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PUBLIC SERVICE COMMISSION OF THE

DISTRICT OF COLUMBIA

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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 VII
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Washington, D.C.

Tuesday, April 7, 2015

The evidentiary hearing in the above-captioned matter began at 10:02 a.m., at the D.C. Public Service Commission, 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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C O N T E N T S



(Exhibits continued on the next page.)

| EXHIBIT NO. | MARKED | RECEIVED |
|---|---|---|
| OPC Cross 94 | 1853 | |
| AOBA Cross 60 | 1856 | |
| AOBA Cross 61 | 1856 | |
| AOBA Cross 62 | 1857 | |
| AOBA Cross 63 | 1857 | |
| AOBA Cross 64 | 1857 | |
| AOBA Cross 65 | 1857 | |
| AOBA Cross 66 | 1858 | |
| AOBA Cross 67 | 1858 | |
| AOBA Cross 68 | 1858 | |
| AOBA Cross 69 | 1859 | |
| AOBA Cross 70 | 1859 | |
| AOBA Cross 71 | 1859 | |
| AOBA Cross 72 | 1860 | |
| AOBA Cross 73 | 1860 | |
| AOBA Cross 74 | 1860 | |
| AOBA Cross 75 | 1861 | |
| AOBA Cross 76 | 1861 | |
| AOBA Cross 77 | 1861 | |
| AOBA Cross 78 | 1862 | |

(Exhibits continued on the next page.)

| EXHIBIT NO. | MARKED | RECEIVED |
|---|---|---|
| AOBA Cross 79 | 1862 | |
| AOBA Cross 80 | 1862 | |
| AOBA Cross 81 | 1863 | |
| AOBA Cross 82 | 1863 | |
| AOBA Cross 83 | 1863 | |
| AOBA Cross 84 | 1864 | |
| AOBA Cross 85 | 1864 | |
| AOBA Cross 86 | 1864 | |
| AOBA Cross 87 | 1865 | |
| AOBA Cross 88 | 1865 | |
| AOBA Cross 89 and 90 | 1866 | |

P R O C E E D I N G S

CHAIRMAN KANE: Good morning. Today is Tuesday, April 7th. We are resuming the evidentiary hearing in formal case 1119. It is 10:01 a.m.

Before we start with the next witness, are there any preliminary matters?

MR. LORENZO: Yes, Your Honor.

CHAIRMAN KANE: Yes, Mr. Lorenzo.

MR. LORENZO: This morning we filed with the secretary and have served on all the parties two documents. One is a schedule -- an estimated cross-examination times for joint applicants' witnesses for the benefit of the Commission and the parties. And this we gleaned from over the weekend when we got the parties' estimates.

The second is the remaining four days of hearings, we put together an aggressive schedule to try to finish so that we still have a chance of finishing within those four days. But it's -- again, I'll use the term it's going to be challenging. And the Commission -- you know, we may want to think about a backup day.

CHAIRMAN KANE: We have already thought about a backup day --

MR. LORENZO: Okay.

CHAIRMAN KANE: -- and I would like to urge everyone to stick with an aggressive schedule, as possible, and -- but also to take the time as necessary that we get everything on the record that's needed and the questions get answered.

So we're going to reserve Wednesday, April 22nd as a potential overflow backup day if we do not meet the schedule that's been laid out. But we will try to keep to that schedule. So we are going to reserve April 22nd, Wednesday, April 22nd, as the final day, which does mean that the Commission's open meeting and closed meeting which was scheduled for April 22nd, we are moving that to the following day, to April 23rd, and that will be posted on our website in the secretary's office so that there is public notice of that change also.

MR. LORENZO: Thank you, Your Honor.

We also filed with the Commission's secretary the joint applicants' response to certain bench data requests that were asked us, particularly with regard to organization charts that Commissioner Fort asked yesterday, and I've served all the parties with that.

At this point, if the Commission believes it proper, I'd like to stipulate in the Joint Applicants' Exhibits (2J) and (3J), which are Julie Solomon's testimony in this case. Pursuant to the Commission's order, all parties have waived cross, and the Commission has no questions for Ms. Solomon, so I'd like to move in Joint Applicants' Exhibits (2J) and (2J)-1 and (3J), her rebuttal testimony, and (3J)-1 through (3J)-8.

CHAIRMAN KANE: They are moved in.

(Joint Applicants Exhibit Numbers (2J), (2J)-1, (3J), and (3J)-1 through (3J)-8 were received into evidence.)

MR. LORENZO: Thank you, Your Honor.

CHAIRMAN KANE: Now you may call your

witness. Wait a minute.

MS. WHITE: Madam chairman.

CHAIRMAN KANE: Oh, People's Counsel. Sorry.

MR. SEARS: Arick Sears on behalf of the Office of the People's Counsel.

CHAIRMAN KANE: Yes.

MR. SEARS: We wanted to make two corrections to the record yesterday that occurred when Witness Gausman's exhibits were moved into the record.

CHAIRMAN KANE: All right. Go ahead.

MR. SEARS: Yesterday, counsel for OPC identified what had been preliminarily marked as OPC 63. He identified it as the joint applicants' response to OPC 20-4. That item had already been -- and he moved it into the record as item number 85. That item had already been admitted on April 3rd as Number 30. And it was actually preliminarily marked as 33, not 63.

Additionally, the item he preliminarily identified as 64, which would have been the joint applicants' response to 20-10, and he moved into the record as 86, is not a document that OPC provided. We don't have it on our list. And it was moved into the record as 86. And we -- it's our contention now that we stopped at 84. So we've numbered up through 84.

The item that was admitted as 85 was already in the record as 30. And item 86, it was not a document that we provided.

CHAIRMAN KANE: So there is no 86?

MR. SEARS: There's no 86. And the index that you have received today runs up through item number 84, and OPC will begin numbering its exhibits for admission as 85.

CHAIRMAN KANE: Thank you. Any other matters?

MS. WHITE: Good morning, Madam Chairman.

CHAIRMAN KANE: Ms. White?

MS. WHITE: I would like to take the opportunity to enter the appearance of Michael Engleman of Squire Patton Boggs into the record of hearing in this case. The appropriate paperwork was filed yesterday. Thank you.

CHAIRMAN KANE: Thank you.

Anything else? Now you may call your witness.

MR. GADSDEN: Thank you, Madam Chairman. Tom Gadsen again for joint applicants. We call Carim Khouzami as our next witness.

WHEREUPON,

CARIM KHOUZAMI,

called as a witness, and after having been first sworn by the secretary, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. GADSDEN:

Q Mr. Khouzami, by whom are you employed and in what capacity?

A I am the senior vice president and chief integration officer for Exelon Corporation.

MR. GADSDEN: Your Honors, Mr. Khouzami will be sponsoring direct, rebuttal and supplemental direct testimony, as well as numerous exhibits, all of which have been pre-marked for identification and all of which I now understand may be introduced as marked by stipulation. And they are as follows:

Mr. Khouzami's fully conformed direct testimony filed March 25, 2015 as Exhibit (F) and accompanying Exhibits (F1) through (F3).
Mr. Khouzami's fully conformed rebuttal testimony as Exhibit (3F), and Exhibits (3F)-1 through (3F)-3, noting that Exhibit (3F)-2 has been marked as confidential and should be treated as such because it includes sensitive employee information. And, finally, his fully conformed supplemental direct testimony as Exhibit (4F), and attached to that statement is Exhibit (4F)-1.

We will move the admission of Mr. Khouzami's testimony and exhibits at the appropriate time and now offer him for questioning.

CHAIRMAN KANE: Tank thank you. People's Counsel.

CROSS-EXAMINATION

BY MS. KARAS:

Q Good morning, Mr. Khouzami.
A Good morning.
CHAIRMAN KANE: Could you introduce yourself, please.
MS. KARAS: My name is Natalie Karas and I represent the Office of the People's Counsel in this proceeding. My notice of appearance was entered on March 31st, 2015.
BY MS. KARAS:
Q You are the chef integration officer for Exelon, correct?
A That's correct.
Q And the purpose of your testimony is to discuss finance and accounting issues associated with the transaction and the merger integration process and estimated savings and synergies, correct?
A Correct.
Q And your counterpart at PHI is Donna Kinzel, the PHI chief integration officer, correct?
A That's correct.

Q And Ms. Kinzel did not file testimony in case; is that right?

A Correct.

Q You responded to a substantial number of data requests in this case; is that right?

A Yes, I did.

Q But you did not respond to any data requests in this proceeding jointly with Ms. Kinzel, did you?

A Not to my knowledge, no.

Q So why is the integration process being presented in this case from an Exelon perspective and not also a PHI perspective?

A I would say that it's being presented by myself from Exelon on behalf of the integration process. So our process is structured to incorporate individuals from both companies. So we have teams of 140 individuals working, 70 each roughly from both companies, in order to file the testimony. We thought it was appropriate that I could file the testimony and represent the integration team since we are one team; it's not two separate teams.

Q I'd like to change topics now. Could you please turn to your exhibit Joint Applicants' (3F)-1 provided with your rebuttal testimony. This is a revised or updated version of the net synergy estimates that was provided as an exhibit to your direct testimony.

A I'm there.

Q So please turn to page 12 of that exhibit.

A I'm there.

Q Do you see that the total projected cost to achieve presented on that page on a PEPCO D.C. basis is $10 million?

A I do.

Q And the total projected cost to achieve on a total PHI utilities basis is $68 million; is that correct?

A That's correct.

Q So please turn to page 9 of that same exhibit.

A I'm there.

Q Do you see at the top that it presents the total five-year cumulative net synergies as 225 million?
A Yes, I do.
Q Page 9 also identifies the total projected cost to achieve, excluding the transaction costs, as $297 million; is that correct?
A The total CTA is 297? I'm just making sure I understood your question. Correct? Is that what you're asking?
Q Yes.
A Yes.
Q Okay. And the projected portion of the 297 million applicable to PEPCO D.C. would be 10 million; is that correct?
A That's correct.
Q So please turn to page 8 of that exhibit.
A Okay.
Q And this chart also shows the total projected cost to achieve, excluding the transaction fees, as 297 million; is that right?

A That's correct.
Q And this chart sort of provides a high-level breakdown of the 297 million; is that right?
A Yes.
Q Do you have Mr. Crane's Exhibit (4A)-2 available?
A Yes, I do.
Q So this is a list of the joint applicants' 91 merger commitments. Once you have it up, please let me know.
A I have it.
Q So please turn to page 1 of 17 and look at paragraph 1.
A Okay.
Q Am I correct that paragraph 1A precludes PEPCO from seeking recovery of any of the 1.6 billion acquisition premium through rates?
A Yes.
Q Am I correct that paragraph 1B precludes PEPCO from seeking recovery through rates of transaction costs incurred in association with the

transaction?

A Yes.

MS. KARAS: At this time, I'd like to mark an exhibit for identification. This document has been pre-marked as OPC Cross-Examination 116. It is a one-page document which is the joint applicants' response to OPC data request 3-1. I ask that this document be marked for identification as OPC Cross-Examination Exhibit Number 85.

CHAIRMAN KANE: So marked.

(OPC Cross Exhibit Number 85 was marked for identification.)

BY MS. KARAS:

Q Am I correct that you were the sponsor of this response?

A Yes.

Q This question asks you to define and distinguish the following three terms: Cost to achieve, transaction costs, and merger-related costs. Do you see that?

A I do.

MS. KARAS: Commissioners, do you have the data response in front of you?

CHAIRMAN KANE: We do.

MS. KARAS: Okay. Thank you.

BY MS. KARAS:

Q So as we've established, this question is asking you to define and distinguish cost to achieve, transaction costs and merger-related costs. And in part A of your answer, am I correct that you state, Costs to achieve are actual expenditures that will be incurred as a result of the merger and include expenses in such areas as employee compensation, communications, technology migration, financing, accounting and many others. Costs to achieve are typically incurred in order to effectuate long-term sustainable savings or synergies?

A That's correct.

Q If the transaction is approved, am I correct that PEPCO would recover costs to achieve from ratepayers by virtue of the fact that it proposes to flow net synergy savings through to ratepayers through rates?

A If the merger is approved, then the cost to achieve will be accounted for, and in the first rate case, PEPCO would seek recovery of it. Approving the merger doesn't guarantee recovery of the CTA cost.

Q Am I correct that part B of your answer relates to transactions costs?

A Yes.

Q In part B you state, Transactions costs are those costs incurred in consummating a merger, such as consultant, investment banker and legal fees, change and control payments, i.e. golden parachutes as referenced on page 79 of the proxy statement filed with the SEC on August 12th, 2014, costs associated with the shareholder meetings and a proxy statement related to the merger approval by PHI shareholders and costs associated with Exelon's financing for the merger.

That is your response, is it not?

A It is.

Q Finally, do you see in part C of your

response where you state, Merger-related costs include transaction costs, acquisition premiums and costs to achieve?

A Yes.

Q Back to your response to part A. If the cost to achieve exceeded synergies in the first rate case, would PEPCO still seek to recover cost to achieve?

A PEPCO would present the CTA and the discussion would take place during a rate case proceeding. We've already stipulated -- we've already said in my own testimony that we would be open to some sort of amortization process if that's what the Commission deemed was appropriate.

At this time, though, we think it's premature to discuss that, given that it should be something that's discussed in a rate case proceeding.

Q So you're not answering yes or no at this time?

A Maybe -- repeat the question, then.

Q So referring back to your response to

part A of the data request, if the cost to achieve exceeded the synergies in the first rate case, would PEPCO still seek to recover the cost to achieve?

A    I would think they would.

Q    So the transaction costs and acquisition premium you refer to in part C of your response are covered by the prohibitions in paragraph 1 of Exhibit (4A)-2 that we discussed, correct?

A    That's correct.

Q    I want to focus on the distinction between cost to achieve and transactions costs.

A    Okay.

Q    Am I correct that you testified in the Maryland merger proceeding, case number 9361?

A    Yes, I did.

MS. KARAS:  Your Honor, at this time, I'd like to mark an exhibit for identification.  This document has been pre-marked as OPC Cross-Examination Exhibit 120.  It is a nine-page excerpt of the transcript of Mr. Khouzami's testimony in Maryland.  I ask that this document be marked for identification as OPC Cross-Examination Exhibit 86.

CHAIRMAN KANE: So marked.

(OPC Cross Exhibit Number 86 was marked for identification.)

BY MS. KARAS:

Q Mr. Khouzami, could you please turn to page 2 of that document.

A I'm on page 2.

Q Do you see beginning on line 7 there is a question from Commissioner Brenner?

A I do.

Q I want to call your attention to lines 8 to 10 where Commissioner Brenner states that he is, quote, trying to get a handle on the dividing line between what's a transaction cost and what's a cost to achieve.

Do you see that statement?

A I do.

Q Now, if you turn to page 3, beginning on line 16, Commissioner Brenner is asking you about the 15 million in cost to achieve that is characterized as regulatory support.

Do you see that?

A I do.

Q And Commissioner Brenner asks whether the 15 million regulatory support cost is the cost associated with the hearings in the four different jurisdictions as well as FERC. And you answered that he is correct.

Do you see that discussion?

A I do.

Q In the proceeding in the District, do you know or would you accept, subject to check, that the 15 million regulatory support cost to achieve is shown on page 8 your Exhibit (3F)-1?

A You mean that the 15 million is included in that CTA total?

Q Yes.

A Yes, it is.

Q Okay. And on line 21, Commissioner Brenner asks whether the 15 million regulatory support cost is a cost to achieve or a transaction cost. And you answer that it is a cost to achieve.

Do you see that discussion?

A Yes, I do.

Q Do you see where Commissioner Brenner then asks why the 15 million regulatory support cost is not considered a transaction cost?

A I do.

Q And at the bottom of this page and continuing on to page 4, Commissioner Brenner states that without the hearing, you can't close on the transaction, and he again asks why the 15 million regulatory support cost is not considered a transaction cost.

Do you see that?

A I do.

Q And could you please read your answer beginning on line 1 of page 4?

A I answered, I understand your point. We've included it in CTA. I don't have another response to that.

Q Now, could you please look at lines 17 and 18 on page 4. Do you see where Commissioner

Brenner states, It seems to me no regulatory approval, no transaction?

A I do.

Q Please read your answer on lines 19 to 20.

A I said, I think there could be an argument made for that.

And one thing I would add -- I didn't respond, though -- is this is the way this will work -- the way the CTA is set up is this type of discussion would take place during the rate case proceeding. CTA -- not only is there a bright light on it because of the merger; it's accounted for separately and very distinctly, so you can break apart the cost very easily.

So the discussion that Commissioner Brenner and I had and the discussion I believe you and I are having now is one that I would expect to take place during a rate case, and then a decision would be made at the appropriate time, which we believe is the rate case.

Q So I understand what you just said about having that discussion as part of the next rate case, was that your understanding at the time that this application was filed in June?

A Yes.

Q And was there a commitment to track cost to achieve in June?

A Yes.

Q So earlier we discussed the District's share of the total cost to achieve which was about 10 million. Do you recall that discussion?

A I do.

Q Do you agree that the portion of the $15 million in regulatory support costs that is allocated to the District is about 2.1 million or about 14 percent of the total?

A Subject to check. I'd have to check to see what portion it is. I don't know.

Q So if we were to treat the cost to achieve as transaction costs, the District's share of total cost to achieve would be less than 8 million, subject to your check?

A Subject to check, that math would work.

But I do believe that it's probably less because those type of costs would have been allocated to all of the entities, not just the PHI entities, so I believe the number is less than $2 million, but I would have to go back and check.

Q Am I correct that the joint applicants' estimates of cost to achieve and merger synergies have been revised a number of times in this case?

A The net synergy number has been revised twice. The first time was to correct some costs that were included as CTA that we had accidently in the application put at CTA -- should have been transaction costs. So we moved those costs to transaction. That was about $73 million.

Then we also increased -- later, during the analyze phase of our integration process, the teams that had worked with more information determined that the -- a decision to move to common IT platforms was necessary. And so the costs associated with moving to those IT platforms was then included, which got us to the final $225 million net synergy number.

Q And could you identify the figures with each of those respective changes?
A Sure. So it was $73 million of less CTA, moving the CTA cost to transition -- to transaction cost. And the IT increase was increased CTA by $100 million.
Q And in terms of net synergies?
A Net synergies went from 252 to 325 to 225.
Q And is that PHI or --
A That is enterprise-wide. PHI went from 92 to 102 to 95. I'm sorry, 95, 102, 92.
Q Okay. I'm just going to walk through a few of these changes so --
A It's a lot of numbers, I understand.
Q -- I understand.
So originally am I correct that the Boston Consulting Group performed an analysis that showed total net synergy savings for the PHI utilities would be 95 million from pre-closing through five years after consummation?
A That's correct.

Q Okay. And then subsequently the --
A One -- net synergies. So that 95 was net of CTA.
Q Net synergy?
A Yes.
Q And then, subsequently, the joint applicants' estimate of net synergy savings for the PHI utilities was increased from 95 million to 102 million, correct?
A That's correct.
Q Could you please refer to your rebuttal testimony, Exhibit Joint Applicants' (3F), and turn to page 7.
A I'm there.
Q Okay. And here on line 17 you testify that the revised projected PHI utility net synergies that accumulate through year 5 post-transaction -- you revised that downward from 102 million to 92 million; is that correct?
A Correct.
Q Now, if you could turn to your rebuttal testimony Exhibit Joint Applicants' (3F) at

page 8, and I'm looking at figure CBK-1.
A So this is the page that reads, Preliminary estimates of transaction cost to achieve?
Q And you see the figure CBK-1 on that page?
A Sorry. I might. I'm not sure. What are we looking at? Oh. Sorry. I'm there. Thank you.
Q Okay. So with respect to the PHI utilities, figure CBK-1 shows total cost to achieve of $68 million and the 92 million in estimated synergy savings that we just discussed, correct?
A That's correct.
Q And am I correct that figure CBK-2 identifies the $10 million in total cost to achieve for PEPCO D.C. and net estimated synergy savings of 14 million?
A Correct.
Q So given the various revisions to the cost to achieve and estimated synergies, should I

now accept that your current position regarding these is reflected in figure CBK-1 and CBK-2 on page 8 of your rebuttal testimony?

A Yes.

Q Could you please turn to your rebuttal testimony on page 6 and look at line 20 and then continue on to page 7 to line 2.

A I've read it.

Q Do you see where you testify that, quote, the joint applicants have determined that fully consolidating the Exelon and PHI enterprise systems and migrating PHI to Exelon's Oracle platform is the preferred alternative because doing so will be more cost-effective and because the hybrid model will not achieve the targeted IT synergies?

A Yes.

Q And this is one of the two changes we discussed earlier; is that correct?

A That's correct.

Q And so the determination regarding full consolidation of these IT systems substantially changed the original estimate of synergies that you mentioned at the beginning; is that correct?

A I'm pausing on the word "substantially." So we start at 95 and we are now at 92 for PHI-wide. So I'm not sure if that's deemed a substantial change, but that's the change that happened when you have all the revisions taking place.

MS. KARAS: Your Honor, at this time, I would like to mark an exhibit for identification. This document has been pre-marked as OPC Cross-Examination Exhibit 118. It is a three-page document which is the joint applicants' response to OPC follow-up data request 3-3. And I ask that this document be marked for identification as OPC Cross-Examination Exhibit 87.

CHAIRMAN KANE: So marked.

(OPC Cross Exhibit Number 87 was marked for identification.)

BY MS. KARAS:

Q Am I correct that you are the sponsor of this response, Mr. Khouzami?

A Yes.
Q Do you see subpart B on page 2 which asks you to, quote, please provide a detailed description of the expected supply chain savings and how they will be achieved?
A I do.
Q And if you turn to page 3 of this exhibit, do you see where you answer, Specific supply chain synergies have not been finalized to date?
A I do.
Q Now, if you refer back to page 2 of the exhibit and look at subpart C which asks you to please identify all transmission-related savings in addition to supply chain savings...
A I see that.
Q Do you see your response on page 3 which is that specific transmission-related synergies have not yet been finalized to date?
A I do.
Q Am I correct than you've not provided an update to this response except to revise the net

synergy savings from $95 million to $102 million?
A We've provided report-out decks from our integration process which detailed the initiatives that we've identified. We have identified a number of synergies that total a run rate of $130 million per year. So I believe a lot of details are in that.
With regards to transmission-related, we have not broken out transmission verse (sic) distribution. The reason for that is any savings, whether transmission or distribution, will flow through effectively cost of service, and customers will benefit from them from lower costs.
So we have not attempted to break out between transmission and distribution costs since that involves a lot of allocation.
Q With respect to this specific data response, you have not updated parts B or C; is that correct?
A We have not updated -- do you mean, was there another data response provided?
Q Did you provide any updated information

with respect to subpart B or C of this data response?

A I believe the report-out decks, there is an update of B, and C we did not do.

Q And do you know what date the update was provided?

A The first one would have been at the conclusion of the analyze phase which would be in December.

Q And is there a second one?

A When we completed the design phase report-out, we also submitted that report when we finished in the March time frame.

Q And if you know, were these independent updates that you provided or are these specific updates to this data response?

A We were provided the deck. So I think that's were probably independent, but it was in response to a data request at the start to provide all report-out decks to the parties.

Q A different data response?

A I believe so.

Q Okay. Am I correct that the full integration will not be complete until 18 to 24 months after the transaction closes?

A That's correct.

Q And do you anticipate discovering additional issues that may result in revised synergy estimates either up or down?

A I would not expect that. I think the time from close till post-close -- there is time needed to do many of the initiatives that we have underway. So, for example, the IT initiatives, migrating systems, that doesn't happen in a day or two. That takes time. There's a phased approach. There's a lot of changed management involved. Those plans have been what the teams of 140 or so folks have been working on, and even more than that when they have the resources they tap from their own groups.

Those are the plans that we've been working on for the last nine to ten months to develop a very sound and thoughtful plan. This is the process that Exelon used when they acquired

Constellation and BGE. We did not see significant revisions at BGE, which is where I was during that period of time.

So I would not expect significant revisions.

Q So setting aside the customer investment fund at this time, is there a firm commitment to hold to these revised synergy estimates, given that you are telling me today that you don't expect them to change at all?

A There is a firm commitment to track the synergies in the first rate case. There is a firm commitment to provide a side-by-side analysis of the shared service cost that PEPCO would be paying pre-merger versus post-merger -- and incidentally, that's about 70 percent of the overall synergies is from shared services.

To a firm commitment of actually achieving and guaranteeing these synergies? No, there is not a firm commitment.

Q So is the following statement an accurate summary of your position: The customer investment fund would provide a net benefit to ratepayers in the event that joint applicants failed to achieve any synergies, though you do not believe it is likely that the joint applicants will fail the achieve these synergies?

A I would add the word provides assurance to the ratepayers, but yes.

MS. KARAS: Your Honor, at this time, I would like to mark an exhibit for identification. This document has been pre-marked as OPC Cross-Examination Exhibit 114. It is a one-page document, which is the joint applicants' response to OPC data request number 3-14.

I ask that this document be marked for identification as OPC Cross-Examination Exhibit 88.

CHAIRMAN KANE: So marked.

(OPC Cross Exhibit Number 88 was marked for identification.)

MS. KARAS: Does everyone have the exhibit in front of them at this time?

THE WITNESS: I do, yeah.

BY MS. KARAS:
Q So am I correct that you're the sponsor of this response?
A I am.
Q And in this response, you agree that it is typically easier to make projections for the short term than it to make projections for the long term, do you not?
A I agree it is easier in the short term. Doesn't mean you can't do it for the long term.
Q And if we look at figure CBK-2 in your rebuttal testimony, do you agree that, in general, the costs to achieve are front-loaded and the projected synergy savings are back-loaded?
A I would agree.
Q So assuming the transaction is approved, am I correct that no determination has been made as to the timing of PEPCO's next distribution rate case filing in this district?
A I am not aware of any specific timing.
Q Is it reasonable to assume that the joint applicants will file a distribution base rate case

in this district within 12 months of closing if the transaction is approved?

