

Capital Reporting Company
Formal Case No. 1119 04-07-2015

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PUBLIC SERVICE COMMISSION OF THE
DISTRICT OF COLUMBIA

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

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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(Appearances continued on the next page.)

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22 (Appearances continued on the next page.)

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C O N T E N T S				
WITNESS:	DIRECT	CROSS	REDIRECT	RECROSS
CARIM KHOUZAMI				
BY MR. GADSDEN	1787			
BY MS. KARAS		1788		
BY MS. FRANCIS		1855		
BY MR. COYLE		1958		
BY MS. WHITE		2058		
EXHIBIT NO.		MARKED		RECEIVED
Joint Applicants (2J),				
(2J)-1, (3J), and				
(3J)-1 through (3J)-8				1784
OPC Cross 85		1794		
OPC Cross 86		1799		
OPC Cross 87		1809		
OPC Cross 88		1815		
OPC Cross 89		1819		
OPC Cross 90		1840		
OPC Cross 91 and 92		1840		
OPC Cross 93		1853		
(Exhibits continued on the next page.)				

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1	EXHIBIT NO.	MARKED	RECEIVED
2	OPC Cross 94	1853	
3	AOBA Cross 60	1856	
4	AOBA Cross 61	1856	
5	AOBA Cross 62	1857	
6	AOBA Cross 63	1857	
7	AOBA Cross 64	1857	
8	AOBA Cross 65	1857	
9	AOBA Cross 66	1858	
10	AOBA Cross 67	1858	
11	AOBA Cross 68	1858	
12	AOBA Cross 69	1859	
13	AOBA Cross 70	1859	
14	AOBA Cross 71	1859	
15	AOBA Cross 72	1860	
16	AOBA Cross 73	1860	
17	AOBA Cross 74	1860	
18	AOBA Cross 75	1861	
19	AOBA Cross 76	1861	
20	AOBA Cross 77	1861	
21	AOBA Cross 78	1862	
22	(Exhibits continued on the next page.)		

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1	EXHIBIT NO.	MARKED	RECEIVED
2	AOBA Cross 79	1862	
3	AOBA Cross 80	1862	
4	AOBA Cross 81	1863	
5	AOBA Cross 82	1863	
6	AOBA Cross 83	1863	
7	AOBA Cross 84	1864	
8	AOBA Cross 85	1864	
9	AOBA Cross 86	1864	
10	AOBA Cross 87	1865	
11	AOBA Cross 88	1865	
12	AOBA Cross 89 and 90	1866	
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1 P R O C E E D I N G S

2 CHAIRMAN KANE: Good morning. Today is
3 Tuesday, April 7th. We are resuming the
4 evidentiary hearing in formal case 1119. It is
5 10:01 a.m.

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

8 MR. LORENZO: Yes, Your Honor.

9 CHAIRMAN KANE: Yes, Mr. Lorenzo.

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

17 The second is the remaining four days of
18 hearings, we put together an aggressive schedule
19 to try to finish so that we still have a chance of
20 finishing within those four days. But it's --
21 again, I'll use the term it's going to be
22 challenging. And the Commission -- you know, we

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1 may want to think about a backup day.

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

4 MR. LORENZO: Okay.

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

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

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1 MR. LORENZO: Thank you, Your Honor.

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

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

17 CHAIRMAN KANE: They are moved in.

18 (Joint Applicants Exhibit Numbers (2J),
19 (2J)-1, (3J), and (3J)-1 through (3J)-8 were
20 received into evidence.)

21 MR. LORENZO: Thank you, Your Honor.

22 CHAIRMAN KANE: Now you may call your

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1 witness. Wait a minute.

2 MS. WHITE: Madam chairman.

3 CHAIRMAN KANE: Oh, People's Counsel.

4 Sorry.

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

7 CHAIRMAN KANE: Yes.

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

12 CHAIRMAN KANE: All right. Go ahead.

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

21 Additionally, the item he preliminarily
22 identified as 64, which would have been the joint

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1 applicants' response to 20-10, and he moved into
2 the record as 86, is not a document that OPC
3 provided. We don't have it on our list. And it
4 was moved into the record as 86. And we -- it's
5 our contention now that we stopped at 84. So
6 we've numbered up through 84.

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

10 CHAIRMAN KANE: So there is no 86?

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

15 CHAIRMAN KANE: Thank you. Any other
16 matters?

17 MS. WHITE: Good morning, Madam Chairman.

18 CHAIRMAN KANE: Ms. White?

19 MS. WHITE: I would like to take the
20 opportunity to enter the appearance of Michael
21 Engleman of Squire Patton Boggs into the record of
22 hearing in this case. The appropriate paperwork

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1 was filed yesterday. Thank you.

2 CHAIRMAN KANE: Thank you.

3 Anything else? Now you may call your
4 witness.

5 MR. GADSDEN: Thank you, Madam Chairman.

6 Tom Gadsen again for joint applicants. We call
7 Carim Khouzami as our next witness.

8 WHEREUPON,

9 CARIM KHOUZAMI,

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

13 DIRECT EXAMINATION

14 BY MR. GADSDEN:

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

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

19 MR. GADSDEN: Your Honors, Mr. Khouzami
20 will be sponsoring direct, rebuttal and
21 supplemental direct testimony, as well as numerous
22 exhibits, all of which have been pre-marked for

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1 identification and all of which I now understand
2 may be introduced as marked by stipulation. And
3 they are as follows:

4 Mr. Khouzami's fully conformed direct
5 testimony filed March 25, 2015 as Exhibit (F) and
6 accompanying Exhibits (F1) through (F3).
7 Mr. Khouzami's fully conformed rebuttal testimony
8 as Exhibit (3F), and Exhibits (3F)-1 through
9 (3F)-3, noting that Exhibit (3F)-2 has been marked
10 as confidential and should be treated as such
11 because it includes sensitive employee
12 information. And, finally, his fully conformed
13 supplemental direct testimony as Exhibit (4F), and
14 attached to that statement is Exhibit (4F)-1.

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

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

21 CROSS-EXAMINATION

22 BY MS. KARAS:

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1 Q Good morning, Mr. Khouzami.

2 A Good morning.

3 CHAIRMAN KANE: Could you introduce
4 yourself, please.

5 MS. KARAS: My name is Natalie Karas and
6 I represent the Office of the People's Counsel in
7 this proceeding. My notice of appearance was
8 entered on March 31st, 2015.

9 BY MS. KARAS:

10 Q You are the chief integration officer for
11 Exelon, correct?

12 A That's correct.

13 Q And the purpose of your testimony is to
14 discuss finance and accounting issues associated
15 with the transaction and the merger integration
16 process and estimated savings and synergies,
17 correct?

18 A Correct.

19 Q And your counterpart at PHI is Donna
20 Kinzel, the PHI chief integration officer,
21 correct?

22 A That's correct.

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

3 A Correct.

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

6 A Yes, I did.

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

10 A Not to my knowledge, no.

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

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

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1 two separate teams.

2 Q I'd like to change topics now. Could you
3 please turn to your exhibit Joint Applicants'
4 (3F)-1 provided with your rebuttal testimony.

5 This is a revised or updated version of the net
6 synergy estimates that was provided as an exhibit
7 to your direct testimony.

8 A I'm there.

9 Q So please turn to page 12 of that
10 exhibit.

11 A I'm there.

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

15 A I do.

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

19 A That's correct.

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

22 A I'm there.

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1 Q Do you see at the top that it presents
2 the total five-year cumulative net synergies as
3 225 million?

4 A Yes, I do.

5 Q Page 9 also identifies the total
6 projected cost to achieve, excluding the
7 transaction costs, as \$297 million; is that
8 correct?

9 A The total CTA is 297? I'm just making
10 sure I understood your question. Correct? Is
11 that what you're asking?

12 Q Yes.

13 A Yes.

14 Q Okay. And the projected portion of the
15 297 million applicable to PEPCO D.C. would be
16 10 million; is that correct?

17 A That's correct.

18 Q So please turn to page 8 of that exhibit.

19 A Okay.

20 Q And this chart also shows the total
21 projected cost to achieve, excluding the
22 transaction fees, as 297 million; is that right?

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1 A That's correct.

2 Q And this chart sort of provides a
3 high-level breakdown of the 297 million; is that
4 right?

5 A Yes.

6 Q Do you have Mr. Crane's Exhibit (4A)-2
7 available?

8 A Yes, I do.

9 Q So this is a list of the joint
10 applicants' 91 merger commitments. Once you have
11 it up, please let me know.

12 A I have it.

13 Q So please turn to page 1 of 17 and look
14 at paragraph 1.

15 A Okay.

16 Q Am I correct that paragraph 1A precludes
17 PEPCO from seeking recovery of any of the
18 1.6 billion acquisition premium through rates?

19 A Yes.

20 Q Am I correct that paragraph 1B precludes
21 PEPCO from seeking recovery through rates of
22 transaction costs incurred in association with the

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1 transaction?

2 A Yes.

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

11 CHAIRMAN KANE: So marked.

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

14 BY MS. KARAS:

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

17 A Yes.

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

22 A I do.

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

3 CHAIRMAN KANE: We do.

4 MS. KARAS: Okay. Thank you.

5 BY MS. KARAS:

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

18 A That's correct.

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

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1 ratepayers through rates?

2 A If the merger is approved, then the cost
3 to achieve will be accounted for, and in the first
4 rate case, PEPCO would seek recovery of it.

5 Approving the merger doesn't guarantee recovery of
6 the CTA cost.

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

9 A Yes.

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

20 That is your response, is it not?

21 A It is.

22 Q Finally, do you see in part C of your

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

4 A Yes.

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

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

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

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

21 A Maybe -- repeat the question, then.

22 Q So referring back to your response to

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

5 A I would think they would.

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

10 A That's correct.

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

13 A Okay.

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

16 A Yes, I did.

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

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1 be marked for identification as OPC
2 Cross-Examination Exhibit 86.

3 CHAIRMAN KANE: So marked.

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

6 BY MS. KARAS:

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

9 A I'm on page 2.

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

12 A I do.

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

18 Do you see that statement?

19 A I do.

20 Q Now, if you turn to page 3, beginning on
21 line 16, Commissioner Brenner is asking you about
22 the 15 million in cost to achieve that is

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1 characterized as regulatory support.

2 Do you see that?

3 A I do.

4 Q And Commissioner Brenner asks whether the
5 15 million regulatory support cost is the cost
6 associated with the hearings in the four different
7 jurisdictions as well as FERC. And you answered
8 that he is correct.

9 Do you see that discussion?

10 A I do.

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

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

17 Q Yes.

18 A Yes, it is.

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

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1 achieve.

2 Do you see that discussion?

3 A Yes, I do.

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

7 A I do.

8 Q And at the bottom of this page and
9 continuing on to page 4, Commissioner Brenner
10 states that without the hearing, you can't close
11 on the transaction, and he again asks why the
12 15 million regulatory support cost is not
13 considered a transaction cost.

14 Do you see that?

15 A I do.

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

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

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

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

3 A I do.

4 Q Please read your answer on lines 19 to
5 20.

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

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

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

22 Q So I understand what you just said about

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1 having that discussion as part of the next rate
2 case, was that your understanding at the time that
3 this application was filed in June?

4 A Yes.

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

7 A Yes.

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

11 A I do.

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

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

18 Q So if we were to treat the cost to
19 achieve as transaction costs, the District's share
20 of total cost to achieve would be less than
21 8 million, subject to your check?

22 A Subject to check, that math would work.

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

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

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

15 Then we also increased -- later, during
16 the analyze phase of our integration process, the
17 teams that had worked with more information
18 determined that the -- a decision to move to
19 common IT platforms was necessary. And so the
20 costs associated with moving to those IT platforms
21 was then included, which got us to the final
22 \$225 million net synergy number.

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1 Q And could you identify the figures with
2 each of those respective changes?

3 A Sure. So it was \$73 million of less CTA,
4 moving the CTA cost to transition -- to
5 transaction cost. And the IT increase was
6 increased CTA by \$100 million.

7 Q And in terms of net synergies?

8 A Net synergies went from 252 to 325 to
9 225.

10 Q And is that PHI or --

11 A That is enterprise-wide. PHI went from
12 92 to 102 to 95. I'm sorry, 95, 102, 92.

13 Q Okay. I'm just going to walk through a
14 few of these changes so --

15 A It's a lot of numbers, I understand.

16 Q -- I understand.

17 So originally am I correct that the
18 Boston Consulting Group performed an analysis that
19 showed total net synergy savings for the PHI
20 utilities would be 95 million from pre-closing
21 through five years after consummation?

22 A That's correct.

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1 Q Okay. And then subsequently the --

2 A One -- net synergies. So that 95 was net
3 of CTA.

4 Q Net synergy?

5 A Yes.

6 Q And then, subsequently, the joint
7 applicants' estimate of net synergy savings for
8 the PHI utilities was increased from 95 million to
9 102 million, correct?

10 A That's correct.

11 Q Could you please refer to your rebuttal
12 testimony, Exhibit Joint Applicants' (3F), and
13 turn to page 7.

14 A I'm there.

15 Q Okay. And here on line 17 you testify
16 that the revised projected PHI utility net
17 synergies that accumulate through year 5
18 post-transaction -- you revised that downward from
19 102 million to 92 million; is that correct?

20 A Correct.

21 Q Now, if you could turn to your rebuttal
22 testimony Exhibit Joint Applicants' (3F) at

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1 page 8, and I'm looking at figure CBK-1.

2 A So this is the page that reads,
3 Preliminary estimates of transaction cost to
4 achieve?

5 Q And you see the figure CBK-1 on that
6 page?

7 A Sorry. I might. I'm not sure. What are
8 we looking at? Oh. Sorry. I'm there. Thank
9 you.

10 Q Okay. So with respect to the PHI
11 utilities, figure CBK-1 shows total cost to
12 achieve of \$68 million and the 92 million in
13 estimated synergy savings that we just discussed,
14 correct?

15 A That's correct.

16 Q And am I correct that figure CBK-2
17 identifies the \$10 million in total cost to
18 achieve for PEPCO D.C. and net estimated synergy
19 savings of 14 million?

20 A Correct.

21 Q So given the various revisions to the
22 cost to achieve and estimated synergies, should I

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

4 A Yes.

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

8 A I've read it.

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

17 A Yes.

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

20 A That's correct.

21 Q And so the determination regarding full
22 consolidation of these IT systems substantially

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1 changed the original estimate of synergies that
2 you mentioned at the beginning; is that correct?

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

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

17 CHAIRMAN KANE: So marked.

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

20 BY MS. KARAS:

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

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1 A Yes.

2 Q Do you see subpart B on page 2 which asks
3 you to, quote, please provide a detailed
4 description of the expected supply chain savings
5 and how they will be achieved?

6 A I do.

7 Q And if you turn to page 3 of this
8 exhibit, do you see where you answer, Specific
9 supply chain synergies have not been finalized to
10 date?

11 A I do.

12 Q Now, if you refer back to page 2 of the
13 exhibit and look at subpart C which asks you to
14 please identify all transmission-related savings
15 in addition to supply chain savings...

16 A I see that.

17 Q Do you see your response on page 3 which
18 is that specific transmission-related synergies
19 have not yet been finalized to date?

20 A I do.

21 Q Am I correct than you've not provided an
22 update to this response except to revise the net

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1 synergy savings from \$95 million to \$102 million?

2 A We've provided report-out decks from our
3 integration process which detailed the initiatives
4 that we've identified. We have identified a
5 number of synergies that total a run rate of
6 \$130 million per year. So I believe a lot of
7 details are in that.

8 With regards to transmission-related, we
9 have not broken out transmission verse (sic)
10 distribution. The reason for that is any savings,
11 whether transmission or distribution, will flow
12 through effectively cost of service, and customers
13 will benefit from them from lower costs.

14 So we have not attempted to break out
15 between transmission and distribution costs since
16 that involves a lot of allocation.

17 Q With respect to this specific data
18 response, you have not updated parts B or C; is
19 that correct?

20 A We have not updated -- do you mean, was
21 there another data response provided?

22 Q Did you provide any updated information

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

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

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

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

10 Q And is there a second one?

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

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

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

21 Q A different data response?

22 A I believe so.

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

4 A That's correct.

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

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

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

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

4 So I would not expect significant
5 revisions.

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

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

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

21 Q So is the following statement an accurate
22 summary of your position: The customer investment

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1 fund would provide a net benefit to ratepayers in
2 the event that joint applicants failed to achieve
3 any synergies, though you do not believe it is
4 likely that the joint applicants will fail the
5 achieve these synergies?

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

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

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

17 CHAIRMAN KANE: So marked.

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

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

22 THE WITNESS: I do, yeah.

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1 BY MS. KARAS:

2 Q So am I correct that you're the sponsor
3 of this response?

4 A I am.

5 Q And in this response, you agree that it
6 is typically easier to make projections for the
7 short term than it to make projections for the
8 long term, do you not?

9 A I agree it is easier in the short term.
10 Doesn't mean you can't do it for the long term.

11 Q And if we look at figure CBK-2 in your
12 rebuttal testimony, do you agree that, in general,
13 the costs to achieve are front-loaded and the
14 projected synergy savings are back-loaded?

15 A I would agree.

16 Q So assuming the transaction is approved,
17 am I correct that no determination has been made
18 as to the timing of PEPCO's next distribution rate
19 case filing in this district?

20 A I am not aware of any specific timing.

21 Q Is it reasonable to assume that the joint
22 applicants will file a distribution base rate case

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

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

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

11 A That is correct.

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

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

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

21 A Again, I would expect that potentially
22 they could file within the first 12 months. I

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1 don't think it has anything to do with whether the
2 merger takes place or doesn't take place. I can
3 speak to BGE because I was the CFO at BGE prior to
4 the merger with Exelon, and then after.

5 We had filed a few rate cases after the
6 merger closed, but in 2010, during our case 9230,
7 we stated very clearly that we expected to file
8 four or five rate cases in the next -- in a 12 to
9 14-month period successively.

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

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

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

22 MS. KARAS: Your Honor, at this time, I'd

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1 like to mark an exhibit for identification. This
2 document has been pre-marked as OPC
3 Cross-Examination Exhibit 104. It is a one-page
4 response to PSC staff data request number 5-3.

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

8 CHAIRMAN KANE: So marked.

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

11 BY MS. KARAS:

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

14 A I do.

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

17 A I am.

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

21 A I do.

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

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1 A It is.

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

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

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

16 A I'm there.

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

22 A I do.

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1 Q And in part B of your response to staff
2 5-3 you state that the joint applicants have
3 committed to tracking merger savings until the
4 filing of PEPCO's first rate case, correct?

5 A Correct.

6 Q So if PEPCO waits until five years after
7 consummation of the transaction, it will be more
8 difficult to confirm whether savings or costs are
9 only merger-related; is that right?

10 A I would think so.

11 Q I'd like to switch gears now. Are you
12 familiar with the term "SERP" or supplemental
13 executive retirement plan?

14 A Yes.

15 Q Could you please turn to your rebuttal
16 Exhibit (3F)-1 and look at page 8?

17 A I'm there.

18 Q Do you see the second bar to the left
19 which states that 90 million is associated with
20 severance/other comp?

21 A I thought I was there. Just a second.

22 Q Okay.

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1 A Now I'm there. Yes.

2 Q Okay. And so you see the second bar to
3 the left?

4 A Yes, I do.

5 Q Okay. Would you accept, subject to
6 check, that the \$90 million in the severance/other
7 comp includes about \$17 million associated with
8 the non-accelerated portion of the SERP benefits?

