

DIRECT TESTIMONY

of

**Dianna Hathhorn
Accountant**

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

Proposed General Increase in Rates for Delivery Service

Commonwealth Edison Company

Docket No. 05-0597

December 23, 2005

**PUBLIC VERSION
Confidential Information Identified As
BEGIN CONF [REDACTED] END CONF**

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1 Witness Identification

2 Q. Please state your name and business address.

3 A. My name is Dianna Hathhorn. My business address is 527 East Capitol
4 Avenue, Springfield, Illinois 62701.

5

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

7 A. I am an Accountant in the Accounting Department of the Financial
8 Analysis Division of the Illinois Commerce Commission ("Commission").

9

10 Q. What is the function of the Accounting Department of the Illinois
11 Commerce Commission?

12 A. The Accounting Department's function is to monitor the financial condition
13 of public utilities as part of the Commission's responsibilities under Article
14 IV of the Public Utilities Act ("Act") and to provide accounting expertise on
15 matters before the Commission.

16

17 Q. Please describe your background and professional affiliation.

18 A. I am a licensed Certified Public Accountant. I earned a B.S. in Accounting
19 from Illinois State University in 1993. Prior to joining the Commission Staff
20 ("Staff") in 1998, I worked as an internal auditor for another Illinois state
21 agency for approximately 3.5 years. I also have 1.5 years experience in
22 public accounting for a national firm.

23 Q. Have you previously testified before this Commission?

24 A. Yes, I have.

25

26 Q. What are your responsibilities in this case?

27 A. I have been assigned to this case by the Manager of the Accounting
28 Department of the Commission. I am to review Commonwealth Edison
29 Company's ("ComEd" or the "Company") filing, analyze the underlying
30 data and propose adjustments when appropriate.

31

32 Purpose of Testimony

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

34 A. The purpose of my testimony is as follows:

- 35 1. to present the Staff adjusted operating statements and rate
36 base of the Company; and
37 2. to propose adjustments to the Company's operating statement
38 and rate base concerning affiliated interest transactions,
39 charitable contributions, advertising expense, procurement
40 expense, and rate case expense.

41

42 Q. Are you sponsoring any schedules as part of your direct testimony?

43 A. Yes. I prepared (or supervised the preparation of) the following schedules
44 for the Company, which show data as of, or for the test year ending
45 December 31, 2004:

46

47 Revenue Requirement Schedules

48 Schedule 1.1 - Statement of Operating Income with Adjustments

49 Schedule 1.2 - Adjustments to Operating Income

50 Schedule 1.3 - Rate Base

51 Schedule 1.4 - Adjustments to Rate Base

52 Schedule 1.5 - Interest Synchronization Adjustment

53 Schedule 1.6 - Gross Revenue Conversion Factor

54

55 Adjustment Schedules

56 Schedule 1.7 - Corporate Governance Charges Adjustment

57 Schedule 1.8- - Affiliate Allocations Adjustment

58 Schedule 1.9 - Charitable Contributions Adjustment

59 Schedule 1.10 - Advertising Expense Adjustment

60 Schedule 1.11 - Procurement Expense Adjustment

61 Schedule 1.12 - Rate Case Expense Adjustment

62

63 Attachments

64 Q. Have you included any attachments as part of your direct testimony?

65 A. Yes, I have included the following attachments:

- 66 Attachment A - General Services Agreement between Exelon
67 Business Services Company and Client Companies
68 Attachment B - SEC Form U-13-60, Supplemental Corporate
69 Governance Information
70 Attachment C - Partial Response to Staff Data Request DLH-1.01-
71 SEC Audit Letter
72 Attachment D- Response to Staff Data Request DLH-6.07
73

74 Staff's Overall Revenue Requirement Recommendation

75 Q. What is Staff's overall revenue requirement recommendation?

76 A. As reflected on Schedule 1.1, described below, line 5 column (i) Staff
77 recommends revenues of \$1,588,084,000. This is a reduction to ComEd's
78 pro forma present revenues, \$1,626,288,000 in line 5 column (d) of
79 \$38,204,000. This revenue decrease is calculated at line 26 column (i) of
80 Schedule 1.1.

