14 values and vision on how you operate the company.
15 It's totally on the financial side and it's
16 totally on the interest rate sensitivities in
17 multiple expansions.

18 CHAIRMAN KANE: Just one more question,
19 again, on decision-making. Commissioner Fort
20 brought your attention to a chart in the testimony
21 in terms of where budget decisions would be made,
22 dollar amounts. I want to ask about other kinds

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1 of decisions, at what level.

2 Currently -- let's say there's a piece of
3 legislation that the company is asked to comment
4 on, and currently that decision, the position to
5 be taken on it, would be made either by, it's my
6 understanding, either the president for PEPCO or
7 at the PHI level, by Mr. Rigby, I assume. And
8 that -- we see examples of that in legislation
9 that would affect the distribution company,
10 whether it is net metering, whether it is
11 community facilities, whether it's undergrounding,
12 et cetera. Mr. Rigby sat there personally as --
13 co-chairing of the task force, and, you know, it
14 was clear, was the one who was speaking for the
15 company and could make those decisions.

16 If the merger is approved, where will
17 decisions -- policy decisions, public policy
18 decisions, legislation decisions, et cetera, be
19 made as to what positions the company would take?
20 Because I referred you to your joint -- the Joint
21 Applicants' Exhibit (4A)-2 on page 4; in item 4
22 you -- quote, PHI senior management will continue

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1 to establish priorities and respond to local
2 conditions as it does today.

3 Does that refer -- how are decisions
4 going to be made at anything other than budget
5 level? Because I didn't see any of that in the
6 record.

7 THE WITNESS: It would still be at the
8 same. Ms. Parker -- Cooper would be very involved
9 in those decisions in setting what's best for
10 PEPCO and the customers. It would go up to
11 Mr. Velazquez, the CEO of PHI --

12 CHAIRMAN KANE: And stop there?

13 THE WITNESS: In most cases, stop there.
14 If there is a policy issue, a national policy
15 issue or something that we think -- as an
16 executive committee, we have a lot of dialogue.
17 So all the utilities heads are -- sit on the
18 executive committee. And if there's something
19 like net metering -- and I think that's probably
20 the only thing that we're very concerned about --
21 as we expand distributed generation, you know, we
22 do come up with company policies. They're never

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1 disagreed upon, and we make sure that the local
2 needs are taken care of.

3 At times, one jurisdiction is going to
4 want to have a certain statute or regulatory, and
5 the others don't. That's up to that -- the
6 governing bodies within those jurisdictions to
7 determine that. And if we think there's some
8 unintended consequences, we'll voice that. But at
9 the end of the day, we'll do what the law says or
10 the regulation says.

11 CHAIRMAN KANE: Thank you.

12 THE WITNESS: And just to be clear on the
13 budgets, the budgets are developed locally.
14 They're reviewed and finally approved. Those were
15 project amounts. And so it was a big project, the
16 delegation --

17 CHAIRMAN KANE: An individual project --

18 THE WITNESS: Yeah. Yeah.

19 CHAIRMAN KANE: Yeah. And let me clarify
20 that. Then would the -- but the Exelon board
21 would have the authority to override a
22 recommendation or -- say, a \$200 million project

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1 that was developed, quote, locally and came up
2 through the PHI board, the PHI CEO, approved by
3 them, goes up the line. It's a \$300 million
4 project. The -- at the Exelon level, that could
5 be still be overridden?

6 THE WITNESS: It never has, especially on
7 a utility project. But just for prudence, it is
8 recommended for approval by the local board, the
9 PHI board, to the Exelon board, and they've
10 concurred with them.

11 The question -- in smart meters, what are
12 you going to do with this -- what are you going to
13 do with this data? You know, why are you doing
14 this, and, do the customers really get benefit?
15 They've asked for further evaluation on things
16 like that, but ultimately everything has been
17 approved.

18 CHAIRMAN KANE: Commissioner Fort?

19 COMMISSIONER FORT: Just as a follow-up
20 on that last point, the reliability projects and
21 budgets that we have talked about that PHI has
22 developed to get us to the SAIDI/SAIFI numbers --

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1 to get to the SAIDI/SAIFI number that our EQSS
2 requires, will those budgets need to be approved
3 by additional people in the Exelon organization?
4 Who would do that approval?

5 THE WITNESS: So what would happen is the
6 annual budget that those items will go into is
7 reviewed and approved by the PHI CEO, who brings
8 it to the PHI board, as it is today. I would
9 chair that board and will have independent
10 directors and certain internal directors. Then we
11 recommend that to the Exelon board with all the
12 other budgets. It goes at one time.