9 A It does.

10 Q And do you still have Mr. Crane's
11 Exhibit (4A)-2 available?

12 A Yes.

13 Q Could you please turn to page 1 and look
14 at paragraph 3.

15 A Yes.

16 Q Am I correct that paragraph 3 would
17 preclude PEPCO from recovering from ratepayers the
18 accelerated portion of the SERP benefits that are
19 paid to eligible executives?

20 A It does.

21 Q And just so I'm clear, can you confirm
22 that your proposal is for ratepayers to cover the

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

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

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

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

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

5 So, again, that is our thought.
6 17 million is included in CTA, and that's
7 PHI-wide, not just for PEPCO D.C., but ultimately
8 that will be the discussion, I believe, PEPCO will
9 have with the Commission and others during a rate
10 case proceeding.

11 Q So how many people total will get the
12 17 million that you're referring to?

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

15 Q And do you have their names?

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

19 Q Mr. Velazquez?

20 A No, he's not exiting.

21 Q Okay. Is he listed on the proxy?

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

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1 not included in the 17 million.

2 Q Okay. I'd like to switch to another
3 topic now. Am I correct that the joint applicants
4 proposed a 50 basis point penalty to PEPCO D.C.'s
5 return on equity if PEPCO fails to meet the merger
6 reliability commitments?

7 A Yes.

8 Q And to make sure I understand how this
9 works, let's assume at the end of 2020, we
10 determine that PEPCO failed to meet the
11 reliability commitment. In the next rate case, if
12 the Commission determined that PEPCO's authorized
13 ROE should be set at 10 percent, am I correct that
14 the penalty would be triggered and the 10 percent
15 ROE would be reduced to 9.5 percent?

16 A That is correct.

17 Q So if PEPCO is under-earning its ROE by
18 50 basis points or more, PEPCO is not impacted at
19 all by the ROE penalty; is that right?

20 A No, I disagree. So if we stay with your
21 example, let's just say it's 50 basis points of
22 under-earning. If they were authorized at

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1 10 percent authorized return, then they would be
2 earning a 9.5. If the penalty kicks in, rates
3 would be set at the 9.5 percent return, and then
4 the under-earning would come off that starting
5 point. So we'd be earning -- PEPCO would be
6 earning 9 percent.

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

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

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

15 The starting point of where the rates are
16 set -- so the revenue line would be lowered by
17 basically \$5.6 million, which is 50 basis points
18 using approximate rate base -- so roughly
19 5.6 million. So the costs would be the same;
20 ultimately the earnings would be lower.

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

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

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

9 Q But it's a reduction in revenues?

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

13 Q Thank you for the clarification.

14 A Sure.

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

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

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

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

11 A That's correct.

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

19 A The 50 basis points is a commitment we're
20 making. I don't think we would try to get out of
21 our commitment. I don't think we would argue
22 that, due to credit rating concerns, we shouldn't

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1 pay our commitment. This is the commitment we're
2 making, and so I don't think they would, but...

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

6 A I don't believe there's a firm
7 commitment. There's a firm commitment to pay the
8 \$5.6 million, or the 50 basis points.

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

10 A But that rate would be lower by --

11 Q Okay.

12 A -- 50 basis points.

13 Q Thank you.

14 A Fair clarification. Thank you.

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

20 A I don't believe they would. There is no
21 firm commitment, again, but when we make
22 commitments, we honor the commitments. So if we

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1 fail to deliver on what we said the commitment
2 would say we delivered, then we would fully expect
3 to have the penalty imposed on us, which is the
4 reduction of revenue.

5 Q Okay. I'd like to focus now on the
6 customer investment fund. So the joint applicants
7 propose a customer investment fund of
8 33.75 million in the District of Columbia; is that
9 correct?

10 A That's correct.

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

15 A About \$128 per metered customer.

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

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

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

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1 A No, it would be 128.

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

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

10 Q But spread over time would be less --

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

13 Q Okay.

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

16 MS. KARAS: Sure.

17 BY MS. KARAS:

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

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

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1 ratepayers, correct?

2 A And my response was, I don't believe it
3 has to be a one-time rate credit. If the
4 Commission thought it was appropriate to spread
5 the 128 over a period of time, they would have the
6 ability to do so.

7 The total amount would ultimately be
8 \$128, whether that was one-time upfront or over a
9 series of years or -- you know, it would be up to
10 the Commission.

11 Q Okay. Thank you for that clarification.

12 So when you say the total amount would be
13 \$128, are you -- if it's spread over time, are you
14 intending to account for the time value of money
15 there?

16 A No. We're offering \$33.75 million for
17 the Commission to use as they deem appropriate.

18 Q So I have some questions now about
19 Mr. Crane's testimony last week about what the
20 joint applicants have agreed to in other
21 jurisdictions versus what they've agreed to here
22 in D.C.

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1 Mr. Crane did not know what the total
2 customer investment fund for all jurisdictions
3 would be if the settlements in Maryland, New
4 Jersey and Delaware are approved and the
5 33.75 million customer investment fund proposed in
6 the District is accepted.

7 Do you know what the figure would be?

8 A It would be \$238 million.

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

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

22 A The answer is yes. Any type of

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

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

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

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

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

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1 A That's my understanding.

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

5 A Yes.

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

10 A Yes.

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

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

22 So I think we have a very sound process

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

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

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

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

14 A That's correct.

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

22 A We provide -- we've offered to provide a

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

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

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

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

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

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1 Company in Exelon Service Company?

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

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

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

20 Q I'd like to switch gears now. So am I
21 correct that many of the projected cost savings
22 are the result of consolidating functions and

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1 reducing positions as a result of those
2 consolidations?

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

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

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

14 MS. KARAS: Your Honor, at this time, I'd
15 like to mark three exhibits for identification.
16 These documents have been pre-marked as OPC
17 Cross-Examination Exhibit Numbers 108, 98, and
18 109.

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

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1 CHAIRMAN KANE: So marked.

2 (OPC Cross Exhibit Number 90 was marked
3 for identification.)

4 MS. KARAS: And based on a understanding
5 I've had with counsel, I believe I'm allowed to
6 ask questions about this exhibit.

7 MR. LORENZO: Yes, Your Honor.

8 MS. KARAS: The second is a four-page
9 response to OPC data request 18-89. And I ask
10 that this document be marked for identification as
11 OPC Cross-Examination Number 91.

12 And the third is a one-page response to
13 OPC data request 18-95. And I ask that this
14 document be marked for identification as OPC
15 Cross-Examination Number 92.

16 CHAIRMAN KANE: So marked. They are so
17 marked, both of them, 91 and 92.

18 (OPC Cross Exhibit Numbers 91 and 92 were
19 marked for identification.)

20 MS. KARAS: Thank you.

21 BY MS. KARAS:

22 Q Mr. Khouzami, do you see that you are the

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

2 A I do.

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

5 A Sorry. Which one?

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

8 A Yes.

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

11 A Subject to check.

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

14 A To these responses, no.

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

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

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

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

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

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

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

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

21 A Positions. And then --

22 Q Positions.

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1 A Currently about 200 are filled.

2 Q And how many of those PHI jobs that will
3 be eliminated are in the -- located in the
4 District of Columbia?

5 A So it's hard to determine that, again,
6 because, again, it's -- some of them are flexible.
7 I would give, as a point of reference, these are
8 primarily PHISCO -- PHI Service Company jobs, and
9 if you look at the corporate functions in PHI
10 Service Company, roughly 50 percent -- maybe just
11 a little bit less than 50 percent currently are in
12 the District.

13 Q And when you say 50 percent, is that
14 50 percent of the 257 or 50 percent of the 200?

15 A Neither. The 50 percent is of the
16 current PHI Service Company employee base that do
17 corporate function types -- work, which is what's
18 subject to our synergies here. About 50 percent
19 of them are currently located in D.C., or a little
20 less than 50 percent will.

21 Q Do you have the number?

22 A The exact number?

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1 Q Yeah.

2 A Subject to check, I believe there are
3 about 586 individuals in PEPCO D.C. -- sorry -- in
4 PHI Service Company that are located in D.C., but
5 I'll ask Mr. McGowan to verify that number when he
6 gets up here.

7 Q Okay. Thank you.

8 So back now to the 250 positions, what is
9 the average salary of those positions that are to
10 be eliminated?

11 A So we have labor synergies, which is,
12 again, based on the salaries as well as other
13 costs associated with these employees such as
14 health care benefits, so we call them the fully
15 loaded costs or the costs to the companies.

16 If I exclude the executives, the
17 non-executives, it's roughly about \$140,000 per
18 employee. That's fully loaded. So there are
19 other non-salary-type costs, which is about
20 35 percent. So if you exclude the health care
21 benefits and those type of costs, it's about
22 95,000.

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

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

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

12 A No. That employee would be given a
13 severance package if they chose -- if their
14 position went away. I would cite that if you look
15 at the open positions that exist in the
16 Mid-Atlantic for Exelon, and even within PHI in
17 the Mid-Atlantic, there are a number of open
18 positions. So individuals, if their position, in
19 your example, moves from Washington to Chicago,
20 they do have an opportunity -- and this is part of
21 that staffing and selection process -- to apply
22 for other positions or be considered for other

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1 positions, obviously assuming that they're
2 qualified to do those other positions.

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

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

10 A Yes.

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

17 A Two.

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

21 A Could you restate your question? Sorry.

22 Q There's no time period associated with

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1 how long those employees will be working in the
2 District, is there?

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

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

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

18 A There are some synergies at PES, yes.

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

22 A I'd have to go back and check. Off the

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

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

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

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

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

16 A I'm there.

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

20 A I do.

21 Q And if you turn to page 2, you'll see the
22 response which is that, quote, PEPCO and Exelon

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1 analyzed the workforce requirements and determined
2 that, with the additional requirements for the
3 merger commitments, the identified commitment is
4 necessary and appropriate.

5 Is that right?

6 A I see that.

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

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

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

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

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

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

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

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

11 Could you elaborate on that language?

12 A I would assume it means our reliability
13 commitment.

14 Q The revised merger commitments or the
15 original merger commitments?

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

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

21 A There's over 9300 responses. I look at
22 the sponsor, and I see joint applicants, so it's

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1 hard for me to say exactly who prepared this.

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

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

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

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

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

13 A I would say yes.

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

18 A I do.

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

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1 retire.

2 Is that right?

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

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

12 A Correct.

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

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

22 CHAIRMAN KANE: So marked.

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

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

7 CHAIRMAN KANE: So marked.

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

10 BY MS. KARAS:

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

13 A I do.

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

21 A I do.

22 Q The question also asks for a detailed

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1 documentation of the quantification of benefits,
2 correct?

3 A Yes.

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

8 A I'm there.

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

15 A I do.

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

21 A I see that.

22 Q And just so the record is clear, can you

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1 explain what a BAT is?

2 A It's a business area team. Those are the
3 140 individuals that I referenced earlier that had
4 been working on the integration team -- on the
5 integration efforts.

6 Q And your response does not refer to any
7 attached documentation or anything, does it?

8 A It does not.

9 Q Okay. And am I correct that you have not
10 updated either of these responses?

11 A We have not.

12 Q Thank you, Mr. Khouzami.

13 MS. KARAS: I have no further questions
14 at this time.

15 THE WITNESS: Thank you.

16 CHAIRMAN KANE: Ms. Francis?

17 MS. FRANCIS: Good morning, Your Honors.

18 CROSS-EXAMINATION

19 BY MS. FRANCIS:

20 Q Good morning, Mr. Khouzami.

21 A Good morning.

22 MS. FRANCIS: Just this morning the joint

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

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

8 CHAIRMAN KANE: So marked.

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

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

15 CHAIRMAN KANE: So marked.

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

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

22 CHAIRMAN KANE: So marked.

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

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

7 CHAIRMAN KANE: So marked.

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

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

14 CHAIRMAN KANE: So marked.

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

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

21 CHAIRMAN KANE: So marked.

22 (AOBA Cross Exhibit Number 65 was marked

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1 for identification.)

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

6 CHAIRMAN KANE: So marked.

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

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

12 CHAIRMAN KANE: So marked.

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

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

19 CHAIRMAN KANE: So marked.

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

22 MS. FRANCIS: The next has been

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

5 CHAIRMAN KANE: So marked.

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

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

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

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

20 CHAIRMAN KANE: So marked.

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

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

5 CHAIRMAN KANE: So marked.

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

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

12 CHAIRMAN KANE: So marked.

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

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

19 CHAIRMAN KANE: So marked.

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

22 MS. FRANCIS: The next has been

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

4 CHAIRMAN KANE: So marked.

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

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

11 CHAIRMAN KANE: So marked.

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

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

18 CHAIRMAN KANE: So marked.

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

21 MS. FRANCIS: The next has been
22 pre-marked as AOBA 142, which is an OPC data

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1 request 1-21. I'd like to have marked for the
2 record as AOBA 78.

3 CHAIRMAN KANE: So marked.

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

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

10 CHAIRMAN KANE: So marked.

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

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

17 CHAIRMAN KANE: So marked.

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

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

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1 CHAIRMAN KANE: So marked.

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

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

8 CHAIRMAN KANE: So marked.

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

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

15 CHAIRMAN KANE: So marked.

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

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

22 CHAIRMAN KANE: So marked.

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

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

7 CHAIRMAN KANE: So marked.

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

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

15 CHAIRMAN KANE: So marked.

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

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

22 CHAIRMAN KANE: So marked.

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

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

7 CHAIRMAN KANE: So marked.

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

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

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

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

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1 And I believe that's also a Mr. Khouzami response.

2 And I wanted to have that marked as 89. So I said

3 90 for 89.

4 CHAIRMAN KANE: Wait a second.

5 MS. FRANCIS: Do you want me to reverse

6 them?

7 CHAIRMAN KANE: No, I just want to be

8 sure we have them identified correctly so that the

9 joint applicants can respond.

10 So AOBA 121 will become 90 and 131 will

11 become 89.

12 MS. FRANCIS: Correct.

13 (AOBA Cross Exhibit Numbers 89 and 90

14 were marked for identification.)

15 CHAIRMAN KANE: Mr. Lorenzo?

16 MR. LORENZO: Your Honor, we're reviewing

17 them now. So maybe Ms. Francis can cross -- begin

18 her cross --

19 CHAIRMAN KANE: Sure.

20 MR. LORENZO: -- and while she's doing

21 that, we'll be able to verify --

22 CHAIRMAN KANE: Very good.

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

4 BY MS. FRANCIS:

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

12 Has your position changed during the
13 course of the proceedings?

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

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

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

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

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

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

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

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

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

8 A That's correct.

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

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

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

16 A When we close the merger.

17 Q The legal proceedings, do you mean?

18 A Yes. Yes.

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

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1 A No.

2 Q Typically, a senior vice president
3 position has a designation that goes with it that
4 indicates the person's area of responsibility.
5 Are you a senior vice president for integration or
6 something to that effect or just senior vice
7 president?

8 A I would say something to that effect,
9 senior vice president of integration.

10 Q Do you know -- scratch that.

11 If the merger is approved, do you know
12 what your role with Exelon will be after these
13 proceedings are concluded?

14 A At this time, I have not been offered a
15 permanent role at Exelon. I'm hopeful.

16 Q If the merger is not approved, do you
17 know what your role with Exelon will be after this
18 proceeding?

19 A I do not.

20 Q Do you expect that at some point you will
21 assume a senior executive position with PHI or do
22 you expect to remain as a direct employee of

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1 Exelon Corp. or the Exelon Business Service
2 Company?

3 A I don't know at this time.

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

6 A Yes.

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

14 A Yes.

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

18 A No.

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

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1 Commission; is that correct?

2 A That's correct.

3 Q Other than Maryland case 9299 and the
4 recent cases relating to the proposed merger
5 between Exelon and PHI, have you testified in any
6 other state or federal utility regulatory
7 proceeding?

8 A No.

9 Q Am I correct that case 9299 was filed
10 before the Maryland Public Service Commission by
11 BGE approximately three to four months following
12 the consummation of the Exelon/Constellation
13 merger?

14 A Subject to check on the time, but that
15 sounds about right.

16 Q At the time you filed direct testimony in
17 the Maryland Public Service Commission case 9299,
18 am I correct that you served as vice president,
19 chief financial officer and treasurer of BGE?

20 A Yes.

21 Q In your direct testimony in case 9299,
22 did you testify that, one, BGE earned rate of

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

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

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

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

20 I would expect that PEPCO D.C., the
21 arguments or the discussions they have in their
22 filing will be based on what their financial

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1 situation is at the time of filing.

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

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

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

14 A Which page, sorry?

15 Q Page 12.

16 A Page 12. I'm there.

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

22 A That's correct.

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

4 A I'm there.

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

13 A Yes.

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

17 A Yes.

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

20 A I'm there.

21 Q Am I correct that the joint applicants'
22 commitment 5 as set forth in (4A)-2 is that

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1 merger-related savings and costs will be tracked
2 until PEPCO's next base rate proceeding?

3 A Yes.

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

10 A Distribution base rate case.

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

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

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

21 Q So the tracking of savings would go up to
22 what point? The day you filed the case? The test

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1 year in the case? The date the case is concluded?
2 When does that end? I'm looking information a
3 specific point.

4 A Test year.

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

7 A Yes.

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

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

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

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

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

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1 A I'm there.

2 Q In this part of your February 2015
3 supplemental direct, you indicate that a
4 commitment to track merger savings was
5 inadvertently omitted from your direct testimony.

6 Was that commitment to track merger
7 savings also inadvertently omitted from Exhibit 5
8 to the application filed on June 18th, 2014?

9 A I'd have to go back and check the
10 application. We mentioned it in my testimony. I
11 think it was inadvertently omitted from the list
12 of commitments (4A)-2. So we -- or we adjusted it
13 in (4A)-2 to include that.

14 Q Do you want to take a quick look at
15 Exhibit 5 to the application? And that way you
16 could respond now, please.

17 A I believe you're correct. I don't see it
18 here.

19 Q Is commitment 5 on page 1 of (4A)-2 the
20 commitment you indicate was inadvertently omitted
21 from your direct testimony?

22 A Yes.

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

4 A I would imagine the team counsel.

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

8 A I'm not --

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

13 A I believe so.

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

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

18 Q In your direct testimony.

19 A I'd have to go back and look.

20 MR. GADSDEN: Your Honor, if I may, what
21 Mr. Khouzami testifies on page 7 of his
22 supplemental was that it was inadvertently omitted

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1 from Mr. Crane's merger commitment list, not the
2 original application.

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

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

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

15 CHAIRMAN KANE: Thank you.

16 MS. FRANCIS: I'll be more precise.

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

20 BY MS. FRANCIS:

21 Q Okay. Thank you.

22 Am I correct that the joint applicants

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

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

8 Q No. The merger case with --

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

10 Q 9361.

11 A Thank you. Lots of numbers.

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

14 A We've talked before, I understand.
15 I believe it's the same situation.

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

20 A Yes.

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

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

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

5 THE WITNESS: I believe I'm here.

6 BY MS. FRANCIS:

7 Q Are you ready?

8 A I am.

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

15 Do you see that statement?

16 A I do.

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

21 Is that your response?

22 A It is.

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

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

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

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

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

22 A We've committed through the test period

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1 in that first rate case.

2 Q Is it just that you believe it was
3 acceptable in one prior case, so it should be
4 acceptable here?

5 A We thought it was acceptable in the prior
6 case, so we thought it would be acceptable in this
7 case as well, yes.

8 Q Have any of the parties to this case
9 other than the joint applicants indicated that
10 your proposal for tracking synergy savings and
11 demonstrating the run rate of synergies is
12 satisfactory?