A I would say the joint applicants won't file anything. PEPCO would be filing the rate case. But also I probably can't comment. It's probably a question better suited for someone from PHI. So I would punt that to Mr. McGowan.

Q Is it true that BG&E filed a rate case within about 12 months of the Exelon/Constellation merger?

A That is correct.

Q And is it true that Mr. Crane's rebuttal testimony states that the reality is that PEPCO just can't stay out too long?

A I'd have to see the reference, but that doesn't seem a unreasonable statement to make.

Q So with those two pieces in mind, would you change your answer to whether it seems reasonable that PEPCO would file a distribution rate case within 12 months of closing?

A Again, I would expect that potentially they could file within the first 12 months. I don't think it has anything to do with whether the merger takes place or doesn't take place. I can speak to BGE because I was the CFO at BGE prior to the merger with Exelon, and then after.

We had filed a few rate cases after the merger closed, but in 2010, during our case 9230, we stated very clearly that we expected to file four or five rate cases in the next -- in a 12 to 14-month period successively.

So again, I don't know if the situation is much different here in D.C. I believe that their spending has -- and that their under-earning probably requires them to come in for rate cases. But again, Mr. McGowan would be better suited to answer those types of questions than I would be.

Q So regardless of whether the merger goes through, there probably will be a filing, as I'm hearing your answer?

A I think whether the merger goes through or not, PEPCO will come in at some point some day to file a rate case, yes.

MS. KARAS: Your Honor, at this time, I'd like to mark an exhibit for identification. This document has been pre-marked as OPC Cross-Examination Exhibit 104. It is a one-page response to PSC staff data request number 5-3.

And I ask that this document be marked for identification as OPC Cross-Examination Exhibit 89.

CHAIRMAN KANE: So marked.

(OPC Cross Exhibit Number 89 was marked for identification.)

BY MS. KARAS:

Q Mr. Khouzami, do you have this response in front of you?

A I do.

Q Do you see that you're the sponsor of this response?

A I am.

Q In part A, do you see that the question asks about the resulting rates if cost to achieve exceeds synergy savings in the test year?

A I do.

Q This is your answer, is it not, quote --

A It is.

Q -- all else being equal, to the extent the actual costs to achieve in the test period are greater than the actual synergy savings that are experienced during the test period, then the rates set in the proceeding would be higher than they otherwise would be absent the merger?

A That is my response. But my response is also predicated on no action being taken to amortize or make any adjustments, any other adjustments that we've said we're open to if the Commission thought it was appropriate.

Q So keeping this response available, could you please refer to page 9 of your rebuttal testimony at Exhibit Joint Applicants' (3F)?

A I'm there.

Q Do you see on lines 7 to 8 where you testify that the categorization of whether savings or costs are only merger-related becomes increasingly difficult to determine and burdensome as the companies are combined?

A I do.

Q And in part B of your response to staff 5-3 you state that the joint applicants have committed to tracking merger savings until the filing of PEPCO's first rate case, correct?
A Correct.
Q So if PEPCO waits until five years after consummation of the transaction, it will be more difficult to confirm whether savings or costs are only merger-related; is that right?
A I would think so.
Q I'd like to switch gears now. Are you familiar with the term "SERP" or supplemental executive retirement plan?
A Yes.
Q Could you please turn to your rebuttal Exhibit (3F)-1 and look at page 8?
A I'm there.
Q Do you see the second bar to the left which states that 90 million is associated with severance/other comp?
A I thought I was there. Just a second.
Q Okay.

A Now I'm there. Yes.
Q Okay. And so you see the second bar to the left?
A Yes, I do.
Q Okay. Would you accept, subject to check, that the $90 million in the severance/other comp includes about $17 million associated with the non-accelerated portion of the SERP benefits?
A It does.
Q And do you still have Mr. Crane's Exhibit (4A)-2 available?
A Yes.
Q Could you please turn to page 1 and look at paragraph 3.
A Yes.
Q Am I correct that paragraph 3 would preclude PEPCO from recovering from ratepayers the accelerated portion of the SERP benefits that are paid to eligible executives?
A It does.
Q And just so I'm clear, can you confirm that your proposal is for ratepayers to cover the

non-accelerated SERP benefits but for the shareholders to cover the accelerated SERP benefits?

A So our CTA number includes the non-accelerated portion. I only clarify it that way because our proposal is to include in CTA. Whether or not the ratepayers are going to pay for it will be something that gets determined in a rate case when we seek recovery of the CTA.

Q And is it your understanding that this Commission has traditionally allowed recovery of the SERP costs through rates?

A This Commission in D.C. has not typically allowed -- we call it SERP -- but SERP in rates. The reason why the SERP is included here is this is SERP that has already been earned by the employees. In order to get the synergies, severances must occur. So the thought was this is effectively like comp that they would otherwise have earned or otherwise would have been paid. So in order to exit them from the organization, you must pay the SERP.

That is the reason why we did not include the accelerated portion or the costs associated with accelerating because that is driven by the merger, the timing of the merger.

So, again, that is our thought. 17 million is included in CTA, and that's PHI-wide, not just for PEPCO D.C., but ultimately that will be the discussion, I believe, PEPCO will have with the Commission and others during a rate case proceeding.

Q So how many people total will get the 17 million that you're referring to?

A The bulk of it is from the five folks that were mentioned in the proxy.

Q And do you have their names?

A Mr. Rigby, Mr. Fitzgerald, Mr. Boyle, Mr. Huffman. I believe there's one other, but I don't recall.

Q Mr. Velazquez?

A No, he's not exiting.

Q Okay. Is he listed on the proxy?

A I'd have to go back and check, but he's

not included in the 17 million.
Q Okay. I'd like to switch to another topic now. Am I correct that the joint applicants proposed a 50 basis point penalty to PEPCO D.C.'s return on equity if PEPCO fails to meet the merger reliability commitments?
A Yes.
Q And to make sure I understand how this works, let's assume at the end of 2020, we determine that PEPCO failed to meet the reliability commitment. In the next rate case, if the Commission determined that PEPCO's authorized ROE should be set at 10 percent, am I correct that the penalty would be triggered and the 10 percent ROE would be reduced to 9.5 percent?
A That is correct.
Q So if PEPCO is under-earning its ROE by 50 basis points or more, PEPCO is not impacted at all by the ROE penalty; is that right?
A No, I disagree. So if we stay with your example, let's just say it's 50 basis points of under-earning. If they were authorized at

10 percent authorized return, then they would be earning a 9.5. If the penalty kicks in, rates would be set at the 9.5 percent return, and then the under-earning would come off that starting point. So we'd be earning -- PEPCO would be earning 9 percent.

So in either case, the under-earning will still exist. It's just where the starting point is of where rates are set.

Q And if PEPCO is only earning 8 percent in your example, would your answer change at all?

A It would be 50 basis points lower, using rough math. Maybe it's 49, maybe it's 47, but it would be still under-earning by more.

The starting point of where the rates are set -- so the revenue line would be lowered by basically $5.6 million, which is 50 basis points using approximate rate base -- so roughly 5.6 million. So the costs would be the same; ultimately the earnings would be lower.

Q And so just so I understand, when we say the word "penalty," it's not a penalty per se;

it's just you wouldn't be earning the same amount of revenues; is that correct?

A So it would be less revenue, which I do think is a pretty substantial penalty. Just to put it in context, $5.6 million, if I use 2014 net income because I have that for PEPCO D.C., is roughly 13 percent. That's a pretty large penalty.

Q But it's a reduction in revenues?

A It is. PEPCO D.C. would not be paying a check to customers. It would have lower rates than it otherwise would have had.

Q Thank you for the clarification.

A Sure.

Q Okay. I want to ask you a two-part hypothetical. First, let's assume that PEPCO decides it can't meet the reliability commitment under the budget shown in Mr. Gausman's February 17th supplemental direct testimony. And then, second, let's assume that PEPCO increases spending above budgeted levels and meets the reliability commitment.

If that circumstance were to arise, am I correct that the joint applicants would face no financial penalty?

A From the commitment we made, correct. Whatever penalty we'd face with the Commission for overspending, that would be determined at that time.

Q But there's no proposed penalty for that situation in your application; that's something that you would -- that would happen down the line?

A That's correct.

Q Okay. Let's assume now that the joint applicants do not exceed the budget commitments and fail to meet the three-year average reliability target. In that instance, are the joint applicants agreeing not to argue in the future that the imposition of the 50 basis point ROE penalty could threaten PEPCO's credit rating?

A The 50 basis points is a commitment we're making. I don't think we would try to get out of our commitment. I don't think we would argue that, due to credit rating concerns, we shouldn't pay our commitment. This is the commitment we're making, and so I don't think they would, but...

Q But there's no firm commitment not to make the argument regarding the credit ratings; is that correct?

A I don't believe there's a firm commitment. There's a firm commitment to pay the $5.6 million, or the 50 basis points.

Q You wouldn't pay it, though, right?

A But that rate would be lower by --

Q Okay.

A -- 50 basis points.

Q Thank you.

A Fair clarification. Thank you.

Q Okay. Similarly, are the joint applicants agreeing not to argue in the future that imposition of the 50 basis point penalty could increase the cost of capital and, therefore, increase cost to customers?

A I don't believe they would. There is no firm commitment, again, but when we make commitments, we honor the commitments. So if we fail to deliver on what we said the commitment would say we delivered, then we would fully expect to have the penalty imposed on us, which is the reduction of revenue.

Q Okay. I'd like to focus now on the customer investment fund. So the joint applicants propose a customer investment fund of 33.75 million in the District of Columbia; is that correct?

A That's correct.

Q Okay. And assuming the customer investment fund is distributed as a rate credit, am I correct that the fund is worth about $114 per metered customer in the District?

A About $128 per metered customer.

Q But that's just depending on how it's allocated, and that's something that yu left up to the Commission; is that --

A In your example, you just said a rate credit, so that would be $128.

Q So rate credit would be $128; it would not be 114?

A No, it would be 128.

Q And then keeping with the rate credit example, if it is -- if the customer investment fund is distributed as a rate credit, it would be a one-time payment to ratepayers; is that right?

A Again, it could be spread over time if the Commission thought that was more appropriate. It could be either way; it could be a one-time or it could be spread over time.

Q But spread over time would be less --

A I mean, but still equal to $128 over time.

Q Okay.

THE REPORTER: I'm sorry. Could you please repeat your question?

MS. KARAS: Sure.

BY MS. KARAS:

Q So -- well, there's some back and forth, so I'll just slow down.

So the -- my question was, assuming the customer investment fund is distributed as a rate credit, it would be a one-time payment to

ratepayers, correct?
A And my response was, I don't believe it has to be a one-time rate credit. If the Commission thought it was appropriate to spread the 128 over a period of time, they would have the ability to do so.
The total amount would ultimately be $128, whether that was one-time upfront or over a series of years or -- you know, it would be up to the Commission.
Q Okay. Thank you for that clarification.
So when you say the total amount would be $128, are you -- if it's spread over time, are you intending to account for the time value of money there?
A No. We're offering $33.75 million for the Commission to use as they deem appropriate.
Q So I have some questions now about Mr. Crane's testimony last week about what the joint applicants have agreed to in other jurisdictions versus what they've agreed to here in D.C.

Mr. Crane did not know what the total customer investment fund for all jurisdictions would be if the settlements in Maryland, New Jersey and Delaware are approved and the 33.75 million customer investment fund proposed in the District is accepted.

Do you know what the figure would be?

A It would be $238 million.

Q And OPC counsel asked Mr. Crane on March 30th about whether the reliability commitment was to meet the annual EQSS requirements. And Mr. Crane deferred to you, stating that he was mixing up the commitments and the settlements from various jurisdictions.

So I understand that the reliability commitment in Exhibit (4A)-2 is a three-year average and does not explicitly reference the annual EQSS requirements. My question is whether the joint applicants have made an implicit commitment to meet the annual EQSS requirements each year through 2020?

A The answer is yes. Any type of

regulatory commitments or laws that are in place, PEPCO and all other Exelon companies would always adhere to and meet, so the answer would be yes, we would meet the annual EQSS levels, but then we also have a three-year average commitment from '18 to '20.

Q And are there any other implicit merger commitments that are not shown on Exhibit (4A)-2?

A It's hard for me to say. None that I can think of. But if something comes up, I'll let you know.

Q Okay. So on Tuesday, Ms. White on behalf of D.C. Water asked Mr. Crane if the solar facilities that are to be developed pursuant to the settlement in Maryland would be funded by ratepayers. And page 470 of the transcript contains Mr. Crane's response which was, My understanding is that they will not.

Is that your understanding as well, that the shareholders, not the ratepayers, will fund the solar facilities required by the Maryland settlement?

A That's my understanding.

Q So if the transaction is approved, am I correct that PEPCO will begin receiving services from the Exelon Business Service Company?

A Yes.

Q And other Exelon entities, including Exelon Generation and the other distribution utilities also receive services from the Exelon Business Service Company; is that right?

A Yes.

Q Would you say it's easier or more difficult to track the costs as more entities are added to the Exelon family and the Exelon Business Service Company allocates costs to a broader pool?

A I don't think it matters. I think it's -- we have a stated methodology process that we follow to allocate costs. We either direct charge them through transactional means or allocate them. We file form 60s every year. These allocation and rates are governed and regulated by FERC.

So I think we have a very sound process

that -- you know, I don't think it matters if we have three or seven different operating companies underneath it.

Q So in your opinion, there's no relationship between the number of entities direct charging and allocating costs to a company and the difficulty of tracking those costs?

A We have a sound process. I don't believe it should be a problem.

Q Isn't it true that at least for some period of time after the transaction closes PEPCO will receive charges from both PHI Service Company and Exelon Business Service Company?

A That's correct.

Q Have the joint applicants committed to provide an exhibit in this case breaking out and separately stating the costs that are directly assigned and allocated to PEPCO total and to PEPCO D.C. from Exelon, Exelon Business Service Company, and any other new affiliates charging costs to PEPCO?

A We provide -- we've offered to provide a side-by-side for all the shared service costs which include PHISCO and EBSC. We have not offered to provide detailed reports for all affiliates. So if BGE were to use some PEPCO D.C. resources in a storm response, that would be an affiliate. I don't believe we've committed to providing reports that detail all those costs.

Q Do you know why the joint applicants didn't provide -- or didn't commit to provide such a document?

A I think the reports we're offering to provide are to ensure that, from a merger synergy perspective and also from a shared service cost perspective, that PEPCO D.C. is in better shape post-merger than it was prior to the merger in terms of the amount of dollars they're paying.

The reports we've offered will clearly demonstrate that, as they did with BGE when we filed those reports. The other reports I don't think we thought were applicable.

Q So over what period of time do you anticipate the full integration of the PHI Service

Company in Exelon Service Company?

A So in my rebuttal testimony, I think we detailed that, having gone through the analyze phase portion of our integration process, we identified a need to maintain the PHI Service Company. And a lot of the reason was there are a number of functions that are shared within the PHI family, such as engineers, design, other folks such as those folks that only serve the PHI company. We thought it was more appropriate for them to stay within the ring-fenced entity and there was no need to move them to EBSC.

The functions that would move to EBSC are much more of the transactional-type functions, like accounts payable, payroll, those type of functions.

So I guess to answer your question, I don't think PHI Service Company will ever go away entirely.

Q I'd like to switch gears now. So am I correct that many of the projected cost savings are the result of consolidating functions and reducing positions as a result of those consolidations?

A There is -- there are labor synergies, but there are also a significant amount of non-labor synergies due to other -- other opportunities.

Q And the -- you know, you did mention that there were labor synergies. Are the jobs that are to be eliminated, are those typically white collar jobs?

A The majority -- the majority of the positions being eliminated will be in the service company. So the answer is yes.

MS. KARAS: Your Honor, at this time, I'd like to mark three exhibits for identification. These documents have been pre-marked as OPC Cross-Examination Exhibit Numbers 108, 98, and 109.

The first is a one-page confidential response to OPC data request number 16-9. I ask that this document be marked for identification as OPC Cross-Examination Exhibit Number 90.

CHAIRMAN KANE: So marked.
(OPC Cross Exhibit Number 90 was marked for identification.)
MS. KARAS: And based on a understanding I've had with counsel, I believe I'm allowed to ask questions about this exhibit.
MR. LORENZO: Yes, Your Honor.
MS. KARAS: The second is a four-page response to OPC data request 18-89. And I ask that this document be marked for identification as OPC Cross-Examination Number 91.
And the third is a one-page response to OPC data request 18-95. And I ask that this document be marked for identification as OPC Cross-Examination Number 92.
CHAIRMAN KANE: So marked. They are so marked, both of them, 91 and 92.
(OPC Cross Exhibit Numbers 91 and 92 were marked for identification.)
MS. KARAS: Thank you.
BY MS. KARAS:
Q Mr. Khouzami, do you see that you are the

sponsor of OPC 16-9 and OPC 18-95?

A I do.

Q Do you agree that the questions in OPC 18-89 refer to your rebuttal testimony?

A Sorry. Which one?

Q OPC 18-89 refers to your rebuttal testimony, correct?

A Yes.

Q And am I correct that you provided these responses on or before February 9th, 2015?

A Subject to check.

Q And am I correct that you have not provided any updates to these responses?

A To these responses, no.

Q So on Wednesday when Mr. Rigby was on the stand, he testified that he believes about 240 positions would be eliminated, and about 40 of those were vacant, but that we should have you confirm the numbers.

Can you explain how many jobs will be eliminated as a result of the merger on a PHI and PEPCO basis?

A So total number of positions will be 257, of which 57 are open. So 200 currently filled positions. And that's across all of PHI.

In terms of specifically at PEPCO D.C., we have to go through our staffing selection process to identify exactly how many would be in PEPCO D.C., mainly because some of the positions have been deemed flexibles in terms of they could be done in different locations if necessary, or if the person happened to reside somewhere else.

So I can't answer the second part of your question at this time.

Q So do you have a breakdown of how many of the PEPCO jobs to be eliminated are PEPCO D.C. versus PEPCO Maryland?

A Zero PEPCO jobs will be eliminated. No utility positions -- no utilities employees will lose their job due to the merger.

Q And did I hear you correctly that you said 257 PHI jobs could be eliminated?

A Positions. And then --

Q Positions.

A Currently about 200 are filled.
Q And how many of those PHI jobs that will be eliminated are in the -- located in the District of Columbia?
A So it's hard to determine that, again, because, again, it's -- some of them are flexible. I would give, as a point of reference, these are primarily PHISCO -- PHI Service Company jobs, and if you look at the corporate functions in PHI Service Company, roughly 50 percent -- maybe just a little bit less than 50 percent currently are in the District.
Q And when you say 50 percent, is that 50 percent of the 257 or 50 percent of the 200?
A Neither. The 50 percent is of the current PHI Service Company employee base that do corporate function types -- work, which is what's subject to our synergies here. About 50 percent of them are currently located in D.C., or a little less than 50 percent will.
Q Do you have the number?
A The exact number?

Q Yeah.
A Subject to check, I believe there are about 586 individuals in PEPCO D.C. -- sorry -- in PHI Service Company that are located in D.C., but I'll ask Mr. McGowan to verify that number when he gets up here.
Q Okay. Thank you.
So back now to the 250 positions, what is the average salary of those positions that are to be eliminated?
A So we have labor synergies, which is, again, based on the salaries as well as other costs associated with these employees such as health care benefits, so we call them the fully loaded costs or the costs to the companies.
If I exclude the executives, the non-executives, it's roughly about $140,000 per employee. That's fully loaded. So there are other non-salary-type costs, which is about 35 percent. So if you exclude the health care benefits and those type of costs, it's about 95,000.

Q Can you provide an estimate as to the average salary of the positions in the District that you anticipate will be eliminated?

A Again, we don't have that information yet. I mean, the average is -- that's the average cost of 200 -- or the 257, so you can infer that it would be similar.

Q So if an employee is asked to transfer from one location to another, from D.C. to Chicago for example, could that employee be terminated if he or she refuses to transfer?

A No. That employee would be given a severance package if they chose -- if their position went away. I would cite that if you look at the open positions that exist in the Mid-Atlantic for Exelon, and even within PHI in the Mid-Atlantic, there are a number of open positions. So individuals, if their position, in your example, moves from Washington to Chicago, they do have an opportunity -- and this is part of that staffing and selection process -- to apply for other positions or be considered for other positions, obviously assuming that they're qualified to do those other positions.

So individuals have that opportunity, too, if they want to stay with the company.

Q Okay. And if an employee is asked to transfer from one location to another and that employee quits because they don't -- they're not interested in transferring, does such a situation constitute involuntary attrition?

A Yes.

Q So there was a lot of discussion last week about the 50 employees from PEPCO Energy Services that will be transferred from Arlington, Virginia, to PHI's office at Edison Place. How many of those employees, 50 employees, live in the District of Columbia?

A Two.

Q And am I correct that there is not a time period associated with how long those employees will be working in the District?

A Could you restate your question? Sorry.

Q There's no time period associated with how long those employees will be working in the District, is there?

A There's not. We're making a firm commitment to move that office into the District. Again, as a point of reference -- hopefully this is helpful -- the joint applicants will be spending about a million, million and a half dollars to retrofit a floor and to move those individuals to the District. That will be all on the non-regulated side, so ratepayers won't pay any of that.

But I just mention that more as a sign of the amount of commitment we're making to this. We wouldn't spend those dollars if we had planned not to keep those folks in the District.

Q And are any of the 50 PEPCO Energy Services employees among the 257 to be terminated?

A There are some synergies at PES, yes.

Q And of the 57 vacant positions that we discussed, how many of those are at PEPCO Energy Services?

A I'd have to go back and check. Off the top of my head, I don't know. There are some, but I'd have to go back and check.

Q Okay. So is it your position that 102 new employees are needed to meet the revised merger commitment contained in the joint applicants' supplemental direct testimony?

A Let me try answering it here this way and see if it answers your question.

The commitment that the joint applicants have made is to hire at least another 102 union employees if the merger goes through over the course of the next two years.

Q Sir, if you could refer now to OPC data request 18-89, which is Cross Exhibit Number 98 in your book.

A I'm there.

Q Do you see that subpart C of OPC data request 18-89 asks for an explanation in detail as to why the 102 new union employees will be needed?

A I do.

Q And if you turn to page 2, you'll see the response which is that, quote, PEPCO and Exelon analyzed the workforce requirements and determined that, with the additional requirements for the merger commitments, the identified commitment is necessary and appropriate.

Is that right?

A I see that.

Q So what are you referring to when you say additional requirements from the merger commitments?

A First, I'm not sure I'm the sponsor of this data response. I'm happy to answer the question, but in terms of the data response, it's joint applicants, not necessarily me.

Q But it does pertain to your rebuttal testimony; is that correct?

A It does, but just this response in particular. You asked what did I mean by writing this. I didn't write this response necessarily.

The 102 employees -- again, I'm not an operator, but talking with the operators, there's a certain workforce level that they need in order to be able to meet these reliability commitments.

Currently, there is a use of contractors. There are the use of folks working overtime -- sorry.

So there are some contractors and some overtime work that could be displaced by these 102 employees. We've also talked about how, as some retirements may happen, these 102 employees would go to backfill those positions as well.

Q And, sir, I was focused more on the language that states, additional requirements from the merger commitments.

Could you elaborate on that language?

A I would assume it means our reliability commitment.

Q The revised merger commitments or the original merger commitments?

A I'd have to go back and see when this data response was given. Off the top of my head, I don't know the answer.

Q Do you know who prepared the response to this question?

A There's over 9300 responses. I look at the sponsor, and I see joint applicants, so it's hard for me to say exactly who prepared this.

Q Do you know why there wasn't an individual sponsor identified?

A I believe it applies to both companies. So it's probably looking at the questions.

Q So can you today vouch for the accuracy of the response?

A I can vouch that we are committing to hire 102 additional union employees and that we believe those employees are needed.

Q And are they needed to meet the revised reliability commitment?

A I would say yes.

Q So do you see in -- the question in subpart E which asks whether the hiring of 100 new employees will make the transaction net jobs positive?

A I do.

Q And so in the response which is on page 2, it says that you can't guarantee that hiring 102 new employees will make the transaction net jobs positive because existing employees may retire.

Is that right?

A You paraphrased a bit there, but I think what we're saying is we can't guarantee there's another 102 employees being added to the total workforce because some of those positions may be backfilling some open positions that come due to retirements or as people leave.

Q And is it true that costs of compensating these employees are paid by the ratepayers, not the shareholders? Is that right?

A Correct.

MS. KARAS: Your Honor, at this time, I would like to mark two exhibits for identification. These documents have been pre-marked as OPC Cross-Examination Exhibit Numbers 96 and 97.

The first is a one-page response to OPC data request number 14-69. And I ask that this document be marked for identification as OPC Cross-Examination Exhibit Number 93.

CHAIRMAN KANE: So marked.

(OPC Cross Exhibit Number 93 was marked for identification.)

MS. KARAS: The second is a one-page response to OPC data request number 14-70. And I ask that this document be marked for identification as OPC Cross-Examination Number 94.

CHAIRMAN KANE: So marked.

(OPC Cross Exhibit Number 94 was marked for identification.)

BY MS. KARAS:

Q Mr. Khouzami, do you see that you're the sponsor of both of these data responses?

A I do.

Q So starting with your response to OPC data request number 14-69, do you see that the question asks you to refer to page 6, line 1 of Mr. Crane's direct testimony, and asks for an identification of all financial strength benefits that will accrue to the PHI utilities as well as a quantification of each benefit?

A I do.

Q The question also asks for a detailed

documentation of the quantification of benefits, correct?

A Yes.

Q And in your answer, you refer to the response to OPC data request number 14-70, which is the second document I just identified to the record. Could you please turn to that document?

A I'm there.

Q And do you agree that the first sentence in the question refers to your testimony instead of Mr. Crane's, and the second sentence essentially asks the same thing we just discussed regarding the quantification of the financial strength benefits?

A I do.

Q And do you see the last sentence of your response which states, The quantification of these benefits is a part of synergy identification that the BATs are conducting as part of the integration process?

A I see that.

