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EVIDENCE SUPPORTING COMED'S ADMINISTRATIVE & GENERAL EXPENSES

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III. EXISTING RECORD EVIDENCE

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Costello Surrebuttal, ComEd Ex. 30.0

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Hill Surrebuttal, ComEd Ex. 36.0, Corr.

EVIDENCE SUPPORTING COMED'S ADMINISTRATIVE & GENERAL EXPENSES

I. PURPOSE AND ORGANIZATION

PURPOSE AND ORGANIZATION

ComEd's A&G Evidentiary Binder brings together in one place, for the convenience of the Illinois Commerce Commission (the "Commission"), evidence demonstrating that Commonwealth Edison Company ("ComEd") is entitled to full recovery of its requested level of A&G expenses. The information provided herein includes materials included in the evidentiary record of ICC Docket 05-0597 (Part III, Existing Record Evidence), as well as certain additional materials supporting its entitlement of particular types of A&G expenses (Part II, New Record Materials).

The New Record Materials provided in ComEd's A&G Evidentiary Binder include a copy of the relevant pages from the Commission's July 26 Order in the instances where the Commission reached conclusions about specific A&G expenses. In addition, ComEd includes in Part II new materials that it would offer into evidence on rehearing in support the following specific types of A&G expenses -- employee and retiree health care, salaries and wages, pensions, Exelon Way severance, Sarbanes-Oxley compliance, depreciation of Information Technology ("IT") assets, SEC allocation, and corporate governance expenses.

ComEd provided substantial support for its A&G expenses during the course of evidentiary proceedings. The following ComEd witnesses, among others, testified about ComEd's A&G expenses:

John T. Costello – ComEd's Senior Vice President of Operations

Jerome P. Hill – ComEd's Director of Revenue Policy

Kathryn M. Houtsma, CPA – ComEd's Vice President of Regulatory Projects

For the convenience of the Commission, the key excerpts of the respective testimonies of the witnesses identified above and attachments thereto admitted into evidence are attached in Section III of ComEd's A&G Evidentiary Binder.

ComEd's A&G expenses include employee expenses such as administrative salaries, employee pensions and benefits (including health care), supply management, office supplies and services, and accounting fees, as well as support services including finance, legal, human resources, and information technology. A&G expenses are recorded in Accounts 920-935 under the Uniform System Of Accounts. Costello Dir., ComEd Ex. 3.0 Corr., p. 30; Hill Dir., ComEd Ex. 5.0 Corr., p. 26. ComEd's requested level of A&G expenditures is necessary in order for ComEd to provide safe, efficient, and reliable service. ComEd's proposed A&G expenses are necessary to pay employees and provide them with health care, pensions, and benefits. Setting current A&G expenses at 2001 levels would hurt both customers and employees. Costello Reb., ComEd Ex. 13.0, Corr., pp. 31, 36-37; Costello Sur., ComEd Ex. 30, p. 14.

The Exelon Business Services Company ("BSC") was established to provide corporate governance, technical, and a wide array of other support services to Exelon affiliate companies, in order to maximize efficiencies associated with the provision of support services that are common to multiple business units. Hill Dir., ComEd Ex. 5.0, Corr., p. 26; Costello Reb, ComEd Ex. 13.0, Corr., p. 33. What may appear to be an increase in certain costs is actually a reflection of the fact that those costs are now recorded in different accounts based on the FERC Uniform System of Accounts, which provides for separate accounts for internally incurred payroll (AC 920 Administrative and General Salaries) and service company billings (AC 923 – Outside Services Employed). Houtsma Reb., ComEd Ex. 18.0, p. 13.

ComEd customers have, in fact, realized substantial benefits from the creation of BSC. As demonstrated through testimonial evidence, ComEd's savings of 2004 O&M expense by $66 million ($59 million on a jurisdictional basis) (response to PL 4.03) was achieved, in part, due to the use of shared services provided by Exelon BSC and the transfer of over 436 employees to Exelon BSC. Houtsma Reb., ComEd Ex. 18.0, p. 13. Those savings are already reflected in the rates that ComEd is proposing. Such savings have mitigated, though not eliminated, the overall increase in A&G expenses. Without the savings made possible through the streamlined process provided by BSC, ComEd's A&G expenses would be higher. Costello Sur., ComEd Ex. 30.0, pp. 17-18.

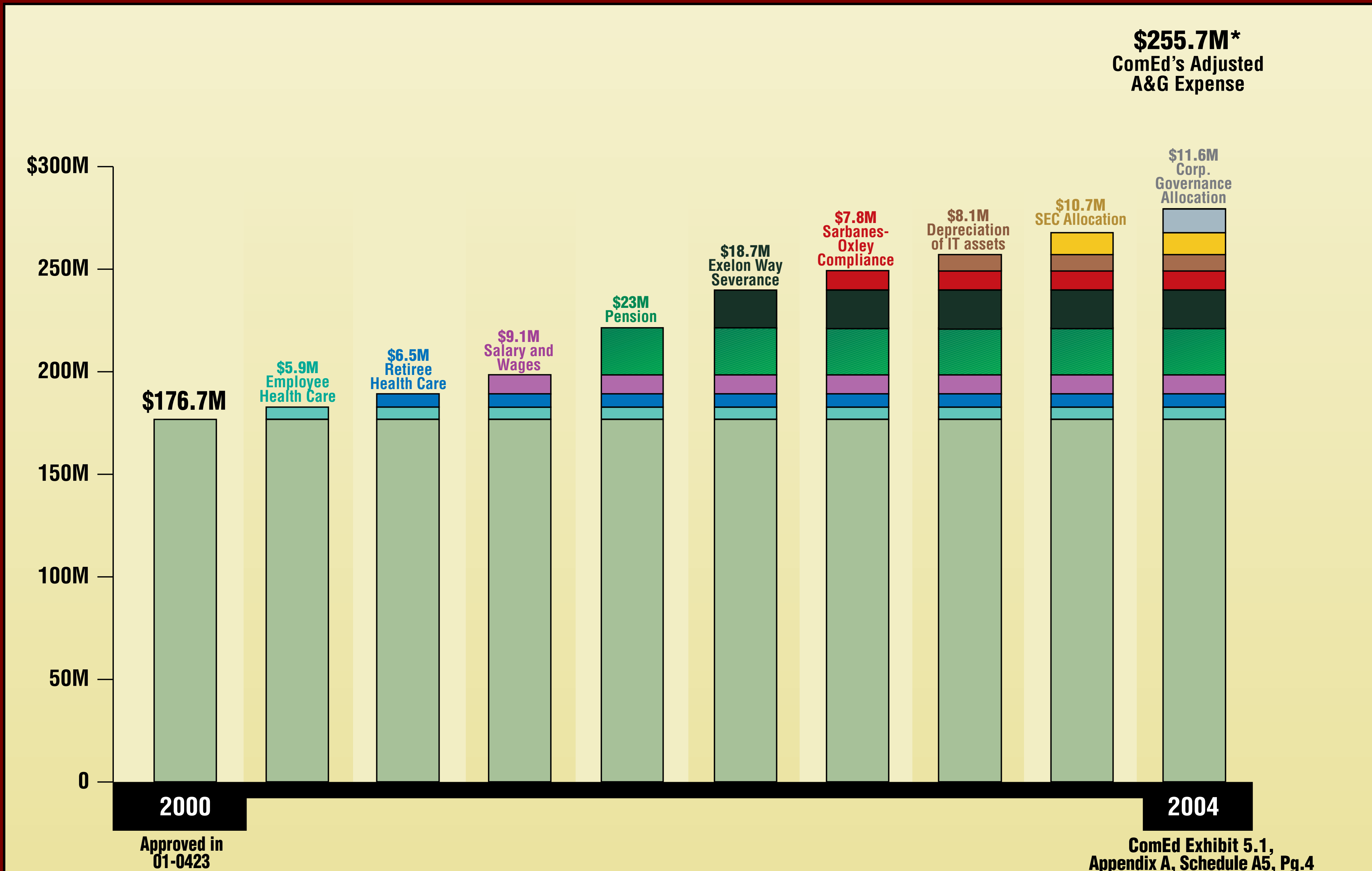
EVIDENCE SUPPORTING COMED'S ADMINISTRATIVE & GENERAL EXPENSES

II. NEW RECORD MATERIALS

TAB A. A&G INCREASES GENERALLY

ComEd's Administrative and General Cost Increases Since 2000

ComEd



*Includes credits of $22.4M identified in the spreadsheet entitled Changes to Jurisdictional A&G Expense, attached at tab II. A of ComEd's A&G Evidentiary Binder

COMMONWEALTH EDISON COMPANY

CHANGES IN JURISDICTIONAL A&G EXPENSE - 2000 TO 2004

(In Thousands)

A&G Account Description	A&G Per Order in Docket 01-0423	Increase in Pension Costs	Increase in Post Retirement Health Care Costs	Removal of Fair Value Adj - Pension & OPEB (1)	Increase In Employee Medical costs	Salary and Wage Increase	Exelon Way Severance	Less: Exclusion of MGP Costs	Incr in BSC Corp Allocation Due To MMF (2)	Incr in BSC Corp Allocation Due to Sale of Enterprises (3)	Depr of BSC Assets Previously Recorded as Depreciation	Sarbanes - Oxley Compliance	A&G Per Order Plus Changes 2000-2004	Other Incr/(Decr) In Costs	2004 Test Year After Adjustments
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)
Operation															
A&G Salaries/Office Supplies & Exps.	$ 96,803					$ 9,137	$ 8,920						$ 114,860		$ 67,304
Admin Expenses Transferred -Credit	(8,169)												(8,169)		(16,189)
Outside Services Employed	3,430								10,704	11,596	8,070	7,764	41,564		89,025
Subtotal	92,064					9,137	8,920	0	10,704	11,596	8,070	7,764	148,255	(8,115)	140,140
Property Insurance	717												717	434	1,151
Injuries & Damages	11,243												11,243	37	11,280
Employee Pensions & Benefits (Account 926):															
Pensions	(11,355)	22,948		(3,500)									8,093	0	8,093
Post-Retirement Benefits	14,525		6,466	(1,700)									19,291	0	19,291
Severance	0						9,812						9,812	162	9,974
Medical	23,411				5,880								29,291	0	29,291
ESIP	10,936												10,936	(2,703)	8,233
Other Benefits	8,965												8,965	(5,067)	3,898
Total Employee Pensions & Benefits	46,482	22,948	6,466	(5,200)	5,880	0	9,812	0		0	0	0	86,388	(7,608)	78,780
Franchise Requirements	0												0	(60)	(60)
Regulatory Commission Expenses	2,502												2,502	(3,731)	(1,229)
Duplicate Charges-Credit	0												0	59	59
General Advertising Expenses	0												0	(40)	(40)
Miscellaneous General Expenses	9,319							(9,206)					113	6,393	6,506
Rents	6,384												6,384	2,894	9,278
Total Operation	168,711	22,948	6,466	(5,200)	5,880	9,137	18,732	(9,206)	10,704	11,596	8,070	7,764	255,602	(9,737)	245,865
Maintenance															
Maintenance of General Plant	7,973												7,973	1,871	9,844
Total Administrative and General Costs	$ 176,684	$ 22,948	$ 6,466	$ (5,200)	$ 5,880	$ 9,137	$ 18,732	$ (9,206)	$ 10,704	$ 11,596	$ 8,070	$ 7,764	$ 263,575	$ (7,866)	$ 255,709
	Dkt. 01-0423 Order Appendix A Schedule 1												Columns (b) through (l)		Per ComEd Exceptions To Proposed Order

Notes:

(1) Removal of fair value adjustment to pension and post-retirement health care costs. See Dkt. 05-0597 Order, Page 6 and Appendix A, Page 4, Column (v).

(2) From Exhibit 18.0 Corr., Page 11, Lines 237 - 243: Total expense of $12 million times 89.2% = jurisdictional impact of $10,704,000.

(3) From Exhibit 18.0 Corr., Pages 11-12, Lines 244 - 249: Total expense of $13 million times 89.2% = jurisdictional impact of $11,596,000.