13 So every company budget -- what they
14 primarily do is look at sources and uses of cash
15 and credit metrics-type things that back up that
16 budget.

17 COMMISSIONER FORT: So if those numbers
18 were part of the merger commitments, under what
19 circumstances could someone at that Exelon board
20 level disapprove those budget numbers or lower
21 those budget numbers?

22 THE WITNESS: They wouldn't. They

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1 couldn't. It's a commitment. It's a commitment.

2 CHAIRMAN KANE: Those conclude my
3 questions.

4 MR. GRAY: Your Honor, could I ask one
5 follow-up, and I promise it's just one.

6 CHAIRMAN KANE: Yes.

7 FURTHER CROSS-EXAMINATION

8 BY MR. GRAY:

9 Q Mr. Crane, yesterday, Chairman Kane noted
10 that this is an evidentiary proceeding, not a
11 settlement, and that the Commission has to make
12 its determination based on the evidence. And I
13 presume here in a few minutes your counsel will
14 seek to admit the New Jersey settlement, which was
15 part of your testimony, and there's been a lot of
16 testimony in the last two days on, if the
17 Commission orders us to do this, we would be
18 willing to talk about this.

19 And I'm just curious if you can clarify,
20 is the formal presentation of merger commitments
21 that the company is asking the Commission to
22 consider the 91 paragraphs in Exhibit (4A)-2 or

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1 are there other firm commitments you're asking the
2 Commission to consider that are not in
3 Exhibit (4A)-2?

4 A Exhibit (4A)-2 is the official filings
5 and the commitments that we're putting forth for
6 the Commission to review. And as I said
7 yesterday, instead of -- we did not want to
8 refile, but make available what we have committed
9 to in other jurisdictions, because we would have
10 restarted the clock and perturbed everybody's
11 schedule one more time and delayed this
12 evidentiary hearing.

13 So the commitment is the commitments that
14 are listed, but an awareness of what's happened in
15 other locations.

16 CHAIRMAN KANE: Okay. Mr. Lorenzo, do
17 you have redirect? Or your colleague.

18 MR. LORENZO: Mr. Gadsden has no
19 redirect, Your Honor. I do have a number of
20 exhibits to move in at the appropriate time.

21 CHAIRMAN KANE: I think we have moved to
22 that time -- arrived at that time.

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1 MR. LORENZO: Those would be
2 Exhibits (A), (A)-1 --

3 CHAIRMAN KANE: Mr. Crane -- excuse me,
4 sir.

5 Mr. Crane, there being no redirect, you
6 may be excused.

7 Let me just ask -- we'll move those in,
8 but in terms of confidential session, we will have
9 some -- anybody have any confidential questions?
10 Do we have any confidential questions? We have
11 none on confidential. Fine. Then we will move
12 these exhibits in. Then we will adjourn for the
13 day. And then -- Mr. Crane, you're excused. And
14 then we will start --

15 THE WITNESS: Thanks.

16 (Witness excused.)

17 CHAIRMAN KANE: -- with Mr. Rigby in the
18 morning. Okay. Move your exhibits.

19 MR. GADSDEN: Thank you, Your Honor. Our
20 exhibits would be Exhibit (A), (A)-1, (3A),
21 (3A)-1, (4A), (4A)-1 and (4A)-2.

22 CHAIRMAN KANE: They are so moved.

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1 (Joint Applicants' Exhibit Numbers (A),
2 (A)-1, (3A), (3A)-1, (4A), (4A)-1 and (4A)-2 were
3 received into evidence.)

4 CHAIRMAN KANE: Mr. Gray?

5 MR. GRAY: Yes, Your Honor. I'll start
6 with what I think the easier ones. I would move
7 OPC Cross-Examination Exhibits Number 1 into the
8 record. And then Number 2 was a data response by
9 Mr. Gausman that I had some questions for
10 Mr. Crane about, and indicated that I would
11 authenticate, when Mr. Gausman is on the stand. I
12 believe we have a stipulation with counsel for the
13 joint applicants that that can go into the record
14 now.

15 CHAIRMAN KANE: Yes.

16 MR. LORENZO: Yes. We have negotiated --

17 CHAIRMAN KANE: You can negotiate
18 privately.

19 MR. LORENZO: Privately, and we've
20 stipulated that that data request can go into the
21 record at this point.

22 MR. GRAY: Okay. So that would be 1 and

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1 2, and then I would also move OPC
2 Cross-Examination Exhibits 3, 4, 5, 6 and 7 into
3 the record at this time.

4 CHAIRMAN KANE: They are so moved.

5 (OPC Cross Exhibit Numbers 1 through 7
6 were received into evidence.)