Q And just so the record is clear, can you

explain what a BAT is?
     A    It's a business area team.  Those are the 140 individuals that I referenced earlier that had been working on the integration team -- on the integration efforts.
     Q    And your response does not refer to any attached documentation or anything, does it?
     A    It does not.
     Q    Okay.  And am I correct that you have not updated either of these responses?
     A    We have not.
     Q    Thank you, Mr. Khouzami.
          MS. KARAS:  I have no further questions at this time.
          THE WITNESS:  Thank you.
          CHAIRMAN KANE:  Ms. Francis?
          MS. FRANCIS:  Good morning, Your Honors.
                 CROSS-EXAMINATION
BY MS. FRANCIS:
     Q    Good morning, Mr. Khouzami.
     A    Good morning.
          MS. FRANCIS:  Just this morning the joint

applicants and I discussed admitting some data responses into the record. I have a long series of them. I'd like to identify them now, please.

First data response was pre-marked as AOBA 119. It's joint applicants' response to AOBA data request 1-5, which I'd like to have marked for the record as AOBA 60.

CHAIRMAN KANE: So marked.

(AOBA Cross Exhibit Number 60 was marked for identification.)

MS. FRANCIS: Next one is pre-identified as AOBA 124, which is the joint applicants' response to AOBA data request 1-22, which I'd like to have marked for the record as AOBA 61.

CHAIRMAN KANE: So marked.

(AOBA Cross Exhibit Number 61 was marked for identification.)

MS. FRANCIS: The next is joint -- pre-marked as AOBA 91, joint applicants' response to AOBA data request 3-5. I'd like to have marked for the record as AOBA 62.

CHAIRMAN KANE: So marked.

(AOBA Cross Exhibit Number 62 was marked for identification.)

MS. FRANCIS: The next is pre-identified as AOBA 128. It's the joint applicants' response to AOBA data request 3-10, which I'd like to have marked for the record as AOBA 63.

CHAIRMAN KANE: So marked.

(AOBA Cross Exhibit Number 63 was marked for identification.)

MS. FRANCIS: The next is pre-marked as AOBA 32, which is the joint applicants' response to AOBA data request 6-1, which I'd like to have marked for the record as AOBA 64.

CHAIRMAN KANE: So marked.

(AOBA Cross Exhibit Number 64 was marked for identification.)

MS. FRANCIS: The next has been pre-marked as AOBA 135, joint applicants' response to AOBA data request 6-10, I'd like to have marked for the record as 65.

CHAIRMAN KANE: So marked.

(AOBA Cross Exhibit Number 65 was marked for identification.)

MS. FRANCIS: The next is pre-marked as AOBA 139. It is the joint applicants' response to AOBA data request 1-21. I'd like to have that marked as AOBA 66.

CHAIRMAN KANE: So marked.

(AOBA Cross Exhibit Number 66 was marked for identification.)

MS. FRANCIS: The next is AOBA 141. It's the joint applicants' response to AOBA 1-24, which I'd like to have marked for the record as 67.

CHAIRMAN KANE: So marked.

(AOBA Cross Exhibit Number 67 was marked for identification.)

MS. FRANCIS: The next has been pre-marked as AOBA 120, which is the joint applicants' response to AOBA data request 1-6, I'd like to have marked for the record as AOBA 68.

CHAIRMAN KANE: So marked.

(AOBA Cross Exhibit Number 68 was marked for identification.)

MS. FRANCIS: The next has been

pre-marked as AOBA 122. I'd like to have marked for the record -- 122. It's the joint applicants' response to AOBA data request 1-20. I'd like to have marked for the record as 69.

CHAIRMAN KANE: So marked.

(AOBA Cross Exhibit Number 69 was marked for identification.)

MS. FRANCIS: The next has been pre-marked as AOBA 125, the joint applicants' response to AOBA 1-23. I'd like to have that marked for the record as AOBA 70. I'd like to point out that AOBA 70, there's a public and a confidential version.

(AOBA Cross Exhibit Number 70 was marked for identification.)

MS. FRANCIS: In regard to -- the next one is AOBA 126, the joint applicants' response to AOBA 3-7. I'd like to have that marked for the record as AOBA 71.

CHAIRMAN KANE: So marked.

(AOBA Cross Exhibit Number 71 was marked for identification.)

MS. FRANCIS: The next is pre-marked as AOBA 129, which is the joint applicants' response to AOBA 3-14. I'd like to have that marked for the record as AOBA 72.

CHAIRMAN KANE: So marked.

(AOBA Cross Exhibit Number 72 was marked for identification.)

MS. FRANCIS: The next has been pre-marked as AOBA 90, which is joint applicants' response to AOBA data request 4-8. I'd like to have that marked for the record as AOBA 73.

CHAIRMAN KANE: So marked.

(AOBA Cross Exhibit Number 73 was marked for identification.)

MS. FRANCIS: The next has been pre-marked as AOBA 133, which is the joint applicants' response to AOBA data request 6-2. I'd like to have marked for the record as 74.

CHAIRMAN KANE: So marked.

(AOBA Cross Exhibit Number 74 was marked for identification.)

MS. FRANCIS: The next has been

pre-marked as AOBA 104. It's the joint applicants' response to AOBA 6-15. I'd like to have marked for the record as AOBA 75.

CHAIRMAN KANE: So marked.

(AOBA Cross Exhibit Number 75 was marked for identification.)

MS. FRANCIS: The next has been pre-marked as AOBA 137. It is District government data request 10-17. I'd like to have that marked for the record as AOBA 76.

CHAIRMAN KANE: So marked.

(AOBA Cross Exhibit Number 76 was marked for identification.)

MS. FRANCIS: The next is AOBA -- been pre-marked as AOBA 140. It's the joint applicants' response to AOBA 1-23, which I'd like to have marked for the record as AOBA 77.

CHAIRMAN KANE: So marked.

(AOBA Cross Exhibit Number 77 was marked for identification.)

MS. FRANCIS: The next has been pre-marked as AOBA 142, which is an OPC data request 1-21. I'd like to have marked for the record as AOBA 78.

CHAIRMAN KANE: So marked.

(AOBA Cross Exhibit Number 78 was marked for identification.)

MS. FRANCIS: The next has been pre-marked as AOBA 123, which is joint applicants' response to AOBA 1-21, which I'd like to have marked for the record as AOBA 79.

CHAIRMAN KANE: So marked.

(AOBA Cross Exhibit Number 79 was marked for identification.)

MS. FRANCIS: The next has been pre-marked as AOBA 94, which is the joint applicants' response to AOBA 3-1. I'd like to have marked for the record as AOBA 80.

CHAIRMAN KANE: So marked.

(AOBA Cross Exhibit Number 80 was marked for identification.)

MS. FRANCIS: The next is AOBA 127, joint applicants' response to AOBA 3-9. I'd like to have that marked for the record as AOBA 81.

CHAIRMAN KANE: So marked.

(AOBA Cross Exhibit Number 81 was marked for identification.)

MS. FRANCIS: The next has been pre-marked as AOBA 98. It's the joint applicants' response to AOBA 4-6. I'd like to have marked for the record as AOBA 82.

CHAIRMAN KANE: So marked.

(AOBA Cross Exhibit Number 82 was marked for identification.)

MS. FRANCIS: The next is pre-marked as AOBA 99. It's the joint applicants' response to AOBA 4-9. I'd like to have that marked for the record as 83.

CHAIRMAN KANE: So marked.

(AOBA Cross Exhibit Number 83 was marked for identification.)

MS. FRANCIS: The next has been pre-marked as AOBA 134, which is the joint applicants' response to AOBA 6-9, which I'd like to have marked for the record as 84.

CHAIRMAN KANE: So marked.

(AOBA Cross Exhibit Number 84 was marked for identification.)

MS. FRANCIS: Next has been pre-marked as AOBA 136, which is the joint applicants' response to AOBA 6-18. I'd like to have marked for the record as 85.

CHAIRMAN KANE: So marked.

(AOBA Cross Exhibit Number 85 was marked for identification.)

MS. FRANCIS: The next has been pre-marked as AOBA 118, which is the joint applicants' response to AOBA data request 1-4, which I'd like to have marked for the record as AOBA 86.

CHAIRMAN KANE: So marked.

(AOBA Cross Exhibit Number 86 was marked for identification.)

MS. FRANCIS: The next has been pre-marked as AOBA 87, which is joint applicants' response to AOBA 4-1. I'd like to have that marked for the record as 87.

CHAIRMAN KANE: So marked.

(AOBA Cross Exhibit Number 87 was marked for identification.)

MS. FRANCIS: The next is AOBA 147. It's selected pages from case number 9299 in Maryland. I'd like to have that marked for the record as AOBA 88.

CHAIRMAN KANE: So marked.

(AOBA Cross Exhibit Number 88 was marked for identification.)

MS. FRANCIS: And, Your Honor, there were two data requests that I neglected to ask the joint applicants to accept. So I'd like to add them now and, if they have a problem -- or I could ask Mr. Khouzami to verify them, either way.

One is what's been pre-identified as AOBA 121, which is the joint applicants' response to 1-19, which I'd like to mark for the record as AOBA 90. And I believe that's a Mr. Khouzami response.

And the last one is what's been pre-marked as AOBA 131. It is the joint applicants' response to AOBA data request 4-7.

And I believe that's also a Mr. Khouzami response. And I wanted to have that marked as 89. So I said 90 for 89.

CHAIRMAN KANE: Wait a second.

MS. FRANCIS: Do you want me to reverse them?

CHAIRMAN KANE: No, I just want to be sure we have them identified correctly so that the joint applicants can respond.

So AOBA 121 will become 90 and 131 will become 89.

MS. FRANCIS: Correct.

(AOBA Cross Exhibit Numbers 89 and 90 were marked for identification.)

CHAIRMAN KANE: Mr. Lorenzo?

MR. LORENZO: Your Honor, we're reviewing them now. So maybe Ms. Francis can cross -- begin her cross --

CHAIRMAN KANE: Sure.

MR. LORENZO: -- and while she's doing that, we'll be able to verify --

CHAIRMAN KANE: Very good.

 

MS. FRANCIS: That's fine. My apologies to the joint applicants. They were on the second page and I didn't see it.

BY MS. FRANCIS:

Q Mr. Khouzami, taking a look at your direct testimony, page 1, line 11, you indicate that you're senior vice president of Baltimore Gas and Electric Company. However, your supplemental direct testimony filed on February 17th, 2015 indicates that you're a senior vice president of Exelon Corporation.

Has your position changed during the course of the proceedings?

A So when we filed our direct testimony from an HR system perspective, I hadn't officially moved from BGE. I'd gotten the position shortly before, and it happens on a bimonthly basis when you switch legal entities. So to be truthful and honest, at the time of filing the direct testimony, I was officially a BGE employee, but since July 1st, I've been an Exelon Corporation employee.

Q And I believe earlier to a question by OPC you confirmed that, as chief integration officer, you're working for Donna Kinzel, the PHI chief integration officer. Has that changed? Has anything there changed?

A I think I'm working with Donna Kinzel. Not working for her, but...

Q Excuse me. In your conformed direct testimony, you indicate that you report directly to the integration steering committee which is comprised of top-level Exelon executives. Do you still report directly to that committee?

A I report directly to the chair of that committee, Bill von Hoene, who is an Exelon employee. One point of correction. The steering committee consists of both Exelon and PHI executives.

Q Can you please identify the individuals who comprise the integration steering committee?

A Certainly. It's Bill von Hoene, who is the chair, Jack Thayer, who is CFO of Exelon. It is Amy Best, who is head of HR for Exelon. It is

Denis O'Brien, who is head of -- CEO of Exelon Utilities. It's Joe Rigby, current CEO of PHI. And it's Dave Velazquez, the COO of PHI. There's also Darryl Bradford, who is general counsel for Exelon.

Q So there are five Exelon employees on the steering committee and two from PHI?

A That's correct.

Q When Mr. Rigby steps down, will Dave Velazquez be the only one from PHI on the steering committee?

A When the integration -- when the merger is complete, there won't be a steering committee.

Q How long will it take for the merger to be complete?

A When we close the merger.

Q The legal proceedings, do you mean?

A Yes. Yes.

Q Does your current position as senior vice president of Exelon Corporation include duties beyond those associated with serving as chief integration officer for the proposed merger?

A No.
Q Typically, a senior vice president position has a designation that goes with it that indicates the person's area of responsibility. Are you a senior vice president for integration or something to that effect or just senior vice president?
A I would say something to that effect, senior vice president of integration.
Q Do you know -- scratch that.
If the merger is approved, do you know what your role with Exelon will be after these proceedings are concluded?
A At this time, I have not been offered a permanent role at Exelon. I'm hopeful.
Q If the merger is not approved, do you know what your role with Exelon will be after this proceeding?
A I do not.
Q Do you expect that at some point you will assume a senior executive position with PHI or do you expect to remain as a direct employee of

Exelon Corp. or the Exelon Business Service Company?

A I don't know at this time.

Q Am I correct, Mr. Khouzami, that you joined Constellation Energy in February of 2005?

A Yes.

Q And at page 3, lines 6 through 8 of your conformed direct testimony you state that prior to joining Constellation Energy, you were an associate at Bear Stearns and Company primarily focusing on mergers and acquisitions and financing transactions within the financial institutions and insurance sectors; is that correct?

A Yes.

Q Prior to joining Bear Stearns Company, did you ever hold a position with a regulated utility?

A No.

Q At page 3, lines 12 through 15 of your conformed direct testimony in this proceeding, you indicate that you've previously testified in case number 9299 before the Maryland Public Service

Commission; is that correct?
A That's correct.
Q Other than Maryland case 9299 and the recent cases relating to the proposed merger between Exelon and PHI, have you testified in any other state or federal utility regulatory proceeding?
A No.
Q Am I correct that case 9299 was filed before the Maryland Public Service Commission by BGE approximately three to four months following the consummation of the Exelon/Constellation merger?
A Subject to check on the time, but that sounds about right.
Q At the time you filed direct testimony in the Maryland Public Service Commission case 9299, am I correct that you served as vice president, chief financial officer and treasurer of BGE?
A Yes.
Q In your direct testimony in case 9299, did you testify that, one, BGE earned rate of

return was significantly below its authorized rate of return; two, BG&E planned to issue substantially long-term debt $1.9 billion over the next five years; and that the requested rate relief in that case was necessary to provide BGE with adequate cash flow and access to capital markets?

A Subject to check on the numbers, I think all those -- all those discussions were made.

Q Is there any reason that this Commission should expect that PEPCO's assessment of its condition going into its first base rate proceeding following the merger will be substantially different than your representations regarding BGE's condition in Maryland case 9299?

A My -- our condition at BGE was predicated on the BGE financial situation at the time. With or without the merger, we would have been in for a rate case. We made that clear years earlier.

I would expect that PEPCO D.C., the arguments or the discussions they have in their filing will be based on what their financial situation is at the time of filing.

Q But is there any reason that this Commission should expect that PEPCO's assessment of its own condition will be substantially different than your assessment in case 9299?

A From what I've heard, PEPCO D.C. is under-earning. They have a significant amount of investment they are making in terms of the amount of debt they're issuing. I don't know if that's the same, so I can't speak to that.

Q Now, please turn to your revised page 12 of Exhibit (F2) attached to your conformed testimony.

A Which page, sorry?

Q Page 12.

A Page 12. I'm there.

Q Does revised page 12 of Exhibit (F2) indicate that by year 5, the fifth year after the merger closing, the annual synergy savings for PEPCO's District of Columbia operations would grow to about $7 million per year?

A That's correct.

Q Now, I would like you to please reference your conformed -- the conformed rebuttal testimony of Witness Crane at page 5, lines 17 through 20.

A I'm there.

Q When Witness Crane references synergy savings for the District of Columbia of approximately $7 million annually on a steady state basis, is it your understanding that he is referring to the year 5 level of synergy savings that you show for PEPCO D.C. on page 12 of Exhibit (F2) and the continuation of that rate of synergy savings into the future?

A Yes.

Q Is that estimate of $7 million per year of purportedly steady state synergy savings also referred to as the run rate for synergy savings?

A Yes.

Q Now, would you please turn to commitment 4 on page 1 of Exhibit (4A)-2.

A I'm there.

Q Am I correct that the joint applicants' commitment 5 as set forth in (4A)-2 is that merger-related savings and costs will be tracked until PEPCO's next base rate proceeding?

A Yes.

Q The phrase "PEPCO's next rate proceeding," is that intended to refer to PEPCO's next distribution base rate proceeding or is it a more general reference that could include transmission rate proceedings, surcharge proceedings or other types of rate proceedings?

A Distribution base rate case.

Q Now, I'm not sure that I completely understand the use of the phrase "until PEPCO's next rate case."

Does that mean until the next case is filed, until the next case is decided, or does it imply some other cutoff point for tracking merger synergies and costs?

A It suggests in the next rate case we would show the synergies that are included in that test period.

Q So the tracking of savings would go up to what point? The day you filed the case? The test year in the case? The date the case is concluded? When does that end? I'm looking information a specific point.

A Test year.

Q It would be on the end of the test year that was submitted in the case?

A Yes.

Q And if it was a hypothetical test year or a projected test year? Let's say it was a projected test year.

A So my understanding is you would true-up for actuals, so therefore, you would continue to -- need to continue to track the synergies through the end of that actual period for the test period.

Q Now, I would like you to reference your February 17th supplemental direct testimony at page 7, lines 12 through 19.

A Could you repeat the page and line number? Sorry.

Q That's okay. Testimony at page 7, lines 12 through 19.

A I'm there.
Q In this part of your February 2015 supplemental direct, you indicate that a commitment to track merger savings was inadvertently omitted from your direct testimony.
Was that commitment to track merger savings also inadvertently omitted from Exhibit 5 to the application filed on June 18th, 2014?
A I'd have to go back and check the application. We mentioned it in my testimony. I think it was inadvertently omitted from the list of commitments (4A)-2. So we -- or we adjusted it in (4A)-2 to include that.
Q Do you want to take a quick look at Exhibit 5 to the application? And that way you could respond now, please.
A I believe you're correct. I don't see it here.
Q Is commitment 5 on page 1 of (4A)-2 the commitment you indicate was inadvertently omitted from your direct testimony?
A Yes.

Q Whose responsibility was it to ensure that all commitments were properly presented in the June 18th, 2014 application?

A I would imagine the team counsel.

Q Is it your testimony that the team counsel also inadvertently omitted the same commitment?

A I'm not --

Q In other words, the team counsel inadvertently omitted the commitment in commitment 5 in the application; is that what you're saying?

A I believe so.

Q Okay. And you inadvertently omitted it in your testimony; is that correct?

A In my rebuttal or -- I believe it's in the rebuttal.

Q In your direct testimony.

A I'd have to go back and look.

MR. GADSDEN: Your Honor, if I may, what Mr. Khouzami testifies on page 7 of his supplemental was that it was inadvertently omitted from Mr. Crane's merger commitment list, not the original application.

MS. FRANCIS: In (4A)-2, and he said it was an inadvertent commitment (sic). And what I'm checking was in commitment -- in the earlier commitments in the application, was that an inadvertent commitment also? And I asked him if he inadvertently omitted it from his direct testimony also.

CHAIRMAN KANE: Ms. Francis, you're referring to an inadvertent commitment or an inadvertent omission.

MS. FRANCIS: Inadvertent omission from a commitment. Thank you for the help.

CHAIRMAN KANE: Thank you.

MS. FRANCIS: I'll be more precise.

THE WITNESS: Sorry. Would you repeat the question? Sorry. I'm looking at my direct. It is not included in my direct testimony.

BY MS. FRANCIS:

Q Okay. Thank you.

Am I correct that the joint applicants

also did not include a commitment to track merger savings in their application in Maryland Public Service Commission number 9361, the parallel merger proceeding in Maryland in which you were a witness?

A I don't believe I was a witness in that. In the merger case with Exelon?

Q No. The merger case with --

A Oh, I'm sorry. I got confused with --

Q 9361.

A Thank you. Lots of numbers.

Q I know I cross-examined you before, Mr. Khouzami.

A We've talked before, I understand.

I believe it's the same situation.

Q Am I correct that the Maryland commission made the tracking of merger savings a condition for its approval of the Exelon/Constellation merger?

A Yes.

Q Now, I'm going to ask you to please reference what's been preliminarily identified as

AOBA Exhibit 131, which is your response to AOBA data request 4-7.

MS. FRANCIS: Your Honor, that was marked for the record as AOBA 89.

THE WITNESS: I believe I'm here.

BY MS. FRANCIS:

Q Are you ready?

A I am.

Q Okay. In response to part A, AOBA data request 4-7, you state, The joint applicants' commitment is to track merger savings until PEPCO's next rate case proceeding and to provide a side-by-side comparison of pre and post-merger shared service costs allocated to PEPCO.

Do you see that statement?

A I do.

Q You then go on to say that, quote, the joint applicants believe this commitment is satisfactory to demonstrate that the run rate of synergies will be embedded in rates going forward.

Is that your response?

A It is.

Q When you assert that the joint applicants' commitment for tracking merger synergies is satisfactory, for whom do you believe it is satisfactory?

A We believe it's satisfactory for any parties interested. It also demonstrates that the merger savings that had been discussed in the time period that will be reviewed has been achieved, giving confidence that all the savings will be achieved.

Q So you believe that's satisfactory to the various parties in this case, OPC, AOBA, D.C. government, DC SUN, D.C. Water, et cetera? Is that what you're saying?

A We based it on our experience in the previous transaction with BGE, what we offered to them, which was similar to this, or which was this, and it was satisfactory in that case.

Q Could you please tell me on what criteria do you judge that tracking merger savings until PEPCO's next rate case will be satisfactory?

A We've committed through the test period

in that first rate case.
Q Is it just that you believe it was acceptable in one prior case, so it should be acceptable here?
A We thought it was acceptable in the prior case, so we thought it would be acceptable in this case as well, yes.
Q Have any of the parties to this case other than the joint applicants indicated that your proposal for tracking synergy savings and demonstrating the run rate of synergies is satisfactory?
A What I would point to is the settlement agreements we have either that have been approved in New Jersey or are pending in Delaware and Maryland where parties who have signed on to the settlement agreement are obviously stipulating that they agree with the agreement, and this is a similar commitment to what we made there.
So from that perspective, I think there are some parties that have agreed to it.
Q Well, I was asking about the parties in

this case.

A No.

Q Okay. Now, I believe in the Maryland settlement agreement, which was signed by a limited number of parties, that also had a commitment -- I'm trying to remember if that was the right place that I read it -- that there was a three-year commitment to track merger synergy savings through the next -- third rate case?

A I believe that's correct.

Q So they --

A No. No. I believe the commitment was three years of side-by-side for shared service cost. The merger synergy and CTA tracking was still through the first rate case.

Q And just -- again, that wasn't signed by the staff, the Office of People's Counsel or the attorney general or AOBA in Maryland, correct?

A Correct.

Q Okay. Can you cite me to an order issued by this Commission or other document by this Commission in which it has found that the joint applicants' commitment with respect to tracking merger synergies and demonstrating a run rate for synergies is satisfactory?

A I cannot.

Q Is it your expectation that PEPCO will likely file a distribution base rate case within one year of the merger closing, assuming the merger is approved?

A I believe we discussed with OPC that I would expect them to file a rate case. The exact timing is a question probably better suited for Mr. McGowan.

Q Now, please reference what's been preliminarily identified as AOBA Exhibit 128.

A I'm there.

MS. FRANCIS: And, Your Honor, that was marked for the record as 63.

BY MS. FRANCIS:

Q And this contains a copy of your response to AOBA data request 3-10, as well as the March 16th, 2015 follow-up to that request.

Am I correct that the second sentence of your March 16th, 2015, follow-up response to AOBA data request 3-10 states, The joint applicants are not committing that merger-related savings and costs will be tracked until PEPCO files a base rate case that is based on a test year with a full year of synergy savings?

Do you see that?

A I do.

Q Now, I ask you to focus your attention on the last sentence of your March 16th, 2015 follow-up response to AOBA data request 3-10. In your opinion, what in the AOBA follow-up request asked the joint applicants to discuss compromises?

A I'd have to see the follow-up request.

Q Well, if you read the paragraph above it, you can see that that was done -- it says, Meet and confer. That was a phone conversation. You can see a summary of it. What in that discusses compromises?

A So I wasn't part of that phone discussion with AOBA. The way it is written, which was written by us, it didn't discuss the entire phone conversation, so I don't know how that phone conversation went. So I'm not certain I can answer that question.

Q Well, in the first paragraph, there's nothing related to compromises, is there?

A Not -- no.

Q Okay. Thank you. Could you tell me, Mr. Khouzami, did you write that sentence or was it written for you by counsel?

A It was written under my direction. Exactly who wrote it, I don't know. I approved it.

Q Now, please turn back to page 12 of Exhibit (F2) attached to your conformed direct testimony.

A I'm there.

Q If the steady state level -- excuse me.

I think we established earlier that the $7 million level of steady state synergy savings is not achieved for PEPCO D.C. until year 5; is that correct?

A That's correct.

Q If the steady state level of synergy savings is not achieved until year 5 and the joint applicants only commit to track synergy savings until PEPCO's next rate case, which could be less than one year following the merger closing, does that imply that this Commission will be unable to verify that your estimated run rate for synergy savings is ever fully achieved?

A I don't believe so. I believe that they will also have additional information, including a side-by-side comparison that will be filed in the first half of 2017, detailing a side-by-side of shared service costs from 2016 versus a full year prior to the merger taking place, approximately 70 percent of the overall synergy savings are expected to come from corporate service functions.

So that will give you a good sense of where the savings -- if the savings are coming through.

Q You just mentioned 217 -- 2017. Obviously that's not five years out, correct? So I'm having a little problem with your answer.

Would you like me to try the question again?

A No, I heard the question. I think the question asked if it gives them an ability to estimate whether the synergies would be achievable, and my answer is I believe it would.

Q No, that wasn't the question.

A Okay.

Q I didn't ask the ability to estimate. I'm not interested in estimating. I'm interested in the tracking. I'm interested in them tracking for those years.

