DELMARVA POWER & LIGHT COMPANY

TESTIMONY OF KATHLEEN A. WHITE

BEFORE THE DELAWARE PUBLIC SERVICE COMMISSION

CONCERNING AN INCREASE IN GAS BASE RATES

DOCKET NO. 10-

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1. Q: <u>Please state your name and position, and business address.</u>

A: My name is Kathleen A. White. I serve as Assistant Controller for Pepco Holdings, Inc. (PHI). My business address is 630 Martin Luther King Jr. Boulevard, Wilmington, Delaware, 19899.

2. Q: <u>What are your responsibilities in your role as Assistant Controller for PHI?</u>

A: I oversee the PHI Corporate Accounting department, which includes the asset, costing and general accounting functions, as well as compliance with the Cost Allocation Manual (CAM) and the Service Agreement to support internal and external financial reporting.

3. Q: <u>Please state your educational background and professional qualifications.</u>

A: I received my undergraduate degree and Master of Science in accounting from the University of Delaware and I am a Certified Public Accountant. I have held various financial accounting and managerial positions at PHI, Conectiv and Delmarva Power & Light Company (Delmarva, DPL or the Company) since 1989. Prior to joining Delmarva, I was an instructor for financial and managerial accounting classes at the University of Delaware.

4. **Q**: **<u>Have you previously testified?</u>**

A: Yes. I have filed testimony before the Delaware Public Service Commission (DPSC) in Docket No. 05-304, Docket No. 06-284 and in Docket

No. 09-414; before the Maryland Public Service Commission (MPSC) in Case Nos. 9092, 9093, 9192 and 9217; before the District of Columbia Public Service Commission (DCPSC) in Case Nos. 1053 and 1076; and before the New Jersey Board of Public Utilities (NJBPU).

5. Q: <u>What is the purpose of your testimony?</u>

A: I am supporting the actual amounts recorded in Delmarva's books and records for the test year and test period, which is the 6 months, ended December 31, 2009. The test period cost data for the gas business was supplied to Company witness VonSteuben for use in determining revenue requirements.

6. Q: <u>Please describe how your testimony is structured.</u>

A: My testimony is outlined below:

I. Supporting Minimum Filing Requirements.

II. Books and Records.

III. Company's Cost Management Structure.

7. Q: <u>Please list the filing requirements that you are sponsoring.</u>

A: I am supporting the following filed Minimum Filing Requirements:

Supporting documents previously filed (Schedule B):

- Annual and Quarterly reports to FERC (FERC Form Nos. 1 and 3Q) for 2009 and March 31, 2010.
- Annual Report to the Delaware Commission (FERC Form No. 2) f for 2009.
- PHI and DPL SEC Form 10K for 2009.
- PHI and DPL SEC March 31, 2010.

* Proxy Statement and 2009 Annual Report to Stockholders dated March 26, 2010.
* Prospectus.

Supporting documents included in this filing:

* Schedule No. 3D – Executive Compensation.
* Schedule No. 3N – AFUDC.

II. Books and Records

8. Q: <u>Does the Company maintain its books and records in accordance with the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts (USofA) and Generally Accepted Accounting Principles (GAAP)?</u>

A: Yes.

9. Q: <u>Are the Company's books and records audited by an independent accounting firm?</u>

A: Yes. PricewaterhouseCoopers LLP (PwC), an independent public accounting firm, audited the Company's financial statements included in the 2009 Delmarva 10-K and the 2009 FERC Form No. 1. The Company's FERC Form No. 1 financial statements are identical to those filed in the Company's FERC Form 2. A copy of the audit reports issued by PwC, related to the Company's 2009 10-K and FERC Form 1, are attached as Schedule KAW-1. As shown on Schedule KAW-1, PwC concluded that, based on its audit work, the Company's financial statements conform with generally accepted accounting principles (GAAP) and the requirements of the FERC's Uniform System of Accounts in all material respects.

10. Q: <u>What is the source of the unadjusted test period data supplied to Company Witness VonSteuben for use in determining revenue requirements in this filing?</u>

A: The source of the unadjusted test period data for December 31, 2009, is the books and records of the Company reported under its FERC accounting system. As discussed earlier, this data was supplied to Company Witness VonSteuben for use in determining revenue requirements.