13 A What I would point to is the settlement
14 agreements we have either that have been approved
15 in New Jersey or are pending in Delaware and
16 Maryland where parties who have signed on to the
17 settlement agreement are obviously stipulating
18 that they agree with the agreement, and this is a
19 similar commitment to what we made there.

20 So from that perspective, I think there
21 are some parties that have agreed to it.

22 Q Well, I was asking about the parties in

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1 this case.

2 A No.

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

10 A I believe that's correct.

11 Q So they --

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

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

19 A Correct.

20 Q Okay. Can you cite me to an order issued
21 by this Commission or other document by this
22 Commission in which it has found that the joint

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1 applicants' commitment with respect to tracking
2 merger synergies and demonstrating a run rate for
3 synergies is satisfactory?

4 A I cannot.

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

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

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

15 A I'm there.

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

18 BY MS. FRANCIS:

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

22 Am I correct that the second sentence of

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

7 Do you see that?

8 A I do.

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

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

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

20 A So I wasn't part of that phone discussion
21 with AOBA. The way it is written, which was
22 written by us, it didn't discuss the entire phone

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1 conversation, so I don't know how that phone
2 conversation went. So I'm not certain I can
3 answer that question.

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

6 A Not -- no.

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

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

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

16 A I'm there.

17 Q If the steady state level -- excuse me.
18 I think we established earlier that the
19 \$7 million level of steady state synergy savings
20 is not achieved for PEPCO D.C. until year 5; is
21 that correct?

22 A That's correct.

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

9 A I don't believe so. I believe that they
10 will also have additional information, including a
11 side-by-side comparison that will be filed in the
12 first half of 2017, detailing a side-by-side of
13 shared service costs from 2016 versus a full year
14 prior to the merger taking place, approximately
15 70 percent of the overall synergy savings are
16 expected to come from corporate service functions.

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

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

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1 Would you like me to try the question again?

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

6 Q No, that wasn't the question.

7 A Okay.

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

12 A So --

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

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

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

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

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

20 Q Am I correct that if merger savings and
21 costs are only tracked until PEPCO's next rate
22 case, this Commission may never be able to fully

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1 assess or verify either the costs or the savings
2 attributable to the merger?

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

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

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

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

22 A I'm there.

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1 Q On those lines, that suggests that the
2 \$33.75 million of CIF the joint applicants now
3 offer to the District equates to approximately
4 94 percent of your estimated ten-year net synergy
5 savings; is that correct?

6 A Correct.

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

12 A So the methodology in terms of
13 calculating that is taking that run rate level of
14 \$7 million and extending it forward through
15 year 10 and totalling that up, taking a net
16 present value, and comparing it to the CIF.

17 Again, I think this keeps getting back to
18 the heart of what the CIF is intended to do, which
19 is alleviate the doubt that if the synergies are
20 not achieved, that customers will not benefit from
21 this merger financially. That is not true. That
22 is why we are providing the CIF upfront to

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1 alleviate any doubt. Although we have no doubt
2 that we will achieve them, this should alleviate
3 any potential doubt.

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

10 A If what is too low? Sorry.

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

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

21 Again, not knowing all the details, I
22 believe the last two merger proceedings in front

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1 of the Commissions in the District did not have
2 any upfront payment and had synergies depended
3 (sic) upon as they are achieved.

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

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

20 A No.

21 Q Okay.

22 MS. FRANCIS: Your Honor, I can keep

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

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

7 (Whereupon, a short recess was taken.)

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

10 Ms. Francis?

11 MS. FRANCIS: Yes, Your Honor.

12 Do you want to --

13 MR. LORENZO: Your Honor, we have --

14 CHAIRMAN KANE: Mr. Lorenzo?

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

19 CHAIRMAN KANE: Thank you.

20 MS. FRANCIS: Thank you. And, Your
21 Honor, I was told at the lunch (sic) break by your
22 competent staff that I misspoke this morning and

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1 what I meant to enter for the record as AOBA 64
2 should be 132, not 32.

3 CHAIRMAN KANE: Thank you.

4 MS. FRANCIS: I thank them for their
5 help.

6 BY MS. FRANCIS:

7 Q Now, continuing on page 4 of your
8 February 2015 supplemental direct testimony, your
9 testimony at lines 15 through 22 discusses a
10 hypothetical in which the \$3.65 million of the
11 \$33.75 million is used for energy efficiency; is
12 that correct?

13 A Yes.

14 Q Now, in that discussion, do you suggest
15 that if the 3.65 million is used for energy
16 efficiency, the effective value of the direct
17 merger benefits to customer could be increased to
18 \$37.4 million?

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

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

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1 3.65 million portion of the CIF that would be used
2 for energy efficiency from the 33.75 million total
3 CIF and then adding back twice the 3.65 million
4 amount under the assumption that energy efficiency
5 expenditures would produce \$2 of present value
6 benefit for every dollar invested?

7 A Yes.

8 Q Are the joint applicants recommending
9 that the \$3.65 million of the offered
10 \$33.75 million of CIF dollars for D.C. be used for
11 energy efficiency?

12 A No.

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

17 A Yes.

18 Q Now, based on the assumption that energy
19 efficiency programs yield \$2 of benefits for every
20 dollar invested in energy efficiency programs, if
21 all of the CIF dollars were used for energy
22 efficiency, would your estimate of the total value

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1 of the offered direct merger benefits double from
2 33.75 million to 67.5 million?

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

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

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

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

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

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

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

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

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

15 A I believe it's more than four.

16 Q Five?

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

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

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

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1 Q Now, please turn to your conformed
2 supplemental direct testimony at pages 2 and 3.

3 A I'm there.

4 Q In the discussion of the increase to the
5 CIF that begins at line 8 on page 2 and continues
6 through line 9 on page 3 of your supplemental
7 direct, you indicate that an investment of the
8 equivalent of \$14 per customer with energy
9 efficiency measures for ACE customers is expected
10 to produce a value of \$28 per customer in terms of
11 energy cost savings.

12 Is that also reflective of an assumption
13 that each dollar invested in energy efficiency
14 will produce \$2 of net present value savings?

15 A Yes.

16 Q Am I correct that your assumed
17 relationship between dollars invested and energy
18 savings derived is a generalized relationship not
19 premised on the implementation of any specific
20 energy efficiency measures?

21 A It's based on industry research, industry
22 experience and our own experience.

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

3 A That's correct.

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

8 A I would -- yes, it is.

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

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

21 Q So clearly, the type of energy efficiency
22 measure utilized is directly related to the result

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1 achieved, correct, the dollar result achieved?

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

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

10 A I do not know.

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

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

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

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

4 A I'm there.

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

14 Is that correct?

15 A Yes.

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

21 A It's based on the understanding and
22 experience that both individuals at PHI and Exelon

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1 who work with these programs on a day in/day out
2 basis have. We obviously discussed this with
3 them, and that's how we came up with the 2-to-1
4 ratio.

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

10 A We have not.

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

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

20 I can speak for the Exelon team. Over
21 the last few years, they've won over 18 awards for
22 energy efficiency programs. There's extensive

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1 understanding of different types of programs. So
2 my response was based on discussions with those
3 individuals, and that is how we came up with the
4 2-to-1 ratio.

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

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

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

15 A Yes.

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

20 CHAIRMAN KANE: We're competing, first of
21 all, with the trash truck, and if you could also
22 move your microphone over a little bit more, or

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1 speak directly into it. Let's pause until the --
2 unless you can speak very loudly over it.

3 (Discussion held off the record.)

4 BY MS. FRANCIS:

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

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

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

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1 SEU?

2 A I do not know for sure.

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

8 A I do.

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

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

18 A Okay.

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

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1 A It's number of metered customers.

2 Q Does that mean every meter is a customer?

3 A Every meter with an account is a
4 customer.

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

11 A Could you repeat your question, please?

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

18 A Yes.

19 Q Now, please focus on what's been
20 preliminarily identified as 87 and also marked for
21 the record as AOBA 87 which provides a copy of the
22 joint applicants' response to AOBA data

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1 request 4-1. And within that response, I'm going
2 to ask you to turn to page 4 of 5 of the exhibit.

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

6 CHAIRMAN KANE: Ms. Francis?

7 BY MS. FRANCIS:

8 Q Do you have it, Mr. Khouzami?

9 A I do.

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

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

15 Q In the far right-hand column of data
16 under the heading December 13th, would you agree
17 that the total number of customers reported is
18 319,961?

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

22 MS. FRANCIS: Your Honor, this is -- this

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1 is a dilemma because we have many witnesses
2 working on overlapping areas in this case, and
3 Mr. Khouzami was deferred questions about whether
4 they're billed on metered or billed on customers,
5 not Mr. McGowan.

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

13 CHAIRMAN KANE: You may proceed.

14 BY MS. FRANCIS:

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

18 A That's what it appears to be.

19 Q Would you also agree that this data shows
20 294,569 total residential customers?

21 A That's what this exhibit seems to say.

22 Q And within the residential class, do you

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1 find in the December 2013 column an entry on the
2 line for MM-R of 55,904 customers?

3 A That's what the chart reads.

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

6 A That's what the chart reads.

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

12 A I'm there, yes.

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

17 A I do.

18 Q And that number is 237,973?

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

20 Q No. Take a look -- try again. Take a
21 look at the left-hand column. I'm on sheet 2 of
22 2, attachment A. All the way on the left-hand

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1 column, it says, PEPCO District of Columbia.

2 Underneath, it says, Residential customers --

3 A I see it. I was on the page before.

4 Q Okay.

5 A Okay.

6 Q 237,973. Do you see that?

7 A I do.

8 Q Okay. Would you accept that the 237,973

9 residential customers shown in the customer counts

10 on this page precisely equals the total number of

11 December '13 residential customers shown in

12 attachment A to AOBA data request 4-1, less the

13 number of December '13 MM-R and MMA-E customers

14 shown in the same response?

15 A Can you remind me what attachment the

16 other one is? I might as well have it.

17 Q One is --

18 A I've got this one. It's the one that --

19 Q One is data request 4-1 in AOBA 87.

20 A Uh-huh.

21 Q And the other is AOBA -- preliminarily --

22 is 118, what we're on now.

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1 A Okay. I'm there. Thank you.

2 Q Do you want the numbers again?

3 A I will take your calculation.

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

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

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

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

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

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

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

7 CHAIRMAN KANE: Ms. Francis?

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

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

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

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

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

4 CHAIRMAN KANE: Of course.

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

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

14 BY MS. FRANCIS:

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

20 A The customer accounts that we used were
21 equal metered account -- meter customer numbers
22 that we were provided. So MMA was treated

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1 accordingly. It's no different than, say, in
2 Delaware, where you have an electric and gas
3 customer. It's about 116,000 customers have both
4 electric and gas; they were counted as one
5 customer, not two customers.

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

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

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

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

19 BY MS. FRANCIS:

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

22 A I have it.

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

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

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

22 Since we have now increased it, it's far

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1 exceeded even that number.

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

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

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

13 Were you responsible for that
14 determination?

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

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

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

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

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

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

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

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

19 A I'm there.

20 Q Does the information included in
21 attachment A to AOBA data request 1-4 detail
22 development of the joint applicants' proposed

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1 allocation of the initially proposed \$100 million
2 CIF among the PHI utilities in the jurisdictions
3 in which they provide service?

4 A It does.

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

10 A It does.

11 Q Does page 2 of attachment -- does page 2
12 of Exhibit 118 illustrate the manner in which the
13 District of Columbia's share of the initial
14 100 million was determined?

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

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

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1 determined?

2 A Yes.

3 Q Would you accept that if we replace the
4 \$50 per customer amount used in the first column
5 on page 1 of attachment A to data request 1-4,
6 with \$128 per customer, the total allocated
7 dollars for all jurisdictions would be
8 \$238 million?

9 A Yes.

10 Q And that's the figure you referenced
11 earlier, correct?

12 A That's correct.

13 Q Are you able to tell me why your response
14 to AOBA data request 1-4 wasn't updated to reflect
15 the joint applicants' new offering?

16 A I don't know. I believe my -- my
17 testimony that we filed was very clear. I don't
18 know why this -- I don't know if we saw a need to
19 update this data request, but I'm not sure.

20 Q Now I would like you -- again, focusing
21 on AOBA Exhibit 118, I want to revisit your
22 revised response to AOBA data request 1-4. Your

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

5 A Yes.

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

12 A Yes.

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

16 MS. FRANCIS: Your Honor, for the record,
17 78.

18 BY MS. FRANCIS:

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

22 Do you have that, Mr. Khouzami?

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1 A I do.

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

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

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

15 A Yes.

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

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

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

6 A That's what the chart would show.

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

11 A You said commitment 3?

12 Q Correct. Page 1.

13 A Okay. Okay.

14 Q Now, am I correct that commitment 3 in
15 (4A)-2 commits that incremental costs that result
16 from accelerating supplemental executive
17 retirement plan (SERP) benefits will be treated as
18 transaction costs?

19 A Yes.

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

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1 merger.

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

5 A Of the incremental SERP costs,
6 accelerated, correct.

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

11 A Yes.

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

14 A I'm there.

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

19 A Yes.

20 Q In the preceding sentence on lines 3
21 through 5 on page 16, you state, quote,
22 transaction costs include executive severance

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1 payments, restricted stock payments, cost of
2 shareholder litigation and retention benefits.

3 Is that correct?

4 A Yes.

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

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

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

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

20 Q Was this an inadvertent omission?

21 A No.

22 Q Now, please turn to page 6 of 42 in

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

3 A Which page was that?

4 Q Page 6.

5 A I'm there.

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

13 A That's correct.

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

16 A Okay. I'm there.

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

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

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

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

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

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

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

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

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

6 Q So you don't remember?

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

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

12 A They are a part of transaction costs.

13 Q Although not specifically identified as
14 such in the commitments.

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

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

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1 page 12 of 42 of (4A)-1.

2 A Which paragraph? Sorry.

3 Q 22.

4 A Okay.

5 Q Under the provisions in paragraph 22, am
6 I correct that the joint petitioners (sic) agree
7 to provide outplacement services to employees
8 terminated as a result of the merger?

9 A Yes.

10 Q In the last sentence of paragraph 22 of
11 the New Jersey settlement, is it stated that any
12 expenses incurred for outplacement services for
13 executives shall be deemed transaction costs?

14 A Yes.

15 Q Am I correct that there is no comparable
16 provision relating to costs for executive
17 outplacement services anywhere in the 91
18 commitments in (4A)-2?

19 A That's correct.

20 Q Now, I'm going to ask you to please
21 reference AOBA Exhibit 99, which has been marked
22 for the record as AOBA 83. That, for the record,

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

3 A I do.

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

7 BY MS. FRANCIS:

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

12 A That's what it reads.

13 Q Am I correct that this roughly
14 706 million of outstanding long-term debt is debt
15 issued directly by PHI and is not debt issued by
16 any of PHI's utility subsidiaries?

17 A That's my understanding.

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

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

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

6 A That's correct.

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

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

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

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

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

4 A Yes.

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

8 A I'm there.

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

17 Is that correct?

18 A Yes.

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

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1 A Yes.

2 Q Now, please turn back to AOBA Exhibit 99,
3 for the record, 83. And please turn your
4 attention to the March 16th, 2015 follow-up
5 response to AOBA data request 4-9.

6 Does the March 16th, 2015 follow-up
7 response state that the funds used by PHI to
8 service its long-term debt are generally derived
9 from dividends received from its subsidiary
10 companies?

11 A This response is by Mr. McGowan, but yes,
12 that is what it reads.

13 Q Now, I would like you to turn back to
14 (4A)-2 and direct your attention to commitment 48
15 on page 8 of 17. Are you there?

16 A I'm there.

17 Q Does the last sentence of commitment 48
18 indicate that the PHI utilities will not guarantee
19 the debt or other credit instruments of PHI?

20 A It does.

21 Q If dividends paid by the PHI utilities
22 are the primary source of income for PHI after the

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

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

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

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

17 A It does not.

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

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

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

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

16 In terms of how much is required from
17 PEPCO, again, the answer is you can't answer that
18 question because there are other sources of funds
19 such that, if PEPCO can't make the dividend
20 payment, then there are other ways for them to
21 service that debt. We have a firm commitment that
22 PEPCO cannot make a dividend payment if their

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1 equity ratio would fall below 48 percent. So
2 there is a constraint for PEPCO. They can't just
3 dividend as much as they'd like. So it's hard to
4 make that -- you can't make that calculation.

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

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

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

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

20 Q Well, my notes reflected that Witness
21 Crane testified that during the first few years
22 following the merger, PHI will have negative cash

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1 flows. Is that not your understanding?

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

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

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

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

22 I understand that the PHI common

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

4 Exelon does have a typical dividend
5 payout ratio it tries to target, which is about
6 65 percent of net income. But I would cite that
7 there have been periods -- and most recently in
8 2012, ComEd paid a much lower dividend because
9 they had other needs.

10 That, combined with the restriction on
11 paying dividend if the equity ratio falls below
12 48 percent, provides a lot of relief, and in fact,
13 Fitch, in a report that was, I believe, issued in
14 April, so very recently, cited that as a specific
15 benefit of this merger for PEPCO, that it would be
16 relieved from the PHI common dividend payment.

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

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

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

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

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

10 BY MS. FRANCIS:

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

14 A I have not.

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

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

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

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1 A Okay. I'm there.

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

4 BY MS. FRANCIS:

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

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

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

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

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

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

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

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

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

22 A No. I think we've answered that.

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1 Q And am I correct that after the merger
2 closing, neither PEPCO nor PHI will be able to
3 issue publicly traded stock?

4 A They would not issue public common stock.
5 They would still be able to issue preferred stock,
6 and PEPCO and PHI would still be able to request
7 funds from their investor or their market,
8 effectively, which is Exelon.

9 Q Given the magnitude of PEPCO's planned
10 capital expenditures over the next several years
11 and the fact that, post-merger, neither PEPCO nor
12 PHI will be able to issue publicly traded common
13 stock, am I correct that PEPCO's primary source of
14 equity capital will be retained earnings?

15 A Or equity contributions from Exelon which
16 they've shown that they have been willing to
17 engage in with their utilities when appropriate.

18 Q If, post-merger, PEPCO fails to generate
19 sufficient retained earnings to be able to
20 maintain the equity percentage in its capital
21 structure, will PEPCO effectively become dependent
22 on Exelon for infusions of additional equity

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1 capital?

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

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

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

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

20 A We have not.

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

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1 AOBA Exhibit 104.

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

6 BY MS. FRANCIS:

7 Q Do you see that, Mr. Khouzami?

8 A I do.

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

16 Correct?

17 A Yes.

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

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

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

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

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

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

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

21 A I would imagine it's the same as anyone,
22 depending on the issuance of common stock, which

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1 is if the market is not buying at the time, so if
2 there aren't investors, if there's a downturn in
3 market, it may be difficult to raise the funds
4 that you're seeking.

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

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

11 A I'm there.

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

16 I have a couple of questions on this
17 commitment.

18 A Okay.

19 Q Am I correct that when commitment 61 is
20 read in the context of commitment 62, there is
21 nothing that would prevent PEPCO from making a
22 dividend payment to its parent, PHI, if its common

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1 equity level is below 48 percent prior to the
2 issuance of a dividend as long as PEPCO's credit
3 rating is considered investment grade?

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

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

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

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

21 BY MS. FRANCIS:

22 Q Have the joint applicants provided the

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1950

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

5 A We haven't provided any such analysis
6 because our intent in 61 is to maintain
7 48 percent, or north of 48 percent.