81

82 Revenue Requirement Schedules

83 Q. Please describe ICC Staff Exhibit 1.0, Schedule 1.1, Statement of
84 Operating Income with Adjustments.

85 A. ICC Staff Exhibit 1.0, Schedule 1.1 derives the required revenue with
86 Staff's proposed adjustments at the Staff proposed rate of return. Column
87 (b) presents the Company's pro forma operating statement for the test
88 year as reflected on the Company's Schedule C-1. Column (c) reflects the
89 total of all Staff adjustments shown on ICC Staff Exhibit 1.0, Schedule 1.2.

90 Column (d) reflects the Company's operating statement at present
91 revenues after Staff's adjustments. Column (e) presents the necessary
92 change to the Company's proposed revenues to arrive at Staff's proposed
93 revenue requirement as reflected in Column (i). Net Operating Income in
94 Column (i), line 23, is the product of Rate Base, line 24, and Rate of
95 Return, line 25. Column (i), line 27, presents Staff's calculated percentage
96 change in revenues.

97

98 Q. Please describe ICC Staff Exhibit 1.0, Schedule 1.2, Adjustments to
99 Operating Income.

100 A. Schedule 1.2 identifies Staff's adjustment to Operating Income. The
101 source of each adjustment is shown in the heading of each column.
102 Column (y) from page 3 of 3 is carried forward to ICC Staff Exhibit 1.0,
103 Schedule 1.1, Column (c).

104

105 Q. Please describe ICC Staff Exhibit 1.0, Schedule 1.3, Rate Base.

106 A. Schedule 1.3 compiles Staff's rate base. Column (b) reflects the
107 Company's proposed rate base. Column (c) summarizes Staff's
108 adjustments to rate base. Column (d) is the net of Columns (b) and (c),
109 and reflects Staff's computed rate base.

110

111 Q. Please describe ICC Staff Exhibit 1.0, Schedule 1.4, Adjustments to Rate
112 Base.

113 A. Schedule 1.4 identifies Staff's adjustments to rate base. The source of
114 each adjustment is shown in the heading of each column. Column (q)
115 from page 2 of 2 is carried forward to ICC Staff Exhibit 1.0, Schedule 1.3,
116 Column (c).

117

118 Interest Synchronization

119 Q. Please explain ICC Staff Exhibit 1.0, Schedule 1.5, Interest
120 Synchronization Adjustment.

121 A. Schedule 1.5 computes the interest component of the revenue
122 requirement. The interest expense (component) is computed by
123 multiplying the rate base by weighted cost of debt. The calculated interest
124 expense is then compared against the interest expense used by the
125 Company in its computation of test year income tax expense. The tax
126 effect of the difference in interest expense is the adjustment for interest
127 synchronization. The effect of this adjustment is to ensure that the
128 revenue requirement reflects the tax savings generated by the interest
129 component of the revenue requirement.

130

131 Gross Revenue Conversion Factor

132 Q. What is the purpose of ICC Staff Exhibit 1.0, Schedule 1.6, Gross
133 Revenue Conversion Factor?

134 A. Schedule 1.6 presents the gross revenue conversion factor (“GRCF”).
135 The GRCF is multiplied by the income deficiency to determine the total
136 amount of revenue required for the income deficiency and the associated
137 increase in income tax expense and uncollectible expense. It is based
138 upon the applicable federal tax rate, state income tax rate, and Staff’s
139 uncollectible rate, sponsored by Staff witness Ebrey in ICC Staff Exhibit
140 2.0, Schedule 2.5.

141

142 Effect of Staff Witness Lazare’s Adjustments

143 Q. Have you included the effect of Staff witness Lazare’s administrative and
144 general (“A&G”) adjustment from ICC Staff Exhibit 6.0, as part of the
145 revenue requirement in ICC Staff Exhibit 1.0?

146 A. Yes, his adjustment is reflected in the revenue requirement at Column (s),
147 line 11 of Schedule 1.2, page 3 of 3. Mr. Lazare’s adjustment, though,
148 has been reduced to avoid double-counting an overlapping effect to A&G
149 expense from adjustments presented by myself and Staff witness Ebrey.