III. Company's Cost Management Structure

11. Q: <u>Please briefly discuss the Company's organizational structure.</u>

A: PHI segregates costs by providing service through separate operating subsidiaries. In addition, PHI has a Service Company which provides mutual services to the operating companies, including Delmarva. This Service Company provides a variety of support services in compliance with a Service Agreement filed under The Public Utility Holding Company Act of 1935 (PUHCA35) and still in effect under The Energy Policy Act of 2005 (EPA05). The Service Agreement describes the support services as well as procedures and allocation methods for costs related to services that benefit multiple subsidiaries.

12. Q: <u>Please discuss the Company's cost accounting approach.</u>

A: The principal approach underlying the Company's costing is the use of a fully distributed cost assignment method, sometimes referred to as "full costing." Under this method, both direct and indirect costs are charged for products and services.

As described in PHI's CAM, the process for fully distributed cost assignment observes the following priorities: First, certain costs are directly assigned to an operating company (such as Delmarva, Atlantic City Electric Company (ACE), and/or Potomac Electric Power Company (Pepco)). This assignment accounts for the majority of operating company costs. Examples of such direct assignment costs are employees supporting a particular company or costs directly incurred by a particular company (*e.g.*, overhead linemen and associated materials and contractors are directly recorded in the utilities' books and records, while shared services such as the Corporate Accounting department are directly recorded in the Service Company books and records).

Second**,** certain Service Company costs are directly charged to the operating company because the costs are related to services performed solely on behalf of that operating company. An example of such a direct charge is a Regulatory Reporting department employee working on Delmarva's FERC Form 2 filing. That employee would directly charge his/her time to Delmarva's gas operations.

Third**,** other Service Company costs represent shared services that are not directly chargeable to an operating company, as the services benefit multiple companies. Such costs must be allocated among the various operating companies that benefit from such services. An example of such allocable costs is a Financial Reporting department employee working on the annual Securities and Exchange Commission (SEC) 10-K annual report. His/her time would be allocated to multiple operating companies, since PHI's SEC 10-K reports PHI's consolidated financial information. The allocations of shared services are based on costing methods set forth in the Service Agreement, which I discussed earlier.

In limited circumstances, costs incurred by an affiliated company other than the Service Company on behalf of another affiliate are directly charged to that benefiting affiliate. PHI segregates costs by providing service through separate operating subsidiaries.

13. Q: <u>Has this Commission previously approved the Company's cost management principles?</u>

A: Yes. The Commission issued Order No. 5469 in Docket No. 99-582 regarding the Company's cost management principles. As to the transfer of services between the Service Company and the regulated utility, the Commission requires that fully allocated cost principles be used.

14. Q: <u>Does the Company have any requirements by this Commission regarding transactions with the Service Company?</u>

A: Yes. The Company is required to file an annual affiliate transaction report detailing the affiliate transactions, including the Service Company, of Delmarva. Further, these transactions have been audited by an independent auditor for compliance with the cost principles documented in the Company's CAM. These audits are conducted every third year and reports have been issued to the DPSC for the years 1997, 1998, 2001, 2004 and 2007.

15. Q: <u>Have there been other independent examinations of the Company's CAM that include, in particular, the Service Company?</u>

A: Yes. Since the merger between ACE and Delmarva, the Service Company was audited by the SEC in 1998, 1999 and 2005; external auditors for the NJBPU in 2000 and 2002; PwC and Ernst & Young for the MPSC for the 12 months ended September 2006; and PwC for the MPSC for the 12 months ended September 2008 and June 30, 2009.

Further, PHI has additional examinations currently underway or near completion with Overland Consultants for the NJBPU for the years 2005 through 2008; Liberty Consultants for the DPSC for the periods 2007 through 2009; FERC audit Staff for the periods 2008 and 2009; and KPMG for the DCPSC for the periods 2007 and 2008.

16 Q: <u>What have these completed independent examinations revealed?</u>

A: In each of these completed examinations, the Service Company allocations and charges have been found to be consistent with the CAM and the Service Agreement. The auditors did not find any material or substantive issues with the calculation of the Service Company allocations.

17. Q: <u>Does this conclude your testimony?</u>

A: Yes, it does.