

**Direct Testimony
of
Steven R. Knepler**

**Accounting Department
Financial Analysis Division
Illinois Commerce Commission**

Commonwealth Edison Company

**Proposal to implement a competitive procurement process by
establishing Rider CPP, Rider PPO-MVM, Rider TS-CPP, and
revising Rider PPO-MI**

Docket No. 05-0159

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1 **WITNESS IDENTIFICATION**

2 Q. Please state your name and business address.

3 A. My name is Steven R. Knepler. My business address is 527 East Capitol
4 Avenue, Springfield, Illinois 62701.

5 Q. By whom are you employed and in what capacity?

6 A. I am currently employed as a Supervisor in the Accounting Department of the
7 Financial Analysis Division, Illinois Commerce Commission (“ICC” or
8 “Commission”).

9 Q. Please describe your background and professional affiliations.

10 A. I hold a Bachelor of Science Degree in Accounting from Illinois State University.
11 I am a Certified Public Accountant, licensed to practice in the State of Illinois. I
12 joined the Commission’s staff (“Staff”) in January 1982. Prior to joining Staff, I
13 was employed as an auditor for other State agencies.

14 Q. Have you previously testified before any regulatory body?

15 A. Yes, I have testified on several occasions before the Commission.

16 Q. What is the purpose of your testimony in this proceeding?

17 A. The purpose of my testimony is to address Staff's concerns regarding the
18 Commission's oversight role in connection with the monthly "informational" filings
19 of the Accuracy Assurance Factors and the true-up mechanism process (i.e.,
20 non-auction process oversight) of Commonwealth Edison Company's
21 ("Company" or "Commonwealth Edison" or "ComEd") proposed Rider CPP. I am
22 making recommendations regarding (1) the monthly information filings for the
23 Accuracy Assurance Factors ("AAF") under Rider CPP¹, (2) a proposal for an
24 annual reconciliation of electric power and energy costs² with costs recoveries,
25 (3) the submission of an annual report to the Commission, and (4) the
26 performance of annual internal audits.

27 **REGULATORY OVERSIGHT: PROPOSED ORIGINAL SHEET NO. 269**

28 Q. Does ComEd's proposed Rider CPP contain any language which would prohibit
29 the oversight of the Commission and any other entity regarding the review
30 ComEd's bills issued to customers containing such retail supply charges or any
31 such AAF and ComEd's collection of such charges?

32 A. Yes. Proposed Rider CPP-Competitive Procurement Process, Original Sheet
33 No. 269, in the first paragraph under the CPP Timeline heading, contains the
34 following language:

¹ Commonwealth Edison Company, proposed Rider CPP-Competitive Procurement Process, Ill.C.C., No. 4, Original Sheet Nos. 269 and 291.

² Commonwealth Edison Company, proposed Rider CPP-Competitive Procurement Process, Ill.C.C., No. 4, Original Sheet No. 245.

35 **The Company shall not be required to obtain any consent or other**
36 **approval, whether prospective, contemporaneous, or retrospective,**
37 **from the ICC or any other entity in order to issue bills containing**
38 **such retail supply charges or in order to collect such retail supply**
39 **charges.**

40 ComEd also proposes to limit the Commission oversight of the auction process.
41 The proposed Original Sheet No. 269, at the fourth paragraph under the same
42 heading also has language similar to the above but refers to the application of
43 the AAF:

44 **The Company shall not be required to obtain any consent or other**
45 **approval, whether prospective, contemporaneous, or retrospective,**
46 **from the ICC or any other entity in order to issue bills containing any**
47 **such AAF or in order to collect such AAF.**

48 Q. Do you have any comments regarding the noted language on ComEd's proposed
49 Original Sheet No. 269?

50 Yes. The above language appears to prevent the Commission from holding
51 ComEd accountable or responsible for the correct billing of any retail supply
52 charges administered through Rider CPP or any AAF. However, pursuant to
53 Section 9-101 of the Act, the Commission must ensure that rates are "just and
54 reasonable." Even assuming for the sake of argument, that the Commission
55 approves Rider CPP and finds that it establishes a process and formula that will
56 result in just and reasonable rates, errors could occur in the calculation of
57 monthly rates under such a mechanism. The errors can be intentional or
58 unintentional. There must be a system in place for the Commission to ensure

59 that the detection and correction of errors exist. There must be safeguards in
60 place to balance the interests of ratepayers and shareholders in the event that
61 intentional or unintentional errors occur.

62 Without a system that provides for Commission oversight of the process to bill
63 and collect retail supply charges and the AAF, the Company is absolved from
64 any incentive to minimize cost or eliminate the possibility of errors from occurring.

65 Therefore I am proposing that the above noted sentences be deleted from Sheet
66 No. 269.

67 **MONTHLY ACCURACY ASSURANCE FACTOR FILINGS**

68 Q. On Original Sheet Nos. 269 and 291, ComEd proposes to submit to the
69 Commission as an informational filing the applicable AAFs and supporting
70 workpapers at least three (3) business days prior to the start of the monthly
71 billing period to which they are to be applied. Is a three business day review
72 period sufficient time for Staff to complete its review of the AAF filing?