A So --

Q If it's not achieved until year 5, if the synergy savings are not achieved until year 5 and you only commit to track them until the next base rate case, which could be less than a year, does that imply -- or does that mean that the Commission will be unable to verify that your estimated run rate is ever fully achieved? They won't be able to verify that you've actually achieved the $7 million of synergy savings, will they?

A Based on what we provide them, they will not have the fifth year synergies as actual data.

Q Is it the joint applicants' position that this Commission should consider unverifiable levels of estimated synergy savings are a benefit to PEPCO's District of Columbia customers?

A I believe we're getting to the heart of the reason why we created the CIF in the first place, to alleviate any doubt that the level of synergies would be achieved. The way the CIF is currently set up, and even originally set up, was for the full five year net synergies to be given upfront, and then again through rates.

Now, with the increase to the CIF, it's nearly ten years of net synergies on a net present value basis upfront, and you will still continue to get the benefits of the synergy through lower cost of service and what would otherwise happen if the merger did not occur.

Q Am I correct that if merger savings and costs are only tracked until PEPCO's next rate case, this Commission may never be able to fully assess or verify either the costs or the savings attributable to the merger?

A So for the costs, those are CTA costs; those are tracked separately from an accounting perspective. Very easy to pull any data requests -- we could pull that and verify that. That is not a problem.

Synergies, as you get further out, as I discussed in my direct testimony, it becomes increasingly difficult because the business and the needs of the business may change. It becomes harder to prove what was and what was not a synergy due to the merger. We have very clear initiatives in place. I have little doubt that we will achieve them.

A significant portion of them are related to the shared service function, so having that side-by-side comparison will give you an indication of the majority of those synergies.

Q Now, please reference your supplemental direct testimony at page 4, lines 11 through 15.

A I'm there.

Q On those lines, that suggests that the $33.75 million of CIF the joint applicants now offer to the District equates to approximately 94 percent of your estimated ten-year net synergy savings; is that correct?

A Correct.

Q If you cannot reliably identify and track synergy savings and costs beyond PEPCO's first post-merger rate case, how can this Commission rely on estimates of synergy savings that reach out as far as ten years after the merger closing?

A So the methodology in terms of calculating that is taking that run rate level of $7 million and extending it forward through year 10 and totalling that up, taking a net present value, and comparing it to the CIF.

Again, I think this keeps getting back to the heart of what the CIF is intended to do, which is alleviate the doubt that if the synergies are not achieved, that customers will not benefit from this merger financially. That is not true. That is why we are providing the CIF upfront to alleviate any doubt. Although we have no doubt that we will achieve them, this should alleviate any potential doubt.

Q But suppose they're too low and the Commission wants to verify if the synergy savings that were offered upfront are not the appropriate amount. Going out ten years to take a look back, they won't be able to verify that, will they under your commitments?

A If what is too low? Sorry.

Q If the customer -- if the customer investment fund, if the amount offered is too low and if the Commission wanted to take a look and try to verify is that number too low and track them through the next ten years on a look-back, they won't be able to verify that, would they?

A So I don't believe the test -- and I'm not an attorney, but I don't believe the test is to try to maximize the upfront payment to customers.

Again, not knowing all the details, I believe the last two merger proceedings in front of the Commissions in the District did not have any upfront payment and had synergies depended (sic) upon as they are achieved.

In this respect, we are giving a sizable amount upfront, which happens to equate to approximately ten years worth of net synergies, as well as ensuring that all the synergies will be baked into lower cost of service if it's lower than what it would otherwise be without the merger.

Q Mr. Khouzami, it's your testimony that says that the $33.75 million equates to approximately 94 percent of the estimated ten-year net synergy savings. That's your testimony. You're making that comparison. And if the Commission wanted to be able to verify was that accurate going ten years out, they will not be able to do that, will they, under your commitments?

A No.

Q Okay.

MS. FRANCIS: Your Honor, I can keep

going, but I know you like to take a break at this point, and I'm moving on with a different subject.

CHAIRMAN KANE: I think this would be a good time to take a break, if that's a logical interruption. We will take our break that occurs after two hours for ten minutes.

(Whereupon, a short recess was taken.)

CHAIRMAN KANE: We're back on the record. It is 12:26.

Ms. Francis?

MS. FRANCIS: Yes, Your Honor. Do you want to --

MR. LORENZO: Your Honor, we have --

CHAIRMAN KANE: Mr. Lorenzo?

MR. LORENZO: Yes. Your Honor, we've reviewed AOBA -- what has been marked for identification as AOBA 121 and 131 and we would stipulate to their admission.

CHAIRMAN KANE: Thank you.

MS. FRANCIS: Thank you. And, Your Honor, I was told at the lunch (sic) break by your competent staff that I misspoke this morning and what I meant to enter for the record as AOBA 64 should be 132, not 32.

CHAIRMAN KANE: Thank you.

MS. FRANCIS: I thank them for their help.

BY MS. FRANCIS:

Q Now, continuing on page 4 of your February 2015 supplemental direct testimony, your testimony at lines 15 through 22 discusses a hypothetical in which the $3.65 million of the $33.75 million is used for energy efficiency; is that correct?

A Yes.

Q Now, in that discussion, do you suggest that if the 3.65 million is used for energy efficiency, the effective value of the direct merger benefits to customer could be increased to $37.4 million?

A Yes, that is structured after what New Jersey decided to do with their CIF fund.

Q Am I correct that the $37.4 million figure you cite results from subtracting the

3.65 million portion of the CIF that would be used for energy efficiency from the 33.75 million total CIF and then adding back twice the 3.65 million amount under the assumption that energy efficiency expenditures would produce $2 of present value benefit for every dollar invested?

A Yes.

Q Are the joint applicants recommending that the $3.65 million of the offered $33.75 million of CIF dollars for D.C. be used for energy efficiency?

A No.

Q Am I correct that the joint applicants' position is that all decisions regarding the use of CIF funds should be left to the discretion of the Commission?

A Yes.

Q Now, based on the assumption that energy efficiency programs yield $2 of benefits for every dollar invested in energy efficiency programs, if all of the CIF dollars were used for energy efficiency, would your estimate of the total value of the offered direct merger benefits double from 33.75 million to 67.5 million?

A I believe the value to the customers would be double.

Q Why haven't you recommended that all of the CIF dollars be used for energy efficiency?

A Consistent with the first offering of the CIF, we believe it's to the Commission's discretion to use the funds as they think is best for their customers.

Q Haven't the joint applicants started from a similar premise in each of the parallel merger proceedings in New Jersey, Delaware and Maryland, only to subsequently enter into settlements which, if accepted, effectively takes that discretion away from the state regulators in those jurisdictions?

A Yes. We worked with parties to understand their views. We incorporated those views, and then ultimately the commissions would sign off, which I would assume means that they agree with the use of proceeds. In New Jersey --

that is the only one that has been signed off, and this is a construct similar to what New Jersey approved.

Q I just want to make sure -- am I correct that the settlement proposal that's been presented to the Maryland commission for consideration involves a minority of the parties in that case?

A When you say minority, I think from a number perspective, there are more that have signed on that haven't, but I'd have to go back and check.

Q Well, out of the approximately 20 parties to the proceeding, four aside from the joint applicants signed --

A I believe it's more than four.

Q Five?

A I believe it's more than five. But I'd have to go back and check.

Q You don't know who signed the settlement agreement?

A Sitting here on the stand in D.C., I can't recall everyone that signed the agreement.

Q Now, please turn to your conformed supplemental direct testimony at pages 2 and 3.
A I'm there.
Q In the discussion of the increase to the CIF that begins at line 8 on page 2 and continues through line 9 on page 3 of your supplemental direct, you indicate that an investment of the equivalent of $14 per customer with energy efficiency measures for ACE customers is expected to produce a value of $28 per customer in terms of energy cost savings.
Is that also reflective of an assumption that each dollar invested in energy efficiency will produce $2 of net present value savings?
A Yes.
Q Am I correct that your assumed relationship between dollars invested and energy savings derived is a generalized relationship not premised on the implementation of any specific energy efficiency measures?
A It's based on industry research, industry experience and our own experience.

Q But it's not based on any specific type of energy efficiency; is that correct?

A That's correct.

Q Is it the joint applicants' presumption that funds spent on energy efficiency in the District would yield roughly a similar 2-to-1 ratio of energy cost savings to dollars invested?

A I would -- yes, it is.

Q Is it the joint applicants' position that the type of energy efficiency measure in which dollars are invested has no impact on the claimed two times relationship on which you rely?

A I'm not sure we would say that. I think, given that we can't possibly know what types of energy efficiency programs would be put in place until we even know if any funds would be used for energy efficiency, the 2-to-1 ratio, based on our knowledge and our industry experience, is what we felt was a very good estimate for customer benefits versus the amount funded.

Q So clearly, the type of energy efficiency measure utilized is directly related to the result achieved, correct, the dollar result achieved?

A I would imagine it has impact. I'm not sure what the range of disparity is between the ratio of funding versus benefit. That's something I can't opine on.

Q Do anticipated energy savings per dollar invested tend to vary depending on the rate classes or mix of customers for which energy efficiency programs are funded?

A I do not know.

Q Would you agree that energy efficiency benefits in terms of energy savings per dollar invested in energy efficiency measures tends to decline as the dollars invested increase because the programs which offer the greatest benefits per dollars spent are generally deployed first?

A That would make sense to me, which is probably what New Jersey was thinking when they allocated a small portion of their CIF towards energy efficiency.

Q I'm going to ask you to please reference what's been preliminarily identified as AOBA

Exhibit 98, for the record AOBA 82, which is a copy of the joint applicants' response to AOBA data request 4-6.

A I'm there.

Q Now, Mr. Khouzami, focusing on the middle of the response to part A and B of AOBA data request 4-6, this response states, quote, the assumption that customer savings arising from energy efficiency measures are two times the amount of investment is informed by the joint applicants' understanding of industry experience and their familiarity with the cost and benefit of energy efficiency investments.

Is that correct?

A Yes.

Q And when your response references the joint applicants' understanding, is that your understanding or is it referring to the understanding of some unnamed person or persons within the joint applicants' organizations?

A It's based on the understanding and experience that both individuals at PHI and Exelon who work with these programs on a day in/day out basis have. We obviously discussed this with them, and that's how we came up with the 2-to-1 ratio.

Q When this response makes reference to industry experience, am I correct that no supporting citations or exhibits are provided to document the industry experience on which the joint applicants have purportedly relied?

A We have not.

Q Could you please tell me, what is the extent of your personal experience in the design, implementation and evaluation of energy efficiency programs?

A My personal experience is zero. What I depended on when I sponsored this answer, or this response, is the experience that folks at Exelon and PHI have that work with these programs every day.

I can speak for the Exelon team. Over the last few years, they've won over 18 awards for energy efficiency programs. There's extensive understanding of different types of programs. So my response was based on discussions with those individuals, and that is how we came up with the 2-to-1 ratio.

Q What efforts did you make to verify the referenced two times relationship?

A It was based on my discussions with these individuals who gave me confidence of the 2-to-1 ratio.

Q Am I correct that you assume that the same two times relationship would be applicable to energy efficiency measures implemented for customers at each of the PHI utilities, including PEPCO's District of Columbia operations?

A Yes.

Q Did you compare the two times assumption with the results of energy efficiency measures that have been reported by the District of Columbia's sustainable energy utility?

CHAIRMAN KANE: We're competing, first of all, with the trash truck, and if you could also move your microphone over a little bit more, or speak directly into it. Let's pause until the -- unless you can speak very loudly over it.

(Discussion held off the record.)

BY MS. FRANCIS:

Q Did you compare the two times assumption with the results of energy efficiency measures that have been reported by the District of Columbia's sustainable energy utility?

A I personally did not compare that. The team that I -- that we depended on to get this estimate of 2-to-1 -- again, some are from PHI, so they would be very familiar with it. The team from Exelon -- we have programs in many, many states across the country. I would -- I'm confident that they had very good familiarity with those programs or those studies. And I would depend on their expertise; that's how we came up with 2-to-1.

Q Do you know if the team that you relied on actually compared the two times assumption with the results of the energy efficiency measures that have been reported by the District of Columbia's

SEU?

A I do not know for sure.

Q Now, please take a look at what's been preliminarily identified as AOBA Exhibit 118, for the record, AOBA 86, which is a copy of joint applicants' revised response to AOBA data request 1-4. Do you have that, Mr. Khouzami?

A I do.

Q In first sentence of your response to AOBA data request 1-4, you indicate that the allocation of CIF dollars between PEPCO D.C. and PEPCO Maryland was based on numbers of customers.

Now, we've heard references by witnesses for the joint applicants in these hearings to both use of numbers of customers for these allocations and to use of numbers of meters. We're going to explore that a little more.

A Okay.

Q What is your understanding of the measure upon which the allocation of CIF between PEPCO D.C. and PEPCO Maryland is premised? Is it numbers of customers or numbers of meters?

A It's number of metered customers.

Q Does that mean every meter is a customer?

A Every meter with an account is a customer.

Q Am I correct that for master-metered apartment buildings, you use the number of meters through which service is provided even though the District of Columbia has a long history of recognizing residential units in master-metered apartment buildings as distribution customers?

A Could you repeat your question, please?

Q Am I correct that for master-metered apartment buildings, you use the number of meters through which service is provided even though the District of Columbia has a long history of recognizing residential units in master-metered apartment buildings as distribution customers?

A Yes.

Q Now, please focus on what's been preliminarily identified as 87 and also marked for the record as AOBA 87 which provides a copy of the joint applicants' response to AOBA data request 4-1. And within that response, I'm going to ask you to turn to page 4 of 5 of the exhibit.

MR. GADSDEN: Your Honors, I would just note that this response was prepared by Dr. Tierney and Mr. McGowan.

CHAIRMAN KANE: Ms. Francis?

BY MS. FRANCIS:

Q Do you have it, Mr. Khouzami?

A I do.

Q Would you agree, taking a look -- would you agree that this page, the heading states that the data is billed distribution customers?

A That's what the page reads. Can't tell which.

Q In the far right-hand column of data under the heading December 13th, would you agree that the total number of customers reported is 319,961?

A I would want Mr. McGowan to verify that. This is not an exhibit that I seen or prepared. So I'm not familiar with this exhibit.

MS. FRANCIS: Your Honor, this is -- this is a dilemma because we have many witnesses working on overlapping areas in this case, and Mr. Khouzami was deferred questions about whether they're billed on metered or billed on customers, not Mr. McGowan.

So I can always verify this -- these numbers with Mr. McGowan. I suggest that Witness Tierney is not going to have any knowledge of these numbers. So I'm going to ask him to accept these now, and if I have to further verify them with Mr. McGowan, I'll be glad to do so. But this is where the questions were deferred to.

CHAIRMAN KANE: You may proceed.

BY MS. FRANCIS:

Q In the far right-hand column of data under the December 2013, would you agree that the total number of customers reported is 319,961?

A That's what it appears to be.

Q Would you also agree that this data shows 294,569 total residential customers?

A That's what this exhibit seems to say.

Q And within the residential class, do you find in the December 2013 column an entry on the line for MM-R of 55,904 customers?

A That's what the chart reads.

Q And an entry in the line for MMA-E of 692 customers?

A That's what the chart reads.

Q Now, I would like you to please reference back to what was preliminarily identified as AOBA 118, which for the record is Exhibit 86, which contains a copy of the joint applicants' response to AOBA 1-4. Do you have that?

A I'm there, yes.

Q Now, on page 2 of the attachment, which is page 3 of 3 of the exhibit, do you see the number of residential customers for PEPCO District of Columbia?

A I do.

Q And that number is 237,973?

A No, I believe it's 264,384.

Q No. Take a look -- try again. Take a look at the left-hand column. I'm on sheet 2 of 2, attachment A. All the way on the left-hand

column, it says, PEPCO District of Columbia. Underneath, it says, Residential customers --
A I see it. I was on the page before.
Q Okay.
A Okay.
Q 237,973. Do you see that?
A I do.
Q Okay. Would you accept that the 237,973 residential customers shown in the customer counts on this page precisely equals the total number of December '13 residential customers shown in attachment A to AOBA data request 4-1, less the number of December '13 MM-R and MMA-E customers shown in the same response?
A Can you remind me what attachment the other one is? I might as well have it.
Q One is --
A I've got this one. It's the one that --
Q One is data request 4-1 in AOBA 87.
A Uh-huh.
Q And the other is AOBA -- preliminarily -- is 118, what we're on now.

A Okay. I'm there. Thank you.

Q Do you want the numbers again?

A I will take your calculation.

Q Thus, it's clear that master-metered apartment customers were subtracted from the total. Would you agree with me?

A I'm not sure. It's a chicken and egg thing. We may have had the residential customers and then the commercial accounts and we just add them together. I'm not sure we had a total and then subtracted, but...

Q Would you agree that the master-metered apartment customers were subtracted from the total residential customers in order to get the 237,973 residential customers?

MR. GADSDEN: Your Honor, I think this is exactly why Mr. McGowan, as the author of this chart, is the appropriate witness to respond.

MS. FRANCIS: Your Honor, I'm looking at --

MR. GADSDEN: Excuse me. If I could complete.

Mr. Khouzami has indicated that he was not responsible for putting these series of numbers together and, therefore, can't logically explain how they were derived. Mr. McGowan will be available for cross-examination hopefully tomorrow, and he can answer all these questions.

CHAIRMAN KANE: Ms. Francis?

MS. FRANCIS: The problem I'm having, Your Honor, is that Mr. Khouzami is the sponsor of AOBA 118, which is AOBA 86. And I'm trying to show how they're calculating for master-metered apartments by going through these two exhibits.

So there really isn't one exhibit, one person that I can ask, but this is the area that Mr. Khouzami has been testifying on. This is where it was deferred.

So I -- I'm just asking him to check the numbers between both exhibits.

CHAIRMAN KANE: Ms. Francis, you asked the witness if he agreed that anything is subtracted, and he said he didn't know. And that's his answer. So...

MS. FRANCIS: Your Honor, this is -- obviously, you know, this is an important issue to AOBA.

CHAIRMAN KANE: Of course.

MS. FRANCIS: And I don't have a problem with asking Mr. McGowan, but I don't want to get to Mr. McGowan and ask these same questions and have him say, hey, I wasn't the one responsible for allocating the customer investment fund. That's the dilemma that I'm dealing with.

CHAIRMAN KANE: I understand the dilemma, but the witness has said he doesn't know, and that's his answer.

BY MS. FRANCIS:

Q Let me ask this. Mr. Khouzami, do you know how master-metered apartments were treated in the determination of -- determining the allocation for the CIF fund, or the determination of the CIF fund?

A The customer accounts that we used were equal metered account -- meter customer numbers that we were provided. So MMA was treated accordingly. It's no different than, say, in Delaware, where you have an electric and gas customer. It's about 116,000 customers have both electric and gas; they were counted as one customer, not two customers.

Q Do you know if there's a differences between how District of Columbia Public Service Commission treats master-metered apartments than there is between the Delaware commission (sic)? Do you know if there's a difference?

A I believe Mr. McGowan would be much more familiar with that than I would be. But, again, my example was just talking about electric and gas customers.

Q Now, I would like you to please look at AOBA Exhibit 119.

MS. FRANCIS: And, Your Honor, 119 has been entered for the record as AOBA 60.

BY MS. FRANCIS:

Q And this is a copy of the joint applicants' response to AOBA data request 1-5.

A I have it.

Q Does your answer to that request basically indicate that you did not even consider any allocation of direct merger benefits other than an allocation based on customer counts?

A I think it's important to understand what the customer investment fund was intended to provide, which is the net synergies for five years upfront for benefit for the different jurisdictions.

Using a customer count that we had, using a number per customer amount, that got us to that number. So we accomplished our goal with the CIF. So we did not see a need to use a different methodology. As I just mentioned, every jurisdiction has their unique attributes. It maybe MMA accounts now in D.C. -- in Delaware, it may be that you have combination residential customers, electric and gas. You know, again, the methodology we use accomplished the goal of providing the net five-year synergy number upfront to customers through a customer investment fund.

Since we have now increased it, it's far exceeded even that number.

Q But does your answer to this request basically state that you did not consider any allocation of direct merger benefits other than based on the number of customer counts?

A We did not use a different methodology for the CIF. The merger benefits, the ongoing synergies, will flow as cost of service flows.

Q In your response to AOBA data request 1-5, you assert, quote, an allocation based on the numbers of customers was considered to be equitable.

Were you responsible for that determination?

A I believe we all agreed that it was a fair methodology, given that it accomplished our goal of the net five-year synergies upfront.

Q We all agreed. Who are "we all agreed"?

A Counsel, myself, and the rest of the team.

Q Are you saying not one person made that specific determination?

A I think this was the methodology that we chose, and I don't think anyone saw any issues with it, given that it accomplished the original goal of the CIF, which was to provide synergies upfront to customers.

Q And could you please tell me with the team, what criteria was the equity of that allocation assessed?

A To provide the synergies upfront to customers we thought, in order to get to the five-year run rate, the fifth year run rate, we used a dollar per customer amount. It got to that level, and we thought that was accomplishing our goal in a fair way and a way to describe it to jurisdictions and others.

Q I'm going to ask you now to please reference attachment A to data request 1-4, which again was AOBA 118.

A I'm there.

Q Does the information included in attachment A to AOBA data request 1-4 detail development of the joint applicants' proposed allocation of the initially proposed $100 million CIF among the PHI utilities in the jurisdictions in which they provide service?

A It does.

Q Does page 3 of 3 of Exhibit 118 show the development of the customer numbers by utility and jurisdiction that were used to determine the portion of the total CIF that was allocated to each utility and to each jurisdiction?

A It does.

Q Does page 2 of attachment -- does page 2 of Exhibit 118 illustrate the manner in which the District of Columbia's share of the initial 100 million was determined?

A It shows the calculations and then it shows the amount, yes.

Q In the first column of attachment A, on page 2 of 3, if we replaced $50 per customer, as shown in the calculation, with approximately $128 per customer, would that be illustrative of the manner in which the joint applicants' new CIF offerings for the District of Columbia were

determined?
A Yes.
Q Would you accept that if we replace the $50 per customer amount used in the first column on page 1 of attachment A to data request 1-4, with $128 per customer, the total allocated dollars for all jurisdictions would be $238 million?
A Yes.
Q And that's the figure you referenced earlier, correct?
A That's correct.
Q Are you able to tell me why your response to AOBA data request 1-4 wasn't updated to reflect the joint applicants' new offering?
A I don't know. I believe my -- my testimony that we filed was very clear. I don't know why this -- I don't know if we saw a need to update this data request, but I'm not sure.
Q Now I would like you -- again, focusing on AOBA Exhibit 118, I want to revisit your revised response to AOBA data request 1-4. Your

last sentence of that response, do you represent that the initially proposed CIF of $100 million approximately equals the estimated share of the merger savings for the PHI utilities?

A Yes.

Q Does your statement in the last sentence of the response to AOBA data request 1-4 suggest a linkage between the magnitude of estimated merger savings and the overall size of the customer investment fund offered by the joint applicants in their June 18th, 2014 filing?

A Yes.

Q Now, I'm going to ask you to please reference what's been preliminarily identified as AOBA Exhibit 142.

MS. FRANCIS: Your Honor, for the record, 78.

BY MS. FRANCIS:

Q And this is a copy of your response to the Maryland Office of People's Counsel data request 1-21 in Maryland case 9361.

Do you have that, Mr. Khouzami?

A I do.

Q Okay. Does this exhibit show that -- the joint applicants' estimated synergy savings by jurisdiction compared on a dollars per customer basis?

A It shows -- it does. This is reflective of synergy savings after the first update to net synergy numbers and not after the second update. So it's not the original, and it's not the final. This is a moment in time.

Q Now, as shown in this Exhibit 142, am I correct that PEPCO's average synergies per customer are higher than the average synergies per customer for Delmarva and ACE?

A Yes.

Q Does AOBA Exhibit 142 also indicate that the average synergies per customer for the District of Columbia are higher than the comparable averages for all other jurisdictions served by the PHI utilities?

A I'm sorry. I couldn't hear the question. Could you repeat it?

Q Does AOBA Exhibit 142 also indicate that the average synergies per customer for the District of Columbia are higher than the comparable averages for all other jurisdictions served by the PHI utilities?

A That's what the chart would show.

Q Now, I'm going to ask you once again to turn back to your Exhibit (4A)-2. This time I'd like to reference commitment 3 on page 1 of that exhibit.

A You said commitment 3?

Q Correct. Page 1.

A Okay. Okay.

Q Now, am I correct that commitment 3 in (4A)-2 commits that incremental costs that result from accelerating supplemental executive retirement plan (SERP) benefits will be treated as transaction costs?

A Yes.

Q In commitment 1 on the same page, it is stated that PEPCO will not seek recovery of transaction costs incurred in connection with the merger.

Is it appropriate to conclude from consideration of commitments 1 and 3 that PEPCO will not seek recovery of incremental SERP costs?

A Of the incremental SERP costs, accelerated, correct.

Q Now, looking back again at commitment 3, am I correct that following the statement of that commitment, we find a reference to your rebuttal testimony at page 16, lines 3 through 10?

A Yes.

Q Now, please turn to lines 3 through 10 on page 16 of your rebuttal testimony.

A I'm there.

Q At lines 5 through 8, do we find a discussion of incremental SERP costs that parallels the language of commitment 3 in Exhibit (4A)-2?

A Yes.

Q In the preceding sentence on lines 3 through 5 on page 16, you state, quote, transaction costs include executive severance payments, restricted stock payments, cost of shareholder litigation and retention benefits.

Is that correct?

A Yes.

Q Can you point the Commission to where in Exhibit (4A)-2 we find language which states that executive severance payments, restricted stock payments, costs of shareholder litigation and retention benefits will be treated as transaction costs?

A So we've defined transaction costs, and in my testimony I've cited what transaction costs include. So that is how it is referred to.

Q But there is no such language (4A)-2, correct?