7 MR. LORENZO: No objection.

8 MR. GRAY: And then we also have the
9 Joint Applicants' (sic) Hearing Exhibits 1 and 2,
10 and I move those be admitted into the record at
11 this time as well.

12 MR. LORENZO: We have also negotiated
13 about Exhibits 1 and 2 with Mr. Gray. And with
14 Exhibit 1, we have no objection, with the
15 understanding that it's a pleading drafted by
16 counsel, and it's admitted for those -- for what
17 its worth in that regard.

18 With regard to Exhibit Number 2, we --
19 Mr. Gray and I have stipulated that it's admitted
20 for -- generally for all purposes save impeachment
21 of the witness, unless pursuant to federal rule of
22 evidence 613(b), the witness is confronted with

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1 the alleged inconsistent statement and allowed to
2 deny or show it's not inconsistent with that.

3 MR. GRAY: And just so the record is
4 clear, I don't think, as a practical matter,
5 there's a difference. I think there's potentially
6 one prior inconsistent statement that we plan to
7 address, and we will do that. I don't think
8 testimony that's been filed in this case is
9 necessarily extrinsic, but I guess, as a practical
10 matter, I think it will resolve itself. And if an
11 issue comes up, it would probably be on brief, and
12 we can address it at that time. So the
13 representation by Mr. Lorenzo is fine with me.

14 (Joint Parties' Exhibit Numbers 1 and 2
15 were received into evidence.)

16 CHAIRMAN KANE: Ms. Francis?

17 MS. FRANCIS: Your Honor, AOBA would like
18 to move the admission of AOBA's Exhibits 1, 2, 3,
19 4, 5, 6, 7, 8, 9, 10, 11, and 12.

20 CHAIRMAN KANE: They are moved.

21 (AOBA Cross Exhibit Numbers 1 through 12
22 were received into evidence.)

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1 COMMISSIONER FORT: I'm sorry.

2 Ms. Francis, are you also okay -- since that was a
3 joint exhibit on Exhibits Number 1 and 2, are you
4 okay under the circumstances that your partners
5 there negotiated?

6 MS. FRANCIS: Yes, I am, your Honor.

7 COMMISSIONER FORT: Thank you.

8 CHAIRMAN KANE: Mr. Coyle?

9 MR. COYLE: Madam Chair, the District
10 government would move Exhibits DCG 1 -- I guess I
11 could make this easy -- 1 through 22, and 35 and
12 36 at this time.

13 CHAIRMAN KANE: Thank you.

14 (DCG Cross Exhibit Numbers 1 through 22,
15 35 and 36 were received into evidence.)

16 CHAIRMAN KANE: And you will provide
17 numbered copies of those for the final record,
18 correct.

19 MR. COYLE: Yes, ma'am. The ones that
20 require pagination will be paginated for the
21 record.

22 CHAIRMAN KANE: Thank you.

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1 MR. COYLE: Allow me to say I appreciate
2 the Commission's indulgence with my inexperience,
3 and I'll try to do better in the future.

4 CHAIRMAN KANE: Mr. Speck?

5 MR. SPECK: Thank you, Your Honor.

6 DC SUN moves confidential DC SUN Exhibit --
7 Cross-Examination Exhibit 1.

8 CHAIRMAN KANE: That is moved into the
9 record.

10 (DC SUN Cross Exhibit Number 1 was
11 received into evidence.)

12 CHAIRMAN KANE: Ms. White, do you have
13 any exhibits?

14 MS. WHITE: No.

15 CHAIRMAN KANE: No, you have no exhibits
16 for the record.

17 And Ms. Wein?

18 MS. WEIN: No exhibits.

19 CHAIRMAN KANE: No exhibits, all right.

20 Are there any other procedural matters
21 before we adjourn for the day? Very good. Thank
22 you, all.

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1 We will see you at 10:00 a.m. tomorrow
2 morning.

3 (Whereupon, at 4:43 p.m., the above
4 proceedings were adjourned.)

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1 CERTIFICATE OF COURT REPORTER

2 I, DENISE M. BRUNET, Certified Court
3 Reporter, do hereby certify that the statements
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5 transcript are the statements and testimony taken
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9 transcript is a true and correct record of the
10 statements and testimony given; that I am neither
11 counsel for, related to, nor am employed by any of
12 the parties to the action; and further, that I am
13 not a relative of employee of any attorney or
14 counsel employed by the parties thereto, nor
15 financially or otherwise interested in the outcome
16 of the action.

17

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Denise M. Brunet



Denise M. Brunet
Certified Court Reporter

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