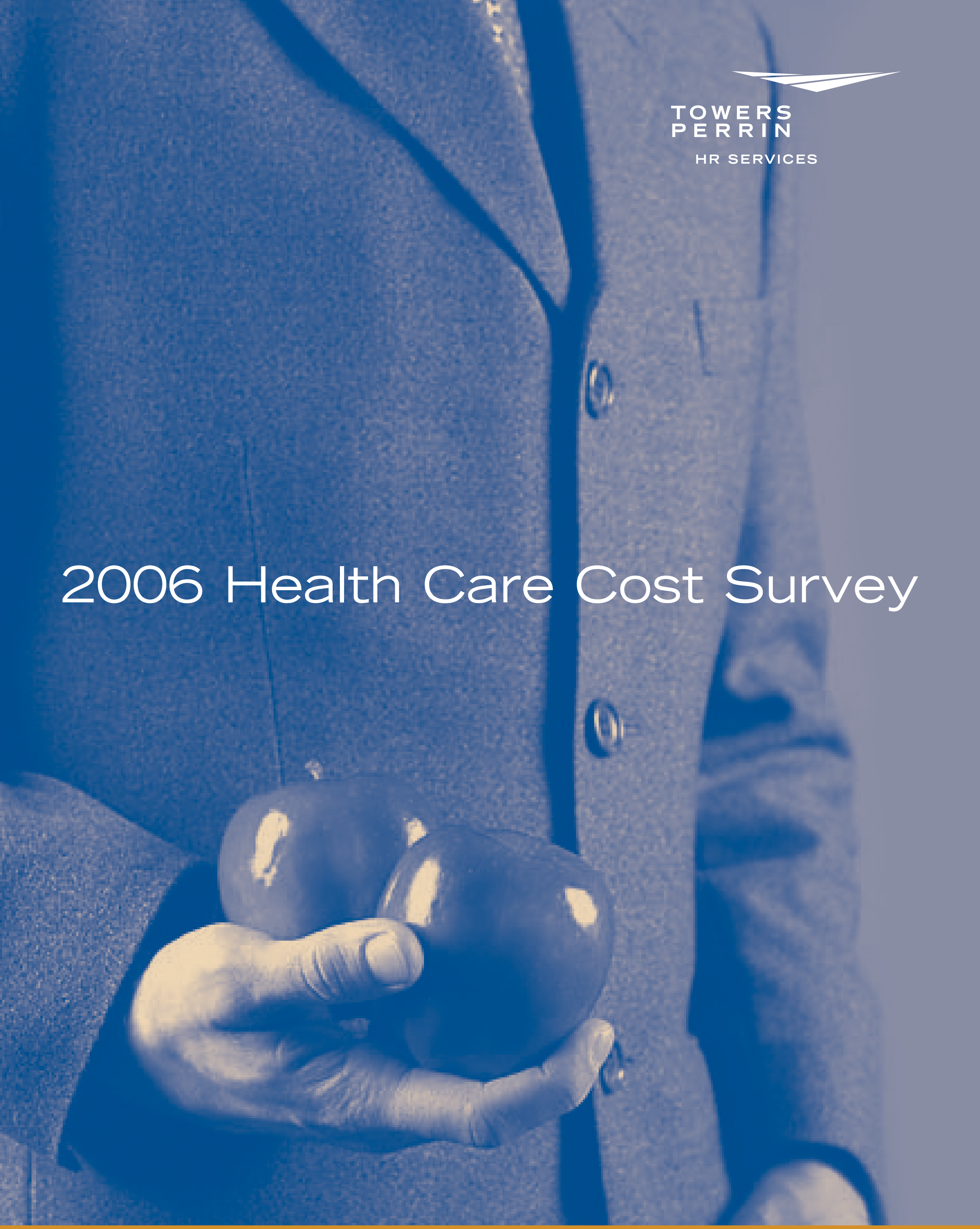
EVIDENCE SUPPORTING COMED'S ADMINISTRATIVE & GENERAL EXPENSES

II. NEW RECORD MATERIALS

TAB 1. EMPLOYEE AND RETIREE HEALTH CARE

TOWERS
PERRIN

HR SERVICES



2006 Health Care Cost Survey

WHAT'S INSIDE

SURVEY HIGHLIGHTS

Employers face a 7% increase in 2006 health care costs, according to the Towers Perrin *2006 Health Care Cost Survey*. Next year's cost increase, at an average of $582 per employee, is unsustainable for most employers. But further analysis reveals that this increase would have been close to $800 if not for employers' efforts to aggressively manage program performance.

- Employers continue to shoulder a majority of the cost burden. Employees, on average, will pay $156 more in 2006, representing a 10% increase over 2005. Employers will see an increase of $426 per employee, absorbing nearly three-quarters (73%) of the total cost increase.
- Overall, employers will pay 80% of premium costs and employees will pay 20% — the same cost-sharing ratio that has prevailed for the past several years.
- Up 9% from 2005, costs for pre-age 65 retirees show the greatest rate of increase in the survey. Since 2001, the rate of increase for pre-age 65 retirees has been consistently higher than the trend for active employees.
- Cost variations between low-cost companies (companies with the lowest premium level per employee) and high-cost companies (companies experiencing the highest cost per employee) are significant. High-cost companies are facing a total cost of $9,972 per active employee, compared to $6,888 per active employee cost for low-cost companies.
- Companies with lower than average costs are actively managing their vendor relationships, taking measures that encourage employees to take responsibility for their decisions at the point of care, communicating more effectively about health care costs and providing employees with the tools they need to make the "right" health care decisions.

KEY FINDINGS

Employers face, on average, a 7% increase in health care costs next year, according to the Towers Perrin *2006 Health Care Cost Survey*. Corresponding employer-sponsored dental plan costs will increase 4% in 2006, a slightly slower pace than last year *(Exhibit 1)*.

This year's survey findings are based on projected increases in premium rates or, in the case of self-insured plans, the premium equivalents for 383 of the nation's largest employers, covering over 5.6 million U.S. employees, retirees and dependents.

This year's actual percentage increase is similar to last year's (7% versus 8% last year). However, the cumulative effect of years of double-digit increases has created a larger cost base. In terms of actual health care costs, employers are paying 78% more than they spent five years ago, and employees are paying 68% more *(Exhibit 2)*.

EXHIBIT 1

Average Growth in Health Care Costs

(all plan types and participant groups combined)

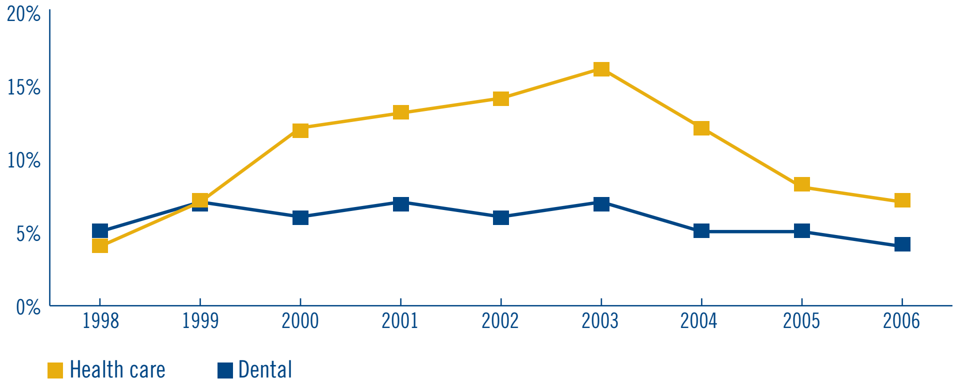


EXHIBIT 2

Total Health Care Cost Dollar Amount per Employee

2001 Total Cost = $4,809 **2006 Total Cost = $8,448**

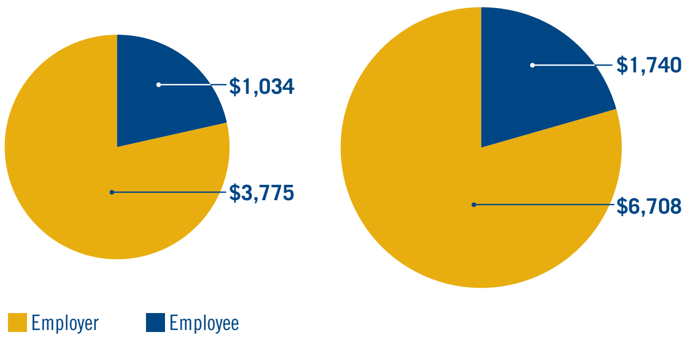


EXHIBIT 3

Average Cost Increases: 1996-2006

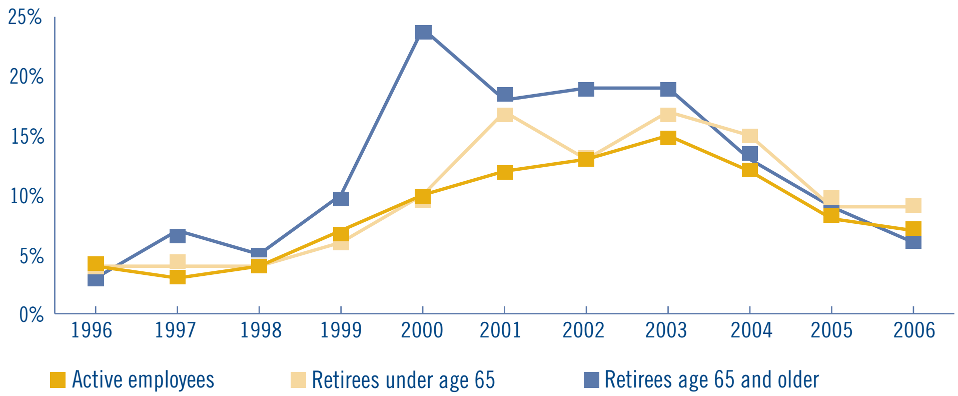
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Health Care Plans											
Active employees	4%	3%	4%	7%	10%	12%	13%	15%	12%	8%	7%
Retirees under age 65	4	4	4	6	10	17	13	17	15	9	9
Retirees age 65 and older	3	7	5	10	24	18	19	19	13	9	6
Combined	4	4	4	7	12	13	14	16	12	8	7
Dental Plans											
Active employees	5%	5%	5%	7%	6%	7%	6%	7%	5%	5%	4%
Retirees under age 65	4	5	4	4	6	6	5	6	5	7	7*
Retirees age 65 and older	3	5	3	3	6	4	4	5	6		
Inflation Measures											
Consumer Price Index (CPI)	3%	2%	2%	2.7%	3.4%	1.6%	2.0%	2.3%	3.2%	4.3%**	
Medical care component of CPI	4	3	3	3.7	4.2	4.7	4.8	4.0	4.5	4.1	

*Average cost increase for retirees under and over age 65

**Unadjusted 12 months ended 10/31/05

EXHIBIT 4

Average Cost Increases: 1996-2006



At 9%, cost increases for retirees under age 65 are higher than increases for retirees age 65 and older (6%) and active employees (7%). The increase for Medicare-eligible coverage may be lower than last year (when we saw an average 9% increase for this group) due to renewed government support for Medicare Advantage plans. With their lower premiums, enhanced benefits and expanded service areas, these plans are increasingly viewed as a viable alternative to traditional Medicare arrangements (*Exhibits 3* and *4*).

Health plan cost increases continue to exceed general price inflation. For the past 12 months, the increase in the overall Consumer Price Index (CPI) was 4.3%.

EMPLOYEES' PROPORTIONAL SHARE OF COSTS IS LARGELY UNCHANGED

In 2006, employees will contribute 18% of the cost for employee-only coverage, and 21% for employee plus dependent and family coverage *(Exhibit 5)*. Employees will contribute an average of $65/month ($780 annually) for employee-only coverage, $152/month ($1,824 annually) for employee plus dependent coverage and $222/month ($2,664 annually) for family coverage.