A There is no such language in (4A)-2, but there is written, and now verbal, testimony in multiple jurisdictions from me about what constitutes transaction costs.

Q Was this an inadvertent omission?

A No.

Q Now, please turn to page 6 of 42 in

(4A)-1 which contains a copy of the New Jersey settlement agreement.

A Which page was that?

Q Page 6.

A I'm there.

Q Am I correct that paragraph 11 on page 6 of 42 provides a definition of transaction costs for the purposes of that settlement which specifically includes change in control payments, retention payments, executive severance payments and the accelerated portion of SERP payments? Is that correct?

A That's correct.

Q Would you please turn to AOBA Exhibit 56. Mr. Khouzami, page 4 of 5 of Exhibit 56.

A Okay. I'm there.

Q Okay. Would some or all of the golden parachute compensation referenced in the PHI August 12th, 2014 proxy statement be considered change of control payments?

A I would have to check with an attorney or someone more familiar with this table than I.

What I can say is that all change in control payments have been included and listed as part of transaction costs.

Q But you don't know whether these -- anything listed on this golden parachute chart is a change of control payment?

A I'm not familiar -- I'm not as familiar with this chart as I would need to be to be able to answer this with a hundred percent certainty. I do know that we've worked with counsel as well as folks from PHI who are much more familiar with this than I, and we've ensured that all change in control provisions, golden parachutes related to the transaction are all included in transaction costs.

Q Am I correct that change of control payments are not explicitly addressed anywhere in your direct, rebuttal or supplemental direct testimonies in this proceeding?

A I don't understand the question. I think -- we've excluded them for transaction costs. So I'm not sure what the question is.

Q You don't mention change of control payments anywhere in any of your testimonies, do you?

A I'd have to go back and check to see for sure, but I think we've defined it before.

Q So you don't remember?

A What I'm saying is any cost associated with the merger closing that is triggered by the merger is listed as a transaction cost.

Q And change of control payments are or are not a part of transaction costs?

A They are a part of transaction costs.

Q Although not specifically identified as such in the commitments.

A I think we've specifically identified transaction costs, and now we've spoken for two, three minutes -- and I believe we spoke in Maryland as well -- so there is now sworn testimony ensuring that it is part of transaction costs.

Q Now, would you please reference paragraph 22 of the New Jersey settlement on

page 12 of 42 of (4A)-1.
A Which paragraph? Sorry.
Q 22.
A Okay.
Q Under the provisions in paragraph 22, am I correct that the joint petitioners (sic) agree to provide outplacement services to employees terminated as a result of the merger?
A Yes.
Q In the last sentence of paragraph 22 of the New Jersey settlement, is it stated that any expenses incurred for outplacement services for executives shall be deemed transaction costs?
A Yes.
Q Am I correct that there is no comparable provision relating to costs for executive outplacement services anywhere in the 91 commitments in (4A)-2?
A That's correct.
Q Now, I'm going to ask you to please reference AOBA Exhibit 99, which has been marked for the record as AOBA 83. That, for the record,

is the joint applicants' response to AOBA data request 4-9 with attachment A. Do you have that?

A I do.

MR. LORENZO: And I would note for record that it was prepared by Mr. McGowan and by Mr. Khouzami, different parts.

BY MS. FRANCIS:

Q Does attachment A to the joint applicants' response to AOBA data request 4-9 indicate that as of 12/31/14, PHI had 705,954,000 of outstanding long-term debt?

A That's what it reads.

Q Am I correct that this roughly 706 million of outstanding long-term debt is debt issued directly by PHI and is not debt issued by any of PHI's utility subsidiaries?

A That's my understanding.

Q Will any of this debt be retired by PHI prior to or as part of the merger closing?

A I am not aware. The first one that comes due appears to be October of 2015. So depending on when the merger closes, I suppose.

Q If we examine the detail presented in attachment A, we find that the first debt issuance listed with an outstanding principal amount of roughly $185 million does not mature until August 2032; is that correct?

A That's correct.

Q The last issue listed in attachment A to AOBA data request 4-9 matures on October 1st, 2015. Will the treatment of that issuance depend on whether the closing of any approved merger is before or after October 1st, 2015?

A I'm not sure I understand your question. If you're asking would -- is the plan to renew that debt, I've heard of no plans from PHI to renew that debt. But Mr. McGowan, a PHI employee, might be better equipped to answer that.

Our commitment and our intent is to retire this debt as it comes due post-merger and not to reissue new long-term debt at the PHI entity.

Q The other two issuances which, when combined, have outstanding balances totalling over

$270 million reflect maturity dates of December 12th, 2016 and June 1st, 2017. Is that correct?

A Yes.

Q Now, I would like you to please reference commitment 47 in Exhibit (4A)-2. And that starts at page 7.

A I'm there.

Q The last three sentences of commitment 47 state, PHI will not issue additional long-term debt securities. In particular, PHI shall not roll over or otherwise refinance its currently outstanding long-term debt by issuing new long-term debt. PHI and its utility subsidiaries will use reasonable efforts and prudence to preserve investment grade credit ratings.

Is that correct?

A Yes.

Q Am I correct that under the terms of this commitment 47, PHI will not be permitted to roll over or refinance any currently outstanding long-term debt after the merger closing?

A Yes.
Q Now, please turn back to AOBA Exhibit 99, for the record, 83. And please turn your attention to the March 16th, 2015 follow-up response to AOBA data request 4-9.
Does the March 16th, 2015 follow-up response state that the funds used by PHI to service its long-term debt are generally derived from dividends received from its subsidiary companies?
A This response is by Mr. McGowan, but yes, that is what it reads.
Q Now, I would like you to turn back to (4A)-2 and direct your attention to commitment 48 on page 8 of 17. Are you there?
A I'm there.
Q Does the last sentence of commitment 48 indicate that the PHI utilities will not guarantee the debt or other credit instruments of PHI?
A It does.
Q If dividends paid by the PHI utilities are the primary source of income for PHI after the

merger closing, am I correct that PHI will be dependent upon dividends paid by the PHI utilities to meet its debt service obligations?

A No. The response says that is generally the way that the debt would be repaid. There are other sources of capital for PHI. Exelon could make an equity contribution to PHI. PHI could issue preferred stock. That still is a market open to them.

So there are other means for them to repays the debt. It is not entirely dependent, nor is it any means guaranteed by the PHI utilities.

Q Does your testimony in this proceeding include estimates of PHI's post-merger debt service costs?

A It does not.

Q Does your testimony include estimates of the annual dollar amounts that PHI will require in dividends from each of the PHI utilities in each year following the merger to service PHI's existing long-term debt?

A It does not, because they have other sources of funds, if they choose to use other sources of funds, to service the debt.

Q To your knowledge, are estimates of the dollar amounts of either PHI's debt service obligations or PHI's annual dividend requirements from PEPCO provided anywhere in the testimony and exhibits of the witnesses in this proceeding, of the joint applicants' witnesses?

A To my knowledge, it is not. But you have the interest rate and the principal amount, so I think it would be very easy to calculate the interest cost of the debt. I don't believe we've gotten a response asking us to calculate it, but the math is pretty simple.

In terms of how much is required from PEPCO, again, the answer is you can't answer that question because there are other sources of funds such that, if PEPCO can't make the dividend payment, then there are other ways for them to service that debt. We have a firm commitment that PEPCO cannot make a dividend payment if their equity ratio would fall below 48 percent. So there is a constraint for PEPCO. They can't just dividend as much as they'd like. So it's hard to make that -- you can't make that calculation.

Q I believe Witness Crane testified last Monday that, during the first few years following the merger, PHI will have negative cash flows. Is that consistent with your understanding of the situation?

A My understanding is Mr. Crane was looking at a stand-alone five-year PHI forecast that did not include the merger, so no synergies and none of the other attributes.

Based on that, PEPCO as a whole -- so Maryland and D.C. together -- required equity infusions from the PHI entity.

Post-merger, I can't say that those would be in the same situation, but that's what Mr. Crane was referring to.

Q Well, my notes reflected that Witness Crane testified that during the first few years following the merger, PHI will have negative cash flows. Is that not your understanding?

A My recollection was that he was referring to a forecast he saw for the years that would be post-merger close. Again, this would be the stand-alone basis. And that is what I believe he was referring to.

I believe the discussion was in the context of if -- if they could meet their commitments and honor their commitments -- and I believe his response was along the lines of Exelon views commitments very seriously and would take the appropriate steps to ensure that commitments are met if there was a lack of cash flow at the utility to be able to meet them.

Q Why don't you tell me, what is your understanding of PHI's post-merger cash flows?

A I don't know if I've seen a projection with post-merger cash flows. What I can say is I believe that their cost of service would be lower due to the net synergies that we will be achieving.

I understand that the PHI common

dividend, which is about $280 million a year that they pay shareholders today, will no longer exist because the only shareholder would be Exelon.

Exelon does have a typical dividend payout ratio it tries to target, which is about 65 percent of net income. But I would cite that there have been periods -- and most recently in 2012, ComEd paid a much lower dividend because they had other needs.

That, combined with the restriction on paying dividend if the equity ratio falls below 48 percent, provides a lot of relief, and in fact, Fitch, in a report that was, I believe, issued in April, so very recently, cited that as a specific benefit of this merger for PEPCO, that it would be relieved from the PHI common dividend payment.

Q You have no specific understanding of PHI's actual proposed merger cash flows, do you, Mr. Khouzami?

MR. GADSDEN: Mr. Khouzami has answered the question at least twice now, Your Honor.

MS. FRANCIS: No, Your Honor, I don't

believe he gave a clear answer to it. He gave what hypothetically is out there in the finance world, but he didn't answer in regard to his specific understanding of PHI's post-merger cash flows. Maybe he doesn't know, which is fine. But he didn't answer that question.

THE WITNESS: I have not seen a post-merger cash flow statement. But I have seen Exelon's cash flow, if it's needed.

BY MS. FRANCIS:

Q And have you presented any studies or analyses in your testimony that provide estimates of PHI's post-merger cash flows?

A I have not.

Q Will PEPCO have negative cash flows in the years following the consummation of the merger?

A I think I just answered. I have not done that analysis.

Q Now, let's look back -- please take your attention back to commitment 61. And that's on page 10 of 17.

A Okay. I'm there.

MS. FRANCIS: I'm on the (4A)-2, excuse me.

BY MS. FRANCIS:

Q Am I correct that if PEPCO is already in a negative cash flow situation, any requirement that PEPCO pay dividends to PHI will only serve to amplify PEPCO's negative cash flow situation?

A Again, I think you're citing the direct commitment. The dividends do have a limitation. We can't pay dividends if the equity ratio falls below 48 percent.

The stand-alone plan suggests that PEPCO is negative cash flow. And again, I don't have a deep understanding of that plan, but my high-level understanding, when I've asked questions, is that there is some equity required over the five-year period to maintain a 49-1/2 percent equity ratio.

If they were to target an equity ratio north of 48 but lower than 49-1/2, that would ensure -- or that would not require equity contributions.

I don't -- even though I have not done an analysis, I don't see how the cash flow profile of PEPCO post-merger would be worse off than the cash flow profile of PEPCO pre-merger.

Q Again, I'd like just for a moment -- I'm focusing on the language, the specific language of commitment 61. I understand it says PEPCO will not pay dividends to its parent if immediately after the dividend payment its common equity level would fall below 48 percent.

But what it doesn't say -- or this commitment doesn't prevent them from paying dividends if their equity percentage is already below 48 percent.

A So I will clarify that here. If it's below 48 percent, we will not be paying a dividend, or PEPCO will not pay a dividend.

Q Do your -- does your prefiled testimony and exhibits in this proceeding provide any assessment of PEPCO's cash flows in the years following the merger closing?

A No. I think we've answered that.

Q And am I correct that after the merger closing, neither PEPCO nor PHI will be able to issue publicly traded stock?
A They would not issue public common stock. They would still be able to issue preferred stock, and PEPCO and PHI would still be able to request funds from their investor or their market, effectively, which is Exelon.
Q Given the magnitude of PEPCO's planned capital expenditures over the next several years and the fact that, post-merger, neither PEPCO nor PHI will be able to issue publicly traded common stock, am I correct that PEPCO's primary source of equity capital will be retained earnings?
A Or equity contributions from Exelon which they've shown that they have been willing to engage in with their utilities when appropriate.
Q If, post-merger, PEPCO fails to generate sufficient retained earnings to be able to maintain the equity percentage in its capital structure, will PEPCO effectively become dependent on Exelon for infusions of additional equity

capital?

A So I'm pausing because again, I think we've stated that there is public equity that PEPCO could issue, which is preferred stock. So there is that source of funds. You know, also, they can get equity from Exelon. So that the true as well.

Q And those would be the other two sources of funds, preferred stock or capital from Exelon, correct?

A So maybe to make this simple, I see four sources of capital for PEPCO: Debt issuance; preferred stock; equity infusion from Exelon, or PHI; and retained earnings.

Q What analyses or studies have the joint applicants presented in their prefiled testimony and exhibits to demonstrate the expected magnitude of PEPCO's post-merger requirements for equity infusions?

A We have not.

Q Now, I'm going to ask you to please reference what's been preliminarily identified as

AOBA Exhibit 104.

MS. FRANCIS: For the record, Your Honor, that's AOBA 75 which contains a copy of Mr. Khouzami's response to AOBA data request 6-15, including a March 16th follow-up response.

BY MS. FRANCIS:

Q Do you see that, Mr. Khouzami?

A I do.

Q In the next to the last sentence of the initial response to AOBA data request 6-15, do you indicate that, quote, while neither PEPCO or PHI are expected to issue common stock, nothing prevents either company from issuing preferred stock or receiving capital contributions from Exelon?

Correct?

A Yes.

Q Although most companies have the option of issuing preferred stock, can you explain to the Commission why extensive use of preferred stock is not common among regulated utilities?

A Again, I don't think I ever heard the

word of extensive use. I think if you look -- and actually, we have the benefit of Ms. Lapson coming up, and she worked at an agency and she can probably opine as well. I think it's common to see about 5 to 10 percent of a utility's cap structure being preferred stock. That's not out of the norm.

My intent here was to indicate that there was other sources of funding besides retained earnings, equity infusions from Exelon, and common debt offerings. So this is just a fourth source of capital that would be available to PEPCO.

Q Are you able to tell me what are the disadvantages of relying on the issuance of preferred stock?

A Again, I don't think I've said that they're going to rely on it. It's just another source of capital.

Q What are the disadvantage for a utility of issuing preferred stock?

A I would imagine it's the same as anyone, depending on the issuance of common stock, which is if the market is not buying at the time, so if there aren't investors, if there's a downturn in market, it may be difficult to raise the funds that you're seeking.

So I would say it's the same risk that PEPCO and PHI currently have with issuing common stock.

Q Please now turn to Exhibit (4A)-2 and direct your attention to commitment 61 on page 10 of 17.

A I'm there.

Q Commitment 61 states that PEPCO will not make any distribution to its parent company if, immediately after the dividend payment, its common equity level would fall below 48 percent.

I have a couple of questions on this commitment.

A Okay.

Q Am I correct that when commitment 61 is read in the context of commitment 62, there is nothing that would prevent PEPCO from making a dividend payment to its parent, PHI, if its common equity level is below 48 percent prior to the issuance of a dividend as long as PEPCO's credit rating is considered investment grade?

MR. GADSDEN: Objection, Your Honor. I think Mr. Khouzami a few minutes ago committed that there would be no dividend payments made if the equity ratio fell below 48 percent.

MS. FRANCIS: Your Honor, I did hear his testimony, except I'm focusing on the specific language of the commitment and what these commitments provide.

THE WITNESS: So if I could interject, I believe the specific commitment reads that immediately after the dividend is paid, the equity ratio will be below 48 percent.

So whether we started below 48 percent or we ended -- or we were above 48 percent to start with, in either case, after a dividend payment, you're below 48 percent. So I think, Ms. Francis, your concerns should be alleviated.

BY MS. FRANCIS:

Q Have the joint applicants provided the

Commission an analysis in their prefiled testimony and exhibits that indicates how far PEPCO could fall below a 48 percent equity level and still maintain an investment grade credit rating?

A We haven't provided any such analysis because our intent in 61 is to maintain 48 percent, or north of 48 percent.

We've also got a strong history at Exelon and all of their companies of maintaining strong equity -- strong investment credit ratings, and we're in constant dialogue with the agencies to ensure that any actions we are taking does not jeopardize that.

Q The last portion of the language of commitment 61 references equity levels that are calculated under the rate-making precedence of the Commission.

Can you be more specific regarding the precedence to which you refer?

A The way it was calculated in the last rate case.

Q Can you be any more specific than that?

A No. Mr. McGowan could answer that.
Q Is it your intent to reference -- is it your intent to reference the methods relied upon by the Commission to establish the capital structure approved for PEPCO in PEPCO's most recent distribution base rate proceeding for its District of Columbia service territory, formal case number 1103?
A I think I just said yes.
Q Can you point the Commission to where in your filed testimony and exhibits you provided estimates of the dollar amount of equity infusions or equity contributions that PEPCO will require from Exelon in the first few years following consummation of the merger?
A I think we've answered that we have not done that analysis.
Q Please turn to page 24 of your conformed rebuttal testimony --
A I'm there.
Q -- and the question and answer that start at line 1, page 24 of your rebuttal. Am I correct

that you testified the joint applicants have amended the Exhibit B of their application to allow the PHI Service Company to remain as a subsidiary of PHI within the ring-fenced operations that are proposed in this proceeding?

Is that correct?

A Yes.

Q And at lines 13 through 15, on page 24 of your rebuttal, you state that, PHI Service Company will continue to perform functions and to maintain related assets currently involved in providing services exclusively to the PHI utilities.

Are the related assets to which you refer in that statement specifically identified anywhere in the testimony you filed in this proceeding?

A I don't believe we've identified specifically the assets in our testimony. I would say it's basically any assets that PHISCO currently owns that they use to provide service for the PHI companies.

Q And those related assets to which you're referring, they're not identified by any other witness in this proceeding, are they?

A No.

Q Now, your testimony at lines 15 through 18 on page 24 of your rebuttal, you indicate, Other functions that are currently provided by the PHI Service Company, including those that are provided to the PHI utilities and to other current PHI subsidiaries, will be transferred to the Exelon Business Service Company or another Exelon affiliate in a phased transition over a period of time following the merger closing.

Is that correct?

A Yes.

Q And I have several questions regarding that statement. Under what circumstances might current PHI Service Company functions be transferred to an Exelon affiliate other than the Exelon Business Service Company?

A Services that are being used to provide services on behalf of PES, the non-regulated business of PHI.

Q Is that it?

A That's one example that I can think of off the top of my head.
Q Are there other examples?
A That's probably the primary one.
Q When you reference a phased transition over a period of time, can you provide this Commission any sense of the period over time over which such a transition may be expected to be completed?
A I would expect that it would be completed within the integration completion process, so within the 24 months, 18 to 24 months.
Q At the beginning of the referenced statement on lines 15 through 18 of your conformed rebuttal, you refer to other functions. Am I correct that the other functions to which you refer in that sentence have not been identified as of this time?
A I believe we've identified the functions. Again, I'm not sure I could list them all for you right here, sitting here. But I did mention earlier, when I was talking with OPC, some

examples, including accounts payable, payroll, those type of functions which are currently at PHI Service Company that are providing services to not only the utilities, but also to PES. So those are some examples.

Q Could you please tell me where in your testimony you provided what these other function were, or another joint applicant witness? Where is that in the record, sir?

A We have not listed it specifically in our testimony.

Q Thank you.

MS. FRANCIS: Your Honor, that's all I have, and my voice was about going, so I'm glad.

Thank you, Mr. Khouzami.

THE WITNESS: Thank you.

CHAIRMAN KANE: Thank you, Ms. Francis, and thank you for persisting through the alley noise there which seems to have finished.

We will now take a lunch break of an hour. We will come back. It's a quarter to 2:00. We will come back as close to possible as -- to a quarter to 3:00.

(Whereupon, at 1:45 p.m., a lunch recess was taken.)

AFTERNOON SESSION

(2:59 p.m.)

CHAIRMAN KANE: We're back on the record -- it's 2:58 -- in formal case 1119. And Ms. Francis, you had concluded. So we will now move to D.C. government.

MR. COYLE: Thank you --

CHAIRMAN KANE: Excuse me. Before you start, Mr. Coyle, we do try to give the reporter a break after about two hours. My intention, actually, today is to not go much beyond 5:00. I don't know that that means we will finish with Mr. Khouzami, but tomorrow night we can go much later, if necessary.

So I would like to finish up, if we can, with the company's witnesses and Mr. Morgan by the end of tomorrow. That may not work, but I just wanted to give you that notice that probably -- we will probably break around -- try to end around ten after 5:00, so that will -- and not come back for another 20 minutes or so after our ten-minute break.

You may proceed.

MR. COYLE: Thank you, Your Honor. I'll do the best I can.

CHAIRMAN KANE: I'm not rushing anyone. We need a complete record.

MR. COYLE: Give the traditional litigator's warning that examination will go much faster if the witness gives the right answer.

CHAIRMAN KANE: All right.

CROSS-EXAMINATION

BY MR. COYLE:

Q Good afternoon, Mr. Khouzami.

A Good afternoon.

Q My name is John Coyle. I represent the government of the District of Columbia. I have a couple of questions for you this afternoon.

A Okay.

Q Ms. Francis covered a lot of this with you. But I know it's a subject of interest to Commissioner Fort, so I feel myself bound. Would you go to your direct testimony, please, Joint Applicants' Exhibit (F) at page 1, line 18

through -- sorry, line 11 through line 18.
A I'm there.
Q You may have covered this with Ms. Francis, but I'm not sure. Where is the chief integration officer housed in the Exelon Corporation organizational chart?
A It is housed in the EBSC function.
Q Okay. And I think you said you report to Mr. von Hoene?
A That's correct.
Q And for how long have you been reporting to Mr. von Hoene?
A Since I took the role in the June time frame, June 2014.
Q All right. I believe you also say in your direct testimony you worked at Bear Stearns before you joined BGE?
A Before I joined Constellation, correct.
Q Oh, before you joined Constellation, okay.
A Yes.
Q Okay. By any chance, did Mayo Shattuck

recruit you or how did you find your way from Bear Stearns to Constellation?
A He did not. There was a job opening in Baltimore. I grew up in Baltimore. I was looking to move home.
Q Okay. And that was in 2005, you said?
A That's correct.
Q Okay. Would you please go to Joint Applicants' Exhibit (F1).
A I'm there.
Q And that has been offered as the organizational chart for PMO; is that right?
A That's correct.
Q And what does PMO stand for?
A This is for the integration office.
Q Okay. Does PMO stand for project management office or something like that?
A That's exactly what it stands for.
Q Okay. Great. Thank you.
Would you now take a look at what has been marked for identification as confidential Exhibit DCG 103.

MR. COYLE: And as I'm in the process of identifying that for the record, I'd like to ask counsel if we could observe the customary understanding about public examination with respect to a confidential document as long I'm not reading the document into the record.

MR. LORENZO: We have no objection, Your Honor.

CHAIRMAN KANE: Again, what is the exhibit number?

MR. LORENZO: It's marked for identification DCG 103.

MR. COYLE: For the record, this is confidential attachment A to the response to data request DCG 2-5.

BY MR. COYLE:

Q Let me just let the commissioners catch up with you for a second, Mr. Khouzami.

Now, Mr. Khouzami, is what's been marked for identification as Exhibit DCG 3 a complete list of the Exelon and PHI personnel involved in the -- in what you call the integration team?

A I would assume so.
Q I'm sorry. I meant to say DCG 103 for the record, not DCG 3.
Do you know approximately how many Exelon employees are on the integration team?
A It would be approximately 70 Exelon and 70 PHI.
Q Great. Thank you.
Are there any PEPCO employees in that list in Exhibit DCG 103?
A There may be. If they are, they are folks on the utility operations team. I'd have to check with PHI personnel to understand exactly who is PEPCO versus another utility.
Q Okay. And when you're looking at those folks, you'd be looking at page 4 of 4?
A Correct.
Q The PHI folks that are identified as being involved in utility operations?
A Yes.
Q Okay. Who pays these 140 people while they're working on integration matters?

A So for any individuals that are 100 percent dedicated to the integration efforts, they are included in CTA. So for example, myself. We have a handful of folks that are 100 percent dedicated.

The others charge their time as they normally would because they continue to do their existing day jobs and participate as well in some of the integration efforts.

Q Okay. Is what you just told me a fair summary of how the salaries and other costs of the work done on integration are being collected at the holding company level?

A I don't understand your question.

Q Let me rephrase it. So you told me that people whose time was 100 percent dedicated to integration had their time captured as cost to achieve, correct?

A Yes.

Q Okay. And the people who were not 100 percent dedicated to integration billed their time as they ordinarily would, right?

A That's correct.

Q Okay. So of these 140 folks, how many of them are dedicated 100 percent of the time to integration, if you know?

A I would assume somewhere between 10 to 15. I'd have to get the exact number. One point of clarification, too, is it's just not 100 percent or less than 100 percent. If you're 90 percent, you would still be charging to the CTA. The accounting memo which we issued at the start of the transaction, which we've used in previous transactions and has been submitted as part of the data request specifies the -- the cutoff, which is, I believe, 50 percent.

Q Okay. So somebody who's dedicated -- and this is what? On a monthly basis? How do we keep time?

A We keep it on a weekly basis.

Q Weekly basis. So for any week in which more than 50 percent of your time is dedicated to integration, you account for that time through -- well, you account for that time as a cost to

achieve, yes?
A We don't go week by week. It was basically people look at their overall time they would spend in totality for the duration of the integration efforts and will put it in a bucket of either dedicated to the integration, in which case they're like me and charge the CTA budget, or not, in which case they would charge their normal time.
Q Okay. And people who charge their normal time, do those costs get allocated either at the Exelon Business Service Company level or the PHI Business Service Company level, those costs get allocated back to the operating companies?
A They would get allocated in the same manner as if there wasn't a merger going on.
Q Ordinarily, that's back to the operating companies, or am I missing something?
A That's correct. I thought you said utility operating company, so just as a point of reference, but yes.
Q Okay. All right. But -- I see your distinction. There are also unregulated operating

companies, correct?