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

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

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

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

22 Q Can you be any more specific than that?

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1951

1 A No. Mr. McGowan could answer that.

2 Q Is it your intent to reference -- is it
3 your intent to reference the methods relied upon
4 by the Commission to establish the capital
5 structure approved for PEPCO in PEPCO's most
6 recent distribution base rate proceeding for its
7 District of Columbia service territory, formal
8 case number 1103?

9 A I think I just said yes.

10 Q Can you point the Commission to where in
11 your filed testimony and exhibits you provided
12 estimates of the dollar amount of equity infusions
13 or equity contributions that PEPCO will require
14 from Exelon in the first few years following
15 consummation of the merger?

16 A I think we've answered that we have not
17 done that analysis.

18 Q Please turn to page 24 of your conformed
19 rebuttal testimony --

20 A I'm there.

21 Q -- and the question and answer that start
22 at line 1, page 24 of your rebuttal. Am I correct

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1952

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

6 Is that correct?

7 A Yes.

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

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

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

21 Q And those related assets to which you're
22 referring, they're not identified by any other

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1953

1 witness in this proceeding, are they?

2 A No.

3 Q Now, your testimony at lines 15 through
4 18 on page 24 of your rebuttal, you indicate,
5 Other functions that are currently provided by the
6 PHI Service Company, including those that are
7 provided to the PHI utilities and to other current
8 PHI subsidiaries, will be transferred to the
9 Exelon Business Service Company or another Exelon
10 affiliate in a phased transition over a period of
11 time following the merger closing.

12 Is that correct?

13 A Yes.

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

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

22 Q Is that it?

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1954

1 A That's one example that I can think of
2 off the top of my head.

3 Q Are there other examples?

4 A That's probably the primary one.

5 Q When you reference a phased transition
6 over a period of time, can you provide this
7 Commission any sense of the period over time over
8 which such a transition may be expected to be
9 completed?

10 A I would expect that it would be completed
11 within the integration completion process, so
12 within the 24 months, 18 to 24 months.

13 Q At the beginning of the referenced
14 statement on lines 15 through 18 of your conformed
15 rebuttal, you refer to other functions. Am I
16 correct that the other functions to which you
17 refer in that sentence have not been identified as
18 of this time?

19 A I believe we've identified the functions.
20 Again, I'm not sure I could list them all for you
21 right here, sitting here. But I did mention
22 earlier, when I was talking with OPC, some

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1955

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

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

10 A We have not listed it specifically in our
11 testimony.

12 Q Thank you.

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

15 Thank you, Mr. Khouzami.

16 THE WITNESS: Thank you.

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

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

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1956

1 quarter to 3:00.

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

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Capital Reporting Company
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1958

1 You may proceed.

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

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

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

9 CHAIRMAN KANE: All right.

10 CROSS-EXAMINATION

11 BY MR. COYLE:

12 Q Good afternoon, Mr. Khouzami.

13 A Good afternoon.

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

17 A Okay.

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

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1959

1 through -- sorry, line 11 through line 18.

2 A I'm there.

3 Q You may have covered this with
4 Ms. Francis, but I'm not sure. Where is the chief
5 integration officer housed in the Exelon
6 Corporation organizational chart?

7 A It is housed in the EBSC function.

8 Q Okay. And I think you said you report to
9 Mr. von Hoene?

10 A That's correct.

11 Q And for how long have you been reporting
12 to Mr. von Hoene?

13 A Since I took the role in the June time
14 frame, June 2014.

15 Q All right. I believe you also say in
16 your direct testimony you worked at Bear Stearns
17 before you joined BGE?

18 A Before I joined Constellation, correct.

19 Q Oh, before you joined Constellation,
20 okay.

21 A Yes.

22 Q Okay. By any chance, did Mayo Shattuck

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1960

1 recruit you or how did you find your way from Bear
2 Stearns to Constellation?

3 A He did not. There was a job opening in
4 Baltimore. I grew up in Baltimore. I was looking
5 to move home.

6 Q Okay. And that was in 2005, you said?

7 A That's correct.

8 Q Okay. Would you please go to Joint
9 Applicants' Exhibit (F1).

10 A I'm there.

11 Q And that has been offered as the
12 organizational chart for PMO; is that right?

13 A That's correct.

14 Q And what does PMO stand for?

15 A This is for the integration office.

16 Q Okay. Does PMO stand for project
17 management office or something like that?

18 A That's exactly what it stands for.

19 Q Okay. Great. Thank you.

20 Would you now take a look at what has
21 been marked for identification as confidential
22 Exhibit DCG 103.

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1961

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

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

9 CHAIRMAN KANE: Again, what is the
10 exhibit number?

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

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

16 BY MR. COYLE:

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

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

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1962

1 A I would assume so.

2 Q I'm sorry. I meant to say DCG 103 for
3 the record, not DCG 3.

4 Do you know approximately how many Exelon
5 employees are on the integration team?

6 A It would be approximately 70 Exelon and
7 70 PHI.

8 Q Great. Thank you.

9 Are there any PEPCO employees in that
10 list in Exhibit DCG 103?

11 A There may be. If they are, they are
12 folks on the utility operations team. I'd have to
13 check with PHI personnel to understand exactly who
14 is PEPCO versus another utility.

15 Q Okay. And when you're looking at those
16 folks, you'd be looking at page 4 of 4?

17 A Correct.

18 Q The PHI folks that are identified as
19 being involved in utility operations?

20 A Yes.

21 Q Okay. Who pays these 140 people while
22 they're working on integration matters?

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1963

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

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

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

14 A I don't understand your question.

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

19 A Yes.

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

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1964

1 A That's correct.

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

5 A I would assume somewhere between 10 to
6 15. I'd have to get the exact number. One point
7 of clarification, too, is it's just not 100
8 percent or less than 100 percent. If you're
9 90 percent, you would still be charging to the
10 CTA. The accounting memo which we issued at the
11 start of the transaction, which we've used in
12 previous transactions and has been submitted as
13 part of the data request specifies the -- the
14 cutoff, which is, I believe, 50 percent.

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

18 A We keep it on a weekly basis.

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

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1965

1 achieve, yes?

2 A We don't go week by week. It was
3 basically people look at their overall time they
4 would spend in totality for the duration of the
5 integration efforts and will put it in a bucket of
6 either dedicated to the integration, in which case
7 they're like me and charge the CTA budget, or not,
8 in which case they would charge their normal time.

9 Q Okay. And people who charge their normal
10 time, do those costs get allocated either at the
11 Exelon Business Service Company level or the PHI
12 Business Service Company level, those costs get
13 allocated back to the operating companies?

14 A They would get allocated in the same
15 manner as if there wasn't a merger going on.

16 Q Ordinarily, that's back to the operating
17 companies, or am I missing something?

18 A That's correct. I thought you said
19 utility operating company, so just as a point of
20 reference, but yes.

21 Q Okay. All right. But -- I see your
22 distinction. There are also unregulated operating

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1966

1 companies, correct?

2 A That's correct.

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

7 A That's correct.

8 Q Okay. Thank you.

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

11 A Late May, early June of 2014.

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

15 A I did not.

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

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

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1967

1 around the potential opportunities around the
2 synergies.

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

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

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

14 Q And under whose aegis was that work
15 performed?

16 A Under whose aegis in Exelon or BCG or --

17 Q Well, Exelon, I would guess.

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

22 Q Okay. Now, when you assumed your

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1968

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

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

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

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

16 A Then yes.

17 Q Okay. Thank you.

18 So you inherited those files?

19 A I received those files. I sat with the
20 teams to get a good understanding of those files.
21 Obviously, the intent of our integration process
22 and what we spent the last nine, ten months doing

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1969

1 was going through and doing a much more thorough
2 analysis to identify the opportunities.

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

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

12 A You said 4, 9 through --

13 Q 4, 10 through 19.

14 A Thank you. I've read it.

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

19 A DCG 1. And what page?

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

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1970

1 the pagination on the bottom.

2 A I'm there.

3 Q Okay. Do you see there in the third
4 bullet on the left-hand column, PHI valued the
5 acquisition premium being paid by Exelon as
6 \$1.6 billion?

7 A Yes.

8 Q Let me ask you now to take a look at what
9 has been marked for identification as Exhibit
10 DCG 86.

11 A I'm there.

12 Q Are you the author of that response? I'm
13 sorry. Let me identify it for the record as joint
14 applicants' response to data request DCG 3-35.
15 And then let me ask, are you the author of that
16 response?

17 A Yes.

18 Q That response was true and accurate when
19 you made it?

20 A Yes.

21 Q True and accurate now?

22 A Yes.

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1971

1 Q You offer in that response two different
2 ways of calculating the amount of the merger
3 premium, correct?

4 A That's correct.

5 Q And one method takes the April 29th, 2014
6 PHI stock price, compares it to the offer of
7 \$27.25 a share, and that yields a premium of
8 \$1.12 billion, correct?

9 A That's correct.

10 Q And that equates to about a 19.7 percent
11 premium; am I right?

12 A I believe it says 19.6, but close enough.

13 Q Okay. Good. Thank you.

14 And the other method is -- compares the
15 offer price of \$27.25 to the 20-day average PHI
16 trading price -- PHI stock trading price for the
17 period ending April 29, 2014, and that yields a
18 premium of -- excuse me -- 1.559 billion, correct?

19 A Yes.

20 Q And that's about 24.7 percent, is it?

21 A It states something a little higher than
22 that on the page.

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1972

1 Q What does it state on the page?

2 A 29.5.

3 Q 29.5. Thank you.

4 So is it fair to summarize your response
5 there, Mr. Khouzami, as saying that, you know, how
6 you characterize the extent of the premium depends
7 on what you take as a starting point?

8 A I would agree with that statement. I
9 think these statements were more just in direct
10 response to the questions that asked us to use
11 these share prices and these dates.

12 Q Fair enough. Let me ask you now to take
13 a look at what's been marked for identification as
14 Exhibit DCG 96 which is your response to data
15 request OPC 3-17.

16 A I'm there.

17 Q Okay. And does that data request offer
18 another method for calculating the merger premium?

19 A I believe it's the same as the
20 methodology used in B of the response we were just
21 looking at.

22 Q Okay. I thought -- does this one deal

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1973

1 with capitalization and goodwill, DCG 96?

2 A That wouldn't have anything to do with
3 the acquisition premium.

4 Q Right. Let me just ask you to take a
5 look through the answer, read it quietly to
6 yourself, and then I'll ask you a couple of
7 questions. Let me know when you're ready.

8 A I've read the initial response. Do you
9 want me to read the revised as well?

10 Q Yes, please.

11 A Okay. I've read that.

12 Q Okay. Now, you are the author of both
13 the initial and the revised response, correct?

14 A Correct.

15 Q Okay. And those responses were accurate
16 when you gave them?

17 A Yes.

18 Q Still accurate today, as far as you know?

19 A I believe so, yes.

20 Q Okay. The calculation of the premium in
21 DCG 96 is slightly different in that you use an
22 explicit reference to market capitalization,

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1974

1 right? 251 million shares times the premium?

2 A Market capitalization is what you would
3 use to calculate any acquisition premium. It's
4 the same as in the other one.

5 Q All right.

6 A I used market capitalization there as
7 well.

8 Q Okay. Thank you.

9 Now, I want to confirm -- I think you
10 covered this already, but I before I leave the
11 area, I just want to make sure I'm right. Were
12 you involved in supporting Exelon's efforts to
13 negotiate the acquisition of PHI at all?

14 A No.

15 Q Okay. If you could turn to your direct
16 at page 4, note 3.

17 A Page 4, footnote 3?

18 Q Footnote 3. Yes, sir.

19 A I'm there.

20 Q Okay. You describe in that footnote a
21 reverse breakup fee, correct?

22 A That's correct.

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1975

1 Q All right. Could I ask Ms. Travers to
2 hand you now a copy of the July 29th, 2014 amended
3 and restated merger agreement?

4 A I have it.

5 Q Let me ask you to turn to page 54 of the
6 amended and restated merger agreement and read
7 section 8.5(c) to yourself. Let me know when
8 you're finished.

9 A I've read it.

10 Q Okay. Is section 8.5(c) of the merger
11 agreement the operative provision of the agreement
12 with respect to the reverse breakup fee, as far as
13 you know?

14 A It appears to be with a lot of
15 subreferences. I'm not a lawyer, but it appears
16 to be.

17 Q Could you turn to Exhibit A to the
18 amended and restated merger agreement, please?

19 A I'm there.

20 Q Okay. That is the form of certificate
21 for the PHI series A preferred stock; is that
22 correct?

Capital Reporting Company
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1976

1 A It appears to be.

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

5 A That's correct.

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

9 A Certainly. At the time of announcement,
10 Exelon purchased 9,000 preferred shares with a
11 commitment to buy up to 18,000 total over the
12 course of a year, which would equal a total of
13 \$180 million. Every 90 days, Exelon has purchased
14 an additional 1800 shares. Currently, sitting
15 here today, 144 million of the 180 million total
16 has been received by PHI.

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

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

22 A I do not.

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1977

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

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

8 Q Now, going back to section 8.5(c) of
9 amended and restated merger agreement on page 54,
10 is it also true that in the event that the merger
11 is not approved or is abandoned due to a
12 regulatory requirement that Exelon finds
13 burdensome, Exelon will reimburse PHI for up to
14 \$40 million in costs incurred in pursuing the
15 merger?

16 A That's what it says.

17 Q Okay. Is that in addition to the
18 \$180 million reverse breakup fee, to your
19 understanding?

20 A Yes.

21 Q Let me ask you now to go to what's been
22 marked for identification as Exhibit DCG 87 which

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1978

1 is joint applicants' response to Exhibit (sic)
2 DCG 33.

3 A I'm there.

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

8 A I'm ready.

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

11 A That's correct.

12 Q I hope you'll forgive me if I say you
13 were as close as I could find to a percipient
14 witness for the facts set forth in that response.
15 Are you able to vouch for it?

16 A Vouch that the response is correct?

17 Q Yes.

18 A I believe it is.

19 Q Okay. Great. Were you involved in the
20 preparation of that response, Mr. Khouzami?

21 A I don't recall. I'm certain that it went
22 through the accounting groups of PHI and Exelon to

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1979

1 ensure that it's correct.

2 Q Okay. To your understanding, does the
3 response to what's been marked for identification
4 as DCG -- Exhibit DCG 87, the response to data
5 request DCG 3-33, accurately summarize how the
6 reverse breakup fee would operate if it were
7 triggered?

8 A I believe so.

9 Q Is the discussion of the journal entries
10 associated with accounting for the issuance of the
11 preferred stock and the operation of the reverse
12 breakup fee accurate, to your understanding?

13 A I would have no reason to believe it's
14 not.

15 Q Okay. Now let me ask you to turn to
16 what's been marked for identification as Exhibit
17 DCG 99, which is the joint applicants' response to
18 data request OPC 5-11, and let me ask you to read
19 that to yourself quietly and let me know when
20 you're ready.

21 A Okay. I'm ready.

22 Q Now, again, the sponsor of the data

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1980

1 request is Exelon Corporation, but you're as close
2 as I can find to a percipient witness. Are you in
3 a position to vouch for the accuracy of that
4 response?

5 A I believe it's accurate.

6 Q Thank you. Turning to the second page of
7 the document, the response to subpart A indicates
8 that the accounting entries at Exelon as of
9 September 30, 2014 for the preferred stock
10 involved in the reverse breakup fee identify a
11 figure of 108 million, is that correct,
12 \$108 million?

13 A That's what it reads, yes.

14 Q Is that a typographical error or does it
15 reflect the extent to which Exelon had paid for
16 the preferred stock as of September 30, 2014?

17 A That would represent the 9,000 we
18 purchased at close and the first 1800 additional
19 shares that we had purchased. Again, this is a
20 point in time. So at that time, Exelon had paid
21 \$108 million, received \$108 million of preferred
22 stock. It's no different than if you looked at

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1981

1 PHI's books, the amount of cash from the preferred
2 stock may be significantly less depending on what
3 they've used the cash for during this time.

4 Q Okay. Thank you. Let's change topics
5 and discuss some of the Exelon analyses associated
6 with the merger. And I'd like to establish a
7 context for this series of questions. Would you
8 go first to your direct testimony at page 25,
9 line 16 -- and bear with me a second. I need you
10 to read from page 25, line 16 over to page 26 -- I
11 believe it's line 4, but I'll be there in just a
12 minute.

13 A Okay.

14 Q Yep, line 4.

15 A I'm there.

16 Q You discuss in that portion of your
17 direct testimony the allocation of synergies and
18 cost to achieve among various post-merger
19 operating companies, correct?

20 A That is correct. This is the methodology
21 that was used during the due diligence analysis
22 that BCG conducted.

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1982

1 Q Let's take a look at Joint Applicants'
2 Exhibit (F2), which was, I believe, your original
3 graphic representation of synergies, cost to
4 achieve and allocation --

5 A Yes.

6 Q -- updated through your September 19th,
7 2014, supplemental direct testimony, I think. Am
8 I right about that?

9 A This is the synergies as of the time of
10 the direct testimony, updated for one revision
11 that we talked about earlier this morning
12 regarding \$73 million of CTA that were
13 reclassified as transition costs --

14 Q Okay.

15 A -- or transaction costs, sorry.

16 Q Okay. Thank you.

17 Would you please look now at what have
18 been marked for identification as Exhibit DCG 88,
19 and those are the responses to data requests
20 DCG 2-12 and 2-13 in a single exhibit?

21 A Okay. I'm there.

22 Q You the author of those responses,

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1983

1 correct?

2 A Yes.

3 Q And they were accurate when given?

4 A Yes.

5 Q Still accurate as far as you know?

6 A Yes.

7 Q Okay. Let's also take a look at what's
8 been marked for identification as Exhibit DCG 83,
9 which is joint applicants' response to data
10 request DCG 5-12.

11 A If you'd give me a moment here. I don't
12 have DCG 83.

13 Q Sorry.

14 A Okay.

15 Q All right. And you're also the answer --
16 the author of the response to DCG 5-12?

17 A Yes.

18 Q All right. That response was accurate
19 when provided?

20 A It was.

21 Q Still accurate today, to the best of your
22 knowledge?

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1984

1 A Yes.

2 Q Okay. Now, all three of those data
3 request responses refer us to confidential
4 attachment A to joint applicants' response to data
5 request AOBA 1-23; is that correct?

6 A It appears to be.

7 Q All right. I'd like to invite your
8 attention next to that document which has been
9 marked for identification as Exhibit DCG 84. I'm
10 sorry. To clarify for the record, that's errata
11 version 1 of confidential attachment A to data
12 request response to AOBA 1-23.

13 Do you have the exhibit that's been --

14 A I do.

15 Q Okay. Now, Mr. Khouzami, was that
16 document prepared under your supervision?

17 A No.

18 Q Okay. It bears a date of April through
19 September 2014?

20 A Bears a date of April, when this
21 presentation was complete. There was an errata
22 or -- I guess it's an errata, an adjustment, if

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1985

1 you will, to reclassify the \$73 million of CTA
2 into transaction costs. That correction was made
3 in September. So this reflects that correction,
4 which was updated in September, but again, the
5 original document was created in April.

6 Q All right. So this document, what's been
7 marked for identification as DCG 84, confidential
8 attachment A to joint applicants' response to
9 AOBA 1-23, represents work that was done by the
10 Boston Consulting Group prior to the merger?