150

151 Corporate Governance Charges Adjustment

152 Q. Please describe ICC Staff Exhibit 1.0, Schedule 1.7, Corporate
153 Governance Charges Adjustment.

154 A. Schedule 1.7 reflects my proposed adjustment to reduce ComEd's
155 corporate governance charges from Exelon Business Services Company
156 ("BSC"). An adjustment is necessary to allocate the test year costs based
157 on actual 2004 data, rather than projections.

158

159 Q. What are corporate governance charges?

160 A. These costs are defined in Section 7 of ComEd's General Services
161 Agreement ("GSA"), approved in Docket No. 00-0295 (Attachment A to
162 this testimony). In the final GSA, which contains certain modifications by
163 the Securities and Exchange Commission ("SEC"), corporate governance
164 is defined as:

165 "…those activities and services reasonably determined to be
166 necessary for the lawful and effective management of
167 Exelon System business. Corporate Governance Services
168 may be supplied from functions such as accounting, finance,
169 executive, strategic planning, legal, human
170 resources/benefits, audit, corporate communications and
171 public affairs, environmental health and safety, government
172 affairs and policy, and investor relations…" (See Attachment
173 A for a complete copy of the GSA)

174

175 Q. How are the corporate governance charges from BSC allocated to
176 ComEd?

177 A. These costs are allocated using the Modified Massachusetts Formula
178 (“MMF”), which uses gross revenues, total assets, and direct labor¹ as
179 inputs to the allocation formula. In response to Staff Data Request DLH-
180 1.06, ComEd provided the MMF used for the test year, which was
181 calculated based upon 2004 projected gross revenues and direct labor,
182 and assets at their 9/30/2003 value. I recommend an adjustment to
183 allocate the test year costs based on actual 2004 data, rather than
184 projections.

185

186 Q. Why do you recommend an adjustment to allocate the test year costs
187 based on actual 2004 data, rather than projections?

188 A. My adjustment calculates the MMF using the most recent actual 2004
189 values for these inputs, to better match the historical test year with actual
190 2004 activity. This results in a \$663,000 decrease to ComEd's test year
191 corporate governance charges, which are part of its A&G expense.
192 (Schedule 1.7)

193

194 Q. In addition to your recalculation of the MMF using actual 2004 inputs, does
195 any other evidence suggest that ComEd's 2004 corporate governance
196 costs are overstated?

¹ Since Exelon Corporation has no employees, an assignment of common officer salaries and fringe benefits is used for the calculation. (Company Response to Staff Data Request DLH-1.01)

197 A. Yes. Analysis of indirect corporate governance costs charged to ComEd
198 suggests that ComEd received an overstated amount of such costs in
199 2004. The SEC required ComEd to report its corporate governance
200 charges by functional area in an attachment to its SEC Form U-13-60.
201 (See Attachment B) In Table 1 below, I summarized the data and
202 calculated the ratio of direct to indirect charges for ComEd, compared to
203 an affiliate that is a regulated utility company, PECO Energy Company
204 (“PECO”), and two non-regulated affiliates, Exelon Corporation (“Exelon”),
205 and Exelon Generation Company LLC (“Genco”). I ignored the minimal
206 charges to Exelon Enterprises Company, LLC since this company was
207 sold in 2004. (Company Response to Staff Data Request DLH-6.07, See
208 Attachment D)

209
210 The table shows that the two regulated affiliates receive almost exactly the
211 same ratio of direct to indirect corporate governance charges from BSC—
212 11% direct and 89% indirect. The two non-regulated affiliates also receive
213 almost exactly the same ratio of direct to indirect corporate governance
214 charges from BSC, 28% direct and 72% indirect. However, when
215 compared to the regulated affiliates, the non-regulated affiliates receive
216 much lower percentages of indirect corporate governance costs. This
217 data suggests that indirect corporate governance costs are not allocated
218 fairly and equitably among the Exelon family of companies, since the

219 regulated affiliates are bearing more of the burden of corporate
 220 governance charges through their indirect costs (89%) than the
 221 unregulated affiliates (72%).