EXHIBIT 5

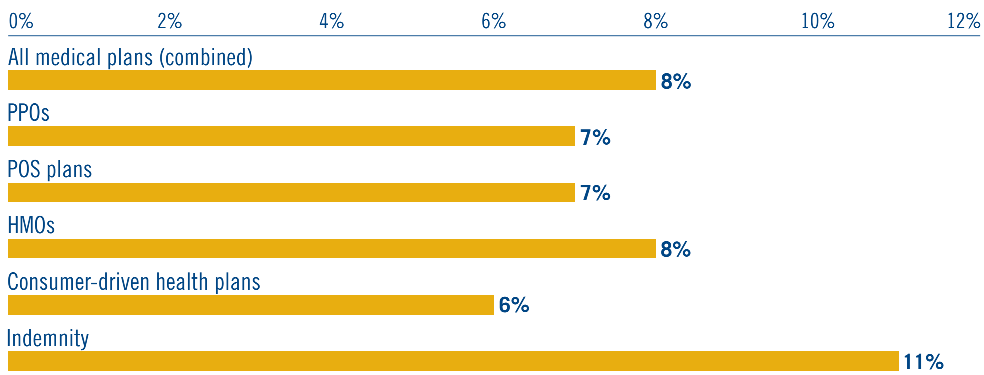
Average Monthly Employee/Retiree Share of 2006 Coverage Costs

	Employee/Retiree Only (% of Total Cost)	Employee/Retiree Plus One Dependent (% of Total Cost)	Family (% of Total Cost)
Employees	18%	21%	21%
Retirees under age 65	39	38	42
Retirees age 65 and older	39	42	N/A

EXHIBIT 6

2006 Average Health Care Cost Increases — by Plan Type

(active employee-only coverage)



Although cost shifting (i.e., increasing employees' share of the cost) in recent years has increased employees' relative share, the 2006 survey findings suggest that employers recognize the need to look beyond stopgap "fixes" that simply shift costs and may have negative consequences for effective workforce management over the longer term. In 2006, the average employee share of premium costs will increase 10%, while the employer share will increase by 7%. But the bulk of the increase in the dollar amounts contributed by employees is due to the impact of inflation on their share of the premium, with less impact coming from cost shifting.

Similar to prior years, retirees are shouldering a greater proportion of their average monthly health care costs than their active employee counterparts. Retirees under age 65 will contribute approximately 39% for retiree-only coverage, 38% for retiree plus one dependent coverage and 42% for family coverage. Retirees age 65 and older will pay 39% for retiree-only coverage and 42% for retiree plus one dependent coverage.

In dollar terms, retirees under 65 will pay an average of $216 a month ($2,592 annually) for retiree-only coverage and $411 a month ($4,932 annually) for retiree plus one dependent coverage. Retirees age 65 and older will pay an average of $107 a month ($1,284 annually) for retiree-only coverage and $236 a month ($2,832 annually) for retiree plus one dependent coverage. The cost-sharing percentages are comparable to 2005 percentages.

EXHIBIT 7

2006 Average Monthly Health Care Costs — by Plan Type *(active employees)*

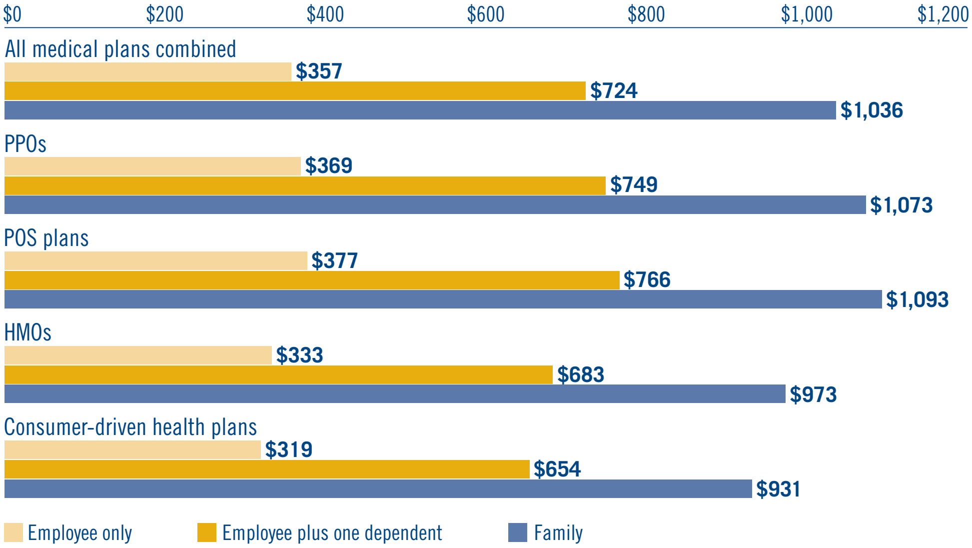
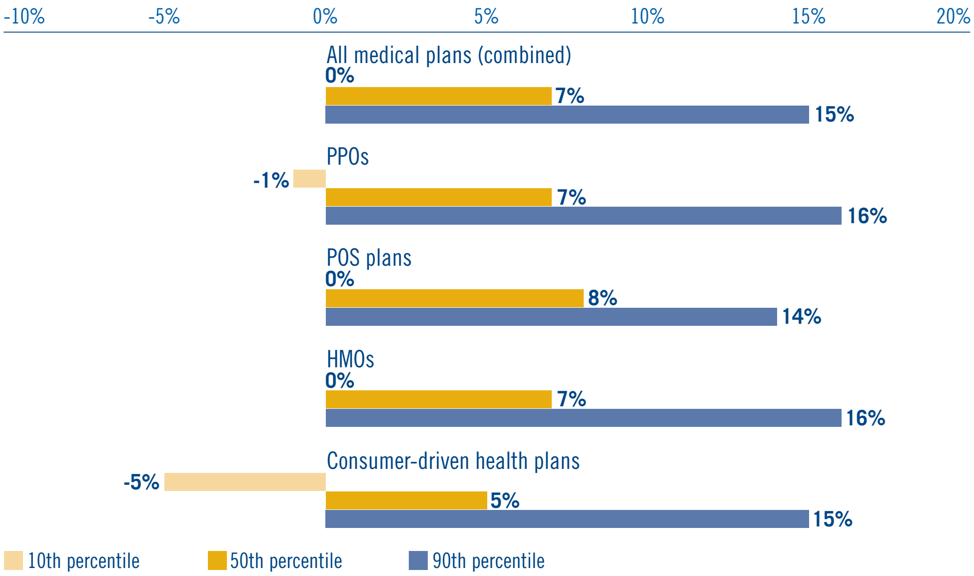


EXHIBIT 8

2006 Range of Increases in Health Care Costs — by Plan Type *(active employees)**



*Composite of active employees (i.e., employee plus spouse and family combined)

COST INCREASES VARY WIDELY

Cost increases by plan type are comparable for all delivery systems (*Exhibits 6* and *7*). At 6%, cost increases for consumer-driven health plans (CDHPs) are slightly less than the broad averages for other plan types, but since these plans are still relatively new, cost trends related to them are still emerging.

Much more interesting (and similar to previous years) are the large variations in cost increases from company to company. As shown in *Exhibit 8,* the top 10% of companies (by rate of increase) reported cost increases of at least 15%, while the bottom 10% of companies reported either no change or an actual decrease in 2006 health care costs.

To get a closer look at the factors that contribute to lower costs, this year's data analysis divided the survey respondents into three categories — low-cost companies (companies in the lower third, with the lowest premium levels per employee), average-cost companies (the middle third) and high-cost companies (the upper third, experiencing the highest costs per employee).

The cost variation across these groups is significant, with companies in the upper third facing a total cost of $9,972 per employee in 2006, against a $6,888 per employee cost for companies in the lower third. Some of this variation is of course due to differences in geography or employee demographics. But the magnitude of the variation indicates that other forces are at work *(Exhibit 9)*.

For an in-depth look at the specific actions low-cost companies are taking to mitigate rising costs, please refer to "Employer Interventions to Control Costs" on page 11.

The average reported 2006 cost of individual coverage for all plan types is $357/month ($4,284 annually) for active employees, $551/month ($6,612 annually) for retirees under age 65 and $274/month ($3,288 annually) for retirees age 65 and older *(Exhibit 10)*.

EXHIBIT 9

Cost Variation Across Companies — Top Third vs. Bottom Third

	High-Cost Companies	Low-Cost Companies
Cost per employee per year	$9,972	$6,888
Increase in employer cost	8%	5%
Increase in employee cost	14%	8%

EXHIBIT 10

Average Monthly Health Care Costs and Cost Increases by Covered Group

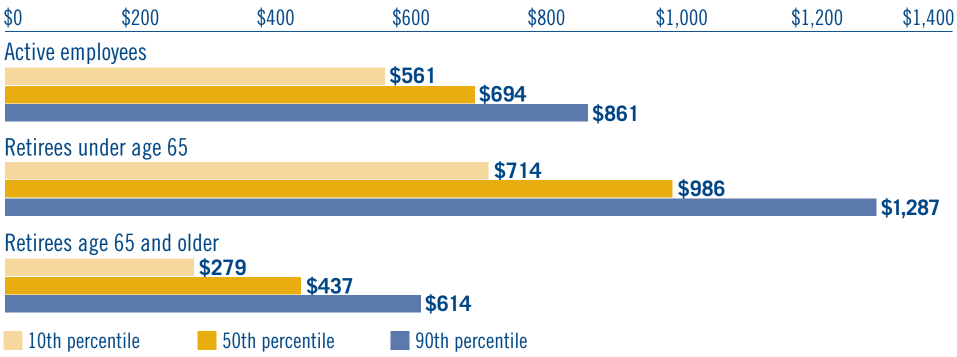
	Employee/ Retiree Only	Employee/Retiree Plus One Dependent	Family	Composite*	Average Increase From 2005
Active employees	$357	$ 724	$1,036	$704	7%
Retirees under age 65	551	1,081	1,387	999	9%
Medicare-eligible retirees	274	565	N/A	443	6%

*Composite (i.e., employee/retiree only, employee/retiree plus spouse and family combined)

EXHIBIT 11

Range of 2006 Employer Health Care Costs

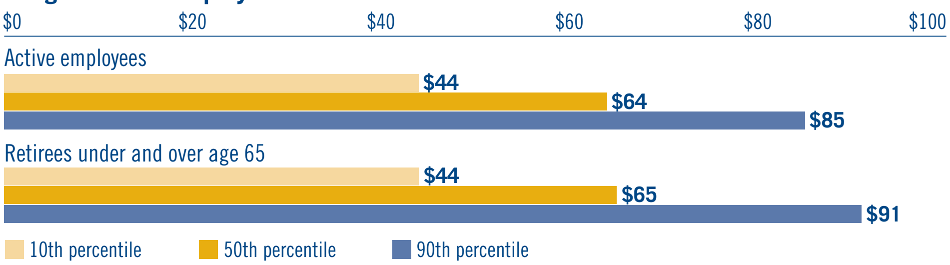
Monthly Cost per Employee/Retiree*



*Composite (i.e., employee/retiree only, employee/retiree plus spouse and family combined)

EXHIBIT 12

Range of 2006 Employer Dental Plan Costs



But similar to the variation in cost increases, employers' flat-dollar monthly costs vary widely from one company to the next for all three levels of coverage *(Exhibit 11)*. Dental plan costs also reflect significant variation across the same grouping of results by percentile *(Exhibit 12)*.

Similar to previous years, the survey data also show wide cost variation within and across geographic areas for all plan types *(Exhibit 13)*. From state to state, average costs vary significantly for both HMOs and PPOs *(Exhibit 14)*. There is also significant variability in HMO costs — and cost effectiveness — relative to PPO costs from state to state. As shown, average HMO costs are 28% lower than PPO costs in California, whereas in Texas, the difference is only 2%.

It should be noted, however, that valid pricing comparisons are difficult to make due to “apple and orange” pricing practices, such as local pricing of HMOs and national pricing of other options. And since HMOs with similar premiums may have different levels of cost efficiency within a given region, employers often need to look beyond premium rates to evaluate plan efficiency. A case in point: HMO costs are similar in New York and Ohio. But HMO costs are 15% lower than PPO costs in New York, and while HMO costs are 12% higher than PPO costs in Ohio.

Given the many variations in plan efficiency and regional costs, employers should carefully evaluate the performance of their health plans to ensure they have the most cost-effective plans in regions where they have significant employee populations.