11 A Prior to the merger being announced,
12 correct.

13 Q Okay.

14 MR. COYLE: I'm going to proceed to
15 examine on this document, but before I do, I
16 wanted to ask counsel whether the usual
17 understandings would you apply.

18 MR. LORENZO: Yes, Your Honor. The usual
19 understandings.

20 BY MR. COYLE:

21 Q Mr. Khouzami, have had occasion to become
22 familiar with this document in your capacity as

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1986

1 chief integration officer?

2 A I have spoken with Boston Consulting
3 Group about this document.

4 Q Okay. Does this document lay out a
5 methodology for determining synergies and cost to
6 achieve and allocating synergies and cost to
7 achieve?

8 A It does.

9 Q And if I could invite your attention,
10 Mr. Khouzami, to page 70 of what's been marked for
11 identification as Exhibit DCG 84. Would you take
12 a look at page 70 and take a look at Joint
13 Applicants' (F2).

14 A I'm there.

15 Q Okay. Was page 70 of what's been marked
16 for identification -- withdrawn.

17 Let me ask the question a different way.
18 If you compare page 70 of Exhibit DCG 84 to page 8
19 of Exhibit (F2), are they substantially identical?

20 A You're referring to page 8 in the lower
21 left-hand corner, then, correct? Page 9 of 12, I
22 believe, for the record.

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1987

1 Q Thank you.

2 A Yes. But yes. The answer is yes.

3 Q Right. Sorry. I appreciate the
4 correction, thank you Mr. Khouzami. As I've been
5 reminded before, it's hard to keep track of all
6 the page numbers in this case.

7 But the two are substantially identical,
8 correct?

9 A Yes.

10 Q Okay. And so was Exhibit (F2), page 9,
11 taken from Exhibit DCG 84?

12 A It's the same page. So which one is
13 taken from which -- it's the same page.

14 Q Would it be fair to say that Exhibit
15 DCG 84 contains a great deal of information about
16 how page 8 -- or page 9 of 12, rather, of Joint
17 Applicants' Exhibit (F2) was developed?

18 A It does.

19 Q Okay. Let me walk you through some of
20 that, if I could. First is the note that appears
21 on the bottom of page 70 of Exhibit DCG 84 and
22 also appears on the bottom of page 9 of 12 of

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1988

1 Exhibit -- Joint Applicants' Exhibit (F2) that
2 refers to, and I'm quoting, MMF calculated using
3 Exelon's methodology. Do you see that?

4 A I do.

5 Q MMF is shorthand for a modified
6 Massachusetts formula; is that correct?

7 A That's correct.

8 Q Now, I'm going to apologize to everybody
9 before I start doing this. I think you have to be
10 something of a rate geek, but is it correct,
11 Mr. Khouzami, that a Massachusetts formula, as
12 used in utility rate-making, allocates parent
13 company overhead costs to subsidiaries based on
14 the average of the ratios of that subsidiary's
15 labor costs, gross plant and gross revenue to the
16 parents?

17 A The MMF formula is a methodology for
18 allocating costs or synergies. Our MMF, "our"
19 being Exelon's MMF, is based on gross revenue,
20 direct labor and assets.

21 This is a formula that we've used for a
22 number of years. It's a formula -- it's -- the

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1989

1 allocation process is governed and regulated by
2 FERC. And we haven't strayed from it for as long
3 as I've known of.

4 Q I guess it's a rate geek question, but I
5 feel compelled to ask it: That sound to me like a
6 straight Massachusetts allocation. What did you
7 modify?

8 A The term "modified Massachusetts" versus
9 "Massachusetts," I don't know. It's called the
10 MMF formula that we've used for as long as I've
11 been at Exelon, and many years before then, at
12 least back till 2006, because I've looked at
13 documents that far back which were still using it.
14 It's governed by FERC. It's accepted. It's used
15 in all of our jurisdictions.

16 Where the term "modified" came from, I
17 don't know. You'd have to probably ask someone
18 that's more familiar with it than I am.

19 Q You wouldn't believe, actually, how much
20 time I spent researching that and then trying to
21 figure out what you've modified, and I said, it
22 looks like a straight Massachusetts. Anyway --

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1990

1 okay. Never mind.

2 The MMF that you use, then, allocates
3 costs to achieve and synergies to Exelon's
4 operating companies based on the ratio of the
5 subsidiary's labor costs, gross plant and gross
6 revenue to Exelon's labor costs, gross plant and
7 gross revenue, correct?

8 A It depends on the type of cost. So there
9 are three different uses of the MMF when we
10 allocated costs, or when BCG allocated costs.
11 There were some that went to all Exelon and all
12 PHI companies. Those were costs that would be --
13 savings or costs that would be borne by all.

14 There are those that went to just the
15 Exelon utility's and PHI utilities, and again,
16 same methodology, but would only benefit them, not
17 the non-regulated business. And then there are
18 those that are just PHI-specific, so, for example,
19 PHI executives; those cost savings would be, you
20 know, realized by the PHI entities, not all the
21 other companies.

22 Q All right. Let me take you briefly

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1991

1 through, then, page 71 of Exhibit DCG 84. Does
2 that graphic represent the three options that you
3 just outlined?

4 A It basically summarizes what I just said.

5 Q Okay. Very good.

6 And then on page 72, you have what the
7 difference is in allocation by -- depending on
8 which option you use, correct?

9 A Correct.

10 Q All right. And am I correct,
11 Mr. Khouzami, that ultimately Exelon settled on
12 using option 1, if I'm understanding this graphic
13 correctly, on page 72?

14 A No. They use all three methodologies --

15 Q Use all three.

16 A -- depending on the type of cost and the
17 type of synergy.

18 Q Okay. All right. Thank you.

19 Now going over to page 73, the table on
20 page 73 provides the inputs to your modified
21 Massachusetts formula, correct?

22 A It does.

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1992

1 Q And then it -- below those, below the top
2 segment of the table, you have a collection of six
3 MMF ratios, right?

4 A That's correct.

5 Q Okay. And all six of those are used to
6 allocate synergies and cost to achieve?

7 A All six were calculated. I'm not sure
8 all of them were needed.

9 Q Okay. And then -- what does the
10 abbreviation OLY stand for?

11 A It's Exelon.

12 Q Okay.

13 A It was just in this document.

14 Q That's why I never got it. Thank you.
15 The abbreviation OLY only-utility (sic) would be
16 Exelon utility's only; that would be ComEd, PECO
17 and BGE?

18 A I'm sorry, I misspoke. OLY was PHI, not
19 Exelon.

20 Q Oh.

21 A I'm sorry.

22 Q Is OLY an abbreviation for Olympus?

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1993

1 A Yes.

2 Q Okay.

3 A It was the code name used during the
4 transaction.

5 Q All right. Well, since we've stumbled
6 into that one, Mr. Khouzami, maybe you could tell
7 me, what the various noms de merger are here.
8 Olympus was, I thought, the code name for the
9 merger itself; is that right?

10 A I believe it was Olympus and Zeus, but
11 again, this is before I was involved. And I did
12 not make the names, so I can't answer why.

13 Q I know. Investment bankers have a
14 certain whimsy all their own, don't they?

15 A They do.

16 Q Let me ask you to accept, subject to
17 check, so we can move past this, that Olympus was
18 the code name for merger itself, that Zeus was the
19 code name for Exelon, and that Athena was the code
20 name for PHI.

21 A That sounds familiar. In this case,
22 though, OLY is the PHI entities. But what you

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1994

1 just mentioned does sound -- does ring a bell.

2 Q Boston Consulting Group, not being
3 investment bankers, weren't hip to the whimsy,
4 huh?

5 A I suppose not.

6 Q Okay. Great. All right.

7 So in that case, as you're explaining it
8 to me, OLY plus BGE would be PHI Holding Company,
9 plus Baltimore Gas & Electric. OLY-only utility
10 would be the three PHI operating companies?

11 A And the PES entity. That's the OLY
12 non-utility column.

13 Q Right. OLY-only utility would mean --

14 A Just the three utilities.

15 Q Just the three utilities. And would the
16 non-regulated include both Constellation and
17 PES -- PEPCO Energy Services, excuse me?

18 A Well, there's a column for Exelon
19 non-utility. That would be Constellation. And
20 then OLY non-utility would be PES.

21 Q Got it. Okay. Thank you, Mr. Khouzami.
22 Now I understand how it works.

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1995

1 Turning then to pages 74 through 78, if I
2 could just ask you to flip through those, and I
3 just have a very few questions about those.

4 A I see them.

5 Q Those pages provide a rationale for the
6 allocation of the synergies among the various
7 holding companies and operating companies,
8 correct?

9 A During the due diligence process,
10 correct.

11 Q That was the rationale for the allocation
12 that Boston Consulting Group used, correct?

13 A That's correct.

14 Q Okay. Is it also the rationale for the
15 allocation reflected on page 70 of Exhibit DCG 84?

16 A It is, but for the breakdown between
17 PEPCO Maryland, PEPCO D.C., Delmarva Maryland,
18 Delmarva Delaware, which was -- they use a
19 customer account.

20 Q And then if I'm correct, it's also the
21 rationale that was used -- that underlies the
22 allocation set forth in Joint Applicants

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1996

1 Exhibit (F2); is that correct? It's modified
2 again, as you just described, with the customer
3 account device for allocation among the PHI
4 operating companies.

5 A Yes. When we filed our application, this
6 is our best estimate of what synergies would be.

7 Q Okay. Now let me ask you to turn to
8 Exhibit DCG 84, page 36. The heading is bottom-up
9 labor, details on steady state O&M synergies,
10 labor synergies.

11 A I'm there.

12 Q Okay. The abbreviation FTE stands for
13 full-time employee or full time equivalent; is
14 that right?

15 A Full-time equivalent.

16 Q Okay. Is it a correct reading, then, of
17 this page, Mr. Khouzami, that the joint
18 applicants' labor synergies as developed to this
19 point, the point at which DCG 84 was written,
20 assumed a net reduction in force of 397 positions?

21 A Yes.

22 Q If I could ask you then to look at

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1997

1 page 62.

2 A I'm there.

3 Q Okay. The actual development of the 397
4 full-time equivalent positions to be eliminated is
5 discussed under item 2 in the left-hand column,
6 the heading, Severance and other compensation. If
7 you go to the key assumptions column on the right,
8 it says, 537 severances at 112,000 cost per
9 full-time equivalent, correct?

10 A That's correct.

11 Q And that's a cost assumption that
12 underlies Exhibit (F2) as well?

13 A That's correct.

14 Q Okay. And then 140 rehires?

15 A That's correct.

16 Q And the rehires have a cost associated
17 with them, but I forget what that was. Do you
18 recall?

19 A I believe it was \$19,000 per rehire.

20 Q Okay. And then there's a potential
21 additional 40 to 50 full-time equivalent
22 severance -- and I'm not sure what the plus

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1998

1 additional 5 million means. Could you explain
2 that?

3 A So really there was just a contingency
4 amount included for CTA purposes because, again,
5 this was very early in the process. We had -- BCG
6 and the joint applicants had not vetted all their
7 costs that they would need. So there was a
8 contingency amount based on BCG's experience that
9 they included.

10 The note to the side there was based on
11 the fact that the CTA seemed to be split
12 approximately half for labor, half for non-labor,
13 so they just did the conversion of, if I add
14 \$10 million of contingency, 5 million for labor,
15 \$5 million and 112,000 per employee roughly
16 translates to 40 to 50 people.

17 It wasn't to suggest that they identified
18 another 40 to 50 people.

19 Q Right. That was just, if you will, a
20 slug in the model in case you needed to
21 demonstrate some additional synergies, right?

22 A I think it was the standard contingency

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1999

1 that BCG would use given the point at which this
2 analysis was done in the process.

3 Q Certainly a kinder and gentler way of
4 putting it, Mr. Khouzami. Thanks.

5 And then the last bullet that section
6 includes -- there's a note that says, Includes
7 non-accelerated SERP which I believe you discussed
8 with Ms. Francis is supplemental executive
9 retirement plan; that's what that means?

10 A That's correct.

11 Q Okay. Is that -- I think you said --
12 \$17 million worth of executive compensation?

13 A That's correct.

14 Q Okay. And what's the difference between
15 the accelerated and non-accelerated portions of
16 the PHI supplemental executive retirement plan?

17 A So the non-accelerated portion would be
18 if one of the executives left today, that would be
19 the amount of SERP that he or she would have
20 already earned. The accelerated portion is due to
21 the merger, some of the SERP in the future was
22 brought forward and paid out. So they had not

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2000

1 earned it yet. So that portion obviously is being
2 triggered by the merger, so we included that in
3 transaction costs, non-CTA.

4 Q Okay. Let me ask you, if I could, to
5 take a look at what's in evidence as Exhibit
6 DCG 23. That's a two-page excerpt from the PHI
7 definitive proxy statement.

8 A I'm there.

9 Q Now, let me ask you to read that quietly
10 to yourself. And I'll warn that even if you're a
11 lawyer, it's not all that easy to follow. But I
12 wanted to see if you had an understanding, based
13 on reading it, what the elements of the executive
14 compensation identified in the table at the top
15 were and whether or not any accelerated or
16 non-accelerated supplemental executive retirement
17 is involved in that compensation.

18 A This is DCG 23?

19 Q If I'm giving you the correct exhibit, it
20 should be a two-page excerpt from the
21 supplemental --

22 A The first page appears to be an Exelon --

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2001

1 I can read that if you'd like.

2 Q You know what? That means I gave you the
3 wrong exhibit. Hang on just a second.

4 It should be -- what's in evidence as
5 DCG 23 should be an excerpt from PHI definitive
6 proxy statement dated August 12th, 2014, pages 78
7 through 80?

8 A I have pages 78 through 80, but the
9 gentlemen listed are Mr. Crane, Mr. Thayer,
10 Mr. Cornew, Mr. O'Brien and Mr. von Hoene. These
11 are Exelon employees.

12 MR. COYLE: Excuse me, Your Honor. Bear
13 with me just a second.

14 MR. LORENZO: Your Honor, could we go off
15 the record?

16 CHAIRMAN KANE: Yes, let's go off the
17 record for a moment until we get the exhibits
18 properly identified or located.

19 (Discussion held off the record.)

20 CHAIRMAN KANE: Now we are back on the
21 record.

22 THE WITNESS: So I've read it.

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2002

1 BY MR. COYLE:

2 Q All right. And can you identify, based
3 on your reading, Mr. Khouzami, whether or to what
4 extent any of the compensation discussed in the
5 table that appears on page 79 of the definitive
6 proxy statement involves accelerated supplemental
7 executive retirement plan?

8 A It seems like the third column does, the
9 pension and QDC column.

10 Q Okay. And then I wanted to clarify. You
11 said there were -- in your discussions with
12 Ms. Francis, you said there was \$73 million worth
13 of executive compensation that was eliminated from
14 cost to achieve?

15 A That's correct.

16 Q Okay. And that would include the other
17 golden parachute compensation?

18 A That would include the golden parachute
19 compensation, any restricted stock that became
20 vested that hadn't vested already, change in
21 control provisions.

22 Q Excellent. Thank you very much. Let me

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2003

1 ask you to go back to DCG 84, Mr. Khouzami.

2 A I'm back.

3 Q Would you turn to page 45, please.

4 A I'm there.

5 Q Would you explain to the commissioners
6 what system consolidation -- hybrid consolidation
7 for information technology is?

8 A Sure. So as we went through the
9 diligence process, we made decisions, or BCG
10 helped make decisions with us -- "us" being the
11 diligence team, which I was not part of, but had
12 talked to them -- about what we would do with the
13 IT systems at PHI. As you can see, for their
14 utility systems, the decision was to maintain them
15 to be separate.

16 For the HR and some other infrastructure
17 systems was to fully consolidate with the Exelon
18 platform.

19 For finance, accounting and the supply or
20 procurement systems, the idea was a hybrid, which
21 would be that they would remain on theirs, Exelon
22 would remain on theirs, and there would be an

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2004

1 interface developed to port that information over.

2 That was the initial thought during due
3 diligence; that is what the due diligence
4 estimates were based on.

5 As I mentioned this morning, there was a
6 decision as we went through the analyze phase of
7 our integration process with the larger teams,
8 full access to information, folks from both Exelon
9 and PHI, the decision was to move to a fully
10 consolidated IT solution for finance, accounting
11 and procurement. And that's what resulted in some
12 increased CTA dollars.

13 Q Is it true, to your understanding,
14 Mr. Khouzami, that PEPCO has just completed
15 implementing its Solution One billing system?

16 A I am.

17 Q You're familiar with that?

18 A I am familiar, and that is not something
19 that will be converted. So PEPCO and the other
20 PHI companies will remain on Solution One for
21 their call center operations.

22 Q And how about the billing system?

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2005

1 A And billing system, yes.

2 Q Okay. Exelon uses an Oracle-based
3 billing system; is that correct?

4 A Correct.

5 Q But the current plan is to keep them
6 separate?

7 A It is. Given the significant investment
8 the PHI companies have just completed, given the,
9 for lack of a better term, newness of the system
10 and the functionality that it provides, there
11 wasn't a need or a good business case to be made
12 to convert them.

13 Q Thank you. Let me ask you now to take a
14 look at what has been marked for identification as
15 confidential Exhibit DCG 92.

16 A I'm there.

17 Q And for the record, this is confidential
18 attachment D to the joint applicants' response to
19 data request DCG 1-10.

20 MR. COYLE: Again, I'd ask counsel
21 whether the customary understandings about
22 examining on a confidential document pertain here?

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2006

1 MR. LORENZO: Yes, Your Honor, they --
2 Mr. Coyle may examine.

3 BY MR. COYLE:

4 Q Have you had occasion, Mr. Khouzami, in
5 your capacity as chief integration officer to
6 become familiar with the document that's been
7 marked for identification as Exhibit DCG 92?

8 A Although it was completed prior to my
9 role, I have seen this document, yes.

10 Q And by whom was this document prepared,
11 if you know?

12 A I don't know, but given that it was a
13 document to request approval for the bid, that
14 would be something that would most likely come out
15 of Mr. von Hoene's area, corporate development and
16 strategy.

17 Q Do you know whether the information
18 summarized on pages 1 and 2, slides 1 and 2, I
19 guess, under the heading Executive summary, are
20 accurate -- is accurate, sorry.

21 A I have no reason to believe it's not
22 accurate.

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2007

1 Q Turning to page -- or slide 6, what's
2 headed -- I should be consistent about this, and I
3 apologize. Let's use the pagination in the upper
4 right-hand corner. It says page 7 of 37, to be
5 consistent.

6 The discussion merger agreement key
7 issues. The only part of the page that isn't
8 blacked out refers to the \$180 million upfront
9 investment in preferred stock?

10 A That's all I can read as well.

11 Q Okay. And that's the reverse breakup fee
12 that we were just discussing, correct?

13 A Correct.

14 Q Please go to page 5 of your direct
15 testimony and read lines 1 through 12 to yourself.

16 A I've read it.

17 Q Let me ask you now to go to page 17 of
18 Exhibit DCG 92. The page is headed, Sources and
19 uses of funds.

20 A I'm there.

21 Q Okay. Now, in your testimony -- in your
22 direct testimony that I just asked you to read,

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2008

1 you referred to financing about 50 percent of a
2 \$7 billion acquisition with Exelon debt, correct?

3 A Could you repeat your question?

4 Q Yeah. In your testimony that I just had
5 you look at, you talk about financing roughly
6 50 percent of the acquisition with debt issued by
7 Exelon.