A That's correct.

Q Okay. Thank you. So the regulated and unregulated operating companies get allocated the costs of the people who are working less than 50 percent of the time on integration?

A That's correct.

Q Okay. Thank you.

Mr. Khouzami, when did you begin your work as chief integration officer?

A Late May, early June of 2014.

Q Did you work on analyses of synergies and cost to achieve synergies prior to being designated as chief integration officer?

A I did not.

Q So you would have started working on those analyses, you said, in May 2014?

A We began the integration process, which starts -- it's a phased approach. The first phase is setting up the business area teams that we've just looked at here. And then you go into the analyze phase where you begin to do the analysis around the potential opportunities around the synergies.

Q If you know, who analyzed -- well, withdrawn.

Do you know whether there were analyses performed with respect to synergies and cost to achieve as the merger was being negotiated prior to May of 2014?

A During the due diligence period, there was analysis that was done in conjunction with BCG, a consulting firm that we hired, and they helped perform an estimate of total synergies and total CTA.

Q And under whose aegis was that work performed?

A Under whose aegis in Exelon or BCG or --

Q Well, Exelon, I would guess.

A The transaction was led from start to finish by Mr. von Hoene's group. So I would say ultimately someone in his shop would have led the effort.

Q Okay. Now, when you assumed your

position as chief integration officer, did you have occasion to become familiar with the analyses of synergies and costs to achieve that had been performed by the Boston Consulting Group under Mr. Hoene's (sic) guidance prior to the signing of the merger agreement?

A I only pause -- I was about to say yes, but then you said prior to the signing of the merger agreement, and that answer would be no. I took my position after we signed the merger agreement.

Q Yeah, that was a terrible question. Let me rephrase it.

I was referring to work that had been done prior to the signing of the merger agreement.

A Then yes.

Q Okay. Thank you.

So you inherited those files?

A I received those files. I sat with the teams to get a good understanding of those files. Obviously, the intent of our integration process and what we spent the last nine, ten months doing was going through and doing a much more thorough analysis to identify the opportunities.

It was important to understand what was assumed in due diligence. So that was helpful, but I would stand here -- sitting here today, I would say, you know, I looked more to the analysis we've done during the integration process.

Q Okay. Let me change topics for a moment and ask you to go to page 4 of your direct, lines 10 through 19. Just read that quietly to yourself and let me know when you're finished.

A You said 4, 9 through --

Q 4, 10 through 19.

A Thank you. I've read it.

Q Now, if I could impose on Ms. Travers, as I so often do, I'd like to ask you to take a look at what is in evidence as Exhibit DCG 1 at the page numbered 33 on the bottom.

A DCG 1. And what page?

Q It's the page that's numbered 33 on the bottom. That's an excerpt of the document. So 33 is closer to the front than 33 pages. Just follow

the pagination on the bottom.
A I'm there.
Q Okay. Do you see there in the third bullet on the left-hand column, PHI valued the acquisition premium being paid by Exelon as $1.6 billion?
A Yes.
Q Let me ask you now to take a look at what has been marked for identification as Exhibit DCG 86.
A I'm there.
Q Are you the author of that response? I'm sorry. Let me identify it for the record as joint applicants' response to data request DCG 3-35. And then let me ask, are you the author of that response?
A Yes.
Q That response was true and accurate when you made it?
A Yes.
Q True and accurate now?
A Yes.

Q You offer in that response two different ways of calculating the amount of the merger premium, correct?
A That's correct.
Q And one method takes the April 29th, 2014 PHI stock price, compares it to the offer of $27.25 a share, and that yields a premium of $1.12 billion, correct?
A That's correct.
Q And that equates to about a 19.7 percent premium; am I right?
A I believe it says 19.6, but close enough.
Q Okay. Good. Thank you.
And the other method is -- compares the offer price of $27.25 to the 20-day average PHI trading price -- PHI stock trading price for the period ending April 29, 2014, and that yields a premium of -- excuse me -- 1.559 billion, correct?
A Yes.
Q And that's about 24.7 percent, is it?
A It states something a little higher than that on the page.

Q What does it state on the page?
A 29.5.
Q 29.5. Thank you.
So is it fair to summarize your response there, Mr. Khouzami, as saying that, you know, how you characterize the extent of the premium depends on what you take as a starting point?
A I would agree with that statement. I think these statements were more just in direct response to the questions that asked us to use these share prices and these dates.
Q Fair enough. Let me ask you now to take a look at what's been marked for identification as Exhibit DCG 96 which is your response to data request OPC 3-17.
A I'm there.
Q Okay. And does that data request offer another method for calculating the merger premium?
A I believe it's the same as the methodology used in B of the response we were just looking at.
Q Okay. I thought -- does this one deal

with capitalization and goodwill, DCG 96?
A That wouldn't have anything to do with the acquisition premium.
Q Right. Let me just ask you to take a look through the answer, read it quietly to yourself, and then I'll ask you a couple of questions. Let me know when you're ready.
A I've read the initial response. Do you want me to read the revised as well?
Q Yes, please.
A Okay. I've read that.
Q Okay. Now, you are the author of both the initial and the revised response, correct?
A Correct.
Q Okay. And those responses were accurate when you gave them?
A Yes.
Q Still accurate today, as far as you know?
A I believe so, yes.
Q Okay. The calculation of the premium in DCG 96 is slightly different in that you use an explicit reference to market capitalization,

right? 251 million shares times the premium?
A Market capitalization is what you would use to calculate any acquisition premium. It's the same as in the other one.
Q All right.
A I used market capitalization there as well.
Q Okay. Thank you.
Now, I want to confirm -- I think you covered this already, but I before I leave the area, I just want to make sure I'm right. Were you involved in supporting Exelon's efforts to negotiate the acquisition of PHI at all?
A No.
Q Okay. If you could turn to your direct at page 4, note 3.
A Page 4, footnote 3?
Q Footnote 3. Yes, sir.
A I'm there.
Q Okay. You describe in that footnote a reverse breakup fee, correct?
A That's correct.

Q All right. Could I ask Ms. Travers to hand you now a copy of the July 29th, 2014 amended and restated merger agreement?
A I have it.
Q Let me ask you to turn to page 54 of the amended and restated merger agreement and read section 8.5(c) to yourself. Let me know when you're finished.
A I've read it.
Q Okay. Is section 8.5(c) of the merger agreement the operative provision of the agreement with respect to the reverse breakup fee, as far as you know?
A It appears to be with a lot of subreferences. I'm not a lawyer, but it appears to be.
Q Could you turn to Exhibit A to the amended and restated merger agreement, please?
A I'm there.
Q Okay. That is the form of certificate for the PHI series A preferred stock; is that correct?

A It appears to be.

Q And the preferred stock is the mechanism, is it not, by which the reverse breakup fee is implemented?

A That's correct.

Q Okay. Would you explain for the Commission, please, in your own words how the reverse breakup fee works?

A Certainly. At the time of announcement, Exelon purchased 9,000 preferred shares with a commitment to buy up to 18,000 total over the course of a year, which would equal a total of $180 million. Every 90 days, Exelon has purchased an additional 1800 shares. Currently, sitting here today, 144 million of the 180 million total has been received by PHI.

And in return for that payment, Exelon Corporation owns preferred shares of PHI that are non-voting and -- are non-voting.

Q Do you know who came up with this idea, Mr. Khouzami?

A I do not.

Q Do you know what the considerations were that drove it?

A I would imagine it is to help provide PHI with some liquidity during the merger procedure. I believe even -- it's either a Fitch or a Moody's report that came out in the last month or two cited that specific as one of the reasons.

Q Now, going back to section 8.5(c) of amended and restated merger agreement on page 54, is it also true that in the event that the merger is not approved or is abandoned due to a regulatory requirement that Exelon finds burdensome, Exelon will reimburse PHI for up to $40 million in costs incurred in pursuing the merger?

A That's what it says.

Q Okay. Is that in addition to the $180 million reverse breakup fee, to your understanding?

A Yes.

Q Let me ask you now to go to what's been marked for identification as Exhibit DCG 87 which is joint applicants' response to Exhibit (sic) DCG 33.

A I'm there.

Q Mr. Khouzami, the -- would you take a look through that response, please, read it silently to yourself, and let me know when you're ready.

A I'm ready.

Q Now, the respondent on that request is identified as joint applicants, correct?

A That's correct.

Q I hope you'll forgive me if I say you were as close as I could find to a percipient witness for the facts set forth in that response. Are you able to vouch for it?

A Vouch that the response is correct?

Q Yes.

A I believe it is.

Q Okay. Great. Were you involved in the preparation of that response, Mr. Khouzami?

A I don't recall. I'm certain that it went through the accounting groups of PHI and Exelon to ensure that it's correct.

Q Okay. To your understanding, does the response to what's been marked for identification as DCG -- Exhibit DCG 87, the response to data request DCG 3-33, accurately summarize how the reverse breakup fee would operate if it were triggered?

A I believe so.

Q Is the discussion of the journal entries associated with accounting for the issuance of the preferred stock and the operation of the reverse breakup fee accurate, to your understanding?

A I would have no reason to believe it's not.

Q Okay. Now let me ask you to turn to what's been marked for identification as Exhibit DCG 99, which is the joint applicants' response to data request OPC 5-11, and let me ask you to read that to yourself quietly and let me know when you're ready.

A Okay. I'm ready.

Q Now, again, the sponsor of the data

request is Exelon Corporation, but you're as close as I can find to a percipient witness. Are you in a position to vouch for the accuracy of that response?

A I believe it's accurate.

Q Thank you. Turning to the second page of the document, the response to subpart A indicates that the accounting entries at Exelon as of September 30, 2014 for the preferred stock involved in the reverse breakup fee identify a figure of 108 million, is that correct, $108 million?

A That's what it reads, yes.

Q Is that a typographical error or does it reflect the extent to which Exelon had paid for the preferred stock as of September 30, 2014?

A That would represent the 9,000 we purchased at close and the first 1800 additional shares that we had purchased. Again, this is a point in time. So at that time, Exelon had paid $108 million, received $108 million of preferred stock. It's no different than if you looked at

PHI's books, the amount of cash from the preferred stock may be significantly less depending on what they've used the cash for during this time.

Q Okay. Thank you. Let's change topics and discuss some of the Exelon analyses associated with the merger. And I'd like to establish a context for this series of questions. Would you go first to your direct testimony at page 25, line 16 -- and bear with me a second. I need you to read from page 25, line 16 over to page 26 -- I believe it's line 4, but I'll be there in just a minute.

A Okay.

Q Yep, line 4.

A I'm there.

Q You discuss in that portion of your direct testimony the allocation of synergies and cost to achieve among various post-merger operating companies, correct?

A That is correct. This is the methodology that was used during the due diligence analysis that BCG conducted.

Q Let's take a look at Joint Applicants' Exhibit (F2), which was, I believe, your original graphic representation of synergies, cost to achieve and allocation --
A Yes.
Q -- updated through your September 19th, 2014, supplemental direct testimony, I think. Am I right about that?
A This is the synergies as of the time of the direct testimony, updated for one revision that we talked about earlier this morning regarding $73 million of CTA that were reclassified as transition costs --
Q Okay.
A -- or transaction costs, sorry.
Q Okay. Thank you.
Would you please look now at what have been marked for identification as Exhibit DCG 88, and those are the responses to data requests DCG 2-12 and 2-13 in a single exhibit?
A Okay. I'm there.
Q You the author of those responses,

correct?
A Yes.
Q And they were accurate when given?
A Yes.
Q Still accurate as far as you know?
A Yes.
Q Okay. Let's also take a look at what's been marked for identification as Exhibit DCG 83, which is joint applicants' response to data request DCG 5-12.
A If you'd give me a moment here. I don't have DCG 83.
Q Sorry.
A Okay.
Q All right. And you're also the answer -- the author of the response to DCG 5-12?
A Yes.
Q All right. That response was accurate when provided?
A It was.
Q Still accurate today, to the best of your knowledge?

A Yes.
Q Okay. Now, all three of those data request responses refer us to confidential attachment A to joint applicants' response to data request AOBA 1-23; is that correct?
A It appears to be.
Q All right. I'd like to invite your attention next to that document which has been marked for identification as Exhibit DCG 84. I'm sorry. To clarify for the record, that's errata version 1 of confidential attachment A to data request response to AOBA 1-23.
Do you have the exhibit that's been --
A I do.
Q Okay. Now, Mr. Khouzami, was that document prepared under your supervision?
A No.
Q Okay. It bears a date of April through September 2014?
A Bears a date of April, when this presentation was complete. There was an errata or -- I guess it's an errata, an adjustment, if

you will, to reclassify the $73 million of CTA into transaction costs. That correction was made in September. So this reflects that correction, which was updated in September, but again, the original document was created in April.

Q All right. So this document, what's been marked for identification as DCG 84, confidential attachment A to joint applicants' response to AOBA 1-23, represents work that was done by the Boston Consulting Group prior to the merger?

A Prior to the merger being announced, correct.

Q Okay.

MR. COYLE: I'm going to proceed to examine on this document, but before I do, I wanted to ask counsel whether the usual understandings would you apply.

MR. LORENZO: Yes, Your Honor. The usual understandings.

BY MR. COYLE:

Q Mr. Khouzami, have had occasion to become familiar with this document in your capacity as chief integration officer?

A I have spoken with Boston Consulting Group about this document.

Q Okay. Does this document lay out a methodology for determining synergies and cost to achieve and allocating synergies and cost to achieve?

A It does.

Q And if I could invite your attention, Mr. Khouzami, to page 70 of what's been marked for identification as Exhibit DCG 84. Would you take a look at page 70 and take a look at Joint Applicants' (F2).

A I'm there.

Q Okay. Was page 70 of what's been marked for identification -- withdrawn.

Let me ask the question a different way. If you compare page 70 of Exhibit DCG 84 to page 8 of Exhibit (F2), are they substantially identical?

A You're referring to page 8 in the lower left-hand corner, then, correct? Page 9 of 12, I believe, for the record.

Q Thank you.
A Yes. But yes. The answer is yes.
Q Right. Sorry. I appreciate the correction, thank you Mr. Khouzami. As I've been reminded before, it's hard to keep track of all the page numbers in this case.
But the two are substantially identical, correct?
A Yes.
Q Okay. And so was Exhibit (F2), page 9, taken from Exhibit DCG 84?
A It's the same page. So which one is taken from which -- it's the same page.
Q Would it be fair to say that Exhibit DCG 84 contains a great deal of information about how page 8 -- or page 9 of 12, rather, of Joint Applicants' Exhibit (F2) was developed?
A It does.
Q Okay. Let me walk you through some of that, if I could. First is the note that appears on the bottom of page 70 of Exhibit DCG 84 and also appears on the bottom of page 9 of 12 of

Exhibit -- Joint Applicants' Exhibit (F2) that refers to, and I'm quoting, MMF calculated using Exelon's methodology. Do you see that?

A I do.

Q MMF is shorthand for a modified Massachusetts formula; is that correct?

A That's correct.

Q Now, I'm going to apologize to everybody before I start doing this. I think you have to be something of a rate geek, but is it correct, Mr. Khouzami, that a Massachusetts formula, as used in utility rate-making, allocates parent company overhead costs to subsidiaries based on the average of the ratios of that subsidiary's labor costs, gross plant and gross revenue to the parents?

A The MMF formula is a methodology for allocating costs or synergies. Our MMF, "our" being Exelon's MMF, is based on gross revenue, direct labor and assets.

This is a formula that we've used for a number of years. It's a formula -- it's -- the allocation process is governed and regulated by FERC. And we haven't strayed from it for as long as I've known of.

Q I guess it's a rate geek question, but I feel compelled to ask it: That sound to me like a straight Massachusetts allocation. What did you modify?

A The term "modified Massachusetts" versus "Massachusetts," I don't know. It's called the MMF formula that we've used for as long as I've been at Exelon, and many years before then, at least back till 2006, because I've looked at documents that far back which were still using it. It's governed by FERC. It's accepted. It's used in all of our jurisdictions.

Where the term "modified" came from, I don't know. You'd have to probably ask someone that's more familiar with it than I am.

Q You wouldn't believe, actually, how much time I spent researching that and then trying to figure out what you've modified, and I said, it looks like a straight Massachusetts. Anyway --

okay. Never mind.
The MMF that you use, then, allocates costs to achieve and synergies to Exelon's operating companies based on the ratio of the subsidiary's labor costs, gross plant and gross revenue to Exelon's labor costs, gross plant and gross revenue, correct?
A It depends on the type of cost. So there are three different uses of the MMF when we allocated costs, or when BCG allocated costs. There were some that went to all Exelon and all PHI companies. Those were costs that would be -- savings or costs that would be borne by all.
There are those that went to just the Exelon utility's and PHI utilities, and again, same methodology, but would only benefit them, not the non-regulated business. And then there are those that are just PHI-specific, so, for example, PHI executives; those cost savings would be, you know, realized by the PHI entities, not all the other companies.
Q All right. Let me take you briefly

through, then, page 71 of Exhibit DCG 84. Does that graphic represent the three options that you just outlined?

A It basically summarizes what I just said.

Q Okay. Very good.

And then on page 72, you have what the difference is in allocation by -- depending on which option you use, correct?

A Correct.

Q All right. And am I correct, Mr. Khouzami, that ultimately Exelon settled on using option 1, if I'm understanding this graphic correctly, on page 72?

A No. They use all three methodologies --

Q Use all three.

A -- depending on the type of cost and the type of synergy.

Q Okay. All right. Thank you.

Now going over to page 73, the table on page 73 provides the inputs to your modified Massachusetts formula, correct?

A It does.

Q And then it -- below those, below the top segment of the table, you have a collection of six MMF ratios, right?

A That's correct.

Q Okay. And all six of those are used to allocate synergies and cost to achieve?

A All six were calculated. I'm not sure all of them were needed.

Q Okay. And then -- what does the abbreviation OLY stand for?

A It's Exelon.

Q Okay.

A It was just in this document.

Q That's why I never got it. Thank you. The abbreviation OLY only-utility (sic) would be Exelon utility's only; that would be ComEd, PECO and BGE?

A I'm sorry, I misspoke. OLY was PHI, not Exelon.

Q Oh.

A I'm sorry.

Q Is OLY an abbreviation for Olympus?

A Yes.
Q Okay.
A It was the code name used during the transaction.
Q All right. Well, since we've stumbled into that one, Mr. Khouzami, maybe you could tell me, what the various noms de merger are here. Olympus was, I thought, the code name for the merger itself; is that right?
A I believe it was Olympus and Zeus, but again, this is before I was involved. And I did not make the names, so I can't answer why.
Q I know. Investment bankers have a certain whimsy all their own, don't they?
A They do.
Q Let me ask you to accept, subject to check, so we can move past this, that Olympus was the code name for merger itself, that Zeus was the code name for Exelon, and that Athena was the code name for PHI.
A That sounds familiar. In this case, though, OLY is the PHI entities. But what you

just mentioned does sound -- does ring a bell.
Q Boston Consulting Group, not being investment bankers, weren't hip to the whimsy, huh?
A I suppose not.
Q Okay. Great. All right.
So in that case, as you're explaining it to me, OLY plus BGE would be PHI Holding Company, plus Baltimore Gas & Electric. OLY-only utility would be the three PHI operating companies?
A And the PES entity. That's the OLY non-utility column.
Q Right. OLY-only utility would mean --
A Just the three utilities.
Q Just the three utilities. And would the non-regulated include both Constellation and PES -- PEPCO Energy Services, excuse me?
A Well, there's a column for Exelon non-utility. That would be Constellation. And then OLY non-utility would be PES.
Q Got it. Okay. Thank you, Mr. Khouzami. Now I understand how it works.

Turning then to pages 74 through 78, if I could just ask you to flip through those, and I just have a very few questions about those.

A I see them.

Q Those pages provide a rationale for the allocation of the synergies among the various holding companies and operating companies, correct?

A During the due diligence process, correct.

Q That was the rationale for the allocation that Boston Consulting Group used, correct?

A That's correct.

Q Okay. Is it also the rationale for the allocation reflected on page 70 of Exhibit DCG 84?

A It is, but for the breakdown between PEPCO Maryland, PEPCO D.C., Delmarva Maryland, Delmarva Delaware, which was -- they use a customer account.

Q And then if I'm correct, it's also the rationale that was used -- that underlies the allocation set forth in Joint Applicants

Exhibit (F2); is that correct? It's modified again, as you just described, with the customer account device for allocation among the PHI operating companies.

A Yes. When we filed our application, this is our best estimate of what synergies would be.

Q Okay. Now let me ask you to turn to Exhibit DCG 84, page 36. The heading is bottom-up labor, details on steady state O&M synergies, labor synergies.

A I'm there.

Q Okay. The abbreviation FTE stands for full-time employee or full time equivalent; is that right?

A Full-time equivalent.

Q Okay. Is it a correct reading, then, of this page, Mr. Khouzami, that the joint applicants' labor synergies as developed to this point, the point at which DCG 84 was written, assumed a net reduction in force of 397 positions?

A Yes.

Q If I could ask you then to look at

page 62.
A I'm there.
Q Okay. The actual development of the 397 full-time equivalent positions to be eliminated is discussed under item 2 in the left-hand column, the heading, Severance and other compensation. If you go to the key assumptions column on the right, it says, 537 severances at 112,000 cost per full-time equivalent, correct?
A That's correct.
Q And that's a cost assumption that underlies Exhibit (F2) as well?
A That's correct.
Q Okay. And then 140 rehires?
A That's correct.
Q And the rehires have a cost associated with them, but I forget what that was. Do you recall?
A I believe it was $19,000 per rehire.
Q Okay. And then there's a potential additional 40 to 50 full-time equivalent severance -- and I'm not sure what the plus

additional 5 million means. Could you explain that?

A So really there was just a contingency amount included for CTA purposes because, again, this was very early in the process. We had -- BCG and the joint applicants had not vetted all their costs that they would need. So there was a contingency amount based on BCG's experience that they included.

The note to the side there was based on the fact that the CTA seemed to be split approximately half for labor, half for non-labor, so they just did the conversion of, if I add $10 million of contingency, 5 million for labor, $5 million and 112,000 per employee roughly translates to 40 to 50 people.

It wasn't to suggest that they identified another 40 to 50 people.

Q Right. That was just, if you will, a slug in the model in case you needed to demonstrate some additional synergies, right?

A I think it was the standard contingency that BCG would use given the point at which this analysis was done in the process.

Q Certainly a kinder and gentler way of putting it, Mr. Khouzami. Thanks.

And then the last bullet that section includes -- there's a note that says, Includes non-accelerated SERP which I believe you discussed with Ms. Francis is supplemental executive retirement plan; that's what that means?

A That's correct.

Q Okay. Is that -- I think you said -- $17 million worth of executive compensation?

A That's correct.

Q Okay. And what's the difference between the accelerated and non-accelerated portions of the PHI supplemental executive retirement plan?

A So the non-accelerated portion would be if one of the executives left today, that would be the amount of SERP that he or she would have already earned. The accelerated portion is due to the merger, some of the SERP in the future was brought forward and paid out. So they had not earned it yet. So that portion obviously is being triggered by the merger, so we included that in transaction costs, non-CTA.

Q Okay. Let me ask you, if I could, to take a look at what's in evidence as Exhibit DCG 23. That's a two-page excerpt from the PHI definitive proxy statement.

A I'm there.

Q Now, let me ask you to read that quietly to yourself. And I'll warn that even if you're a lawyer, it's not all that easy to follow. But I wanted to see if you had an understanding, based on reading it, what the elements of the executive compensation identified in the table at the top were and whether or not any accelerated or non-accelerated supplemental executive retirement is involved in that compensation.

A This is DCG 23?

Q If I'm giving you the correct exhibit, it should be a two-page excerpt from the supplemental --

A The first page appears to be an Exelon --

I can read that if you'd like.
     Q    You know what?  That means I gave you the wrong exhibit.  Hang on just a second.
          It should be -- what's in evidence as DCG 23 should be an excerpt from PHI definitive proxy statement dated August 12th, 2014, pages 78 through 80?
     A    I have pages 78 through 80, but the gentlemen listed are Mr. Crane, Mr. Thayer, Mr. Cornew, Mr. O'Brien and Mr. von Hoene.  These are Exelon employees.
          MR. COYLE:  Excuse me, Your Honor.  Bear with me just a second.
          MR. LORENZO:  Your Honor, could we go off the record?
          CHAIRMAN KANE:  Yes, let's go off the record for a moment until we get the exhibits properly identified or located.
          (Discussion held off the record.)
          CHAIRMAN KANE:  Now we are back on the record.
          THE WITNESS:  So I've read it.

BY MR. COYLE:

Q All right. And can you identify, based on your reading, Mr. Khouzami, whether or to what extent any of the compensation discussed in the table that appears on page 79 of the definitive proxy statement involves accelerated supplemental executive retirement plan?

A It seems like the third column does, the pension and QDC column.

Q Okay. And then I wanted to clarify. You said there were -- in your discussions with Ms. Francis, you said there was $73 million worth of executive compensation that was eliminated from cost to achieve?

A That's correct.

Q Okay. And that would include the other golden parachute compensation?

A That would include the golden parachute compensation, any restricted stock that became vested that hadn't vested already, change in control provisions.

Q Excellent. Thank you very much. Let me ask you to go back to DCG 84, Mr. Khouzami.

A I'm back.

Q Would you turn to page 45, please.

A I'm there.

Q Would you explain to the commissioners what system consolidation -- hybrid consolidation for information technology is?

A Sure. So as we went through the diligence process, we made decisions, or BCG helped make decisions with us -- "us" being the diligence team, which I was not part of, but had talked to them -- about what we would do with the IT systems at PHI. As you can see, for their utility systems, the decision was to maintain them to be separate.

For the HR and some other infrastructure systems was to fully consolidate with the Exelon platform.