EXHIBIT 13

2006 Variations in Cost by Plan Type

Annual Cost per Covered Employee

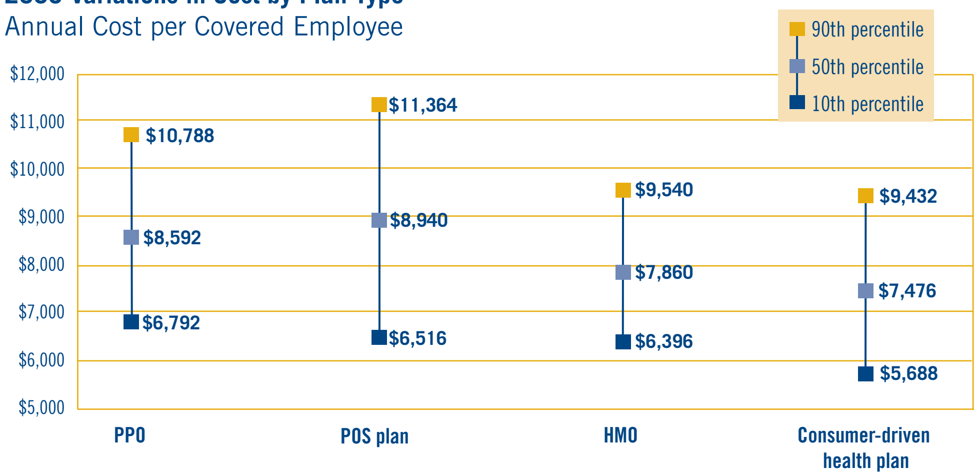
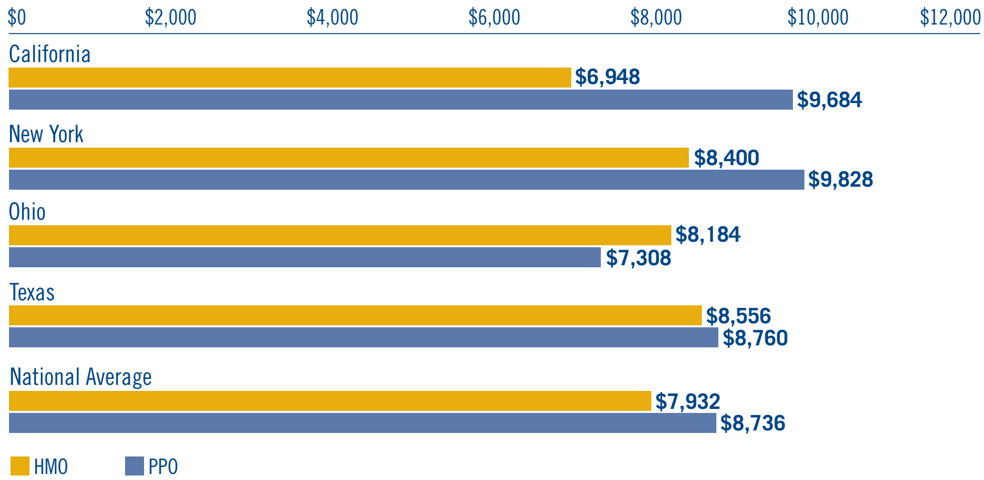


EXHIBIT 14

Variations in Cost by State*



*Costs are based on headquarters location for national plans.

EXHIBIT 15

2006 Distribution of Enrollment — by Plan Type

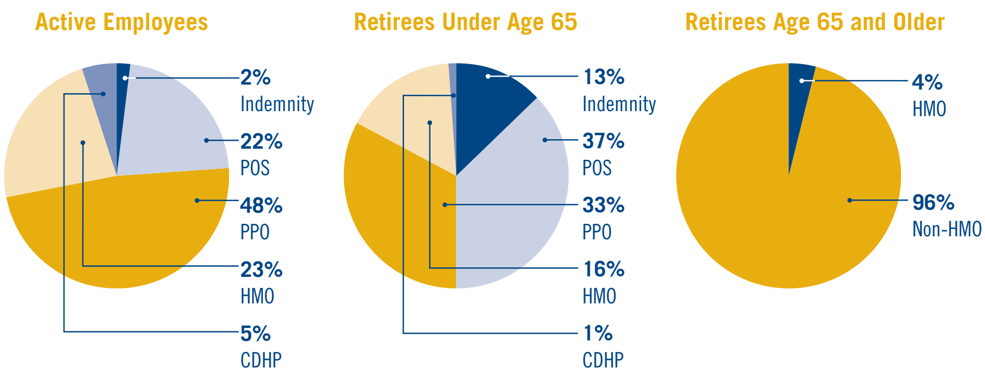
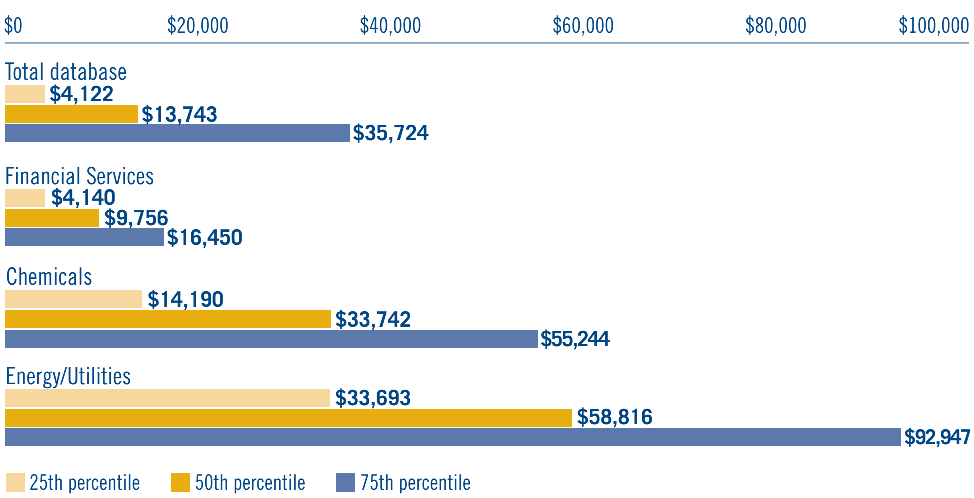


EXHIBIT 16

Annual Retiree Medical Costs and Accumulated Liability *(average and industry — comparisons)*

Comparison of APBO per Active Employee



ENROLLMENT SHIFTS

Over the last several years, there has been an increasing enrollment shift away from HMOs toward PPOs for active employees. As shown in *Exhibit 15,* the vast majority of active employees are enrolled in PPOs, with roughly one in four active employees enrolled in HMOs. Meanwhile, only 5% of active employees are enrolled in CDHPs, but it remains to be seen what the future will bring for these relatively new plans.

Only 4% of retirees age 65 and older are enrolled in HMOs. However, this group is likely to experience a shift toward Medicare Advantage plans over the next few years.

FAS 106 EXPENSES — POSTRETIREMENT OBLIGATIONS

Many employers with large retiree populations continue to struggle with their retiree medical commitments and see a considerable impact in FAS 106 liability on their balance sheets and income statements.

But, as most employers well know, there are wide variations in FAS 106 liability both within and across industries. As an illustration, *Exhibit 16* compares average accumulated postretirement benefit obligations (APBOs) per active employee with APBOs in the relatively mature Chemicals and Utilities/Energy industries.

The APBO data, drawn from the Towers Perrin *2005 Health Plan Performance Benchmarking Study*, show that companies at the 75th percentile across all industries have a FAS 106 liability that is 8.7 times as great as companies at the 25th percentile across all industries. By contrast, companies at the 75th percentile in the Energy/Utilities industry group have a FAS 106 liability that is 2.8 times as large as companies at the 25th percentile within the industry.

These variations in liability can reflect special factors within an industry. For example, liabilities in flat-dollar terms are much higher among Energy/Utility companies than the average for all industries due to the older age distribution of employees, more generous benefit subsidies and the disproportionately large number of retirees per active employee.

Considering wide variations in workforce characteristics and financial impacts such as these, employers should first compare their own situation against averages for their peers (based on geography, industry, size, etc.) and then take steps to ensure that their expense and liability levels are both reasonable and sustainable.

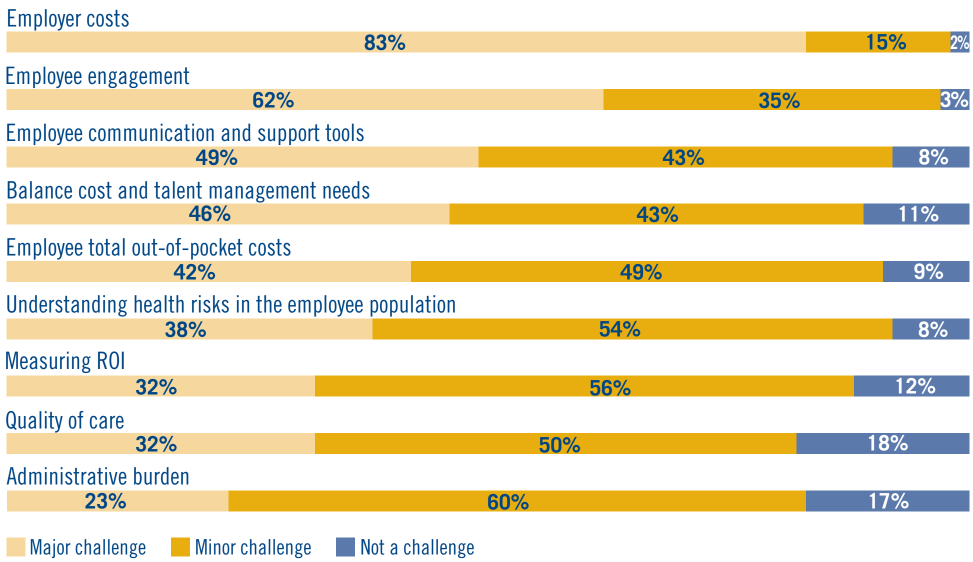
EMPLOYER INTERVENTIONS TO CONTROL COSTS

Given the fact that the health care cost problem has been on employers' radar screens for some time, it's no surprise that most companies rank costs as their number one challenge in managing health benefit programs, followed by employee engagement in sharing the management responsibility *(Exhibit 17)*. But despite these issues, this year's survey found that most employers are committed to staying in the game for the foreseeable future. In fact, many employers anticipate their health benefit role and responsibility continuing as it is or even expanding over time. What's more, companies that are managing their programs *today* with a longer-term vision in mind are, as a consequence, already reaping rewards in terms of lower overall costs.

Here's a closer look at what our data reveal along these lines. As noted earlier in this report, our 2006 data analysis divided the survey respondents into three categories — companies in the lower third (with the lowest premium level per employee), companies in the middle third (with essentially "average" costs) and companies in the upper third (experiencing the highest costs per employee).

EXHIBIT 17

Key Challenges Employers Face in Managing Health Benefit Programs



While many companies with lower than average costs are grappling with the same issues as high-cost companies, the survey results suggest that low-cost companies are taking a comprehensive, longer-term approach to managing costs and engaging employees by focusing on three critical areas: program management, employee accountability/transparency and employee engagement.

Program Management

The data indicate that low-cost companies are actively managing their vendor relationships for quality of care, efficiency and cost-saving opportunities. For example, these companies are more likely than their high-cost counterparts to have consolidated vendors (48% versus 39%) or implemented enhanced vendor performance standards and service levels (46% versus 27%). Low-cost companies are also much more likely to measure the effectiveness of their care management programs (45% versus 28%) *(Exhibit 18)*.

Employee Accountability/Transparency

Employers with lower costs seem to recognize that shifting premium costs is not the best way to make employees take on more responsibility for their health and health care decisions. Rather, these companies hold employees accountable for discretionary expenses, for example, by creating meaningful differentials between primary care and specialty copays. Over half of the low-cost companies do this versus about a third of the high-cost companies. They're also providing financial incentives for employees to adopt healthy lifestyles. More than a third of the low-cost companies do this versus one-fifth of the high-cost companies *(Exhibit 19)*.