8 A Correct.

9 Q Okay. And does that equate to the
10 350 million -- excuse me -- \$3.5 billion shown on
11 the line that begins, X Corp. debt issued --

12 A Yes.

13 Q -- across from sources?

14 All right. Go a little further down and
15 I see a reference to mandatory converts. And
16 that's shorthand for mandatory convertible,
17 correct?

18 A Yes.

19 Q The commissioners probably know, but
20 would you explain for the record what a mandatory
21 convertible security is?

22 A It is an instrument that is sold that

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2009

1 provides interest or dividend payment for a period
2 of time until it converts into -- at a stated rate
3 until it converts into full equity.

4 Q Okay. Now, with respect to the mandatory
5 convertibles that Exelon contemplates issuing --
6 has Exelon issued those, by the way, already?

7 A They have.

8 Q Okay. What is the -- let me back up.

9 Mandatory convertible has characteristics
10 of debt in the early part of its life, correct?

11 A They have an interest payment or a
12 dividend payment, however you want to look at it.
13 In our case, it's 6.5 percent that will be paid
14 until the beginning of 2017 when it converts into
15 full equity, at which case it will become the same
16 as any other shared common stock.

17 Q Okay. But between -- and when were they
18 issued?

19 A Subject to check, third quarter, fourth
20 quarter of 2014. I'd have to go back and look for
21 the exact date.

22 Q All right. So for the time being, they

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2010

1 have the characteristics of debt?

2 A Or preferred stock, which acts the same
3 way too, so whichever way you want to call it.

4 Q Okay. It makes a difference to your
5 50 percent whether they count as debt or equity,
6 right?

7 A So to clarify, maybe I'll just say what
8 we used. Our funding mix will be \$3.5 billion of
9 debt. It is \$1.8 billion of common stock that has
10 already been issued. About a billion dollars is
11 expected from asset proceeds, so cash that we're
12 getting from selling some other non-core
13 generation facilities. And then the remaining
14 portion, 1.2 billion, from the mandatory converts.

15 And when we say 50 percent debt,
16 50 percent equity, we are considering the
17 mandatory converts similar to how S&P does, as
18 100 -- when we say 50 percent equity, 50 percent
19 debt, we are treating the mandatory converts as
20 100 percent equity, which is the same methodology
21 that S&P uses.

22 Q Thank you. Would you take a look down at

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2011

1 the third bullet from the bottom in the right-hand
2 column under model assumptions.

3 A I see it.

4 Q Okay. It says, Assumes 130 million of
5 steady state annual non-fuel O&M synergies,
6 35 percent retained.

7 Is that level of synergies the one that
8 was ultimately reflected in the -- in
9 Exhibit (F2), Joint Applicants' Exhibit (F2)?

10 A The 130 million?

11 Q Yes.

12 A Yes.

13 Q Okay. And the cost to achieve, I'm
14 sorry, under the second bullet from the bottom,
15 assumes CTAs of 265 million pre-tax and
16 transaction fees of 80 million pre-tax. You have
17 a note that says, CTAs include RSUs valued at \$26
18 a share.

19 RSUs is an abbreviation for restricted
20 stock units, correct?

21 A Correct.

22 Q And that is a form of executive

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2012

1 compensation at PHI?

2 A Correct.

3 Q Okay. So at the time that this sources
4 and uses of funds on page 17 of Exhibit DCG 92 was
5 prepared, the contemplation was that cost to
6 achieve would include the payment of executive --
7 that kind of executive compensation?

8 A That's correct. That would be the
9 \$73 million that we've reclassified as transaction
10 costs from the CTA.

11 Q Very good. Thank you. Now, going up
12 one, two, three -- the fourth bullet from the
13 bottom says, Assumes cash savings from elimination
14 of PHI dividend used to offset acquisition debt.

15 Do you see that?

16 A I do.

17 Q For reference, the PHI dividend at the
18 time this was prepared was approximately \$1.08 per
19 share; is that right?

20 A Subject to check. I know last year it
21 was around \$280 million of dividend payments for
22 the year. I know that number. The per share

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2013

1 number I don't know off the top of my head.

2 Q I'll give you a calculator if you want.

3 But you've used the figure. Let me see if I can
4 get you to trust me on the math --

5 A Okay.

6 Q -- a little bit more, Mr. Khouzami.
7 You've used the figure of 251 million shares
8 outstanding for PHI --

9 A Okay.

10 Q -- 4ight? And \$1.08 times 251 million
11 shares is about 272 million?

12 A I'll take that, then.

13 Q All right. Great. Thank you.

14 So the plan, as far as appears here, is
15 to use 272 million per year that would otherwise
16 be -- would otherwise, but for the merger, have
17 been used to pay the PHI dividend, to retire the
18 acquisition debt; is that right?

19 A That's what it appears to be. Obviously,
20 the new shares issued at Exelon would receive an
21 Exelon dividend payment, so there is an offset.
22 But that's what the wording here seems to suggest,

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2014

1 that there's some amount that can be used to pay
2 acquisition debt down.

3 Q Okay. Mr. Khouzami, could you turn to
4 page 18 of Exhibit DCG 84.

5 A I'm there.

6 Q I went through this with Mr. Crane, but
7 he assured me you were a lot smarter on this
8 subject than he is. I wanted you to look at the
9 first box in the upper left-hand corner, the
10 caption of which is, Operating EPS accretion
11 (DIL).

12 Do you see where I am?

13 A I am.

14 Q And that abbreviation or that set of
15 abbreviations stand for operating earnings per
16 share accretion diluted; is that right?

17 A Accretion or dilution. Negative would be
18 dilution; positive would be accretion.

19 Q Okay. And there is a positive earnings
20 per share accretion shown, correct?

21 A It's starting in 2016, not in 2015.

22 Q Okay. The next box over, the

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1 abbreviation FCF stands for free cash flow; is
2 that right?

3 A Correct.

4 Q And there's no dilution with respect to
5 the free cash flow?

6 A No, it's all dilution; it's all negative.

7 Q It's all negative?

8 A Those are all negative numbers.

9 Q I see. Thank you.

10 What is free cash flow, Mr. Khouzami?

11 A That would be cash flow from operations
12 less capital expenditures.

13 Q Does free cash flow include accumulated
14 deferred income tax?

15 A I believe so, yes.

16 Q And on the bottom box, Exelon
17 consolidated FFO is funds from operations,
18 correct?

19 A Correct.

20 Q And the FFO-to-debt ratio is important to
21 Exelon why?

22 A It's one of the key metrics that the

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2016

1 rating agencies use when assessing a company and
2 their financial strength. As we've stated
3 multiple times, Exelon and all its operating
4 companies put a lot of importance on the
5 investment grade ratings. So it's a key metric we
6 always look at.

7 Q Okay. Take a look at page 20, if you
8 would, Mr. Khouzami. Just kind of scan that to
9 yourself.

10 A Okay.

11 Q Why would the comparison of who the top
12 30 shareholders are have any significance for
13 Exelon's board's deliberations, if you know?

14 A I couldn't say. I wasn't in the meeting,
15 so I'm not sure what the intent of the slide was.
16 But from the suggestion, it looks like we have
17 some shared investors and some that were
18 different.

19 Q Okay. Let me go back to your direct
20 testimony, Mr. Khouzami. Going to page -- I'm
21 sorry. Wrong reference. Sticking with Exhibit
22 DCG 92.

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2017

1 A Okay.

2 Q I'm sorry. Looking -- yeah, sticking
3 with Exhibit DCG 92, going to page 9 of 37.

4 A I'm there.

5 Q Okay. Financial due diligence update and
6 then, underneath that, there's a heading that
7 says, Purchase accounting update, correct?

8 A Yes.

9 Q Okay. And the first bullet says,
10 Goodwill at PHI post-transaction close will be
11 above 3.5 billion versus the 1.4 billion of
12 goodwill on its books December 31, '13.

13 Do you see where I'm at?

14 A I do.

15 Q Why did PHI have \$1.4 billion on its
16 books at December 31, 2013, do you know?

17 A I believe that came from the
18 PEPCO/Conectiv merger.

19 Q Would that 1.4 billion in goodwill, to
20 your understanding, represent some kind of premium
21 that was associated with that merger, some kind of
22 acquisition premium?

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2018

1 A It's typically the price that is paid for
2 the equity that's above the book value. So it's a
3 different type of premium compared to the market
4 premium that we talked about earlier today.

5 Q Okay. A premium to book versus a premium
6 to market?

7 A That's correct.

8 Q Thank you. You say -- you go on to say,
9 Goodwill will be adjusted based on final purchase
10 price and valuation number at the time of closing.

11 What does that exercise entail,
12 Mr. Khouzami?

13 A So, first, finalizing the purchase price,
14 which we have done. The second is working with
15 typically Duff & Phelps, who did a lot of the
16 acquisitions for us. They will go through and do
17 an analysis valuing the fair market value of the
18 assets that we purchased. And then the
19 differential would be either positive or negative
20 goodwill depending on what their value comes up
21 with.

22 Q Okay. And the third hash mark down says,

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2019

1 As of the last impairment test, PHI had a cushion
2 of approximately 1.5 billion, so we would most
3 likely have limited cushion.

4 What does that refer to?

5 A Again, I'm not sure, since this is not my
6 presentation, but I believe there are impairment
7 tests when you do the fair market value of the
8 assets, and from an accounting perspective, if the
9 fair market value of the assets drops below a
10 certain threshold, then you have to write off a
11 portion of the goodwill because that goodwill is
12 deemed no longer to be yours.

13 Q Okay. Do you know whether there was any
14 goodwill written off as impaired -- well, you
15 don't know because the transaction hasn't happened
16 yet, right?

17 A So far none.

18 Q Okay. So far none. Great. Thank you.

19 Let me ask you to take a look next at
20 what's been marked for identification as Exhibit
21 DCG 100, Mr. Khouzami?

22 A I'm there.

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2020

1 Q That, for the record, is the joint
2 applicants' response to data request DCG 3-24.
3 I'd like you to take a moment to review the
4 entirety of that response to yourself and let me
5 know when you're ready.

6 A I've read it.

7 Q Okay. You are the author of that
8 response, correct?

9 A I sponsored it, yes.

10 Q Okay. And you're sponsor of the
11 amendment to the request as well, yes?

12 A Yes.

13 Q The amendment to the response?

14 Okay. Would it be the case that your
15 original answer anticipated \$2.5 billion worth of
16 goodwill being incorporated into PHI's books as a
17 result of the merger?

18 A The original response contemplated the
19 goodwill created by just this merger. The revised
20 response included what was already on the books of
21 PHI, which is the 1.4 billion. So 3.9 is the
22 result of 2.5 plus 1.4.

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2021

1 Q All right. Thank you. Now,
2 Mr. Khouzami, again, I'm sure that commissioners
3 already know, but could you describe briefly --
4 oh. Actually, withdrawn. Let me go somewhere
5 else here.

6 How much goodwill does Exelon have
7 recorded on its books as a result of the previous
8 mergers with PECO and Constellation, do you know?

9 A Off the top of my head, I do not know.

10 Q Do you know whether both of those mergers
11 involve premiums to book?

12 A I can only speak to the Constellation
13 with certainty, and the answer is yes. And I
14 would assume the one before did as well. Based on
15 my time as an investment banker previously with
16 Bear Stearns, focusing on mergers and
17 acquisitions, premiums to book are very common.

18 Q Would you accept, subject to check, that
19 the goodwill on Exelon's books pre-merger amounts
20 to about 2.6 billion?

21 A Subject to check, sure.

22 Q And I'd be grateful if you or your

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1 counsel would get back to me if I'm wrong about
2 that.

3 A I think we can provide...

4 Q Thank you. But on that assumption, total
5 goodwill reflected on the merged company's books,
6 if the merger proceeds, would be about
7 6.5 billion; is that correct?

8 A It's the 3.9 plus -- I forgot the number
9 you said already, sorry. 2.6?

10 Q 2.6.

11 A That's correct.

12 Q Mr. Khouzami, again -- now I'll get to
13 the question I was going to ask before. I'm sure
14 the commissioners know, but could you describe
15 briefly for the record what impairment of goodwill
16 is?

17 A The impairment of goodwill is -- there
18 are a two-factor test where you test the goodwill,
19 typically on an annual basis or a periodic basis,
20 to ensure that the value of the assets are still
21 in line with the price that you paid; in other
22 words, that it didn't denigrate. So you don't

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1 increase the goodwill, but if there's a
2 significant loss in value of the assets, then you
3 may have to, if you get to a certain point, write
4 off a portion of your goodwill.

5 Q And then that involves writing down your
6 assets, your total assets? Goodwill is treated as
7 an asset, correct?

8 A Yes, so the asset that gets written down
9 is goodwill, and then you would see a
10 corresponding reduction in equity.

11 Q Okay. Thank you. Do you know whether
12 goodwill is -- are you familiar with utility
13 rate-making conventions with respect to goodwill?

14 A You can ask the question and find out how
15 much I do know.

16 Q All right. Let me ask it this way: Do
17 you know whether regulated utilities are allowed
18 to earn a return of and on goodwill?

19 A So I can't speak with certainty in every
20 jurisdiction. I know, for example, in ComEd, they
21 exclude goodwill for rate-making purposes. In the
22 instance here, none of the goodwill will get

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1 pushed down below the PHI level. So, therefore,
2 on PEPCO D.C. or any of the PEPCO -- PHI
3 utilities, none of the goodwill would be
4 reflected. So it would not be included in any of
5 the capital structure that would be included in a
6 distribution rate case or a transmission case.

7 Q In fact, you already almost anticipated
8 my next question, Mr. Khouzami. Would you take a
9 look at Joint Applicants' Exhibit (4A)-2 at
10 page 10, commitments 61 and 63.

11 A Okay. I'm there.

12 Q Okay. Those two commitments relate to
13 PEPCO, right?

14 A 61 and 63?

15 Q That's correct.

16 A That's correct.

17 Q Okay. And you say, PEPCO will not
18 reflect any of the goodwill associated with the
19 acquisition on its books, correct?

20 A Correct.

21 Q Okay. PEPCO's stock in principle is
22 owned by PHI, correct?

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1 A Correct.

2 Q And PHI's stock will be retired as a
3 result of the merger; is that right?

4 A No. PHI's stock will be moved to Exelon.
5 PHI will continue to have equity.

6 Said another way, if PHI's stock
7 vanished, what would Exelon be buying?

8 Q Let me -- just to clarify that point,
9 Mr. Khouzami, let me ask you to go back to Exhibit
10 DCG 1 and let me ask you to read page 52, numbered
11 page 52 at the bottom, entitled, Payment of merger
12 considerations, surrender of stock certificates,
13 to yourself.

14 A Okay. Read that section?

15 Q Yes, please.

16 A I've read it.

17 Q Okay. Is it not the case that PHI's
18 stockholders will surrender their stock and the
19 stock will be canceled in connection with the
20 merger?

21 A The public trading of the stock will be
22 canceled. The certificates will be turned over

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1 effectively to Exelon. Exelon has to own
2 something in order to own PHI. They own the
3 stock.

4 Q I see. Thank you.

5 Now, going back to commitments 61 and 63,
6 then, the undertaking is that PEPCO will not pay
7 dividends to its parent company. Who is the
8 parent company at that point?

9 A So the parent company of PEPCO is PHI.

10 Q Okay. So PEPCO will not pay dividends to
11 PHI if, immediately after the dividend payment,
12 PEPCO's common equity level would fall below
13 48 percent?

14 A Correct.

15 Q Okay. Do you know whether that
16 48 percent equity figure would be calculated with
17 reference to goodwill on PHI's books?

18 A PHI equity ratio has nothing to do with
19 this commitment. This is PEPCO's capital
20 structure which would have no goodwill.

21 Q You're sure PEPCO's capital structure has
22 no goodwill today?

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1 A I'm -- yes.

2 Q Okay. All right. And the same is true
3 of commitment 63?

4 A Yes.

5 Q Okay. Thank you.

6 MR. COYLE: Bear with me a second, Your
7 Honor. I need to find another exhibit.

8 BY MR. COYLE:

9 Q Would you turn next, Mr. Khouzami, to
10 what's in evidence as Exhibit DCG 2?

11 A I'm there.

12 Q Have you seen this document before,
13 Mr. Khouzami?

14 A I have.

15 Q Do you know who prepared it?

16 A I would imagine our investor relations
17 group actually prepared the document, with input
18 from numerous parties.

19 Q Okay. Let me ask you to turn to
20 slide 11. And the page heading is, Transaction
21 economics are attractive.

22 A I am there.

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1 Q Okay. The first bullet says,
2 Significantly, earnings accretive in the first
3 full year after closing anticipate run rate
4 accretion of 15 to 20 cents per share starting in
5 2017, correct?

6 A That's what it says.

7 Q All right. And that's a reference to
8 Exelon shares, correct?

9 A Yes.

10 Q About how many shares does Exelon have
11 outstanding, do you know?

12 A About 830 million.

13 Q Okay. So a 20 percent -- sorry --
14 20 cent per share earnings accretion would be the
15 equivalent of about \$166 million a year?

16 A Subject to check, that's the math.

17 Q Okay. Where does that accretion come
18 from, Mr. Khouzami?

19 A It is taking the existing EPS of Exelon
20 and comparing it to the EPS of the combined
21 entity, the combined net income over the new
22 number of shares outstanding.

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1 Q Now let me ask you to take a look at
2 what's been marked -- I'm sorry. Going down the
3 page, staying with the same page we were on,
4 Exhibit DCG 2, slide 11, third bullet from the
5 bottom, Net synergies of more than 250 million
6 over the first five years, of which one-third is
7 retained, correct?

8 A That's what it says.

9 Q All right. That was the original plan,
10 and now the plan has changed somewhat, right?

11 A It's gone down to 225.

12 Q Okay. But all of the synergies, or
13 94 percent of the synergies for the first ten
14 years are being distributed in the form of the
15 customer investment fund, right?

16 A For PEPCO, yes. PEPCO D.C.

17 Q Okay. Does that figure vary for other
18 operating companies?

19 A Well -- other PHI operating companies?
20 No other operating company in the Exelon family is
21 getting any kind of CIF upfront.

22 Q Right. So other PHI operating --

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1 A I'd have to go back and look, but it's
2 about the same for all.

3 Q Okay. Fair enough.

4 So \$225 million in synergies over the
5 first five years, you said, that equates to about
6 45 million a year?

7 A It's not straight line, but -- I mean --
8 225 divided by 45.

9 Q Okay. So that doesn't account for all
10 the earnings accretions, surely.

11 A Most of those synergies won't be
12 retained. They'll be given back to customers
13 through a rate lower than otherwise would have
14 been cost of service. So the only thing that's
15 kept is what's at the non-regulated entity. About
16 two-thirds of the synergies will go back to
17 customers, PHI customers for the PHI utilities.
18 Obviously then also BGE, PECO and ComEd customers
19 for their synergies.

20 Q Okay. Now, let me ask you to take a look
21 at what's in evidence as Exhibit DCG 3, please.
22 That's a transcript of Exelon's first quarter 2014

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1 earnings call which also involved the merger
2 announcement.

3 A Uh-huh.

4 Q You're not listed as one of the
5 participants. Were you watching it streaming
6 or --

7 A I was listening silently.

8 Q Okay. Good.

9 I wanted to invite your attention
10 particularly to page 16 of that transcript.
11 There's a comment four segments from the bottom
12 attributed to Mr. Thayer. And Mr. Thayer is the
13 executive -- I'm sorry. Again, I'm on page 16.
14 It's the fourth segment from the bottom, Exhibit
15 DCG 3. Mr. Thayer is the executive vice president
16 and chief financial officer of Exelon, correct?