For finance, accounting and the supply or procurement systems, the idea was a hybrid, which would be that they would remain on theirs, Exelon would remain on theirs, and there would be an interface developed to port that information over.

That was the initial thought during due diligence; that is what the due diligence estimates were based on.

As I mentioned this morning, there was a decision as we went through the analyze phase of our integration process with the larger teams, full access to information, folks from both Exelon and PHI, the decision was to move to a fully consolidated IT solution for finance, accounting and procurement. And that's what resulted in some increased CTA dollars.

Q Is it true, to your understanding, Mr. Khouzami, that PEPCO has just completed implementing its Solution One billing system?

A I am.

Q You're familiar with that?

A I am familiar, and that is not something that will be converted. So PEPCO and the other PHI companies will remain on Solution One for their call center operations.

Q And how about the billing system?

A And billing system, yes.
Q Okay. Exelon uses an Oracle-based billing system; is that correct?
A Correct.
Q But the current plan is to keep them separate?
A It is. Given the significant investment the PHI companies have just completed, given the, for lack of a better term, newness of the system and the functionality that it provides, there wasn't a need or a good business case to be made to convert them.
Q Thank you. Let me ask you now to take a look at what has been marked for identification as confidential Exhibit DCG 92.
A I'm there.
Q And for the record, this is confidential attachment D to the joint applicants' response to data request DCG 1-10.
MR. COYLE: Again, I'd ask counsel whether the customary understandings about examining on a confidential document pertain here?

MR. LORENZO: Yes, Your Honor, they -- Mr. Coyle may examine.

BY MR. COYLE:

Q Have you had occasion, Mr. Khouzami, in your capacity as chief integration officer to become familiar with the document that's been marked for identification as Exhibit DCG 92?

A Although it was completed prior to my role, I have seen this document, yes.

Q And by whom was this document prepared, if you know?

A I don't know, but given that it was a document to request approval for the bid, that would be something that would most likely come out of Mr. von Hoene's area, corporate development and strategy.

Q Do you know whether the information summarized on pages 1 and 2, slides 1 and 2, I guess, under the heading Executive summary, are accurate -- is accurate, sorry.

A I have no reason to believe it's not accurate.

Q Turning to page -- or slide 6, what's headed -- I should be consistent about this, and I apologize. Let's use the pagination in the upper right-hand corner. It says page 7 of 37, to be consistent.

The discussion merger agreement key issues. The only part of the page that isn't blacked out refers to the $180 million upfront investment in preferred stock?

A That's all I can read as well.

Q Okay. And that's the reverse breakup fee that we were just discussing, correct?

A Correct.

Q Please go to page 5 of your direct testimony and read lines 1 through 12 to yourself.

A I've read it.

Q Let me ask you now to go to page 17 of Exhibit DCG 92. The page is headed, Sources and uses of funds.

A I'm there.

Q Okay. Now, in your testimony -- in your direct testimony that I just asked you to read, you referred to financing about 50 percent of a $7 billion acquisition with Exelon debt, correct?

A Could you repeat your question?

Q Yeah. In your testimony that I just had you look at, you talk about financing roughly 50 percent of the acquisition with debt issued by Exelon.

A Correct.

Q Okay. And does that equate to the 350 million -- excuse me -- $3.5 billion shown on the line that begins, X Corp. debt issued --

A Yes.

Q -- across from sources?

All right. Go a little further down and I see a reference to mandatory converts. And that's shorthand for mandatory convertible, correct?

A Yes.

Q The commissioners probably know, but would you explain for the record what a mandatory convertible security is?

A It is an instrument that is sold that

provides interest or dividend payment for a period of time until it converts into -- at a stated rate until it converts into full equity.

Q Okay. Now, with respect to the mandatory convertibles that Exelon contemplates issuing -- has Exelon issued those, by the way, already?

A They have.

Q Okay. What is the -- let me back up.

Mandatory convertible has characteristics of debt in the early part of its life, correct?

A They have an interest payment or a dividend payment, however you want to look at it. In our case, it's 6.5 percent that will be paid until the beginning of 2017 when it converts into full equity, at which case it will become the same as any other shared common stock.

Q Okay. But between -- and when were they issued?

A Subject to check, third quarter, fourth quarter of 2014. I'd have to go back and look for the exact date.

Q All right. So for the time being, they

have the characteristics of debt?
A Or preferred stock, which acts the same way too, so whichever way you want to call it.
Q Okay. It makes a difference to your 50 percent whether they count as debt or equity, right?
A So to clarify, maybe I'll just say what we used. Our funding mix will be $3.5 billion of debt. It is $1.8 billion of common stock that has already been issued. About a billion dollars is expected from asset proceeds, so cash that we're getting from selling some other non-core generation facilities. And then the remaining portion, 1.2 billion, from the mandatory converts.
And when we say 50 percent debt, 50 percent equity, we are considering the mandatory converts similar to how S&P does, as 100 -- when we say 50 percent equity, 50 percent debt, we are treating the mandatory converts as 100 percent equity, which is the same methodology that S&P uses.
Q Thank you. Would you take a look down at

the third bullet from the bottom in the right-hand column under model assumptions.

A I see it.

Q Okay. It says, Assumes 130 million of steady state annual non-fuel O&M synergies, 35 percent retained.

Is that level of synergies the one that was ultimately reflected in the -- in Exhibit (F2), Joint Applicants' Exhibit (F2)?

A The 130 million?

Q Yes.

A Yes.

Q Okay. And the cost to achieve, I'm sorry, under the second bullet from the bottom, assumes CTAs of 265 million pre-tax and transaction fees of 80 million pre-tax. You have a note that says, CTAs include RSUs valued at $26 a share.

RSUs is an abbreviation for restricted stock units, correct?

A Correct.

Q And that is a form of executive

compensation at PHI?
A Correct.
Q Okay. So at the time that this sources and uses of funds on page 17 of Exhibit DCG 92 was prepared, the contemplation was that cost to achieve would include the payment of executive -- that kind of executive compensation?
A That's correct. That would be the $73 million that we've reclassified as transaction costs from the CTA.
Q Very good. Thank you. Now, going up one, two, three -- the fourth bullet from the bottom says, Assumes cash savings from elimination of PHI dividend used to offset acquisition debt.
Do you see that?
A I do.
Q For reference, the PHI dividend at the time this was prepared was approximately $1.08 per share; is that right?
A Subject to check. I know last year it was around $280 million of dividend payments for the year. I know that number. The per share

number I don't know off the top of my head.
Q I'll give you a calculator if you want. But you've used the figure. Let me see if I can get you to trust me on the math --
A Okay.
Q -- a little bit more, Mr. Khouzami. You've used the figure of 251 million shares outstanding for PHI --
A Okay.
Q -- 4ight? And $1.08 times 251 million shares is about 272 million?
A I'll take that, then.
Q All right. Great. Thank you.
So the plan, as far as appears here, is to use 272 million per year that would otherwise be -- would otherwise, but for the merger, have been used to pay the PHI dividend, to retire the acquisition debt; is that right?
A That's what it appears to be. Obviously, the new shares issued at Exelon would receive an Exelon dividend payment, so there is an offset. But that's what the wording here seems to suggest,

that there's some amount that can be used to pay acquisition debt down.

Q Okay. Mr. Khouzami, could you turn to page 18 of Exhibit DCG 84.

A I'm there.

Q I went through this with Mr. Crane, but he assured me you were a lot smarter on this subject than he is. I wanted you to look at the first box in the upper left-hand corner, the caption of which is, Operating EPS accretion (DIL).

Do you see where I am?

A I am.

Q And that abbreviation or that set of abbreviations stand for operating earnings per share accretion diluted; is that right?

A Accretion or dilution. Negative would be dilution; positive would be accretion.

Q Okay. And there is a positive earnings per share accretion shown, correct?

A It's starting in 2016, not in 2015.

Q Okay. The next box over, the

abbreviation FCF stands for free cash flow; is that right?
A Correct.
Q And there's no dilution with respect to the free cash flow?
A No, it's all dilution; it's all negative.
Q It's all negative?
A Those are all negative numbers.
Q I see. Thank you.
What is free cash flow, Mr. Khouzami?
A That would be cash flow from operations less capital expenditures.
Q Does free cash flow include accumulated deferred income tax?
A I believe so, yes.
Q And on the bottom box, Exelon consolidated FFO is funds from operations, correct?
A Correct.
Q And the FFO-to-debt ratio is important to Exelon why?
A It's one of the key metrics that the

rating agencies use when assessing a company and their financial strength. As we've stated multiple times, Exelon and all its operating companies put a lot of importance on the investment grade ratings. So it's a key metric we always look at.

Q Okay. Take a look at page 20, if you would, Mr. Khouzami. Just kind of scan that to yourself.

A Okay.

Q Why would the comparison of who the top 30 shareholders are have any significance for Exelon's board's deliberations, if you know?

A I couldn't say. I wasn't in the meeting, so I'm not sure what the intent of the slide was. But from the suggestion, it looks like we have some shared investors and some that were different.

Q Okay. Let me go back to your direct testimony, Mr. Khouzami. Going to page -- I'm sorry. Wrong reference. Sticking with Exhibit DCG 92.

A Okay.

Q I'm sorry. Looking -- yeah, sticking with Exhibit DCG 92, going to page 9 of 37.

A I'm there.

Q Okay. Financial due diligence update and then, underneath that, there's a heading that says, Purchase accounting update, correct?

A Yes.

Q Okay. And the first bullet says, Goodwill at PHI post-transaction close will be above 3.5 billion versus the 1.4 billion of goodwill on its books December 31, '13.

Do you see where I'm at?

A I do.

Q Why did PHI have $1.4 billion on its books at December 31, 2013, do you know?

A I believe that came from the PEPCO/Conectiv merger.

Q Would that 1.4 billion in goodwill, to your understanding, represent some kind of premium that was associated with that merger, some kind of acquisition premium?

A It's typically the price that is paid for the equity that's above the book value. So it's a different type of premium compared to the market premium that we talked about earlier today.
Q Okay. A premium to book versus a premium to market?
A That's correct.
Q Thank you. You say -- you go on to say, Goodwill will be adjusted based on final purchase price and valuation number at the time of closing.
What does that exercise entail, Mr. Khouzami?
A So, first, finalizing the purchase price, which we have done. The second is working with typically Duff & Phelps, who did a lot of the acquisitions for us. They will go through and do an analysis valuing the fair market value of the assets that we purchased. And then the differential would be either positive or negative goodwill depending on what their value comes up with.
Q Okay. And the third hash mark down says,

As of the last impairment test, PHI had a cushion of approximately 1.5 billion, so we would most likely have limited cushion.

What does that refer to?

A Again, I'm not sure, since this is not my presentation, but I believe there are impairment tests when you do the fair market value of the assets, and from an accounting perspective, if the fair market value of the assets drops below a certain threshold, then you have to write off a portion of the goodwill because that goodwill is deemed no longer to be yours.

Q Okay. Do you know whether there was any goodwill written off as impaired -- well, you don't know because the transaction hasn't happened yet, right?

A So far none.

Q Okay. So far none. Great. Thank you.

Let me ask you to take a look next at what's been marked for identification as Exhibit DCG 100, Mr. Khouzami?

A I'm there.

Q That, for the record, is the joint applicants' response to data request DCG 3-24. I'd like you to take a moment to review the entirety of that response to yourself and let me know when you're ready.
A I've read it.
Q Okay. You are the author of that response, correct?
A I sponsored it, yes.
Q Okay. And you're sponsor of the amendment to the request as well, yes?
A Yes.
Q The amendment to the response?
Okay. Would it be the case that your original answer anticipated $2.5 billion worth of goodwill being incorporated into PHI's books as a result of the merger?
A The original response contemplated the goodwill created by just this merger. The revised response included what was already on the books of PHI, which is the 1.4 billion. So 3.9 is the result of 2.5 plus 1.4.

Q All right. Thank you. Now, Mr. Khouzami, again, I'm sure that commissioners already know, but could you describe briefly -- oh. Actually, withdrawn. Let me go somewhere else here.

How much goodwill does Exelon have recorded on its books as a result of the previous mergers with PECO and Constellation, do you know?

A Off the top of my head, I do not know.

Q Do you know whether both of those mergers involve premiums to book?

A I can only speak to the Constellation with certainty, and the answer is yes. And I would assume the one before did as well. Based on my time as an investment banker previously with Bear Stearns, focusing on mergers and acquisitions, premiums to book are very common.

Q Would you accept, subject to check, that the goodwill on Exelon's brooks pre-merger amounts to about 2.6 billion?

A Subject to check, sure.

Q And I'd be grateful if you or your

counsel would get back to me if I'm wrong about that.
     A    I think we can provide...
     Q    Thank you.  But on that assumption, total goodwill reflected on the merged company's books, if the merger proceeds, would be about 6.5 billion; is that correct?
     A    It's the 3.9 plus -- I forgot the number you said already, sorry.  2.6?
     Q    2.6.
     A    That's correct.
     Q    Mr. Khouzami, again -- now I'll get to the question I was going to ask before.  I'm sure the commissioners know, but could you describe briefly for the record what impairment of goodwill is?
     A    The impairment of goodwill is -- there are a two-factor test where you test the goodwill, typically on an annual basis or a periodic basis, to ensure that the value of the assets are still in line with the price that you paid; in other words, that it didn't denigrate.  So you don't

increase the goodwill, but if there's a significant loss in value of the assets, then you may have to, if you get to a certain point, write off a portion of your goodwill.

Q And then that involves writing down your assets, your total assets? Goodwill is treated as an asset, correct?

A Yes, so the asset that gets written down is goodwill, and then you would see a corresponding reduction in equity.

Q Okay. Thank you. Do you know whether goodwill is -- are you familiar with utility rate-making conventions with respect to goodwill?

A You can ask the question and find out how much I do know.

Q All right. Let me ask it this way: Do you know whether regulated utilities are allowed to earn a return of and on goodwill?

A So I can't speak with certainty in every jurisdiction. I know, for example, in ComEd, they exclude goodwill for rate-making purposes. In the instance here, none of the goodwill will get pushed down below the PHI level. So, therefore, on PEPCO D.C. or any of the PEPCO -- PHI utilities, none of the goodwill would be reflected. So it would not be included in any of the capital structure that would be included in a distribution rate case or a transmission case.

Q In fact, you already almost anticipated my next question, Mr. Khouzami. Would you take a look at Joint Applicants' Exhibit (4A)-2 at page 10, commitments 61 and 63.

A Okay. I'm there.

Q Okay. Those two commitments relate to PEPCO, right?

A 61 and 63?

Q That's correct.

A That's correct.

Q Okay. And you say, PEPCO will not reflect any of the goodwill associated with the acquisition on its books, correct?

A Correct.

Q Okay. PEPCO's stock in principle is owned by PHI, correct?

A Correct.
Q And PHI's stock will be retired as a result of the merger; is that right?
A No. PHI's stock will be moved to Exelon. PHI will continue to have equity.
Said another way, if PHI's stock vanished, what would Exelon be buying?
Q Let me -- just to clarify that point, Mr. Khouzami, let me ask you to go back to Exhibit DCG 1 and let me ask you to read page 52, numbered page 52 at the bottom, entitled, Payment of merger considerations, surrender of stock certificates, to yourself.
A Okay. Read that section?
Q Yes, please.
A I've read it.
Q Okay. Is it not the case that PHI's stockholders will surrender their stock and the stock will be canceled in connection with the merger?
A The public trading of the stock will be canceled. The certificates will be turned over

effectively to Exelon. Exelon has to own something in order to own PHI. They own the stock.

Q I see. Thank you.

Now, going back to commitments 61 and 63, then, the undertaking is that PEPCO will not pay dividends to its parent company. Who is the parent company at that point?

A So the parent company of PEPCO is PHI.

Q Okay. So PEPCO will not pay dividends to PHI if, immediately after the dividend payment, PEPCO's common equity level would fall below 48 percent?

A Correct.

Q Okay. Do you know whether that 48 percent equity figure would be calculated with reference to goodwill on PHI's books?

A PHI equity ratio has nothing to do with this commitment. This is PEPCO's capital structure which would have no goodwill.

Q You're sure PEPCO's capital structure has no goodwill today?

A I'm -- yes.
Q Okay. All right. And the same is true of commitment 63?
A Yes.
Q Okay. Thank you.
MR. COYLE: Bear with me a second, Your Honor. I need to find another exhibit.
BY MR. COYLE:
Q Would you turn next, Mr. Khouzami, to what's in evidence as Exhibit DCG 2?
A I'm there.
Q Have you seen this document before, Mr. Khouzami?
A I have.
Q Do you know who prepared it?
A I would imagine our investor relations group actually prepared the document, with input from numerous parties.
Q Okay. Let me ask you to turn to slide 11. And the page heading is, Transaction economics are attractive.
A I am there.

Q Okay. The first bullet says, Significantly, earnings accretive in the first full year after closing anticipate run rate accretion of 15 to 20 cents per share starting in 2017, correct?
A That's what it says.
Q All right. And that's a reference to Exelon shares, correct?
A Yes.
Q About how many shares does Exelon have outstanding, do you know?
A About 830 million.
Q Okay. So a 20 percent -- sorry -- 20 cent per share earnings accretion would be the equivalent of about $166 million a year?
A Subject to check, that's the math.
Q Okay. Where does that accretion come from, Mr. Khouzami?
A It is taking the existing EPS of Exelon and comparing it to the EPS of the combined entity, the combined net income over the new number of shares outstanding.

Q Now let me ask you to take a look at what's been marked -- I'm sorry. Going down the page, staying with the same page we were on, Exhibit DCG 2, slide 11, third bullet from the bottom, Net synergies of more than 250 million over the first five years, of which one-third is retained, correct?

A That's what it says.

Q All right. That was the original plan, and now the plan has changed somewhat, right?

A It's gone down to 225.

Q Okay. But all of the synergies, or 94 percent of the synergies for the first ten years are being distributed in the form of the customer investment fund, right?

A For PEPCO, yes. PEPCO D.C.

Q Okay. Does that figure vary for other operating companies?

A Well -- other PHI operating companies? No other operating company in the Exelon family is getting any kind of CIF upfront.

Q Right. So other PHI operating --

A I'd have to go back and look, but it's about the same for all.

Q Okay. Fair enough.

So $225 million in synergies over the first five years, you said, that equates to about 45 million a year?

A It's not straight line, but -- I mean -- 225 divided by 45.

Q Okay. So that doesn't account for all the earnings accretions, surely.

A Most of those synergies won't be retained. They'll be given back to customers through a rate lower than otherwise would have been cost of service. So the only thing that's kept is what's at the non-regulated entity. About two-thirds of the synergies will go back to customers, PHI customers for the PHI utilities. Obviously then also BGE, PECO and ComEd customers for their synergies.

Q Okay. Now, let me ask you to take a look at what's in evidence as Exhibit DCG 3, please. That's a transcript of Exelon's first quarter 2014 earnings call which also involved the merger announcement.

A Uh-huh.

Q You're not listed as one of the participants. Were you watching it streaming or --

A I was listening silently.

Q Okay. Good.

I wanted to invite your attention particularly to page 16 of that transcript. There's a comment four segments from the bottom attributed to Mr. Thayer. And Mr. Thayer is the executive -- I'm sorry. Again, I'm on page 16. It's the fourth segment from the bottom, Exhibit DCG 3. Mr. Thayer is the executive vice president and chief financial officer of Exelon, correct?

A Correct.

Q And he's responding to a question from an analyst from Deutsche Bank, Jonathan Arnold; is that right?

A Yes.

Q Okay. And Mr. Arnold is asking a

question about the earnings per share accretion, and gets part of his question out before Mr. Thayer jumps in with his response.

I wonder if you could read Mr. Thayer's response, skipping the first sentence, beginning with the part that says, And second of all.

Do you see where I am?

A No, I don't.

Q Okay.

A You're on the fourth section down on page 16?

Q Fourth section from the bottom.

A Oh, I'm sorry.

Q That's all right.

A Okay. I've read it.

Q Okay. Mr. Thayer says, And second of all, if you do the math, you will see synergies is a very small element of the accretion in this transaction.

Right?

A Correct.

Q Would you agree with that statement?

A I would agree with two-thirds are going back to customers, so from an accretion standpoint, Exelon -- I would agree that two-thirds of the synergies go back to customers through lower rates, so Exelon doesn't keep that portion.

Q So that would make the synergies a very small portion of the accretion involved in the transaction, correct?

A Again, smaller than the full amount, yes.

Q It's not only smaller than the full amount of the accretion, which I think we agreed, subject to check on my math, was about 160 million a year.

A That's what you say when you use the top end of the range. In some of the exhibits that you've suggested here, you know, it's at the bottom of the end -- I'm not sure if you know. Sorry.

It is at the lower end of the range, so if you use that number, it's a lower number.

Q You mean the lower -- so you're talking the accretion has a range of 15 to 20 cents a share, and my calculation was at 20 cents a share?

A Correct.

Q Okay. But you could do the same calculation at 15 cents a share times 860 million shares?

A That's correct.

Q And I think we could also agree, could we not, Mr. Khouzami, that at least at the time of this earnings call, run rate accretion wasn't predicted to be achieved until about 2017; is that right?

A 2017, yes.

Q Okay. All right. Now, Mr. Thayer goes on to say, It's really the opportunity for incremental leverage at the holding company that this transaction affords.

Let me stop there and ask you what he's talking about. What is the incremental leverage at the holding company that this transaction affords?

A So Exelon's balance sheet has debt

capacity that it can use to help finance the transaction. As we talked about, 50 percent of the financing costs will be debt. This is debt that will be raised at Exelon holding company. It's debt that will be serviced by Exelon. It doesn't flow down to any of the subsidiaries, isn't on any of their capital structures. It is true HoldCo debt, which is one of the reasons why we've been able to state with certainty that the capital structures that exist at each of the PHI utilities will be the same pre-merger as it will be post-merger.

Q Okay. Mr. Thayer's next sentence says, It is the monetization of certain assets at a higher value than what would be implied in our PE multiples.

Do you see where I am?

A I do.

Q Again, I'm sure the commissioners know this, but for the record, a PE multiple is a price to earnings multiple, correct?

A Correct.

Q All right. So what assets are being monetized at a higher value than would be implied by the PE multiple, Mr. Khouzami?

A Exelon sold some generation facilities that it values one way. The buyer clearly had a different outlook on power prices and valued it a different way. And so Exelon was able to monetize the value of that asset at a value that was greater than what they would ascribe to it.

Q So the monetization of assets, to your understanding, does not refer to the acquisition of PHI?

A I believe it was referring to the asset sales.

Q Okay. But the leverage at the holding company level does refer to PHI, the acquisition of PHI?

A I believe the leverage refers to the debt capacity that exists on Exelon's books due to financing decisions Exelon has made.

Q And, again, the synergies, according to Mr. Thayer, are a modest -- or excuse me -- are an important but very modest contribution to the 15 to 20 cents per share, right?

A That's what he says.

Q Okay. Would you agree with that; it's a very modest contribution to the 15 to 20 cents a share?

A One-third of 130 million is estimated to be at the non-reg -- that's about $45 million, which is roughly, you know, 4 to 5 cents. So define what you mean by modest.

Q Thank you. Okay. All right.

It's actually 45 million a year. So it's one-third of 45 million that you're talking about. It's about 15 million a year, isn't it?

A No, there were accretions every year.

Q Oh, I'm sorry, the accretion, right. Okay. I thought you were talking about the portion of the synergies that was retained by Exelon.

A I am. So the total synergies for this transaction is 130 million, run rate. What will be retained by Exelon is roughly about a third, the portion going to the non-regulated businesses. That's about $45 million.

Q Over five years?

A No. The run rate --

Q I see.

A -- is -- starting in year 5 and beyond is the run rate, and that's --

Q Got you.

A -- 45.

Q Thank you, Mr. Khouzami. I appreciate it. Now I understand.

A Okay.

Q Mr. Khouzami, let me ask you next to take a look at what have been marked -- at a series of documents that have been marked for identification, if I can find them -- actually, let me ask you first to take a look at Exhibit DCG 101, what's been marked for identification as Exhibit DCG 101.

A Okay.

Q Those are the capital structures -- I'm sorry. Are you the author of that response?

A Yes.

Q Okay. I'm sorry. I need to identify the exhibit for the record. This is the response to -- joint applicants' response to D.C. government data request 2-2; is that correct? Exhibit DCG 101?

A Yes.

Q Okay. And you are the author of that response, correct?

A Yes.

Q Sponsor. Okay. That information was true and correct when provided?

A Yes.

Q Still true and correct, as far as you know?

A Yes.

Q Okay. Let me ask you to take a look next at what's been marked for identification as Exhibit DCG 102.

A I'm there.

Q That is, for the record, the joint applicants' response to AOBA data request 1-19; is

that correct?
A That's correct.
Q All right. Mr. Khouzami, you mention -- and you are the author of this response, yes?
A Yes.
Q Okay. Response, again, true and correct when you gave it?
A Yes.
Q Still true and correct, to your understanding, today?
A It is.
Q Mr. Khouzami, you mention in that response that Exelon may participate in the provision of standard offer service and procurement -- I'm not sure exactly how to express it correctly. You have it expressed correctly in the data request; I'll just defer to that.
Exelon may wish to be a bidder in the standard offer procurement process, right?
A That's correct.
Q Okay. Do you know whether the District of Columbia has statutory restrictions or would --

has statutory restrictions in place that would limit Exelon's or could limit Exelon's ability to participate in the standards offer procurement process --

A I would have to --

Q -- post-merger?

A I would have to check. I'm not sure.

Q Do you know whether the Commission's rules have restrictions in place that would affect Exelon's ability post-merger to participate in the standard offer procurement process?

A I would have to check. I'm sure our operators are aware of them, and obviously whatever rules are in place, Exelon will abide by.

Q Okay. Mr. Khouzami, let me ask you now to turn to exhibits starting -- that have been marked for identification as Exhibit DCG 104 to start with. I'll represent for the record that these are confidential responses to data request DCG 2-44, attachment Q.