73 A. No. Given the complexity of information and the possibility for errors, a three (3)
74 business day review period is insufficient for the Company to resubmit its filing if
75 an error is detected. In Data Request Response AD 1.01, ComEd indicates that
76 the possibility of a “gross error” being detected during the time that the
77 informational filing is submitted and the start of the monthly billing period in which
78 the AAF will be applied is “highly improbable.” However, my experience with the

79 monthly filings of the Fuel Adjustment Clause and the Purchased Gas
80 Adjustment Clause indicates otherwise; gross errors do occur. Maybe the
81 current management of ComEd is satisfied that its envisioned internal processes
82 and self-checks would make such a situation highly improbable, but the current
83 management of ComEd cannot make that claim for the Company's management
84 of the future.

85 In Data Request Response AD 1.01, the Company states that if an "error is
86 detected before the fourth business day prior to the start of the monthly billing
87 period in which the AAF will be applied, there would of course be sufficient time
88 to withdraw the filing and replace it with a corrected filing." However, ComEd's
89 proposed tariff language does not define a process to submit a corrected filing.

90 Therefore, I am proposing that the monthly AAF filings be postmarked by the
91 twentieth day of the filing month in a format approved by the Commission. A
92 monthly filing postmarked after the 20th of the month but prior to the first day of
93 the effective month will be accepted only if it corrects an error or errors from a
94 previous filing for the same effective month. Any other filings postmarked after
95 that date will be accepted only if submitted as a special permission filing under
96 the provisions of Section 9-201(a) of the Act³ and 83 Ill. Adm. Code 255.⁴

97 Additionally, both Original Sheet Nos. 269 and 291 contain duplicative, but not
98 identical, language with respect to the ComEd proposed AAF filing three (3) days

³ 220 ILCS 5/9-201(a).

⁴ Notice Requirements for Change in Rates for Cooling, Electric, Gas, Heating, Telecommunications, Sewer or Water Services.

99 before prior to the start of the billing month. Original Sheet No. 269 contains the
100 following language:

101 **At least three (3) business days prior to the start of each monthly**
102 **billing period, beginning with the March 2007 monthly billing period,**
103 **the Company submits the Accuracy Assurance Factors, (AAFs)**
104 **applicable during such monthly billing period, along with supporting**
105 **workpapers, to the ICC for informational purposes.**

106 Original Sheet No. 291 contains the following language:

107 **Such factors are submitted to the ICC in an informational filing at**
108 **least three (3) business days prior to the start of the monthly billing**
109 **period during which they are to be applied.**

110 I am proposing that ComEd delete the instructions on either Sheet No. 269 or
111 291 or adopt identical language on both sheets. I recommend that the language
112 be replaced with the following text:

113 Commonwealth Edison Company shall report monthly, in a format
114 designated by the Illinois Commerce Commission ("Commission"), the
115 charge(s) for electric power and energy purchased, calculated under the
116 provisions of Rider CPP to be applied to service rendered or billed during
117 the effective month. The reports required by this Section must be
118 postmarked by the twentieth day of the filing month. A monthly report
119 postmarked after that date but prior to the first day of the effective month
120 will be accepted only if it corrects an error or errors from a timely filed
121 report for the same effective month. Any other report postmarked after
122 that date will be accepted only if submitted as a special permission
123 request under the provisions of Section 9-201 (a) of the Public Utilities Act
124 [220 ILCS 5/9-201 (a)].

125 **ANNUAL REPORT AND ANNUAL RECONCILIATION OF ELECTRIC POWER AND**
126 **ENERGY COSTS**

127 Q. Please explain your recommendation that the Commission should order ComEd
128 to annually reconcile its electric power and energy costs with recoveries.

129 A. An annual reconciliation would provide a forum for:

130 1. Reviewing the cost mechanism on an annual basis to ensure that the
131 Company's process is effective;

132 2. Correcting omissions, errors, or misclassifications of cost; and

133 3. Reviewing the prudence of replacement electricity obtained outside the
134 auction process when deemed necessary, as noted in Dr. Schlaf's
135 direct testimony (ICC Staff Exhibit 5.0).

136 Q. Provide the basis for your recommendation that costs and cost recoveries flowing
137 through Rider CPP should be reviewed by the Commission in an annual
138 reconciliation.

139 A. It is necessary for the Commission to review the costs and cost recoveries
140 flowing through Rider CPP because the Company has not yet even identified the
141 specific cost accounts and revenue accounts that will be eligible to be flowed
142 through Rider CPP. From a review of ComEd's response to Staff Data Request
143 AD 2.13(b) it appears that the Company is proposing that it be allowed to define
144 cost after the Commission has approved Rider CPP, but before Rider CPP
145 becomes effective. Thus, it appears that ComEd is wanting the Commission to
146 approve the recovery of costs without defining which costs are to be recovered
147 as indicated in Data Request AD 2.13 provided below:

148 Staff's Data Request AD 2.13(b) is as follows:

149 How will "the total cost incurred by the Company to provide such retail
150 customers full requirements electric supply" be determined? Will it
151 represent an amount expensed on the company's financial books and
152 records? If yes, identify the account number and description. If no,
153 indicate what it will represent.