17 A Correct.

18 Q And he's responding to a question from an
19 analyst from Deutsche Bank, Jonathan Arnold; is
20 that right?

21 A Yes.

22 Q Okay. And Mr. Arnold is asking a

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1 question about the earnings per share accretion,
2 and gets part of his question out before
3 Mr. Thayer jumps in with his response.

4 I wonder if you could read Mr. Thayer's
5 response, skipping the first sentence, beginning
6 with the part that says, And second of all.

7 Do you see where I am?

8 A No, I don't.

9 Q Okay.

10 A You're on the fourth section down on
11 page 16?

12 Q Fourth section from the bottom.

13 A Oh, I'm sorry.

14 Q That's all right.

15 A Okay. I've read it.

16 Q Okay. Mr. Thayer says, And second of
17 all, if you do the math, you will see synergies is
18 a very small element of the accretion in this
19 transaction.

20 Right?

21 A Correct.

22 Q Would you agree with that statement?

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1 A I would agree with two-thirds are going
2 back to customers, so from an accretion
3 standpoint, Exelon -- I would agree that
4 two-thirds of the synergies go back to customers
5 through lower rates, so Exelon doesn't keep that
6 portion.

7 Q So that would make the synergies a very
8 small portion of the accretion involved in the
9 transaction, correct?

10 A Again, smaller than the full amount, yes.

11 Q It's not only smaller than the full
12 amount of the accretion, which I think we agreed,
13 subject to check on my math, was about 160 million
14 a year.

15 A That's what you say when you use the top
16 end of the range. In some of the exhibits that
17 you've suggested here, you know, it's at the
18 bottom of the end -- I'm not sure if you know.
19 Sorry.

20 It is at the lower end of the range, so
21 if you use that number, it's a lower number.

22 Q You mean the lower -- so you're talking

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1 the accretion has a range of 15 to 20 cents a
2 share, and my calculation was at 20 cents a share?

3 A Correct.

4 Q Okay. But you could do the same
5 calculation at 15 cents a share times 860 million
6 shares?

7 A That's correct.

8 Q And I think we could also agree, could we
9 not, Mr. Khouzami, that at least at the time of
10 this earnings call, run rate accretion wasn't
11 predicted to be achieved until about 2017; is that
12 right?

13 A 2017, yes.

14 Q Okay. All right. Now, Mr. Thayer goes
15 on to say, It's really the opportunity for
16 incremental leverage at the holding company that
17 this transaction affords.

18 Let me stop there and ask you what he's
19 talking about. What is the incremental leverage
20 at the holding company that this transaction
21 affords?

22 A So Exelon's balance sheet has debt

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1 capacity that it can use to help finance the
2 transaction. As we talked about, 50 percent of
3 the financing costs will be debt. This is debt
4 that will be raised at Exelon holding company.
5 It's debt that will be serviced by Exelon. It
6 doesn't flow down to any of the subsidiaries,
7 isn't on any of their capital structures. It is
8 true HoldCo debt, which is one of the reasons why
9 we've been able to state with certainty that the
10 capital structures that exist at each of the PHI
11 utilities will be the same pre-merger as it will
12 be post-merger.

13 Q Okay. Mr. Thayer's next sentence says,
14 It is the monetization of certain assets at a
15 higher value than what would be implied in our PE
16 multiples.

17 Do you see where I am?

18 A I do.

19 Q Again, I'm sure the commissioners know
20 this, but for the record, a PE multiple is a price
21 to earnings multiple, correct?

22 A Correct.

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1 Q All right. So what assets are being
2 monetized at a higher value than would be implied
3 by the PE multiple, Mr. Khouzami?

4 A Exelon sold some generation facilities
5 that it values one way. The buyer clearly had a
6 different outlook on power prices and valued it a
7 different way. And so Exelon was able to monetize
8 the value of that asset at a value that was
9 greater than what they would ascribe to it.

10 Q So the monetization of assets, to your
11 understanding, does not refer to the acquisition
12 of PHI?

13 A I believe it was referring to the asset
14 sales.

15 Q Okay. But the leverage at the holding
16 company level does refer to PHI, the acquisition
17 of PHI?

18 A I believe the leverage refers to the debt
19 capacity that exists on Exelon's books due to
20 financing decisions Exelon has made.

21 Q And, again, the synergies, according to
22 Mr. Thayer, are a modest -- or excuse me -- are an

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1 important but very modest contribution to the 15
2 to 20 cents per share, right?

3 A That's what he says.

4 Q Okay. Would you agree with that; it's a
5 very modest contribution to the 15 to 20 cents a
6 share?

7 A One-third of 130 million is estimated to
8 be at the non-reg -- that's about \$45 million,
9 which is roughly, you know, 4 to 5 cents. So
10 define what you mean by modest.

11 Q Thank you. Okay. All right.

12 It's actually 45 million a year. So it's
13 one-third of 45 million that you're talking about.
14 It's about 15 million a year, isn't it?

15 A No, there were accretions every year.

16 Q Oh, I'm sorry, the accretion, right.

17 Okay. I thought you were talking about the
18 portion of the synergies that was retained by
19 Exelon.

20 A I am. So the total synergies for this
21 transaction is 130 million, run rate. What will
22 be retained by Exelon is roughly about a third,

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1 the portion going to the non-regulated businesses.

2 That's about \$45 million.

3 Q Over five years?

4 A No. The run rate --

5 Q I see.

6 A -- is -- starting in year 5 and beyond is
7 the run rate, and that's --

8 Q Got you.

9 A -- 45.

10 Q Thank you, Mr. Khouzami. I appreciate
11 it. Now I understand.

12 A Okay.

13 Q Mr. Khouzami, let me ask you next to take
14 a look at what have been marked -- at a series of
15 documents that have been marked for
16 identification, if I can find them -- actually,
17 let me ask you first to take a look at Exhibit
18 DCG 101, what's been marked for identification as
19 Exhibit DCG 101.

20 A Okay.

21 Q Those are the capital structures -- I'm
22 sorry. Are you the author of that response?

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1 A Yes.

2 Q Okay. I'm sorry. I need to identify the
3 exhibit for the record. This is the response
4 to -- joint applicants' response to
5 D.C. government data request 2-2; is that correct?
6 Exhibit DCG 101?

7 A Yes.

8 Q Okay. And you are the author of that
9 response, correct?

10 A Yes.

11 Q Sponsor. Okay. That information was
12 true and correct when provided?

13 A Yes.

14 Q Still true and correct, as far as you
15 know?

16 A Yes.

17 Q Okay. Let me ask you to take a look next
18 at what's been marked for identification as
19 Exhibit DCG 102.

20 A I'm there.

21 Q That is, for the record, the joint
22 applicants' response to AOBA data request 1-19; is

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1 that correct?

2 A That's correct.

3 Q All right. Mr. Khouzami, you mention --
4 and you are the author of this response, yes?

5 A Yes.

6 Q Okay. Response, again, true and correct
7 when you gave it?

8 A Yes.

9 Q Still true and correct, to your
10 understanding, today?

11 A It is.

12 Q Mr. Khouzami, you mention in that
13 response that Exelon may participate in the
14 provision of standard offer service and
15 procurement -- I'm not sure exactly how to express
16 it correctly. You have it expressed correctly in
17 the data request; I'll just defer to that.

18 Exelon may wish to be a bidder in the
19 standard offer procurement process, right?

20 A That's correct.

21 Q Okay. Do you know whether the District
22 of Columbia has statutory restrictions or would --

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1 has statutory restrictions in place that would
2 limit Exelon's or could limit Exelon's ability to
3 participate in the standards offer procurement
4 process --

5 A I would have to --

6 Q -- post-merger?

7 A I would have to check. I'm not sure.

8 Q Do you know whether the Commission's
9 rules have restrictions in place that would affect
10 Exelon's ability post-merger to participate in the
11 standard offer procurement process?

12 A I would have to check. I'm sure our
13 operators are aware of them, and obviously
14 whatever rules are in place, Exelon will abide by.

15 Q Okay. Mr. Khouzami, let me ask you now
16 to turn to exhibits starting -- that have been
17 marked for identification as Exhibit DCG 104 to
18 start with. I'll represent for the record that
19 these are confidential responses to data request
20 DCG 2-44, attachment Q.

21 And before I examine you on them, I
22 wanted to ask you to take a look and let me know

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1 whether you have seen those documents previously.

2 A I saw them this morning.

3 Q Okay. But you have not seen them prior
4 to this morning?

5 A I have not.

6 Q Okay. You were not involved in their
7 preparation?

8 A No. This appears to be the valuation
9 model used for the transaction.

10 Q Okay. Do you know who at Exelon was
11 responsible for the preparation of the valuation
12 model?

13 A I would assume it was someone in Mr. von
14 Hoene's corporate development and strategy group.

15 Q Okay. Have you had to occasion to work
16 with that model since becoming chief integration
17 officer?

18 A No.

19 Q Okay. Are you able to answer questions
20 about these documents since you don't -- you
21 didn't see them prior to this morning?

22 A I would assume it depends on the

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1 question, but I'm not familiar with these
2 documents.

3 Q All right. I'll move on to something
4 else. Thank you. Let me -- just to make sure,
5 let me go through -- the same for DCG 105, 106 and
6 107? If you'd just take a look at those quickly.

7 A The same response to all of them.

8 Q All right. Thank you.

9 MR. COYLE: Bear with me a second, Your
10 Honor. I need to find a document.

11 BY MR. COYLE:

12 Q Let me ask you to turn to Exhibit (4A)-2,
13 Mr. Khouzami, and go to page 11.

14 A I'm there.

15 Q Do you know why the joint applicants
16 proposed -- well, let me ask you, first of all, to
17 read the second sentence of commitment 72 into the
18 record.

19 A I've read it.

20 Q Okay. I was asking you to read it out
21 loud, if you could, so we have it in mind.

22 A It states, Five years after closing of

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1 the merger, joint applicants shall have the right
2 to review the provisions contained in
3 paragraphs 28 through 70 and to make a filing with
4 the Commission requesting authority to modify or
5 terminate those provisions. Notwithstanding such
6 right, joint applicants agree not to proceed with
7 any such modifications or termination without
8 first obtaining Commission approval in a written
9 order.

10 Q Okay. Why did the joint applicants
11 choose five years for that provision?

12 A In the last transaction, it was three.
13 I'm not sure why five was chosen this time. I
14 think that's probably the view of where a material
15 business or -- need could come.

16 Again, I think the importance of this
17 provision is that second sentence that I read,
18 which is that no changes will be made prior to
19 receiving Commission approval in a written order.

20 Q Were you involved in the formulation of
21 commitment 72 at all?

22 A No.

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1 Q Okay. Is there a standard by which
2 commitment 72 contemplates the Commission would be
3 governed or guided in determining whether or not
4 to grant approval in a written order?

5 A I think that would be to the discretion
6 of the commissioners and what they saw -- what
7 they thought was best for the customers of PEPCO
8 D.C.

9 Q Okay. Do you think it should be the same
10 standard that governs their approval of the merger
11 in the first place?

12 A I believe there's a seven-factor test
13 that covers that approval. Again, I'm not a
14 lawyer, but that's my understanding.

15 Q Okay. The significance of ring-fencing
16 generally, Mr. Khouzami is -- I mean, if you could
17 summarize it in a sentence or two -- is what?

18 A So the ring-fencing provisions are put in
19 place to ensure that the non-regulated operations
20 of Exelon would not cause harm to any of the
21 customers of any of the PHI utilities.

22 The ring-fencing structure we've put in

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1 place is at the PHI entity level, includes the
2 three PHI utilities. It takes out what is
3 currently, under PHI, the non-regulated
4 businesses; it takes that and moves it to the
5 non-regulated side of Exelon.

6 So, in fact, the ring-fencing provisions,
7 I would argue, are even -- are -- protect PEPCO
8 D.C. customers even more so than what PHI has
9 today, given that it has no exposure to non-reg
10 operations underneath their structure now.

11 Q Okay. It was interesting -- and I thank
12 you for it; I'm not sure it answered my question,
13 which was, what is the purpose of the
14 ring-fencing? It's to insulate the customers of
15 the regulated utility companies from the risks of
16 non-regulated operations, correct?

17 A That's correct.

18 Q All right. Those risks will persist,
19 will they not, after five years?

20 A They would. And, again, I would think
21 that if they do still exist, then at that time we
22 would likely not propose any modifications. And

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1 if we did for whatever reason, the Commission
2 could see fit to say no.

3 I'll give you an example. What if Exelon
4 divests of all their generations, all their
5 non-regulated businesses; there may not be a need
6 for ring-fencing anymore.

7 This provision provides us the
8 opportunity to have that discussion with the
9 Commission, but ultimately still keeps all the
10 decision-making with the Commission to either
11 grant or not grant any changes to the ring-fencing
12 provisions.

13 Q Would you recommend, Mr. Khouzami, as a
14 sponsor of this commitment, that the Commission
15 adopt a standard for whether or not they ought to
16 relax it if they grant the merger?

17 A I've learned a ways ago that I don't try
18 to pretend to be a commissioner. Again, it's
19 their discretion. I trust that they'll make the
20 right decision.

21 Q Let me change topics again, Mr. Khouzami.
22 Let me ask you to -- while you're still on

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1 Exhibit (4A)-2 -- and this will be my last set of
2 questions -- to turn to page 4 of 17, and I'd like
3 you to look at paragraph 17, please.

4 A I am there.

5 Q And that refers to Exelon's commitment to
6 make a good-faith effort to hire 102 bargaining
7 unit employees, correct, if the merger is
8 approved?

9 A Within two years, correct.

10 Q I'd like to ask you now, Mr. Khouzami, to
11 take a look at what's been marked for
12 identification as Exhibit DCG 91.

13 A I'm there.

14 Q Okay. Now, the sponsor of this
15 exhibit -- or the sponsor of this data request is
16 PHI, but I was wondering if you were sufficiently
17 familiar with its content to be able to speak
18 about it.

19 A Why don't we ask the question and we'll
20 find out.

21 Q All right. Fair enough.

22 Attachment A -- I'm sorry. The exhibit

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1 is the joint applicants' response to
2 D.C. government data request number 4-8.

3 A I've got it.

4 Q I want you to take a look at the
5 attachment A to that response and let me know
6 whether you're familiar with it.

7 A I am familiar that there is an agreement
8 with 1900 -- I wasn't party to this. So intimate
9 familiarity I would not have with this.

10 Q Okay. Let me did you to take a look at
11 page 2 of 4, Roman numeral V, the heading Staffing
12 Commitment. Do you see that?

13 A I do.

14 Q Okay. And let me just ask you to read
15 item A to yourself. Let me know when you've
16 finished.

17 A I'm finished.

18 Q Okay. Do you know, Mr. Khouzami, whether
19 the bargaining unit that is represented by IBEW
20 Local 1900 covers PEPCO's operations in both the
21 District and Prince George's and Montgomery
22 County, Maryland?

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1 A I believe it does.

2 Q Okay. So the reference to a good-faith
3 effort to -- in the 2012 labor agreement to fill
4 220 positions in the bargaining unit from June 1,
5 2012 through May 29, 2016, that would cover all
6 three jurisdictions; that is, the District and the
7 two counties in Maryland?

8 A I think it would. I think we're getting
9 dangerously close to the extent of my knowledge.
10 I would suggest that you defer these questions to
11 Mr. McGowan who might be more familiar, since he's
12 from PHI.

13 Q Okay. And I certainly will accept your
14 invitation to take that up with Mr. McGowan. I
15 just wanted to ask you -- well, let me ask it this
16 way. You're probably more comfortable if I ask it
17 this way. Mr. McGowan would know the extent to
18 which PEPCO had completed the hiring contemplated
19 by the commitment to hire 220 bargaining unit --
20 I'm sorry -- the commitment to make a good-faith
21 effort to post and fill 220 bargaining unit
22 positions between June 1, 2012 and May 29, 2016

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1 referenced on page 2 of that exhibit, correct?

2 A I'm sure he will by the time he gets up
3 here.

4 Q Great. And he would also be familiar
5 with the commitment to make a good-faith effort to
6 externally hire a minimum of 195 bargaining unit
7 employees, which, again, would cover all three
8 jurisdictions, beginning May 30, 2012 -- or 2016,
9 correct?

10 A Again, I think these questions are
11 probably better suited for him.

12 Q Okay. Just one question, Mr. Khouzami,
13 since you -- your testimony was, I believe, that
14 the merger would be net employment positive for
15 the District, right?

16 A That's correct. We said there would be a
17 job positive due to the merger.

18 Q And for that -- for the purpose of making
19 that assertion, you're counting all 102 bargaining
20 unit positions, correct?

21 A To make that assertion, we are saying
22 that the commitment to hire 102, which only exists

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1 if the merger goes through, plus the transfer of
2 the PES employees to the District would more than
3 offset any involuntary severances of positions
4 from the District.

5 MR. COYLE: If I could just have a moment
6 to check my notes, Your Honor. I think I'm almost
7 finished.

8 BY MR. COYLE:

9 Q Mr. Khouzami, who would be in a better
10 position to know, you or Mr. McGowan, whether the
11 hiring of the 102 employees referenced as being
12 the subject of the good-faith effort in
13 commitment 17, would they be used to displace
14 contract employees in Maryland, do you know -- or
15 would you or Mr. McGowan be in a better position
16 to answer that question?

17 A They won't displace anyone in Maryland.
18 This is a D.C. commitment.

19 Q Do you know whether they'll be used to
20 replace contract employees, or contractor
21 employees in D.C.?

22 A So the thought is that it would be a mix

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1 of replacing contract employees, reducing the
2 amount of overtime paid to other employees, and
3 backfilling other positions that may be vacant
4 over the next two years.

5 Q Okay. All right. Begging your pardon,
6 Mr. Khouzami. I have a list of questions that
7 were deferred to you by other witnesses. And I
8 just want to make sure I've gone through them
9 before I let you go.

10 A Please.

11 Q Here's one, Mr. Khouzami. Mr. Crane
12 deferred a question to you about how many of the
13 102 bargaining unit positions referenced in
14 commitment 17 in Exhibit (4A)-2 will be filled by
15 District of Columbia residents?

16 A So my understanding is the hiring
17 practices of PEPCO D.C. do not take into account
18 residency. So we can't answer that question. I
19 think we look for qualified employees that can do
20 the job. Just like we can't affirm that the
21 employees we're hiring as part of the union
22 commitment in Maryland wouldn't be District

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1 residents; we don't know.

2 Q Okay. Another one Mr. Crane deferred to
3 you is what portion of the 15 to 20 cents per
4 share accretion is attributed -- is attributable
5 to the anticipated 3.1 billion in regulated
6 capital expenditures? This goes back to the
7 PowerPoint, DCG 2.

8 A I recall. It's roughly about half. So
9 about half of the \$3.1 billion of capital was
10 assumed to be in service and -- in rates by the
11 2017 period.

12 Q Okay. Thank you.

13 Mr. Khouzami, let me invite your
14 attention to confidential exhibit -- this is an
15 exhibit in your February 2015 testimony. I
16 believe it's (4F)-2.

17 A Sorry. What was the date?

18 Q Let me get it real quick.

19 A Was it December 17, 2014? (3F)-2?

20 Q Yes. Thank you.

21 A I'm there.

22 Q Okay.

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1 MR. COYLE: Now, before I ask a question,
2 let me inquire of Mr. Lorenzo whether the
3 customary understandings apply here.