EXHIBIT 18

Program Management *(low-cost companies vs. high-cost companies)*

Managing Vendors *(have implemented/will implement)*

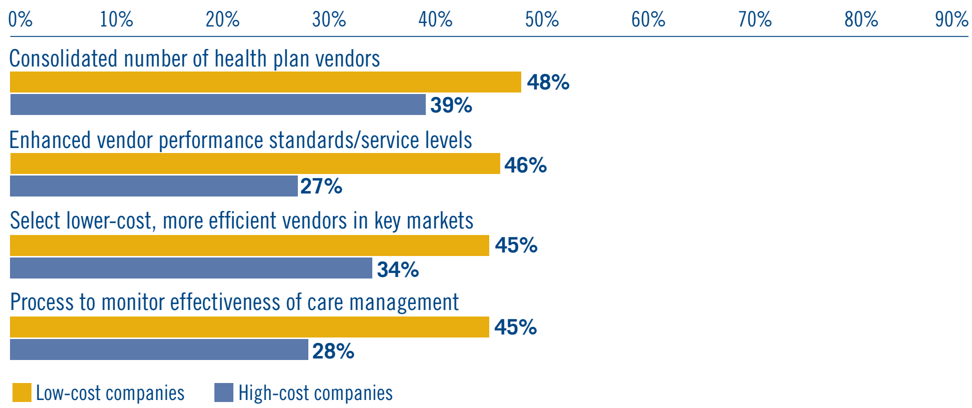


EXHIBIT 19

Employee Accountability *(low-cost companies vs. high-cost companies)*

Increasing Responsibility/Accountability *(have implemented/will implement)*

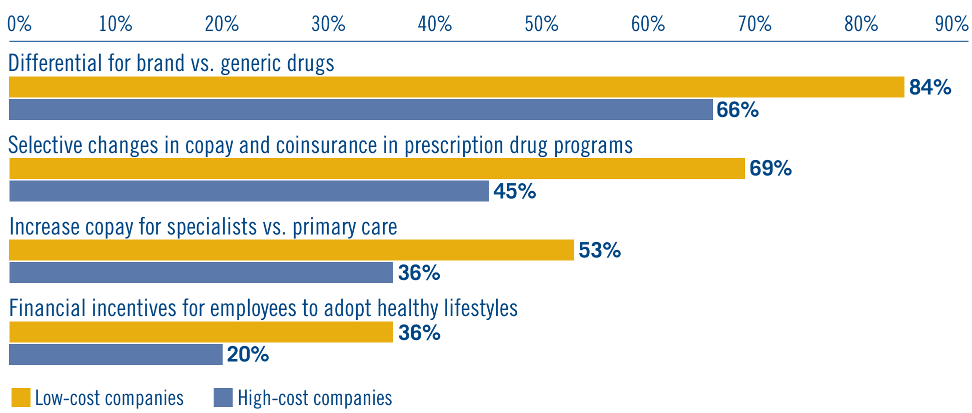
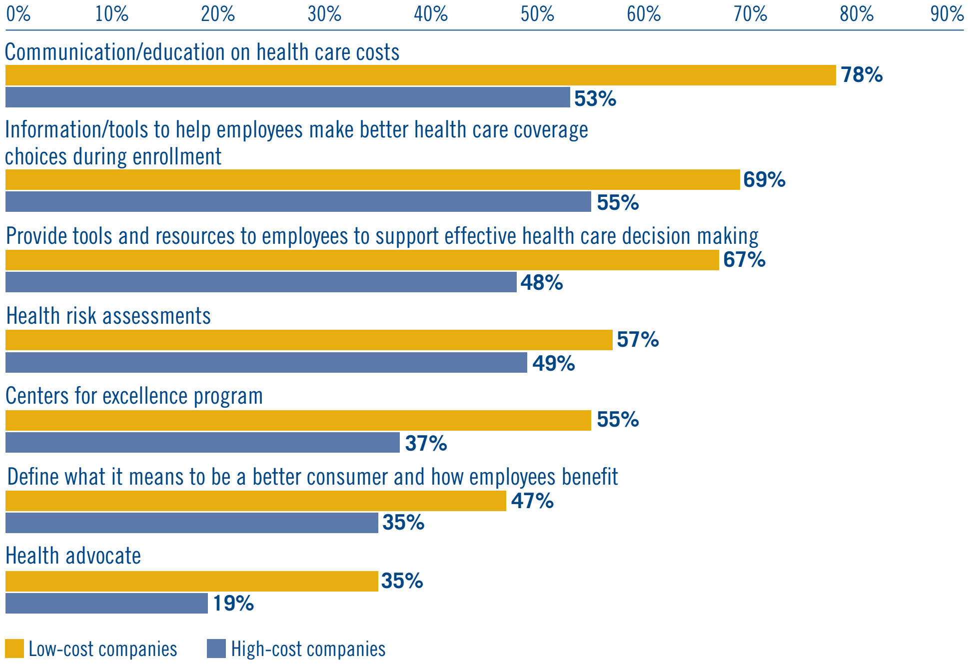


EXHIBIT 20

Consumer Engagement *(low-cost companies vs. high-cost companies)*
Engaging Employees *(have implemented/will implement)*



Consumer Engagement

Perhaps most important, while companies with the lowest costs are requiring employees to take on more responsibility for their health care decisions, they are also providing greater support to enhance the capability and motivation of employees to be smart consumers. They're communicating more effectively about health care costs and what it means to be a better consumer. Equally important, these employers are providing decision support tools to encourage employees to understand and manage their health risks, and make prudent point-of-care decisions *(Exhibit 20)*.

Employers Are Making Incremental Changes to Limit Drug Cost Increases

It's no secret that prescription drug costs have grown at double-digit rates over the past two decades, representing roughly 18% of the total medical cost for active employees and close to 40% for retirees. But despite these substantial increases, most employers have made only incremental changes to their prescription drug programs.

As indicated in *Exhibit 21* (page 15), among the survey group as a whole:

- More than half (58%) will make selective changes in copays and coinsurance to encourage cost-effective use of prescription drug plans.
- Less than half (49%) have or will renegotiate with PBMs.
- Only about a quarter (26%) have or will select a new PBM.
- One-sixth (17%) have or will modify their preferred/non-preferred classification for select drug categories.
- Under one in 10 (8%) have or will introduce reference-based pricing.

Nevertheless, the survey results suggest that companies with lower than average health benefit costs are working more actively to control prescription drug expenses than higher than average cost companies (Exhibit 19, page 12). Specifically, 84% of low-cost companies have or will implement a significant benefit differential for brand versus generic drugs compared to 66% of high-cost companies. In a similar vein, 69% of low-cost companies have or will implement selective changes in drug copays and coinsurance compared to 45% of high-cost companies.

Overall, the data suggest that, while some companies are more active than others in implementing controls on drug benefit costs, there's an opportunity for all employers to do a good deal more. For example, in terms of generic drugs, one benchmark companies can evaluate is the percentage of generic prescriptions as a percentage of the total written. Best practice programs should produce a generic use rate of more than 55% of prescriptions written. Employers may also want to take a second look at modifying their preferred/non-preferred classifications for select drug categories since many of the preferred brand-name drugs have lower-cost therapeutic alternatives.

EXHIBIT 21

Change to Prescription Drug Programs

Will implement in 2006 or implemented in prior two years

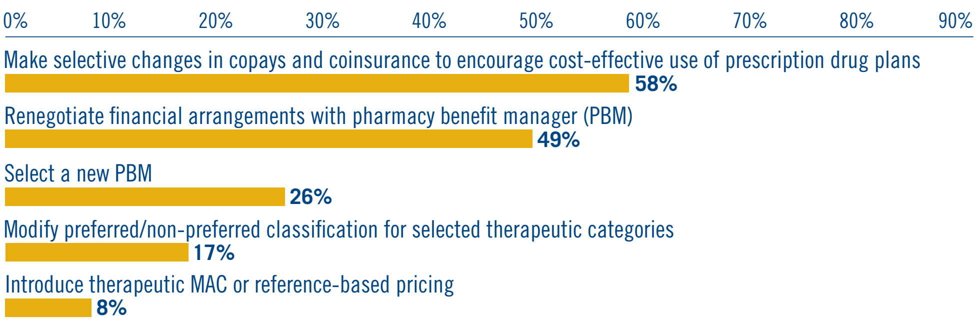
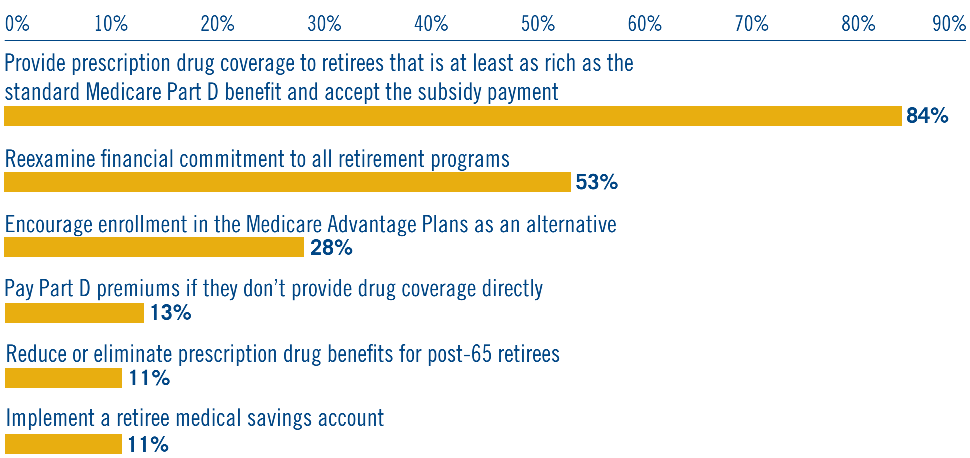


EXHIBIT 22

Response to the Medicare Drug Benefit Program



Medicare Modernization Act Is Changing the Landscape for Retiree Medical Programs

In light of the Medicare Part D prescription drug benefit, this year's survey took an in-depth look at the changes employers are making to their retiree medical programs. While more than three-quarters of respondents (84%) with retiree medical have opted to accept the Medicare Part D subsidy, far fewer have made wholesale changes to their retiree medical programs over the past year *(Exhibit 22)*. This doesn't mean, however, that the status quo will persist. In fact, more than one-half of respondents (53%) noted that they are reexamining their financial commitment to their retirement benefit programs overall, suggesting that employers are likely to make more extensive changes in the not-too-distant future.

IMPLICATIONS

Despite the chronic nature of the health care cost problem, a growing number of employers are taking important steps to achieve sustainable cost control. Rather than focusing on one-off plan design changes, these employers are taking a creative, longer-term approach to cost management and employee engagement.

Clearly, what distinguishes low-cost companies from others is a set of core activities, which include:

- defining desired program objectives and assessing how well the current program achieves these goals
- aggressively managing all aspects of their vendor relationships for quality of care, efficiency and cost-saving opportunities
- implementing cost-sharing measures that encourage employees to take responsibility for their decisions at the point of care
- communicating more effectively about health care costs and providing employees with decision support tools that help them understand and manage their risks, and make more responsible purchasing decisions
- establishing rigorous program performance metrics, measuring performance systematically and regularly, and taking the necessary steps to address problems.

These efforts, in turn, allow companies to minimize any cost shift to employees. And, to sum up, as these survey findings and our consulting experience suggest, some employers are beating average cost trends and gaining employee support in the process. They are, in effect, building a "culture of health" — where employers and employees together manage the money, manage the vendors and providers, and share a commitment to the value of employee health.

ABOUT THE SURVEY

The Towers Perrin *2006 Health Care Cost Survey*, conducted in September 2005, marks the 17th consecutive year that Towers Perrin has surveyed, analyzed and reported on major trends in employee and retiree health care costs. Participants were asked to report their 2006 per capita premium costs for insured health and dental plans, with premium equivalents for self-insured plans.

A total of 383 employers, with operations in numerous locations nationwide, responded. These respondents represent primarily *Fortune* 1000 companies. Health benefits for the participating companies cost more than $39 billion annually. Collectively, the participating companies provide medical benefits to approximately 5.6 million U.S. employees, retirees and dependents.

We are grateful to all participants in this year's research. We believe the findings reveal interesting marketplace trends and provide a useful guide for organizations seeking to better manage their health care costs. For additional information on the survey results, please contact your local Towers Perrin consultant or office, or visit our Web site at **www.towersperrin.com**.

PARTICIPANT LIST*

Acosta Inc.
Adelphia Communications Corp.
Advanced Micro Devices Inc.
Advocate Health Care Network Inc.
AES Corporation
Aetna Inc.
A. G. Edwards
Agilent Technologies Inc.
AGL Resources Inc.
Ahold USA Inc
Alcoa Inc.
ALLTEL Corporation
AmerenUE
American Airlines Incorporated
Amgen Inc.
Analog Devices Inc.
Andersen Corporation
Apache Corporation
APL Limited
Applied Materials Inc.
Arcadis Geraghty & Miller Inc.
Ascension Health
Associated Electric Corp.
AT&T
A. T. Cross Company
ATI Technologies Inc.
Atlantic Health System
Atmos Energy Corporation
Autoliv ASP
Avaya Inc.