Table 1:			
ComEd	Direct	\$ 8,903	11.48%
	Indirect	68,648	88.52%
	Total	77,551	
Exelon	Direct	\$ 6,409	27.64%
	Indirect	16,780	72.36%
	Total	23,189	
Genco	Direct	\$ 30,470	27.91%
	Indirect	78,715	72.09%
	Total	109,185	
PECO	Direct	\$ 5,191	11.12%
	Indirect	41,485	88.88%
	Total	46,676	

222

223

224 Q. When did ComEd begin allocating its corporate governance costs using
 225 the MMF?

226 A. This allocation procedure began in 2004, as a result of an SEC audit, in
 227 which SEC Staff took exception to ComEd’s prior method of allocating
 228 corporate governance costs, total expenditures, arguing that more costs
 229 should be directed to Exelon. (Company Response to Staff Data Request
 230 DLH-1.01) The SEC approved the MMF method via its “60-Day” Letter
 231 process. The SEC also required ComEd to report its corporate
 232 governance charges by functional area in an attachment to its SEC Form

233 U-13-60. This requirement was to continue until ComEd discontinued
234 using the MMF or by calendar year 2008. (See Attachment C)

235

236 Q. Have there been any changes in the SEC's regulation of ComEd since the
237 audit occurred?

238 A. Yes. The Energy Policy Act of 2005 ("EPAAct 2005") repealed the Public
239 Utility Holding Company Act of 1935 ("PUHCA 1935"). ComEd indicated it
240 expects the 60-day letter process to cease when the repeal becomes
241 effective, February 8, 2006. (Company Response to Staff Data Request
242 DLH-9.02) Therefore, the SEC's role in monitoring the GSA, and as a
243 result, in monitoring ComEd and Exelon's corporate governance costs,
244 has changed significantly since the SEC audit. On December 8, 2005, in
245 Order No. 665, the Federal Energy Regulatory Commission ("FERC")
246 released its final rules implementing EPAAct 2005. (FERC Docket No.
247 RM05-32-000) In this Order, the FERC adopted a newly-created FERC
248 Form No. 60, Annual Report of Service Companies, replacing the SEC
249 Form U-13-60 discussed above.

250

251 Q. As a result of the repeal of PUCHA 1935 and FERC Order No. 665, do
252 you have any recommendations as to future reporting and approval of
253 ComEd's affiliate transactions?

254 A. Yes. ComEd's affiliate transactions remain subject to Section 7-101 of the
255 Act despite the PUHCA 1935 repeal or the rules adopted by the FERC in
256 Order No. 665. Therefore, consistent with my understanding of Section 7-
257 101 of the Act, any changes to ComEd's GSA or Affiliated Interest
258 Agreement, approved March 12, 1997 in ICC Docket No. 95-0615, need to
259 be approved by the Commission in a docketed proceeding in advance of
260 implementation of such change. For reporting purposes though, since the
261 FERC Order No. 665 did not maintain the same level of reporting as
262 required under PUHCA 1935, I recommend the Commission to order the
263 following reporting conditions be placed upon ComEd:

- 264 • As an attachment to its ILCC Form 21, report its corporate governance
265 charges by functional area, in the same format as was attached to its
266 SEC Form U-13-60. This requirement should not expire.
- 267 • As an attachment to its ILCC Form 21, provide the following supporting
268 schedules, in the same format as was previously provided in its SEC
269 Form U-13-60. This requirement should not expire.
 - 270 ▪ Outside Services Employed-Account 923;
 - 271 ▪ Employee Pensions and Benefits-Account 926;
 - 272 ▪ General Advertising Expenses-Account 930.1;
 - 273 ▪ Rents-Account 931;
 - 274 ▪ Taxes Other Than Income Taxes-Account 408;
 - 275 ▪ Donations-Account 426.1; and

- 276 ▪ Other Deductions-Account 426.5.
- 277 • On the same date it is required to be filed with the FERC, file with the
- 278 Commission's Chief Clerk, and provide a copy to the Manager of the
- 279 Commission's Accounting Department, a complete copy of FERC
- 280 Form 60.
- 281 • Within 60 days of its implementation, notify the Manager of the
- 282 Commission's Accounting Department of any changes to its allocation
- 283 factors. A change is defined by 1) a change in the allocation basis for
- 284 an account or function, 2) a change in the calculation of the factor, or
- 285 3) a change in one of the inputs to the factor. Updating factors in place
- 286 presently with current or projected input data need not be reported.

