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DELMARVA POWER & LIGHT COMPANY

TESTIMONY OF TIMOTHY J. 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.</u>

A: My name is Timothy J. White. I am Manager Policy Coordination in the Regulatory Affairs Department for Pepco Holdings Inc. My business address is 401 Eagle Run Road, P.O. Box 9239, Newark, Delaware, 19714. I am testifying on behalf of Delmarva Power & Light Company (Delmarva or the Company").

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

A: I graduated from Rutgers University – Camden in 1979 with a Bachelor of Arts degree in accounting. I have served as a consultant and worked in accounting and finance since 1979 in the areas of financial analysis, forecasting, financial modeling, budgets, rate case preparation, lead/lag studies, and private and public accounting. My positions prior to joining PHI were Vice President AUS Consultants – Utility Services Group in Mt. Laurel, N.J. and Director of Finance of Shorelands Water Company in Hazlet, N.J. I joined PHI in 1998 and assumed my current position in November 2004.

3. Q: <u>Have you previously presented testimony before a regulatory body</u>?

A: Yes, I have. I have previously presented testimony as a witness before the Delaware Public Service Commission (DPSC or the Commission) in several proceedings including the Company's two most recent base rate proceedings, Docket Nos. 06-284 and 09-414/09-276T, as well as presenting testimony before

1   the Maryland Public Service Commission, the New Jersey Board of Public

2   Utilities, The Pennsylvania Public Service Commission, and the Federal Energy

3   Regulatory Commission (FERC).

4   **4. Q: <u>What is the purpose of your testimony in this proceeding?</u>**

5   **A:**   The purpose of my testimony is to discuss the method employed in

6   preparing the lead/lag study to determine the cash working capital allowance the

7   Company is recommending as an element of the revenue requirement. This

8   testimony and accompanying exhibits were prepared by me or under my direct

9   supervision. The source documents for my testimony are Company records,

10   public documents, and my personal knowledge and expertise.

11   **5. Q: <u>Please discuss the reasons for the inclusion of cash working capital in rate</u>**

12   **<u>base.</u>**

13   **A:**   Cash working capital is an amount that must be included in rate base to

14   compensate investors for funds provided over and above the net utility plant for

15   use on a day-to-day basis. The amount of cash working capital is intended to

16   provide for the current requirements and not for any long-term capital

17   requirements.

18   **6. Q: <u>What method of determining cash working capital would you recommend?</u>**

19   **A:**   The method of determining cash working capital generally depends upon

20   the size, nature, and operation of the utility. For utilities not large enough to

21   justify a detailed study, or when a detailed study would be impractical and costly,

22   a formula approach may be used to develop cash working capital. For larger

23   companies, such as Delmarva, a lead/lag study is commonly used. A lead/lag

1	study is generally recognized as the most accurate method of determining cash
2	working capital because it is based on a detailed analysis of company specific
3	data. Additionally, the lead/lag methodology was used to determine the
4	Company's cash working capital requirement in previous base rate cases before
5	the Commission. The lead/lag methodology estimates the timing difference
6	between when the Company renders service and payment is received from the
7	customer (the "revenue lag") versus when the Company incurs expenses required
8	to render service and the payment of such expenses (the "expense lag"). The "net
9	lag" (the difference between the revenue lag and expense lag) is multiplied by the
10	daily operating expenses to produce the cash working capital requirement.

11 **7. Q: Was a lead/lag study used by the Company to determine the cash working**

12   **capital requirement in its current filing?**

13 **A:**   Yes. The Delmarva Power Delaware Gas distribution cash working capital

14   requirement is $13,133,273, as shown on Schedule TJW-1.

15 **8. Q: Is it necessary to prepare a new lead/lag study for each and every rate case**

16   **filing?**

17 **A:**   No. When the time between rate case filings is short, it is my opinion that

18   the study used in a previous filing is valid, subject to review and updating. A

19   lead/lag study was prepared for Delmarva Power for use in a Maryland rate filing

20   utilizing calendar 2005 data.