BAE Systems
Bank of America Corporation
Banner Health System
Barrick Gold of North America Inc.
BASF Corporation
Bekaert Corporation
Berlex Laboratories Inc.
Beverly Enterprises Inc.
BHP Billiton
Biogen Inc.
Blue Cross Blue Shield of MN
Boehringer Ingelheim Corp
Bon Secours Health System Inc.
Boston Scientific Corporation
Boy Scouts of America — National Office
Broadcom Corporation
Building Materials Holding Corporation
Burger King Corporation
Buzzi Unicem USA

Cadbury Schweppes
Cargill Inc.
Carmax Inc.
Carolinas Healthcare System
Cendant Corporation
Chemtura Corporation
Chevron Corporation
Cincinnati Bell Inc.
Circuit City Stores Inc.
Cisco Systems Inc.
City and County of San Francisco
City National Bank
City of Apple Valley
City of Austin
City of Charlotte
Columbia University
Combe Incorporated
Connell Limited Partnership
Consolidated Edison Company of New York Inc.
Corning Incorporated
Covance Inc.
Cox Enterprises Inc.
Cummins Inc.

Danaher Corporation
Danbury Health Systems
Dean Foods Company Inc.
Deere & Company
The Dow Chemical Company
Duke Energy Field Services Inc.
Duke Realty Corporation
Duke University
DuPont Co.
Dura Automotive

Eastman Kodak Company
Eaton Corporation
Electronic Data Systems Corporation
Elliot Health System
El Paso Corporation
Emory University
EOG Resources Inc.
Erie Insurance Group
ESCO Technologies Inc.
Excel Communications Inc.
Exelon Corporation
ExpressJet Airlines Inc.

*Of the 383 employers participating in this year's survey, these companies have agreed to be listed by name in our report.

FANUC Robotics America Inc.
Fiserv Inc.
Flextronics International
Froedtert Memorial Lutheran Hospital

Gap Inc.
Genentech Inc.
General Cable
General Dynamics Corporation
General Electric Company
Giddings & Lewis Inc.
Gilbane Building Company
GlaxoSmithKline Inc.
The Glenmede Trust Company
GlobalSantaFe Corporation
Greenberg Traurig P.A.

Halliburton Company
H. B. Fuller Company
Herman Miller Inc.
H. J. Heinz Company
Hughes Supply
Huntington Bancshares Incorporated

IAC/InterActiveCorp
IBM Corporation
Independence Blue Cross
Ingram Micro Inc
Intermountain Gas Company
InterVarsity Christian Fell.
Intier Automotive Seating
Intuit
Iowa State University of Science & Technology
ITT Industries

John Crane Inc.
Johnson & Johnson
Johnson Diversey Inc.
John Wiley & Sons Incorporated
Jostens Inc.

Kelly Services Inc.
Kerr-McGee Corporation
Kiewit Construction Company
Knight-Ridder Inc.

L. A. County Metropolitan Transportation Authority
Land O'Lakes Inc.
Lear Corporation
Lee Enterprises Inc.
Level 3 Communications Inc
Lifetouch Inc.
Limited Brands
The Lubrizol Corporation

Madison Gas and Electric Company
Marquette Bank
Marshall & Ilsley Corporation
Massachusetts Medical Society
Mazda Motor of America Inc.
McCain Foods USA Inc.
McClatchy Company Inc.
M. D. Anderson Cancer Center
Medco Health Solutions Inc.
Medical Mutual of Ohio
Metaldyne Corporation
The Methodist Hospital
MFS Investment Management
Micron Technology Inc.
Middlesex Hospital

The Ministers and Missionaries Benefits Board
Monsanto Company
Motorola Inc.

National Futures Association
National Grid USA
National Presto Industries Inc.
NationsRent Inc.
New United Motor Manufacturing
Nike Inc.
Noranda Aluminum Inc.
Nortel Networks Corporation
Northside Hospital

OneBeacon Insurance Group

Pasadena Refining System Inc.
PeaceHealth
Pearson Inc.
Pfizer Inc.
Phoenix Life Insurance Company
Pioneer Hi-Bred International
PolyOne Corporation
PPL Corporation
Praxair Inc.
Principal Financial Group Inc.
The Progressive Corporation
Prudential Financial

Rayonier Inc.
RBC Dain Rauscher Incorporated
Retail Ventures Inc.
Rinker Materials
Rolls-Royce

Sankyo Pharma Inc.
SBC Communications Inc.
The Scotts Company
Seagate Technology Inc.
Seattle Times Company
Senior Holdings Inc.
7-Eleven Inc.
Severn Trent Services Inc.
Shelter Benefits Management Inc.
The Sherwin-Williams Company
Shriners Hospitals for Children
Silicon Valley Bancshares
Smart & Final Inc.
Solectron Corporation
Sonoma County
South Shore Hospital
Southwest Airlines Company
State of Ohio Office of Benefits Administration
Sumitomo Mitsui Banking Corp.
Swagelok Company
SYSCO Corporation

Taubman Company Inc.
TECO Energy Inc.
TRW Automotive
21st Century Insurance

UGI Utilities Inc.
Union Switch & Signal Inc.
Unisys Corporation
United Parcel Service America Inc.
University of Missouri
U. S. Bancorp
USEC

VISA

Waters Corporation
Watson Pharmaceuticals Inc.
Wendy's International Inc.
Westar Energy
Westfield Group
West Group
Whirlpool Corporation
White Castle System Inc.
William Backus Hospital
Williams Companies

XL America Inc.

Yahoo Inc.
Yale University

About Towers Perrin

Towers Perrin is a global professional services firm that helps organizations around the world optimize performance through effective people, risk and financial management. The firm provides innovative solutions to client issues in the areas of human resource strategy, design and management; actuarial and management consulting to the financial services industry; and reinsurance intermediary services.

The firm has served large organizations in both the private and public sectors for 70 years. Our clients include three-quarters of the world's 500 largest companies and three-quarters of the *Fortune* 1000 U.S. companies.

Towers Perrin has offices in 25 countries. Our businesses include HR Services, Reinsurance and Tillinghast.

www.towersperrin.com

Increase in Health Care Costs from 2000 Order to 2004 Test Year - Active Employees and Retirees

	Medical Costs - Active Employees	Post-Retirement Health Care Costs
	(000's)	
2004 Test Year after Adjustments (1)	$29,291	$19,291
2000 Test Year 01-0423 (1)	$23,411	$14,525
Increase in Test Year Costs	$5,880	$4,766
Fair Value Adjustment included in Test Year Costs		($1,700)
Increase in Test Year Costs Before Fair Value Adjustment		$6,466
% Increase in Test Year Costs	25.12%	44.52%

(1) Source: Changes in Jurisdictional A&G Expense 2000-2004 Spreadsheet

EVIDENCE SUPPORTING COMED'S ADMINISTRATIVE & GENERAL EXPENSES

II. NEW RECORD MATERIALS

TAB 2. SALARY AND WAGES

TOWERS PERRIN
HR SERVICES

Memorandum

DATE: August 8, 2006

TO: Victor Fonseca — Exelon Corporation

FROM: Richard Meischeid — Towers Perrin

RE: COMPETITIVE MERIT INCREASE LEVELS

Exelon Corporation (Exelon) requested that Towers Perrin provide actual historical merit budget increase data for 2001 through 2005. The following presents the results of our analyses.

Actual merit budget increase data were collected from WorldatWork's Salary Budget Survey which has been conducted annually for the last 33 years. Exhibit 1 compares ComEd's merit increase budget to the competitive market data.

Data are shown for both a broad general industry sample as well as a utility industry sample. The utility industry sample consists of companies classified as utilities by the North American Industry Classification System (NAICS) and includes electric, gas and water utilities. Exhibit 2 provides a listing of the companies in ComEd's energy industry peer group that participated in each year's survey. The general industry data are based on a sample of over 2,000 companies across a range of industry sectors (e.g., construction, manufacturing, telecommunications, utilities).

Vic, we trust this information satisfies your request. Please let us know if we can be of further assistance.

Commonwealth Edison

Exhibit 1

Merit Budget Increase Analysis [1]

WorldatWork - Merit Increase Data [2]

Year	ComEd	Market Data					
		Nonexempt Salaried [3]		Exempt Salaried [4]		Officers/Executives [5]	
		General Industry	Utility Industry	General Industry	Utility Industry	General Industry	Utility Industry
2005	3.5%	3.3%	3.1%	3.4%	3.2%	3.5%	3.4%
2004	3.5%	3.2%	3.2%	3.3%	3.3%	3.4%	3.7%
2003	3.75%	3.2%	3.1%	3.3%	3.3%	3.3%	3.0%
2002	3.75%	3.4%	3.7%	3.5%	3.8%	3.6%	4.5%
2001	4.2%	4.2%	3.9%	4.3%	4.0%	4.6%	5.0%

Notes:

(1) Data collected from WorldatWork's Salary Budget Survey which has been conducted annually for the last 33 years.

(2) As defined by WorldatWork, merit increase is an adjustment to an individual's base pay rate based on performance or some other individual measure.

(3) Nonexempt Salaried: Salaried (compensation paid by the week, month or year rather than by the hour) employees who are not exempt from the minimum wage and overtime pay provisions of the FLSA.

(4) Exempt Salaried: All other salaried employees, except officers and executives, not subject to overtime pay provisions of FLSA.

(5) Officers/Executives: Top and/or senior management that have significant responsibility for the management of the company as well as influence on the results of the company.

Exhibit 2

Commonwealth Edison

Merit Budget Increase Analysis [1]

WorldatWork Salary Budget Survey Participants

Company/Industry	Survey Year				
	2005	2004	2003	2002	2001
ComEd Energy Peers:					
Ameren	✓	✓	✓	✓	✓
CenterPoint	✓		✓	✓	
Consolidated Edison			✓	✓	✓
DTE		✓	✓	✓	
Edison International					
NSTAR	✓		✓	✓	✓
PEPCO	✓	✓		✓	✓
PG&E	✓		✓	✓	✓
Southern Company	✓	✓	✓	✓	✓
TXU Corp		✓	✓		
Total:	*6*	*5*	*8*	*8*	*6*
All Participants:					
Utility Industry (n) [2]	98	100	103	104	104
General Industry (n)	2,483	2,529	2,849	2,572	2,564

Notes:

(1) Data collected from WorldatWork's Salary Budget Survey which has been conducted annually for the last 33 years.

(2) The utility industry sample contains electric, gas and water utility companies.

Commonwealth Edison Company

Estimated Salary and Wage Increase Since 2000 Order

Line No.		2002	2003	2004	2005	2002	2003	2004	2005
		Number of Employees At Dec. 31 (1)				Wage Increase Percentages			
1	Management	2,600	1,800	1,800	1,700	3.75%	3.75%	3.50%	3.50%
2	Union	4,400	4,100	3,800	3,800	3.50%	3.50%	4.00%	4.00%
3	Total	7,000	5,900	5,600	5,500				
		Percent Of Total				Weighted Average Wage Increase Percentage			
4	Management	37.14%	30.51%	32.14%	30.91%				
5	Union	62.86%	69.49%	67.86%	69.09%				
6	Total	100.00%	100.00%	100.00%	100.00%	3.59%	3.58%	3.84%	3.85%
7	Cumulative Salary and Wage Increase Percentage Since 2000 Order (2)								1.157084
8	Estimated 2004 A&G Salaries and Wages at 2001 Wage Levels (in thousands):								
9	Account 920 - 2004 per ComEd Final Position in Dkt. 05-0597								$ 67,304
10	Account 920 - 2004 At 2000 Wage Levels (Line 9 / Line 7)								58,167
11	Salary and Wage Increase Since 2000 Test Year (Line 9 - Line 10)								$ 9,137

Notes:

(1) From SEC Form 10-K filings for each year.

(2) 2000 test year included 2001 salary and wage increase.