287

288 Affiliate Allocations Adjustment

289 Q. Please describe ICC Staff Exhibit 1.0, Schedule 1.8, Affiliate Allocations

290 Adjustment.

291 A. Schedule 1.8 reflects my proposed adjustment to reduce ComEd's affiliate

292 charges from Exelon Business Services Company to reflect a normal level

293 of test year costs.

294

295 Q. How did you calculate your adjustment?

296 A. In response to Staff data request DLH-6.07 (see Attachment D), ComEd

297 explained that over the years 2001 through 2004 many BSC charges that

298 once were recorded in Account 921, Office Supplies and Expenses,
299 evolved to more appropriately being recorded in Account 923, Outside
300 Services Employed. Therefore, as presented on Schedule 1.8, page 2, I
301 analyzed the balances in both Accounts 921 and 923. The sum of these
302 accounts for the years 2001 through 2004 ranged from approximately \$74
303 million in 2002 to a high of \$119 million in the test year, 2004. Such a
304 wide range in results –approximately \$45 million--over a relatively short-
305 term time frame indicates that an adjustment to reduce the test year to a
306 normal level is appropriate.

307

308 Q. What types of BSC charges are included in Accounts 921 and 923?

309 A. The types of BSC charges included in these accounts are legal,
310 information services, human resources, accounts payable, procurement,
311 and other similar charges. (Company Response to Staff data request
312 DLH-6.07)

313

314 Q. How does ComEd explain the account variances?

315 A. In response to Staff data request DLH-6.07, ComEd provides three
316 general explanations for the variances, which I have provided below
317 followed by my comments:

- 318 1- Services previously recorded to Account 921 now recorded in
319 account 923. However, since I analyzed these balances together
320 for my adjustment, this explanation is irrelevant to the issue.
- 321 2- Corporate governance charges increased due to the sale of Exelon
322 Enterprises and implementation of the MMF method discussed
323 previously. My adjustment in Schedule 1.7 presents my position on
324 ComEd's corporate governance charges, and this adjustment is
325 subtracted from my Affiliate Allocations Adjustment in Schedule 1.8;
326 therefore, this issue also is irrelevant to my adjustment.
- 327 3- Centralization of certain functions at BSC that were previously
328 performed by ComEd. However, this transfer occurred in 2004.
329 Therefore, I am unable to accurately analyze how the centralized
330 expenses in 2004 compare to prior years, since the expenses were
331 recorded in different accounts and at a different entity, ComEd
332 rather than BSC, prior to 2004. (Company Response to Staff data
333 request DLH-1.02 Revised) Further, ComEd's only tool to analyze
334 if this centralization had a positive impact was the budget process
335 for 2004, the year of the transfer. (Company Response to Staff
336 data request DLH-6.06) As a result, this tool is also not helpful in
337 analyzing actual test year results. Therefore, ComEd's explanation
338 of the wide account variances does not provide sufficient reason

339 not to adjust the balances to a normal level, which I calculate based
340 upon a four-year average

341

342 Q. Do you have any outstanding data requests to ComEd concerning its
343 affiliate transactions?

344 A. Yes. ComEd indicated it will not be able to respond to my question DLH-
345 15.03 until at least the second week of January 2006, and a follow-up set
346 also on affiliate charges from BSC (DLH-16) was just recently sent.