4 MR. LORENZO: Your Honor, could I -- I
5 haven't located the document yet. Could I ask
6 Mr. Coyle which document is he questioning on?

7 MR. COYLE: This is Joint Applicants'
8 confidential Exhibit (3F)-2. My mistake, sorry.

9 MR. LORENZO: Yes, he may cross on this,
10 with the usual caveats.

11 MR. COYLE: Thank you.

12 BY MR. COYLE:

13 Q Joint Applicants' (3F)-2, Mr. Khouzami,
14 does that reflect the current synergies estimates?

15 A In total, it does. There's been
16 continued work, as you would imagine, since
17 December to help identify the unidentified
18 synergies that are in that column there. All of
19 them that were identified were non-labor.

20 So other types of costs were found to
21 help meet most of that 14 million of unidentified,
22 but the totals are still relative.

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1 Q So, again, without concentrating on the
2 specifics -- and I believe you had this
3 discussions with Ms. Francis, so I don't mean to
4 belabor it -- you're looking at eliminating 257
5 positions total, 200 of which are currently
6 filled, and 57 of which are currently open,
7 correct?

8 A That's correct, over a period of time,
9 yes.

10 Q Right. And you're not able to tell me,
11 as you sit here today, where those positions
12 reside, are you? Or are you?

13 A We are not. We have to go through our
14 process.

15 Q Mr. Khouzami, had the -- I thought I had
16 understood that the final analysis on the
17 synergies was due out in mid-March. Was I
18 mistaken about that?

19 A No. That's when it was due and when we
20 completed it.

21 Q So your final synergies analysis is
22 completed, but you still haven't decided from

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1 where these full-time equivalent positions are
2 going to be eliminated?

3 A As we discussed this morning, as we went
4 through the design portion of the integration
5 process, a number of positions were deemed
6 flexible; in other words, they could be done, if
7 you will, for lack of a better term, in, you know,
8 multiple PHI areas, whether it's D.C., Maryland,
9 Delaware, New Jersey. So some were flexible.

10 As we go through our staffing process,
11 we'll be able to identify where those positions
12 will be initially -- or where the positions will
13 be based in part on where that person currently
14 reside.

15 Q Thank you.

16 MR. COYLE: I have no further questions
17 for this witness.

18 Thank you, Mr. Khouzami.

19 THE WITNESS: Thank you.

20 CHAIRMAN KANE: Thank you. Thank you,
21 Mr. Coyle.

22 Ms. White?

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1 MS. WHITE: Thank you, Your Honor.

2 CROSS-EXAMINATION

3 BY MS. WHITE:

4 Q I think I'll have to say good evening,

5 Mr. Khouzami --

6 A Good evening.

7 Q -- at this point.

8 CHAIRMAN KANE: It's not evening till

9 6:00.

10 THE WITNESS: Good afternoon.

11 BY MS. WHITE:

12 Q Good afternoon. I represent the District
13 of Columbia Water and Sewer Authority, D.C. Water.

14 I'd like to just ask one clarifying
15 question on Exhibit AOBA 118, the customer account
16 exhibit. It's marked for the record as AOBA 86.

17 A I'm there, thank you.

18 Q Now, on page -- let's just look at page 3
19 of 3 up at the top. It identifies the source and
20 customer account information as the form 10-K?

21 A Yes.

22 Q Do you know where the numbers came from

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1 to get put into the 10-K?

2 A I would suggest that would be
3 Mr. McGowan.

4 Q So Mr. McGowan will be able to --

5 A It was the PHI --

6 Q -- answer that?

7 A It was the PHI 10-K, so --

8 Q I expected that answer but I just wanted
9 to confirm it.

10 A Okay.

11 Q Now, when you were talking with Mr. Coyle
12 just a few minutes ago about how synergies savings
13 factor into the projected accretion for the
14 transaction, I think you said that only about
15 one-third of the synergy savings will be reflected
16 as accretion.

17 A Yes. So about one-third of the synergies
18 go to the non-regulated businesses. Those don't
19 go back in rates to customers.

20 All the synergies that will be realized
21 by any regulated utility -- you know, PHI
22 utilities or BGE, PECO, ComEd -- those will go

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1 through as lower cost of service and be reflected
2 in lower rates for customers. So those are not
3 going to be retained to the bottom line for
4 Exelon.

5 Q But isn't it your last statement true --
6 about those not being retained by Exelon to the
7 bottom line, that's only true if and when those
8 regulated synergy savings are reflected in rates;
9 is that true?

10 A That is correct. I think -- we were
11 talking about run rate synergies and the
12 expectation, given the capital spend and the
13 expenditures, that all of the utilities, PHI
14 utilities as well as PECO, ComEd and BGE, given
15 their spend profile, it is unlikely that they
16 would be able to stay out of rate cases for a long
17 period of time.

18 So when I think of the run rate of
19 synergies, they would be returned. And once you
20 get past that fifth year, the first time you
21 return them, they're in lower rates. They're
22 baked in forever.

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1 Q When was PECO's last rate case, if you
2 know?

3 A I believe 2010, but I believe they
4 recently filed one.

5 Q Okay. Thanks. When this -- if the PECO
6 rate case were to be finalized -- let me back up.

7 But the synergy savings attributable to
8 this transaction that we're discussing here in
9 this proceeding, would those have been reflected
10 in PECO's recently filed rate case?

11 A They have a forward test period, so yes.

12 Q Okay. Thank you. Could you please refer
13 to page 9 of your rebuttal testimony.

14 A I'm there.

15 Q On line 22, 21 and 22, you say that the
16 customer investment fund will guarantee that
17 PEPCO's customers will receive a substantial
18 direct and traceable financial benefit.

19 What did you mean by the word
20 "substantial" there?

21 A A lot.

22 Q Are you saying 33.75 million is a

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1 substantial amount?

2 A I would say so. It's equivalent to
3 almost the full amount of ten-year net synergies.
4 Upfront, customers will benefit from those
5 synergies through lower cost of service. So day
6 one, they're getting upfront a \$33.75 million
7 benefit that effectively is being paid by Exelon
8 shareholders.

9 Q Now, if the 33.75 million is assigned to
10 customers as a per customer benefit, as it has
11 been in the settlements you've entered into to
12 date, i.e. the \$128 per customer benefit, do you
13 think that would be a substantial benefit to one
14 of PEPCO's commercial customers?

15 A Again, I think how it gets distributed is
16 ultimately for the decision of the -- is the
17 commissioners' decisions.

18 For larger customers that may bear more
19 of the cost of service, as you move forward, more
20 of the synergies that will be realized through
21 lower cost of service will naturally flow to them.
22 So my response is -- and the word "substantial" is

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1 to talk about the initial amount of the fund in
2 totality, the 33.75 million, which is effectively
3 a substantial amount in my mind.

4 Q Thank you. Are you aware that PEPCO's
5 commercial customers in the District bear --
6 account for the majority of PEPCO's cost of
7 service in the District?

8 A Then they will benefit from the majority
9 of the ongoing run rate synergies which, you know,
10 will be hundreds of millions of dollars over their
11 lifetime.

12 Q Well, let's talk about it in terms of
13 just per year. Is it 14 million bucks a year?

14 A It's -- no, it's \$14 million for the five
15 years. The run rate I believe is 7. Let me just
16 check that to --

17 Q So \$7 million a year? I think you're
18 right. That's my recollection as well.

19 A All right.

20 Q So in order for the commercial customers
21 to realize that benefit through rates that you
22 were just mentioning, the synergies have to be

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1 realized. That's a first assumption; is that
2 correct?

3 A That's correct.

4 Q Then the cumulative synergies throughout
5 the Exelon organization, those need to be
6 allocated to PEPCO, PEPCO's D.C. business, in the
7 same fashion as you've projected here; is that
8 right?

9 A Yes. And we've gone through the last
10 nine to ten months to validate these estimates,
11 and they are still true and correct. So this is
12 what we would expect.

13 Q And you also assume that the synergy
14 savings net of costs to achieve would be allocated
15 using the modified Massachusetts formula -- would
16 be allocated among subsidiaries using the modified
17 Massachusetts formula?

18 A There are some examples where it is.
19 Again, it depends on which type of cost. Some are
20 direct charge to PHI companies. Again, it is very
21 logical, when you think about the fact that
22 70 percent of the synergies come from shared

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1 service type functions, that is typically, you
2 know, in line with the modified Massachusetts
3 formula for the allocated portion which is where
4 the savings are coming from.

5 Q Do you have a legal obligation anywhere
6 to use the modified Massachusetts formula to
7 allocate synergy savings among Exelon subsidiaries
8 following this transaction?

9 A I'm not a lawyer. It's going to
10 naturally flow based on our FERC-approved
11 methodology of allocating costs, and those
12 synergies will follow with where the costs are.
13 That's how accounting would work.

14 Q But that's FERC. That's not at the
15 Public Service Commission level, is it?

16 A I don't understand your question.

17 Q Your answer, I think, assumed that the
18 state regulatory commissions necessarily will be
19 bound to follow an allocation method that's been
20 adopted by FERC. And I'm sorry if I misunderstood
21 you. Please correct me.

22 A It's governed by the GSA and the SLAs

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1 that we review, that we have filed as part of this
2 testimony. This is no different than what PHI
3 Service Company uses as well.

4 Q You just used an acronym that I didn't --
5 SLA?

6 A Service level agreements.

7 Q Okay. So the synergy savings have to be
8 realized, they have to be allocated among
9 subsidiaries, as you projected. Number three,
10 PEPCO needs to file a rate case. That's another
11 assumption -- that's another trigger that has to
12 happen before the commercial customers will start
13 to see synergy savings flow through in rates;
14 isn't that true?

15 A Within the first five years, they would
16 have to file a rate case for them to get the run
17 rate, yes.

18 Q And then, in the rate case, is it not
19 true that the Public Service Commission would have
20 to agree with you that the synergy savings must be
21 allocated naturally in the same manner as costs --
22 actual costs of service are allocated?

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1 A It would follow the way costs of service
2 is determined by the commissioners.

3 Q But there's nothing that would bind the
4 PSC from saying no synergy -- the synergy savings
5 should be allocated in a different manner than
6 following the cost of service?

7 A The synergy savings are in absence of
8 cost. So it's not an identifiable -- it's not an
9 account that you then say, I'm going to allocate
10 this amount of account to this party here.

11 It will follow wherever the costs are,
12 because the costs no longer exist.

13 Q Fair enough. Can you turn to the New
14 Jersey settlement, which I believe is Joint
15 Applicants' Exhibit (4A)-1.

16 A I will in a second.

17 Q Take your time.

18 A I'm there.

19 Q Great. Were you involved in negotiating
20 the New Jersey settlement?

21 A I was -- I attended some meetings. I
22 wouldn't say I negotiated the settlement. That

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1 was counsel.

2 Q I was looking at the list of parties to
3 the settlement, and I did not notice any one party
4 that appeared to be a commercial customer or
5 commercial customer group. Are you aware of
6 commercial customers being active in -- being
7 parties to the New Jersey settlement?

8 A Again, I think that's probably a question
9 that counsel could answer. I attended a few
10 meetings when the topic of synergies came up.

11 Q Well, unfortunately, your counsel isn't
12 on the stand.

13 A Okay.

14 Q Let's take a shot at them.

15 A So said another way, the parties who have
16 signed the settlement agreement are the parties
17 who we settled with. Ultimately, the Commission
18 in New Jersey has approved the settlement
19 agreement, and it's now an approved order.

20 MS. WHITE: Just one moment. Please bear
21 with me, Madam Chair.

22 Mr. Khouzami, that's all I have for you

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1 this evening -- this afternoon.

2 THE WITNESS: Thank you.

3 MS. WHITE: Thank you, Madam Chair.

4 CHAIRMAN KANE: Does MAREC have any
5 questions for this witness?

6 MS. ELEFANT: No questions for MAREC.

7 CHAIRMAN KANE: NCLC?

8 MS. WEIN: No questions.

9 CHAIRMAN KANE: No questions?

10 Commissioner Phillips?

11 COMMISSIONER PHILLIPS: Good afternoon.

12 THE WITNESS: Good afternoon.

13 COMMISSIONER PHILLIPS: I want to talk a
14 little bit about transaction cost and cost to
15 achieve.

16 THE WITNESS: Certainly.

17 COMMISSIONER PHILLIPS: I know that we've
18 talked a good bit this afternoon about the New
19 Jersey settlement. You just said that the
20 settlement is approved. I believe it was
21 Ms. Francis, counsel for AOBA, that you talked
22 about in particular how the New Jersey settlement

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1 defines transaction cost and how that differs from
2 your testimony here in this proceeding. Do you
3 recall that?

4 THE WITNESS: I recall the discussion,
5 yes.

6 COMMISSIONER PHILLIPS: Well, can you
7 explain, just for the record, what the differences
8 are between the New Jersey settlement and what you
9 testified to in this proceeding?

10 THE WITNESS: So I think the difference
11 is really around specifically identifying the
12 change in control. What I can tell you is in the
13 amount that we've laid out for transaction cost,
14 it includes change of control. So I just didn't
15 call it out; I called it executive compensation
16 due to the merger.

17 Transaction costs we are estimating to be
18 \$338 million. There's about -- I can go through
19 the details if you'd like, if that's helpful.

20 COMMISSIONER PHILLIPS: A little bit.

21 THE WITNESS: Okay. Sure. So there's
22 legal and other advisory fees of about \$7 million.

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1 There is executive comp that's triggered due to
2 the merger, so change in control provisions. The
3 vesting of stock that hasn't yet vested, that is
4 about \$73 million. Banker fees, which is about
5 \$75 million. And then the cost of the debt and
6 the equity that we're issuing, which is about
7 \$183 million.

8 So in totality, that's about
9 \$338 million.

10 COMMISSIONER PHILLIPS: When you say
11 legal costs, would that include regulatory fees?

12 THE WITNESS: No. That's the legal cost
13 to get the merger agreement together at the start.

14 COMMISSIONER PHILLIPS: So would you
15 agree that the New Jersey settlement would include
16 regulatory fees, but the commitment in the D.C.
17 proceeding here does not include regulatory fees?

18 THE WITNESS: That is correct. That is
19 the discussion I had with Commissioner Brenner in
20 Maryland. So obviously I think that will be --
21 it's obviously going to be a point during the
22 first rate case. If PEPCO decides to include it

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1 in CTA, I would assume that that would be a
2 question.

3 COMMISSIONER PHILLIPS: Thank you for
4 that answer, but I have a slightly different
5 question. Can you just explain to me why -- why
6 the difference? Why what was it included in New
7 Jersey but it has not been included in the offer
8 here in the District?

9 THE WITNESS: So the New Jersey was a
10 negotiated settlement. And that was part of the
11 negotiation, they asked for that to be included.

12 COMMISSIONER PHILLIPS: Changing subjects
13 a little bit, I want to talk about cost to
14 achieve. And I believe you discussed cost to
15 achieve with D.C. counsel -- counsel for the
16 District. My question for you is, does cost to
17 achieve include transition cost?

18 THE WITNESS: So transition cost -- I
19 think what you mean is the group that Mr. Alden
20 spoke of that would be part of the integration
21 group post-close. And the answer there is yes.

22 COMMISSIONER PHILLIPS: So if the merger

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1 were approved, assuming --

2 THE WITNESS: Yes.

3 COMMISSIONER PHILLIPS: -- what time
4 frame would PEPCO seek to recover any related
5 transition costs.

6 THE WITNESS: So my sense -- again, I
7 haven't spoken with PEPCO who ultimately -- who
8 files the rate case, but my expectation would be
9 they would seek recovery of all CTA costs in a
10 similar manner. You would go through the rate
11 case process, and then ultimately the decision by
12 the Commission of how to recover or not recover
13 all or a partial of the costs would be so
14 determined.

15 COMMISSIONER PHILLIPS: Would you
16 anticipate that it could be beyond two years, or
17 year 2 after the merger?

18 THE WITNESS: The recovery of CTA?

19 COMMISSIONER PHILLIPS: Yes.

20 THE WITNESS: We have suggested that we
21 would be open to that discussion. And my
22 testimony -- we have not proposed amortizing the

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1 CTA cost, but that was where we ended up in
2 Maryland with the Constellation/BGE merger by
3 Exelon.

4 COMMISSIONER PHILLIPS: So the answer to
5 my question is yes, it is upon that those costs
6 could be sought to be recovered beyond year 2?

7 THE WITNESS: It is possible if it was
8 decided to be amortized. That would be -- it
9 would lower the amount every year and extend the
10 term.

11 COMMISSIONER PHILLIPS: Thank you.
12 That's all I have.

13 THE WITNESS: Thank you.

14 CHAIRMAN KANE: Thank you, Commissioner
15 Phillips. Commissioner Fort and I both have
16 questions, and my questions particularly are tax
17 questions. I am quite reluctant to start talking
18 about taxes at 5:30 this afternoon. And so in
19 order that we can start fresh with those
20 questions, we will recess today and ask you to
21 come back in the morning.

22 Let me also say in the morning --

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1 tomorrow is the day when the Commission normally
2 has a regularly scheduled open meeting. So we
3 will, at 10:00 a.m., start with our open meeting.

4 Those of you who follow us on our live
5 broadcast know that our open meetings are quite
6 short. But we do have a number of -- and they're
7 public. We do have a number of items that we
8 don't want to hold up. So we will start with a
9 very brief, about ten-minute, open meeting, and
10 then proceed to reconvene in this hearing.

11 Any other -- Mr. Lorenzo?

12 MR. LORENZO: Yes. I would suggest that
13 because Mr. Morgan -- OPC witness Mr. Morgan is
14 unavailable on the 20th and 21st and 22nd, that we
15 take up Mr. Morgan's cross-examination right after
16 Mr. Khouzami, and then proceed with Dr. Tierney
17 and Ms. Lapson, and we'll if we get to Mr. McGowan
18 after all of that.

19 On another point, we were thinking of the
20 briefing schedule, given the extension of this
21 schedule. And we had sent an e-mail -- over the
22 weekend, when we polled the parties, we had sent

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1 an e-mail to the parties suggesting -- and I just
2 bring this to the Commission's attention --
3 suggesting that initial briefs be filed on
4 May 13th and reply briefs filed on May 27th. And
5 we heard no objection, but I -- just as a -- we
6 don't have to decide that today. It's just a --

7 CHAIRMAN KANE: And we would need to hear
8 from the parties.

9 MS. FRANCIS: Your Honor, I know I wrote
10 an e-mail --

11 CHAIRMAN KANE: Ms. Francis?

12 MS. FRANCIS: -- objecting to that. I
13 saw -- I think D.C. government wrote an e-mail
14 objecting -- not to the briefing. Someone else --
15 I think it was OPC or somebody else -- wrote an
16 e-mail.

17 I think we're entitled to the appropriate
18 number of days based on the number of days between
19 the end of hearings and the briefing schedule that
20 was originally established. I think it's a bit
21 premature to set that final date until we see when
22 the hearings conclude. But I would prefer, and I

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1 think it's appropriate, to have the same number of
2 days as originally agreed to.

3 CHAIRMAN KANE: We will take all of that
4 under advisement and hear from all of the parties
5 on it. I did mention that this Commission will be
6 probably -- our current schedule is to shut down
7 on June 4th for a couple of days while we move,
8 and then, you know, if any of you have moved
9 offices and moved people, how disruptive that can
10 be. So we need to take that into consideration in
11 our work also.

12 All right. There being nothing further,
13 good afternoon.

14 (Whereupon, at 5:35 p.m., the above
15 proceedings were adjourned.)

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2 I, DENISE M. BRUNET, Certified Court
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