EVIDENCE SUPPORTING COMED'S ADMINISTRATIVE & GENERAL EXPENSES

II. NEW RECORD MATERIALS

TAB 3. PENSIONS

Impact of Discount Rate Changes from 2001-2005 on Pension Expense

	(Millions)
Increase in ComEd Pension Costs due to Discount Rate Change (1)	$44.70
% Charged to Expense	60%
Jurisdictional Allocation	89.20%
Increase in A&G Expense Due to Discount Rate Change 2001-2005	$23.92

(1) Per Towers Perrin Worksheet "ComEd 2005 Pension and OPEB FAS Costs"

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Commonwealth Edison Company	**:**	
	:	
Proposed general increase in	**:**	**05-0597**
rates for delivery service.	**:**	
(Tariffs filed on August 31, 2005)	**:**	

ORDER

July 26, 2006

3. Elements of Operating Expenses

a) Advertising Expense Adjustment

Through direct and rebuttal testimony, ComEd and Staff agreed to remove $317,000 of "advertising expenses" from the revenue requirement. Accordingly, this issue is no longer contested.

b) Staff 2005 Wage and Salary Adjustment

Through direct and rebuttal testimony, ComEd and Staff agreed to remove $1,174,000 of ComEd's pro forma salary and wage increases adjustment of 2005. Accordingly, this issue is no longer contested.

c) Post-Retirement Healthcare Benefits

The AG, in its direct testimony, suggested a $7,636,000 downward adjustment to reduce pension and post-retirement health care expenses in the test year to remove the impact of fair value accounting. ComEd then proposed, based on updated data, a $5,200,000 adjustment to pension and post-retirement expense would be appropriate and consistent with fair value adjustments to the capital structure proposed by ComEd. The AG subsequently agreed to the $5,200,000 figure. Although ComEd did not agree that it would be appropriate to record a regulatory liability, ComEd agreed that its actuaries would maintain the data necessary to evaluate the impact of fair value adjustments to pension and post-retirement health care expenses in the future. No other party contested the adjustment.

d) Tax Consultants

In the interest of narrowing the issues ComEd agreed to the AG's proposal that a $4,460,000 charge for payments to tax consultants in 2004 be removed. Accordingly, this issue is no longer contested.

e) Employee Arbitration Settlements

The AG had recommended an adjustment to eliminate certain employee arbitration settlement costs. In the interest of narrowing the issues ComEd recommended to reduce their test year employee/arbitration costs by $4,301,224 to account for a true-up credit booked in 2005. The AG agreed to this adjustment. Accordingly, this issue is no longer contested.

Commission should find ComEd's proposed treatment of the return on its pension contribution unlawful to dissuade utilities from similar tactics in future rate cases.

To limit the Company's revenue requirement effect of the pension contribution to its actual cost, the AG's witness Mr. Effron suggests two mathematically equivalent alternatives. First Mr. Effron recommends that the pension contribution be eliminated from equity in the determination of the capital structure and rate of return. This reduces the common equity in the capital structure by $802,971,000.[5] Then Mr. Effron eliminates the pension contribution from the deferred debits included in rate base. The effect of this adjustment, net of associated ADIT, is to reduce the Company's rate base by $538,855,000. Finally, Mr. Effron included the interest on the pension contribution net of deferred taxes in pro forma operating expenses. This adjustment increases pro forma jurisdictional expenses by $26,997,000.

Mr. Effron's second alternative treatment, proposes to (1) subtract the pension contribution of $802,971,000 from the common equity in the capital structure on the Company's Schedule D-1 and add that amount, carrying a rate of 5.01%, to the long term debt on that schedule; (2) keep the pension contribution net of associated accumulated deferred income taxes in rate base; and (3) make no adjustment to expenses for the interest on long term debt supporting the net pension contribution.[6]

The AG also asserts that ComEd failed to recognize the full annual effect of the return component of the periodic pension cost from the $803 million pension contribution made by Exelon. The pension contribution was made in March 2004. According to the AG By including the full amount of that contribution in rate base, ComEd proposes to include the full annual return requirement associated with the pension contribution in its revenue requirement, while recognizing only 9 months of the return component of the periodic pension cost, based on the March 2005 contribution date. The AG asserts that this arbitrary distinction results in an unbalanced reflection of the effects of the pension contribution. Therefore, to be consistent and recognize the concomitant full annual effect of the contribution on the return component of the periodic pension cost, the AG's witness Mr. Effron proposes to increase the credit for the return component included in the jurisdictional test year pension expense by $8,563,000 and reduced the pro forma pension expense by $8,563,000.

Commission Analysis and Conclusion

At issue here is a contribution from Exelon to ComEd to fund ComEd's pension trust fund. In March 2005, Exelon contributed $2 billion to its corporate-wide pension plan because it was "the right thing to do." To achieve this, Exelon issued $1.4 billion in

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[5] This adjustment to common equity is subsumed in the capital structure proposed by Mr. Bodmer.

[6] Mr. Bodmer did not include the pension debt in his proposed capital structure. The effect of this alternative on the Company's revenue requirement would be similar to the method Mr. Effron has adopted, but the exact effect would differ depending on the authorized return on equity, any other capital structure that may be found appropriate, and the Company's total jurisdictional rate base.

debt at 5.01% interest and obtained $600 million in tax credits. According to ComEd, prior to the $803 million contribution for its share of the pension fund, the funding status of the pension plan was at the very low end of the spectrum for large companies. After the contribution, it was more in line with those of other companies and ComEd's goals for itself. ComEd further claims that its only other option to fully fund its pension trust fund was to issue debt, which would have caused its credit rating to be downgraded and would have reversed the effects of its Accelerated Liability Management program. Moreover, ComEd maintains that employees are well aware of troubles experienced by companies that have not adequately funded pension plans, and have more confidence in ComEd's pension plan because of the fully-funded status.

According to Staff, no pension asset exists. For such asset to exist, the pension fund would need to contain funds in excess of its pension obligations. ComEd readily admits to the pension trust fund being fully funded, not over funded. Since the pension trust fund is not over funded, no pension asset exists. Staff further argues that ComEd failed to meet its burden to prove that the pension 'asset' is used and useful in providing delivery services.

The Commission finds Staff's arguments persuasive. Accounting principles, as well as common sense, dictate that no pension asset exists given that Exelon's infusion in ComEd's pension trust fund does not result in over funding. Further, even if the Commission were to find that a pension asset exists, this would not excuse ComEd from providing evidence that this particular method of funding the pension trust fund is reasonable before the Commission would allow it to be included in rate base. Simply stating that the contribution came from shareholders does not automatically make it reasonable. While the Commission is sympathetic to ComEd's concerns about its credit rating being downgraded if it issues debt to fund its pension obligations, the Commission may have been more sympathetic if ComEd had provided evidence of the cost of that debt and how it would compare to the cost of shareholder supplied funds. Or, perhaps ComEd could have shown how much it would cost ComEd to borrow the funds from Exelon instead of Exelon providing an equity infusion, given that debt tends to be less expensive than equity. Simply stating that credit rating concerns exist is not enough. Additionally, it is not clear why ComEd chose to fully-fund its pension obligations when it did. It seems that the timing of the funding also would affect the cost. The Commission needs to see numerical analyses to be able to perform an effective analysis of a utility's request for rate relief.

ComEd claims that the Commission does not want to establish perverse financial incentives by adopting adjustments that would encourage utilities to fund only the minimum requirements for a pension plan and would deny cost recovery when the Company prudently funded more than that level. From our perspective, we also do not want to establish perverse financial incentives by allowing ComEd's parent company to profit from its inexpensive debt and tax breaks by tucking the funds away in a regulated utility's rate base. This is not to say that the Commission encourages utilities to neglect their pension obligations. Rather, the Commission encourages utilities to consider all options for funding pension obligations and provide a thorough explanation of all options considered before asking ratepayers to shoulder some or all of the expense, be it through rate base or the revenue requirement.

Staff's citations to prior Commission orders addressing ratepayer-funded pension contributions are instructive in the determination of the appropriate level of pension expense. Both of the cases cited by Staff, the Nicor Gas ICC Docket 04-0779 Order and the *GTE* ICC Docket 93-0301/94-0041 (cons.), Order, make clear that the appropriate level of pension expense is determined by an updated actuarial study and is totally separate from the ratemaking treatment of a pension asset. Thus, these Orders serve as precedent for how the pension expense should be treated in this proceeding.

The Commission rejects Mr. Effron's alternative, fall-back proposal to remove the pension asset from rate base, but to add to jurisdictional operating expense approximately $27 million, representing the cost of debt financing for the contribution. This alternative simply moves the impact of the pension contribution from a rate base item to an operating statement item and does not change the final revenue requirement.

The record shows that the pension expense based on the updated actuarial study is $11.7 million, which has been reflected in both Staff's and ComEd's proposed revenue requirement. The Commission finds the proposal to reflect this reduction appropriate. In conclusion, the Commission accepts Staff's recommendation to reduce ComEd's rate base by $853.9 million along with the corresponding adjustments to ADIT.

4. ACCUMULATED DEFERRED INCOME TAXES

ComEd

ComEd states that its final revised proposed rate base figure included a correctly calculated final revised figure of $1,408,375,000 for Accumulated Deferred Income Taxes ("ADIT"). (Hill Sur., ComEd Ex. 36.0 Corr., Sched. 1 Rev., p. 4). ComEd explained that ADIT is subtracted from plant balances in calculating rate base. (*E.g.*, *id.*).

ComEd states that Staff's and intervenors' proposed adjustments to ComEd's ADIT were entirely derivative of their proposed adjustments to ComEd's plant balances in its proposed rate base. ComEd explained, however, that because those underlying proposed adjustments to ComEd's plant balances are without merit, their derivative adjustments to ComEd's ADIT figure also are without merit.

Staff

As noted above, Staff witness Ms. Ebrey testified that the Company's pro forma adjustment to include a "pension asset" in its proposed rate base should be reversed. (Staff Ex. 2.0, pp. 3-13). Ms. Ebrey asserts that her "pension asset" adjustment requires a decrease to ADIT. (Staff Ex. 2.0, pp. 12-13). See Section III..3 for a discussion of Staff's Position with respect to the Company's proposed pension asset.

2. PENSION AND OTHER POST-RETIREMENT EXPENSES

ComEd

In ComEd's rebuttal testimony, the Company acknowledged that Staff witness Ebrey proposed an adjustment to pension expense based upon the most recent Towers Perrin actuarial report for the 2004 test year. The Company does not oppose this adjustment.

Staff

Staff witness Ebrey proposes an adjustment to update the Company's pension expense based upon the most recent Towers Perrin[9] actuarial report for the 2004 test year. Ms. Ebrey states that it has been the Commission's practice to use the actuarially-determined pension expense even in cases where a pension asset is at issue. (ICC Staff Exhibit 2.0, pp. 13-14). Ms. Ebrey testified that her position is consistent with cases in which a pension asset has been at issue, citing two prior Commission Dockets which treated pension expense as a separate issue from the recovery of a pension asset in rate base. (ICC Staff Exhibit 2.0, p. 14).

In her rebuttal testimony, Ms. Ebrey observed that ComEd reflected the same adjustment she proposed in its December, 14, 2005 errata filing. (ICC Staff Exhibit 13.0, p. 12). Ms Ebrey also responded to ComEd's arguments that the actuarially-determined pension expense should be increased if the funding of the "pension asset" is not added to the Company's rate base. She states that the Company's argument would tie the pension expense to the ratemaking treatment of the Company's discretionary funding of the pension fund rather than the pension expense as determined by the actuary. (*Id.*, pp. 11-12).

Commission Analysis and Conclusion

Staff proposes an adjustment to update the Company's pension expense based upon the most recent Towers Perrin actuarial report for the 2004 test year. In its Rebuttal Testimony, ComEd states that it no longer opposes Staff's proposed adjustment. The Commission finds the adjustment reasonable and approves the adjustment as proposed by Staff and agreed to by ComEd.

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[9] Towers Perrin is the consulting firm which provided the actuarial analysis for Exelon's pension plan. Mr. Richard Meisheid, managing principal in Towers Perrin's Compensation practice also provided testimony in this proceeding (ComEd Exhibits 12.0 and 26.0).

Exelon Corporation

ComEd 2005 Pension and OPEB FAS Costs

	2005 *Actual* Cost Attributable to ComEd 5.75% Discount Rate	2005 *Illustrative* Cost Attributable to ComEd 7.60% Discount Rate	Decrease in ComEd Cost due to Higher Discount Rate
FAS 87 Pension Cost	$ 22.4	($ 22.3)	$ 44.7
FAS 106 OPEB Cost	$ 39.5	$ 22.0	$ 17.5
Total FAS Costs	$ 61.9	($ 0.3)	$ 62.2

-- Other than the discount rates noted above, all assumptions are consistent with those documented in the 2005 valuation report.
-- Costs have been allocated to ComEd in accordance with Exelon's cost allocation methodology.
-- This analysis includes all Exelon pension and postretirement welfare plans as summarized in the 2005 valuation report.