347 Therefore, my adjustment and rebuttal testimony may need to incorporate
348 analysis from these responses.

349 Charitable Contributions Adjustment

350 Q. Please describe ICC Staff Exhibit 1.0, Schedule 1.9, Charitable
351 Contributions Adjustment.

352 A. Schedule 1.9 reflects my proposed adjustment to remove contributions to
353 certain community organizations from the Company's miscellaneous
354 general expenses. The Company's participation in such groups is a
355 promotional and goodwill practice, designed primarily to bring the
356 Company's name before the general public in such a way as to improve
357 the image of the utility or to promote utility industry issues. Even though
358 ComEd has not recorded these costs as advertisements, the guiding
359 principle of Section 9-225 of the Act that disallows such promotional costs
360 in rate recovery should be followed. Further, the Commission, in its Order

361 in ComEd's prior rate case, ICC Docket No. 90-0169, recognized the
362 importance of utility companies interfacing with these types of
363 organizations, yet ruled that the shareholders, rather than the ratepayers,
364 should bear the cost of interfacing with such organizations. The
365 Commission affirmed this position in ICC Docket No. 94-0065. Therefore,
366 I am removing the cost of these expenses from the Company's test year
367 operating expenses.

368

369 Advertising Expense Adjustment

370 Q. Please describe ICC Staff Exhibit 1.0, Schedule 1.10, Advertising Expense
371 Adjustment.

372 A. Schedule 1.10 reflects my proposed adjustment to disallow the
373 Company's promotional and goodwill advertising costs. The costs are for
374 portions of the ABC/WLS-TV weather sponsorship, and for all of the WGN
375 TV "Ask Tom Why" sponsorship. These campaigns are designed primarily
376 to bring the Company's name before the general public in such a way as
377 to improve the image of the utility or to promote utility industry issues.
378 Such promotional costs are not allowed in rate recovery under Section 9-
379 225 of the Act.

380

381 Q. How did you determine the amount to disallow for the ABC/WLS-TV
382 weather sponsorship?

383 A. ComEd stated that the WLS contract was all-inclusive for a lump sum.
384 (Company Response to Staff data request DLH-6.02) However, four
385 components were listed on the Company's WPC-8 for the contract. In my
386 opinion, all but the ":15 TV Weather Tip Vignettes" campaigns were
387 promotional. Therefore, I allowed 25% (one-fourth) of the contract cost
388 and disallowed the other 75% of the WLS contract cost as part of my
389 adjustment.

390

391 Procurement Expense Adjustment

392 Q. Please describe ICC Staff Exhibit 1.0, Schedule 1.11, Procurement
393 Expense Adjustment.

394 A. Schedule 1.11 reflects my proposed adjustment to amortization of
395 ComEd's estimated legal fees and expenses related to the procurement
396 proceeding, Docket No. 05-0159, because the costs are not related to
397 delivery services. As an example, some of the expenses included in
398 ComEd's procurement expense request are for an auction manager and
399 staff, auction management expenses, and an auction advisor. (ComEd
400 Response to Staff data request DLH-12.04) Adopting ComEd's proposal
401 would charge customers who only take delivery services from ComEd with
402 costs related to ComEd's procurement proceeding and operations.

403

404 Q. Do you agree with ComEd witness Crumrine's statement that "Because
405 all customers are eligible for one of the BES [Basic Electric Service] tariffs
406 proposed herein, all customers have a responsibility for the recovery [of]
407 these costs." (ComEd Ex. 9.0, p. 46, lines 996-998)?

408 A. No, I do not. Mr. Crumrine's reasoning imposes costs upon customers
409 based upon eligibility, rather than cost causation. A delivery service
410 customer that chooses a different power supplier than ComEd should not
411 have to pay ComEd's power supply costs simply because they are eligible.
412 Further, not all customers are satisfied with the supply options of which
413 they are eligible. For example, in ICC Docket No. 05-0159, customers
414 with demands greater than 3 megawatts (">3 MW customers") argued that
415 their service offering should be procured through fixed price products,
416 however ComEd declined this proposal.² By charging the >3 MW
417 customers procurement case fees and expenses, these customers will
418 pay for a service they are eligible for but may not want.

419

420 Q. Do you have other concerns about ComEd's procurement expense
421 amortization request?

422 A. Yes. ComEd not only requested amortization expense, but inclusion of
423 the unamortized balance of its procurement costs in rate base. Later in
424 my testimony, in the Rate Case Expense Adjustment section, I discuss

² Docket No. 05-0159, ComEd Exhibit 10.0, pp. 55-57.