154 Company Response to Staff Data Request AD 2.13(b) is:

155 The total cost incurred by the Company to provide such retail customers
156 full requirements electric supply” will be determined by the payments
157 made to CPP-H Auction suppliers and PJM. Such costs will be recorded
158 in the Company’s financial records. Prior to the effective date of the new
159 rate structure, the Controller’s Department will review the ledger and
160 determine the appropriate accounts and descriptions to be used to record
161 such costs. Either new accounts will be added or certain code block
162 elements will be added to current accounts to ensure that applicable
163 amounts are properly identified. ComEd intends to work with the Staff
164 Accounting Department to address such matters after the completion of
165 the instant proceeding.

166 Q. How do you recommend that Rider CPP be modified to provide for an annual
167 reconciliation?

168 A. I propose that Rider CPP be modified to include the following language:

169 Annually, the Commission shall initiate public hearings to determine
170 whether Rider CPP reflects actual costs for the procurement of full
171 requirements electric supply required by retail customers and to reconcile
172 any amounts recovered with the actual costs of the procurement of full
173 requirements electric supply.

174 In conjunction with a docketed reconciliation proceeding, the ComEd shall
175 file with the Commission an annual reconciliation statement, which shall
176 be verified by an officer of the utility. This statement shall show the
177 difference between the following:

178 1) the costs recoverable through the Rider CPP during the
179 reconciliation year, as adjusted by the AAF mechanism, and

180 2) the revenues arising through the application of the Rider
181 CPP to applicable kWh during the reconciliation year.

182 If, after hearing, the Commission finds that ComEd has not flowed through
183 the appropriate costs or recoveries from Rider CPP for such reconciliation
184 year, the difference determined by the Commission shall be refunded or
185 recovered, as appropriate, through the Factor O, along with any interest or
186 other carrying charge authorized by the Commission.

- 187 Q. Rider CPP does not make any provisions for an annual report to the
188 Commission. Has ComEd expressed to Staff a willingness to amend the
189 proposed language of Rider CPP to develop an annual report format?
- 190 A. Yes. In response to Staff Data Request AD 1.04, the Company states that
191 “ComEd would not object to such an amendment of proposed Rider CPP...”.
- 192 Q. If Rider CPP were modified to require an annual report, what information should
193 be included?
- 194 A. An annual report should be made no later than April 1 of each year to summarize
195 the electric power and energy purchases for the previous calendar year. The
196 reports should be submitted to the Director of the Energy Division and to the
197 Director of the Financial Analysis Division and should include a reconciliation of
198 actual costs of electric power and energy purchased with recoveries. Staff is
199 willing to work with the Company in determining the information that should be
200 included in the report.

201 **INTERNAL AUDITS**

- 202 Q. Discuss your recommendations for the submission of an annual internal audit for
203 the prior calendar year.
- 204 A. I am also recommending that the Commission order ComEd to perform annual
205 internal audits of costs and recoveries recovered through Rider CPP and to

206 submit a copy of the internal audit report to the Manager of Accounting by April 1
207 of each year for the previous calendar year.

208 Q. Provide your rationale for recommending an annual internal audit.

209 A. The existence of a rider providing recovery of all eligible costs creates an
210 incentive for the Company to maximize the costs that are recovered through the
211 rider. An internal audit would provide the Commission assurance that the
212 Company is examining its practices on an annual basis. It is imperative that
213 ComEd take an active role in demonstrating that Rider CPP is properly
214 functioning and provide evidence of that assurance to the Commission.
215 Furthermore, by conducting annual internal audits of its procurement of full
216 requirements electric supply, ComEd would be monitoring itself to ensure that the
217 appropriate costs are being recovered through Rider CPP – “no more and no
218 less.”

219 **SUMMARY OF RECOMMENDATIONS**

220 Q. Please summarize your recommendations.

221 A. I recommend that the Commission make the following findings regarding
222 Commission oversight of ComEd’s Rider CPP:

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1. Language which would prohibit the oversight of the Commission and any other entity to review ComEd's bills issued to customers containing such retail supply charges or any such AAF and ComEd's collection of such charges should be deleted;
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2. The Accuracy Assurance Factor mechanism should be modified so that monthly filings are postmarked by the twentieth day of the filing month, any report filed after the twentieth but before the first day of the effective month would be accepted only to correct a previously filed timely report;
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3. Rider CPP should be modified to require the Commission to initiate annual public hearings to reconcile the cost of electric power and energy purchased with cost recoveries;
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4. Rider CPP should be modified to require ComEd to file annual reports with the Commission; and
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5. ComEd should perform annual internal audits of costs and recoveries recovered through Rider CPP and submit such reports with the Manager of Accounting by April 1 for the previous calendar year.

239 **CONCLUSION**

240 Q. Does this question end your prepared direct testimony?

241 A. Yes, it does.