21 **9. Q: Have you reviewed the lead/lag study filed in the previous Delmarva filing?**

22 **A:**   Yes. I have reviewed all of the lags calculated in the lead/lag study filed in

23   the Delmarva Maryland filing. Based upon my review, I have made several

1   revisions. I have revised the collection lag using 2009 accounts receivable data to

2   more accurately reflect current customer payment activity. I have also revised the

3   payment lags for the Maryland Franchise Tax and Maryland property Taxes to

4   reflect current payment patterns.

5   **10.   Q: <u>Have the factors developed in the lead/lag study been applied to the test</u>**

6   **<u>year results of operations?</u>**

7   **A:**   Yes. The cash working capital lag factors were computed on historic data

8   and applied to the test year results of operations.

9   **11.   Q: <u>What period of time was used for preparing the lead/lag study?</u>**

10   **A:**   Other than the revisions previously explained, all transactions used in

11   preparing the lead/lag study were from calendar 2005.

12   **12. Q: <u>Would you describe how the revenue lag was determined?</u>**

13   **A:**   Revenue lags represent the length of time the Company has extended credit

14   for services rendered to its customers until the time payment is received from the

15   customers for such services rendered. In developing the revenue lag, I first

16   determined the service lag, which is the midpoint of the period during which the

17   service is rendered. This procedure is followed throughout the test period and

18   results in a service lag of 15.21 days for services billed monthly (365 days /12 /2)

19   as can be observed in Schedule TJW 2. The next step is to develop the billing lag.

20   The billing lag reflects the time between the meter reading date at the end of the

21   service period until the time the bill is prepared and rendered. The result of this

22   calculation produces an average billing lag of 1.46 days, as shown on Schedule

23   TJW 2. I determined the collection lag by taking the accounts receivable balance

1   at the beginning of the study period, adding the daily customer billings, deducting

2   daily customer payments, and adding or subtracting any miscellaneous accounts

3   receivable adjustments to develop a daily accounts receivable balance outstanding

4   for the twelve month period. Dividing the total customer payments for the study

5   period into the sum of the daily accounts receivable balance produces the average

6   time between the bill mailing date and the date of payment for all services billed.

7   This calculation results in a collection lag of 43.41 days, as shown on Schedule

8   TJW 2. This results in a total revenue lag of 60.08 days.

9   **13.**   **Q: <u>Would you describe how the expense lags were determined?</u>**

10   **A:**   Expense lags occur when the Company has received credit for various

11   items and services, which have been advanced to the Company by its creditors. It

12   represents the length of time between the receipt of such services and payment for

13   them by the Company.

14   **14.**   **Q: <u>How were the categories of O&M Expense selected for the study?</u>**

15   **A**:   The most efficient method is to concentrate on the largest dollar expense

16   items. The O&M expense categories were functionalized into their major

17   components. The major expenses were reviewed such as purchased fuel ,other

18   production expenses, transmission and distribution expenses, taxes other than

19   income taxes, income taxes, interest and other expenses.

20   **15.**   **Q: <u>How are the lag days for these expenses calculated?</u>**

21   **A**:   I analyzed the invoices relative to each group of expenses to determine

22   the service period and payment date for these expenses. The midpoint of the

23   service period to the payment date results in the expense lag for each category of

1   expense. Except for the other expense category within O&M expenses, all of the

2   invoices or transactions for these expenses were examined individually because

3   they represent large elements of expense. For income taxes, I have used the

4   statutory payment schedules. The weighted average lag days for these categories

5   are shown on Schedule TJW-1.

6   **16.**   **Q: Please explain the category of other expenses.**

7   **A:**   The category of Other included all other operating expenses, which are

8   represented by a large volume of individual invoices. A representative random

9   sample was used to develop an expense lag for this category in order to minimize

10   time as well as cost. In all 326 invoices were reviewed. The invoices selected

11   were then used to compute the lag for the other expenses included in the weighted

12   average expense lag for O&M expenses as shown on Schedule TJW-1.

13 **17.**   **Q: How is cash working capital then calculated?**

14   **A**:   I reduced each expense lag by the revenue lag producing net lag days

15   for each expense. I multiplied the daily requirements by the net lags to arrive at

16   the cash working capital requirement.

17 **18.**   **Q: Does this conclude your testimony?**

18   **A**:   Yes.