And before I examine you on them, I wanted to ask you to take a look and let me know

whether you have seen those documents previously.
A I saw them this morning.
Q Okay. But you have not seen them prior to this morning?
A I have not.
Q Okay. You were not involved in their preparation?
A No. This appears to be the valuation model used for the transaction.
Q Okay. Do you know who at Exelon was responsible for the preparation of the valuation model?
A I would assume it was someone in Mr. von Hoene's corporate development and strategy group.
Q Okay. Have you had to occasion to work with that model since becoming chief integration officer?
A No.
Q Okay. Are you able to answer questions about these documents since you don't -- you didn't see them prior to this morning?
A I would assume it depends on the

question, but I'm not familiar with these documents.

Q All right. I'll move on to something else. Thank you. Let me -- just to make sure, let me go through -- the same for DCG 105, 106 and 107? If you'd just take a look at those quickly.

A The same response to all of them.

Q All right. Thank you.

MR. COYLE: Bear with me a second, Your Honor. I need to find a document.

BY MR. COYLE:

Q Let me ask you to turn to Exhibit (4A)-2, Mr. Khouzami, and go to page 11.

A I'm there.

Q Do you know why the joint applicants proposed -- well, let me ask you, first of all, to read the second sentence of commitment 72 into the record.

A I've read it.

Q Okay. I was asking you to read it out loud, if you could, so we have it in mind.

A It states, Five years after closing of the merger, joint applicants shall have the right to review the provisions contained in paragraphs 28 through 70 and to make a filing with the Commission requesting authority to modify or terminate those provisions. Notwithstanding such right, joint applicants agree not to proceed with any such modifications or termination without first obtaining Commission approval in a written order.

Q Okay. Why did the joint applicants choose five years for that provision?

A In the last transaction, it was three. I'm not sure why five was chosen this time. I think that's probably the view of where a material business or -- need could come.

Again, I think the importance of this provision is that second sentence that I read, which is that no changes will be made prior to receiving Commission approval in a written order.

Q Were you involved in the formulation of commitment 72 at all?

A No.

Q Okay. Is there a standard by which commitment 72 contemplates the Commission would be governed or guided in determining whether or not to grant approval in a written order?

A I think that would be to the discretion of the commissioners and what they saw -- what they thought was best for the customers of PEPCO D.C.

Q Okay. Do you think it should be the same standard that governs their approval of the merger in the first place?

A I believe there's a seven-factor test that covers that approval. Again, I'm not a lawyer, but that's my understanding.

Q Okay. The significance of ring-fencing generally, Mr. Khouzami is -- I mean, if you could summarize it in a sentence or two -- is what?

A So the ring-fencing provisions are put in place to ensure that the non-regulated operations of Exelon would not cause harm to any of the customers of any of the PHI utilities.

The ring-fencing structure we've put in

place is at the PHI entity level, includes the three PHI utilities. It takes out what is currently, under PHI, the non-regulated businesses; it takes that and moves it to the non-regulated side of Exelon.

So, in fact, the ring-fencing provisions, I would argue, are even -- are -- protect PEPCO D.C. customers even more so than what PHI has today, given that it has no exposure to non-reg operations underneath their structure now.

Q Okay. It was interesting -- and I thank you for it; I'm not sure it answered my question, which was, what is the purpose of the ring-fencing? It's to insulate the customers of the regulated utility companies from the risks of non-regulated operations, correct?

A That's correct.

Q All right. Those risks will persist, will they not, after five years?

A They would. And, again, I would think that if they do still exist, then at that time we would likely not propose any modifications. And if we did for whatever reason, the Commission could see fit to say no.

I'll give you an example. What if Exelon divests of all their generations, all their non-regulated businesses; there may not be a need for ring-fencing anymore.

This provision provides us the opportunity to have that discussion with the Commission, but ultimately still keeps all the decision-making with the Commission to either grant or not grant any changes to the ring-fencing provisions.

Q Would you recommend, Mr. Khouzami, as a sponsor of this commitment, that the Commission adopt a standard for whether or not they ought to relax it if they grant the merger?

A I've learned a ways ago that I don't try to pretend to be a commissioner. Again, it's their discretion. I trust that they'll make the right decision.

Q Let me change topics again, Mr. Khouzami. Let me ask you to -- while you're still on

Exhibit (4A)-2 -- and this will be my last set of questions -- to turn to page 4 of 17, and I'd like you to look at paragraph 17, please.

A I am there.

Q And that refers to Exelon's commitment to make a good-faith effort to hire 102 bargaining unit employees, correct, if the merger is approved?

A Within two years, correct.

Q I'd like to ask you now, Mr. Khouzami, to take a look at what's been marked for identification as Exhibit DCG 91.

A I'm there.

Q Okay. Now, the sponsor of this exhibit -- or the sponsor of this data request is PHI, but I was wondering if you were sufficiently familiar with its content to be able to speak about it.

A Why don't we ask the question and we'll find out.

Q All right. Fair enough.

Attachment A -- I'm sorry. The exhibit

is the joint applicants' response to D.C. government data request number 4-8.
A I've got it.
Q I want you to take a look at the attachment A to that response and let me know whether you're familiar with it.
A I am familiar that there is an agreement with 1900 -- I wasn't party to this. So intimate familiarity I would not have with this.
Q Okay. Let me did you to take a look at page 2 of 4, Roman numeral V, the heading Staffing Commitment. Do you see that?
A I do.
Q Okay. And let me just ask you to read item A to yourself. Let me know when you've finished.
A I'm finished.
Q Okay. Do you know, Mr. Khouzami, whether the bargaining unit that is represented by IBEW Local 1900 covers PEPCO's operations in both the District and Prince George's and Montgomery County, Maryland?

A I believe it does.
Q Okay. So the reference to a good-faith effort to -- in the 2012 labor agreement to fill 220 positions in the bargaining unit from June 1, 2012 through May 29, 2016, that would cover all three jurisdictions; that is, the District and the two counties in Maryland?
A I think it would. I think we're getting dangerously close to the extent of my knowledge. I would suggest that you defer these questions to Mr. McGowan who might be more familiar, since he's from PHI.
Q Okay. And I certainly will accept your invitation to take that up with Mr. McGowan. I just wanted to ask you -- well, let me ask it this way. You're probably more comfortable if I ask it this way. Mr. McGowan would know the extent to which PEPCO had completed the hiring contemplated by the commitment to hire 220 bargaining unit -- I'm sorry -- the commitment to make a good-faith effort to post and fill 220 bargaining unit positions between June 1, 2012 and May 29, 2016

referenced on page 2 of that exhibit, correct?

A I'm sure he will by the time he gets up here.

Q Great. And he would also be familiar with the commitment to make a good-faith effort to externally hire a minimum of 195 bargaining unit employees, which, again, would cover all three jurisdictions, beginning May 30, 2012 -- or 2016, correct?

A Again, I think these questions are probably better suited for him.

Q Okay. Just one question, Mr. Khouzami, since you -- your testimony was, I believe, that the merger would be net employment positive for the District, right?

A That's correct. We said there would be a job positive due to the merger.

Q And for that -- for the purpose of making that assertion, you're counting all 102 bargaining unit positions, correct?

A To make that assertion, we are saying that the commitment to hire 102, which only exists if the merger goes through, plus the transfer of the PES employees to the District would more than offset any involuntary severances of positions from the District.

MR. COYLE: If I could just have a moment to check my notes, Your Honor. I think I'm almost finished.

BY MR. COYLE:

Q Mr. Khouzami, who would be in a better position to know, you or Mr. McGowan, whether the hiring of the 102 employees referenced as being the subject of the good-faith effort in commitment 17, would they be used to displace contract employees in Maryland, do you know -- or would you or Mr. McGowan be in a better position to answer that question?

A They won't displace anyone in Maryland. This is a D.C. commitment.

Q Do you know whether they'll be used to replace contract employees, or contractor employees in D.C.?

A So the thought is that it would be a mix of replacing contract employees, reducing the amount of overtime paid to other employees, and backfilling other positions that may be vacant over the next two years.

Q Okay. All right. Begging your pardon, Mr. Khouzami. I have a list of questions that were deferred to you by other witnesses. And I just want to make sure I've gone through them before I let you go.

A Please.

Q Here's one, Mr. Khouzami. Mr. Crane deferred a question to you about how many of the 102 bargaining unit positions referenced in commitment 17 in Exhibit (4A)-2 will be filled by District of Columbia residents?

A So my understanding is the hiring practices of PEPCO D.C. do not take into account residency. So we can't answer that question. I think we look for qualified employees that can do the job. Just like we can't affirm that the employees we're hiring as part of the union commitment in Maryland wouldn't be District

residents; we don't know.
Q Okay. Another one Mr. Crane deferred to you is what portion of the 15 to 20 cents per share accretion is attributed -- is attributable to the anticipated 3.1 billion in regulated capital expenditures? This goes back to the PowerPoint, DCG 2.
A I recall. It's roughly about half. So about half of the $3.1 billion of capital was assumed to be in service and -- in rates by the 2017 period.
Q Okay. Thank you.
Mr. Khouzami, let me invite your attention to confidential exhibit -- this is an exhibit in your February 2015 testimony. I believe it's (4F)-2.
A Sorry. What was the date?
Q Let me get it real quick.
A Was it December 17, 2014? (3F)-2?
Q Yes. Thank you.
A I'm there.
Q Okay.

MR. COYLE: Now, before I ask a question, let me inquire of Mr. Lorenzo whether the customary understandings apply here.

MR. LORENZO: Your Honor, could I -- I haven't located the document yet. Could I ask Mr. Coyle which document is he questioning on?

MR. COYLE: This is Joint Applicants' confidential Exhibit (3F)-2. My mistake, sorry.

MR. LORENZO: Yes, he may cross on this, with the usual caveats.

MR. COYLE: Thank you.

BY MR. COYLE:

Q Joint Applicants' (3F)-2, Mr. Khouzami, does that reflect the current synergies estimates?

A In total, it does. There's been continued work, as you would imagine, since December to help identify the unidentified synergies that are in that column there. All of them that were identified were non-labor.

So other types of costs were found to help meet most of that 14 million of unidentified, but the totals are still relative.

Q So, again, without concentrating on the specifics -- and I believe you had this discussions with Ms. Francis, so I don't mean to belabor it -- you're looking at eliminating 257 positions total, 200 of which are currently filled, and 57 of which are currently open, correct?

A That's correct, over a period of time, yes.

Q Right. And you're not able to tell me, as you sit here today, where those positions reside, are you? Or are you?

A We are not. We have to go through our process.

Q Mr. Khouzami, had the -- I thought I had understood that the final analysis on the synergies was due out in mid-March. Was I mistaken about that?

A No. That's when it was due and when we completed it.

Q So your final synergies analysis is completed, but you still haven't decided from where these full-time equivalent positions are going to be eliminated?

A As we discussed this morning, as we went through the design portion of the integration process, a number of positions were deemed flexible; in other words, they could be done, if you will, for lack of a better term, in, you know, multiple PHI areas, whether it's D.C., Maryland, Delaware, New Jersey. So some were flexible.

As we go through our staffing process, we'll be able to identify where those positions will be initially -- or where the positions will be based in part on where that person currently reside.

Q Thank you.

MR. COYLE: I have no further questions for this witness.

Thank you, Mr. Khouzami.

THE WITNESS: Thank you.

CHAIRMAN KANE: Thank you. Thank you, Mr. Coyle.

Ms. White?

MS. WHITE: Thank you, Your Honor.

CROSS-EXAMINATION

BY MS. WHITE:

Q I think I'll have to say good evening, Mr. Khouzami --

A Good evening.

Q -- at this point.

CHAIRMAN KANE: It's not evening till 6:00.

THE WITNESS: Good afternoon.

BY MS. WHITE:

Q Good afternoon. I represent the District of Columbia Water and Sewer Authority, D.C. Water.

I'd like to just ask one clarifying question on Exhibit AOBA 118, the customer account exhibit. It's marked for the record as AOBA 86.

A I'm there, thank you.

Q Now, on page -- let's just look at page 3 of 3 up at the top. It identifies the source and customer account information as the form 10-K?

A Yes.

Q Do you know where the numbers came from

to get put into the 10-K?
A I would suggest that would be Mr. McGowan.
Q So Mr. McGowan will be able to --
A It was the PHI --
Q -- answer that?
A It was the PHI 10-K, so --
Q I expected that answer but I just wanted to confirm it.
A Okay.
Q Now, when you were talking with Mr. Coyle just a few minutes ago about how synergies savings factor into the projected accretion for the transaction, I think you said that only about one-third of the synergy savings will be reflected as accretion.
A Yes. So about one-third of the synergies go to the non-regulated businesses. Those don't go back in rates to customers.
All the synergies that will be realized by any regulated utility -- you know, PHI utilities or BGE, PECO, ComEd -- those will go

through as lower cost of service and be reflected in lower rates for customers. So those are not going to be retained to the bottom line for Exelon.

Q But isn't it your last statement true -- about those not being retained by Exelon to the bottom line, that's only true if and when those regulated synergy savings are reflected in rates; is that true?

A That is correct. I think -- we were talking about run rate synergies and the expectation, given the capital spend and the expenditures, that all of the utilities, PHI utilities as well as PECO, ComEd and BGE, given their spend profile, it is unlikely that they would be able to stay out of rate cases for a long period of time.

So when I think of the run rate of synergies, they would be returned. And once you get past that fifth year, the first time you return them, they're in lower rates. They're baked in forever.

Q When was PECO's last rate case, if you know?

A I believe 2010, but I believe they recently filed one.

Q Okay. Thanks. When this -- if the PECO rate case were to be finalized -- let me back up.

But the synergy savings attributable to this transaction that we're discussing here in this proceeding, would those have been reflected in PECO's recently filed rate case?

A They have a forward test period, so yes.

Q Okay. Thank you. Could you please refer to page 9 of your rebuttal testimony.

A I'm there.

Q On line 22, 21 and 22, you say that the customer investment fund will guarantee that PEPCO's customers will receive a substantial direct and traceable financial benefit.

What did you mean by the word "substantial" there?

A A lot.

Q Are you saying 33.75 million is a

substantial amount?

A I would say so. It's equivalent to almost the full amount of ten-year net synergies. Upfront, customers will benefit from those synergies through lower cost of service. So day one, they're getting upfront a $33.75 million benefit that effectively is being paid by Exelon shareholders.

Q Now, if the 33.75 million is assigned to customers as a per customer benefit, as it has been in the settlements you've entered into to date, i.e. the $128 per customer benefit, do you think that would be a substantial benefit to one of PEPCO's commercial customers?

A Again, I think how it gets distributed is ultimately for the decision of the -- is the commissioners' decisions.

For larger customers that may bear more of the cost of service, as you move forward, more of the synergies that will be realized through lower cost of service will naturally flow to them. So my response is -- and the word "substantial" is to talk about the initial amount of the fund in totality, the 33.75 million, which is effectively a substantial amount in my mind.

Q Thank you. Are you aware that PEPCO's commercial customers in the District bear -- account for the majority of PEPCO's cost of service in the District?

A Then they will benefit from the majority of the ongoing run rate synergies which, you know, will be hundreds of millions of dollars over their lifetime.

Q Well, let's talk about it in terms of just per year. Is it 14 million bucks a year?

A It's -- no, it's $14 million for the five years. The run rate I believe is 7. Let me just check that to --

Q So $7 million a year? I think you're right. That's my recollection as well.

A All right.

Q So in order for the commercial customers to realize that benefit through rates that you were just mentioning, the synergies have to be realized. That's a first assumption; is that correct?

A That's correct.

Q Then the cumulative synergies throughout the Exelon organization, those need to be allocated to PEPCO, PEPCO's D.C. business, in the same fashion as you've projected here; is that right?

A Yes. And we've gone through the last nine to ten months to validate these estimates, and they are still true and correct. So this is what we would expect.

Q And you also assume that the synergy savings net of costs to achieve would be allocated using the modified Massachusetts formula -- would be allocated among subsidiaries using the modified Massachusetts formula?

A There are some examples where it is. Again, it depends on which type of cost. Some are direct charge to PHI companies. Again, it is very logical, when you think about the fact that 70 percent of the synergies come from shared service type functions, that is typically, you know, in line with the modified Massachusetts formula for the allocated portion which is where the savings are coming from.

Q Do you have a legal obligation anywhere to use the modified Massachusetts formula to allocate synergy savings among Exelon subsidiaries following this transaction?

A I'm not a lawyer. It's going to naturally flow based on our FERC-approved methodology of allocating costs, and those synergies will follow with where the costs are. That's how accounting would work.

Q But that's FERC. That's not at the Public Service Commission level, is it?

A I don't understand your question.

Q Your answer, I think, assumed that the state regulatory commissions necessarily will be bound to follow an allocation method that's been adopted by FERC. And I'm sorry if I misunderstood you. Please correct me.

A It's governed by the GSA and the SLAs

that we review, that we have filed as part of this testimony. This is no different than what PHI Service Company uses as well.

Q You just used an acronym that I didn't -- SLA?

A Service level agreements.

Q Okay. So the synergy savings have to be realized, they have to be allocated among subsidiaries, as you projected. Number three, PEPCO needs to file a rate case. That's another assumption -- that's another trigger that has to happen before the commercial customers will start to see synergy savings flow through in rates; isn't that true?

A Within the first five years, they would have to file a rate case for them to get the run rate, yes.

Q And then, in the rate case, is it not true that the Public Service Commission would have to agree with you that the synergy savings must be allocated naturally in the same manner as costs -- actual costs of service are allocated?

A It would follow the way costs of service is determined by the commissioners.

Q But there's nothing that would bind the PSC from saying no synergy -- the synergy savings should be allocated in a different manner than following the cost of service?

A The synergy savings are in absence of cost. So it's not an identifiable -- it's not an account that you then say, I'm going to allocate this amount of account to this party here.

It will follow wherever the costs are, because the costs no longer exist.

Q Fair enough. Can you turn to the New Jersey settlement, which I believe is Joint Applicants' Exhibit (4A)-1.

A I will in a second.

Q Take your time.

A I'm there.

Q Great. Were you involved in negotiating the New Jersey settlement?

A I was -- I attended some meetings. I wouldn't say I negotiated the settlement. That

was counsel.
Q I was looking at the list of parties to the settlement, and I did not notice any one party that appeared to be a commercial customer or commercial customer group. Are you aware of commercial customers being active in -- being parties to the New Jersey settlement?
A Again, I think that's probably a question that counsel could answer. I attended a few meetings when the topic of synergies came up.
Q Well, unfortunately, your counsel isn't on the stand.
A Okay.
Q Let's take a shot at them.
A So said another way, the parties who have signed the settlement agreement are the parties who we settled with. Ultimately, the Commission in New Jersey has approved the settlement agreement, and it's now an approved order.
MS. WHITE: Just one moment. Please bear with me, Madam Chair.
Mr. Khouzami, that's all I have for you

this evening -- this afternoon.

THE WITNESS: Thank you.

MS. WHITE: Thank you, Madam Chair.

CHAIRMAN KANE: Does MAREC have any questions for this witness?

MS. ELEFANT: No questions for MAREC.

CHAIRMAN KANE: NCLC?

MS. WEIN: No questions.

CHAIRMAN KANE: No questions?

Commissioner Phillips?

COMMISSIONER PHILLIPS: Good afternoon.

THE WITNESS: Good afternoon.

COMMISSIONER PHILLIPS: I want to talk a little bit about transaction cost and cost to achieve.

THE WITNESS: Certainly.

COMMISSIONER PHILLIPS: I know that we've talked a good bit this afternoon about the New Jersey settlement. You just said that the settlement is approved. I believe it was Ms. Francis, counsel for AOBA, that you talked about in particular how the New Jersey settlement defines transaction cost and how that differs from your testimony here in this proceeding. Do you recall that?

THE WITNESS: I recall the discussion, yes.

COMMISSIONER PHILLIPS: Well, can you explain, just for the record, what the differences are between the New Jersey settlement and what you testified to in this proceeding?

THE WITNESS: So I think the difference is really around specifically identifying the change in control. What I can tell you is in the amount that we've laid out for transaction cost, it includes change of control. So I just didn't call it out; I called it executive compensation due to the merger.

Transaction costs we are estimating to be $338 million. There's about -- I can go through the details if you'd like, if that's helpful.

COMMISSIONER PHILLIPS: A little bit.

THE WITNESS: Okay. Sure. So there's legal and other advisory fees of about $7 million.

There is executive comp that's triggered due to the merger, so change in control provisions. The vesting of stock that hasn't yet vested, that is about $73 million. Banker fees, which is about $75 million. And then the cost of the debt and the equity that we're issuing, which is about $183 million.

So in totality, that's about $338 million.

COMMISSIONER PHILLIPS: When you say legal costs, would that include regulatory fees?

THE WITNESS: No. That's the legal cost to get the merger agreement together at the start.

COMMISSIONER PHILLIPS: So would you agree that the New Jersey settlement would include regulatory fees, but the commitment in the D.C. proceeding here does not include regulatory fees?

THE WITNESS: That is correct. That is the discussion I had with Commissioner Brenner in Maryland. So obviously I think that will be -- it's obviously going to be a point during the first rate case. If PEPCO decides to include it in CTA, I would assume that that would be a question.

COMMISSIONER PHILLIPS: Thank you for that answer, but I have a slightly different question. Can you just explain to me why -- why the difference? Why what was it included in New Jersey but it has not been included in the offer here in the District?

THE WITNESS: So the New Jersey was a negotiated settlement. And that was part of the negotiation, they asked for that to be included.

COMMISSIONER PHILLIPS: Changing subjects a little bit, I want to talk about cost to achieve. And I believe you discussed cost to achieve with D.C. counsel -- counsel for the District. My question for you is, does cost to achieve include transition cost?

THE WITNESS: So transition cost -- I think what you mean is the group that Mr. Alden spoke of that would be part of the integration group post-close. And the answer there is yes.

COMMISSIONER PHILLIPS: So if the merger

were approved, assuming --

THE WITNESS: Yes.

COMMISSIONER PHILLIPS: -- what time frame would PEPCO seek to recover any related transition costs.

THE WITNESS: So my sense -- again, I haven't spoken with PEPCO who ultimately -- who files the rate case, but my expectation would be they would seek recovery of all CTA costs in a similar manner. You would go through the rate case process, and then ultimately the decision by the Commission of how to recover or not recover all or a partial of the costs would be so determined.

COMMISSIONER PHILLIPS: Would you anticipate that it could be beyond two years, or year 2 after the merger?

THE WITNESS: The recovery of CTA?

COMMISSIONER PHILLIPS: Yes.

THE WITNESS: We have suggested that we would be open to that discussion. And my testimony -- we have not proposed amortizing the

CTA cost, but that was where we ended up in Maryland with the Constellation/BGE merger by Exelon.

COMMISSIONER PHILLIPS: So the answer to my question is yes, it is upon that those costs could be sought to be recovered beyond year 2?

THE WITNESS: It is possible if it was decided to be amortized. That would be -- it would lower the amount every year and extend the term.

COMMISSIONER PHILLIPS: Thank you. That's all I have.

THE WITNESS: Thank you.

CHAIRMAN KANE: Thank you, Commissioner Phillips. Commissioner Fort and I both have questions, and my questions particularly are tax questions. I am quite reluctant to start talking about taxes at 5:30 this afternoon. And so in order that we can start fresh with those questions, we will recess today and ask you to come back in the morning.

Let me also say in the morning --

tomorrow is the day when the Commission normally has a regularly scheduled open meeting. So we will, at 10:00 a.m., start with our open meeting.

Those of you who follow us on our live broadcast know that our open meetings are quite short. But we do have a number of -- and they're public. We do have a number of items that we don't want to hold up. So we will start with a very brief, about ten-minute, open meeting, and then proceed to reconvene in this hearing.

Any other -- Mr. Lorenzo?

MR. LORENZO: Yes. I would suggest that because Mr. Morgan -- OPC witness Mr. Morgan is unavailable on the 20th and 21st and 22nd, that we take up Mr. Morgan's cross-examination right after Mr. Khouzami, and then proceed with Dr. Tierney and Ms. Lapson, and we'll if we get to Mr. McGowan after all of that.

On another point, we were thinking of the briefing schedule, given the extension of this schedule. And we had sent an e-mail -- over the weekend, when we polled the parties, we had sent an e-mail to the parties suggesting -- and I just bring this to the Commission's attention -- suggesting that initial briefs be filed on May 13th and reply briefs filed on May 27th. And we heard no objection, but I -- just as a -- we don't have to decide that today. It's just a --

CHAIRMAN KANE: And we would need to hear from the parties.

MS. FRANCIS: Your Honor, I know I wrote an e-mail --

CHAIRMAN KANE: Ms. Francis?

MS. FRANCIS: -- objecting to that. I saw -- I think D.C. government wrote an e-mail objecting -- not to the briefing. Someone else -- I think it was OPC or somebody else -- wrote an e-mail.

I think we're entitled to the appropriate number of days based on the number of days between the end of hearings and the briefing schedule that was originally established. I think it's a bit premature to set that final date until we see when the hearings conclude. But I would prefer, and I think it's appropriate, to have the same number of days as originally agreed to.

CHAIRMAN KANE: We will take all of that under advisement and hear from all of the parties on it. I did mention that this Commission will be probably -- our current schedule is to shut down on June 4th for a couple of days while we move, and then, you know, if any of you have moved offices and moved people, how disruptive that can be. So we need to take that into consideration in our work also.

All right. There being nothing further, good afternoon.

(Whereupon, at 5:35 p.m., the above proceedings were adjourned.)

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I, DENISE M. BRUNET, Certified Court Reporter, do hereby certify that the statements and testimony that appear in the foregoing transcript are the statements and testimony taken by me in shorthand and thereafter reduced to computerized transcription by me or under my direction; do hereby certify that the foregoing transcript is a true and correct record of the statements and testimony given; that I am neither counsel for, related to, nor am employed by any of the parties to the action; and further, that I am not a relative of employee of any attorney or counsel employed by the parties thereto, nor financially or otherwise interested in the outcome of the action.

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Denise M. Brunet
Certified Court Reporter

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