425 how this rate base ratemaking treatment is inappropriate because
426 shareholders should share the expense as shareholders benefit from a
427 rate case. If the Commission does not accept my primary position, then at
428 a minimum, the rate base portion of ComEd's proposal should be
429 disallowed from all cost recovery mechanisms.

430

431 Q. Do you have a recommendation concerning the cost recovery of ComEd's
432 non-rate base procurement expenses?

433 A. Yes. I recommend that these expenses be recovered through ComEd's
434 proposed Supply Administration Charge ("SAC"). In this manner, those
435 customers who chose ComEd as their supplier will pay for ComEd's costs
436 of the procurement proceeding. However, not all of the estimated costs
437 are reasonable as they have not been substantiated by ComEd.

438 Therefore, it is not appropriate to include these amounts in rates. On
439 page 2 of Schedule 1.11, I calculate that the procurement case expenses
440 to be included in the SAC charge should be reduced by \$566,667. I
441 calculated my adjustment using ComEd's actual accrued expenses for two
442 vendors, per its Supplemental Response to Staff data request DLH-2.04. I
443 estimated the December 2005 charges to be equal to those in November
444 2005, and estimated ComEd's 2006 costs not yet incurred to be equal to
445 its 2005 total costs. The differences, divided by three for the amortization
446 period, is my adjustment to the procurement case expenses to be included

447 in the SAC. Schedule 1.11, page 2, line 10 reflects Staff's final proposed
448 SAC costs of \$3,255,947.

449

450 Rate Case Expense Adjustment

451 Q. Please describe ICC Staff Exhibit 1.0, Schedule 1.12, Rate Case Expense
452 Adjustment.

453 A. Schedule 1.12 reflects my proposed adjustment to disallow the
454 Company's request to include its unamortized balance of rate case
455 expense in rate base, to insure that there is a fair and equitable allocation
456 of rate case costs between ratepayers and shareholders. This treatment
457 of rate case expense requires shareholders to bear the capital costs
458 associated with improving their investment through increased rates, while
459 ratepayers bear the average annual cost for the continued provision of
460 safe reliable service. Without this treatment, there is little to no incentive
461 for the Company to keep its rate case expenses to a minimum.

462

463 Q. Does the Commission generally allow utilities to recover its unamortized
464 balance of rate case expense in rate base?

465 A. No. I have researched recent ICC orders for unamortized rate case
466 treatment where it was a contested issue before the Commission, and

467 could only find one case, ICC Docket No. 99-0117³, where this practice
468 was followed. In that case, ComEd successfully argued that the
469 proceeding was markedly dissimilar from general rate case dockets the
470 Commission has historically heard in that the proceeding was initiated by
471 law and not by a utility's request for a rate increase. (Order, p. 49) This is
472 not the case in the instant proceeding; therefore, I recommend the
473 Commission follow its customary practice of allowing amortization of rate
474 case expense but not allowing a return on the unamortized balance.

475

476 Q. Have you also adjusted the annual amortization amount of ComEd's
477 proposed rate case expense?

478 A. Yes. On page 2 of Schedule 1.12, I removed estimated costs for three
479 vendors which have not been substantiated by ComEd. Therefore, I
480 cannot recommend recovery in rates. I calculated my adjustment using
481 ComEd's actual accrued expenses for the three vendors, per its
482 Supplemental Response to Staff data request DLH-2.03. I estimated the
483 December 2005 charges to be equal to those in November 2005, and
484 estimated ComEd's 2006 costs not yet incurred to be equal to its 2005
485 total costs. The differences, divided by three, is my adjustment to rate
486 case expense.

487

³ Order entered August 25, 1999.

488 Q. Have you reviewed or incorporated the effects of ComEd's errata filed
489 December 15, 2005?

490 A. No and I reserve the right to address any issues that may arise from that
491 filing in a future testimony filing of my own.

492

493 Q. Does this conclude your prepared direct testimony?

494 A. Yes, it does.