EVIDENCE SUPPORTING COMED'S ADMINISTRATIVE & GENERAL EXPENSES

II. NEW RECORD MATERIALS

TAB 4. EXELON WAY SEVERANCE

Commonwealth Edison Company

Exelon Way Severance Costs Included in 2004 A&G Expense
(In Thousands)

Line No.	Description	A&G Account	Amount (1)		Jurisdictional at 89.2%	
1	Salary Continuance Severance	920	$	10,000	$	8,920
2	Special Health & Welfare Benefits	926	$	8,000	$	7,136
3	Curtailment Costs Associated With Pension					
4	and Post-Retirement Benefit Plans	926	$	3,000	$	2,676
5	Total Incl. In Account 920				$	8,920
6	Total Incl. In Account 926					9,812
7	Total Exelon Way Severance				$	18,732

Note:
(1) From ComEd Exhibit 19, Schedule 16, Page 2 of 2.

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Commonwealth Edison Company	**:**	
	:	
Proposed general increase in	**:**	**05-0597**
rates for delivery service.	**:**	
(Tariffs filed on August 31, 2005)	**:**	

ORDER

July 26, 2006

plans for a program similar to the Exelon Way in the future. The AG asserts that ComEd has not shown how such costs will be incurred going forward. Accordingly, the AG asserts that severance costs related to Exelon way should not be recovered in ComEd's rates, which will not be effective until January 1, 2007.

The AG's witness Mr. Effron eliminated the $10 million associated with salary continuance severance costs, $8 million of special health and welfare benefits and $3 million of curtailments costs associated with pension and postretirement benefits plans. The elimination of these three Exelon Way severance costs accrued in 2004 reduces test year operation and maintenance expense by $21,000,000.

Recurring Severance Costs

The AG does not oppose recovery of its recurring severance costs in rates, but disputes the amount proposed by ComEd. ComEd employs a five year average of recurring severance costs, using costs for the years 2000-2004. According to the AG, its witness Mr. Effron's adjustment employing a 2001-2005 five year average is more appropriate both because it is a more recent average and because the Commission already allowed for recovery of the $5.8 million of severance costs incurred in 2000 in ComEd's previous Delivery Service Case (ICC Docket No. 01-0423). Mr. Effron's adjustment to the Company's severance expense, based upon the Company's five-year average of normal severance expense for the true-up credit booked in the 2004 test year, increases operation and maintenance expense by $647,000.

The net effect of Effron's two adjustments to severance expense is to reduce pro forma test year operation and expense by $20,353,000. On a jurisdictional basis, this adjustment reduces pro forma test year operation and expense by $18,155,000.

Commission Analysis and Conclusion

Two types of severance costs are at issue in this proceeding. The first concerns costs that occur in the normal course of business. No party, including the AG, disputes that ComEd should recover severance costs incurred in the ordinary course of business. However, AG's witness, Mr. Effron, proposes reducing the requested amount by employing an average based on the years 2001 through 2005. (Effron Reb., AG Ex. 3.0 Corr., 14:17-18) ComEd argues that the severance cost data for the year 2000 is in the record and available. Mr. Effron offers three reasons in support of his exclusion of the year 2000 data. First, Mr. Effron argues that the recurring severance expense booked by the Company in 2000 was abnormally high in that year, and is not representative of expense incurred in the years since. Second, ComEd has not demonstrated that the substantially higher expense incurred in 2000 is representative of the expense the Company can expect to incur in the future. Third, while not challenging ComEd's use of a five-year average to estimate the normal recurring severance expense, the AG contends that the period 2001-2005 reflects the most recent data available. The Commission agrees with the AG, and adopts the recurring severance costs proposed by the AG using the five year average of 2001-2005.

The second type of severance costs at issue concerns those that flow from a defined cost savings initiative, i.e., the Exelon Way program. The AG also recommended disallowing the severance costs from the Exelon Way initiative entirely because they are not recurring costs and the savings allegedly will not be reflected in rates. However, these arguments are without merit. The record is clear that there are already savings from the Exelon Way program that will be reflected in the rates in this proceeding. In addition, no party has disputed that, as a result of Exelon Way, at least 70 million dollars a year in savings are expected. These facts establish a clear basis for recovery consistent with Section 285.3215. Accordingly, the record establishes that ComEd properly seeks recovery of its initial severance costs for a program expected to produce hundreds of millions of dollars in savings over the life of these rates. Mr. Effron's proposed adjustment would deny ComEd any recovery of that cost, which removes the incentive created by Section 285.2315 to initiate such programs. ComEd's proposed severance expenses related to the Exelon Way program are just and reasonable and therefore are approved.

6. INCENTIVE COMPENSATION

ComEd

ComEd states that, like nearly every major U.S. company, it includes incentive compensation as part of its overall employee compensation package. ComEd presents testimony from a compensation expert, Mr. Meischeid, that incentive compensation is a ubiquitous and necessary tool to recruit, to compensate, and to motivate employees. Mr. Meischeid testified that, given its wide use, "incentive compensation is not 'additional' or 'optional' compensation that ComEd provides to employees, but a required element in the compensation program and a necessary cost of doing business." Meischeid Dir., ComEd Ex. 12.0., 6:114-16. In addition, ComEd presented testimony from Mr. John Costello, ComEd's Chief of Operations, that ComEd must offer incentive compensation in order to provide the competitive compensation package necessary to attract and to retain high-quality employees. Meischeid Dir., ComEd Ex. 12.0, 5:107-6:112; Costello Reb., ComEd Ex. 13.0 Corr., 23:516-19. Mr. Meischeid explained that companies use incentive compensation "to focus employees on key goals in order to improve performance" because they "have found that providing monetary incentives to employees is more effective than providing salary and benefits only." Meischeid Dir., ComEd Ex. 12.0, 5:103-06.

As an integral part of total compensation, ComEd maintains that incentive compensation should not be analyzed separately from base salary when determining whether recovery of employee compensation expense through rates is proper. ComEd frames the question as whether the total levels of cash compensation – base salary plus incentive compensation – are reasonable. Mr. Meischeid compared the levels of total cash compensation that ComEd pays employees in various positions to the levels of total cash compensation that ComEd's utility peers pay to their employees in comparable positions. Meischeid Dir., ComEd Ex. 12.0, 7:147-8:158; 9:179-87. Based on that comparison, Mr. Meischeid testified that ComEd's pay levels fall "within the

EVIDENCE SUPPORTING COMED'S ADMINISTRATIVE & GENERAL EXPENSES

II. NEW RECORD MATERIALS

TAB 5. SARBANES-OXLEY COMPLIANCE

Calculation of 2004 Sarbanes Oxley Compliance Costs Allocated to ComEd

March 2, 2005 Presentation

AREA	Labor	Contractor	Capital	Total	MMF 2004	ComEd
IT	4,885,272	1,880,664	828,180	7,594,116		
Documentation & Testing*	7,384,794	7,912,249		15,297,043		
Oversight	270,000	564,423		834,423		
Business Assistance	1,777,751	-		1,777,751		
PwC		3,315,500		3,315,500		
Total 2004	14,317,817	13,672,836	828,180	28,818,833	33.1%	9,539,034

Adjusted to Exclude Business Unit Assistance estimates

AREA	Labor	Contractor	Depr	Total		
IT	4,885,272	1,880,664	82,818	6,848,754		
Documentation & Testing*	7,384,794	7,912,249		15,297,043		
Oversight	270,000	564,423		834,423		
Business Assistance	-	-		-		
PwC		3,315,500		3,315,500		
Total 2004	12,540,066	13,672,836	82,818	26,295,720	33.1%	8,703,883

Jurisdictional Allocation	89.20%
Sarbanes-Oxley compliance costs included in 2004 test year	**7,763,864**

Notes:
1) Depr. assumes 5 years life, but half year applied in first year.
2) Business Assistance was a BSC estimate, and has been excluded for purposes of this presentation.

2004 Actual and 2005 Estimated Sarbanes Compliance Costs

March 2, 2005

Actual 2004 Sarbanes Compliance Costs

Areas	Labor Costs	Contractor Costs	Capital Costs	Total 2004
IT	$ 4,885,272	$ 1,880,664	$ 828,180	$ 7,594,117
Documentation & Testing*	$ 7,384,794	$ 7,912,249	$ -	$ 15,297,043
Oversight	$ 270,000	$ 564,423	$ -	$ 834,423
Business Unit Assistance	$ 1,777,751	$ -	$ -	$ 1,777,751
PricewaterhouseCoopers		$ 3,315,500	$ -	$ 3,315,500
2004 Total	$ 14,317,817	$ 13,672,837	$ 828,180	$ 28,818,834

* includes Internal Audit, Controller's Group, and contractor time to document and test controls

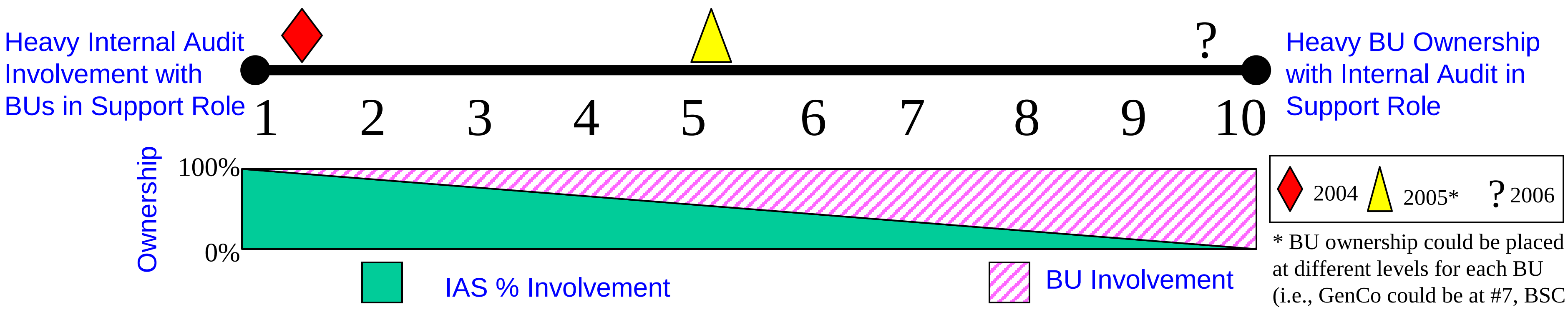
Analysis

- 2004 total Sarbanes-Oxley compliance costs of $28.8 M
- $13.7 M of total compliance costs (47.6%) spent on contractors
- Internal Audit primarily responsible for documentation and testing

Exelon

Spectrum of 2005 Business Unit Involvement

Goal: Increase the level of Business Unit ownership of controls documentation and testing



* BU ownership could be placed at different levels for each BU (i.e., GenCo could be at #7, BSC at # 6, and EED at # 3)

What Each Option Means for Business Units:

•1 – BUs in supporting role as Internal Audit Services (IAS) does all documentation and testing

•2 – BUs assume responsibility for managing changes to documentation; IAS continues to complete all testing

•3 – One Medium Risk process is used as a pilot for BU testing; IAS conducts testing of all other processes

•4 – Three Medium Risk processes (one at each BU) are used as pilots for BU testing; IAS responsible for testing all other processes

•5 – Six Medium Risk processes (two at each BU) are used as pilots for BU testing; IAS responsible for testing all other processes

•6 – BUs conduct testing in all Medium Risk processes; IAS tests controls in High Risk process (i.e., PECO Meter to Cash, ComEd Meter to Cash, PP&E, Taxes, and IT Governance)

•7 – BUs conduct testing in all Medium Risk processes and conduct one pilot in a High Risk process; IAS tests controls in remaining High Risk processes

•8 – BUs test all key controls; IAS provides additional coverage by auditing key controls related to all issues of 404 or High Priority identified in 2004

•9 – BUs test all key controls; IAS provides additional coverage by auditing key controls related to issues of 404 or High Priority identified in 2004 for High Risk processes listed in # 6

•10 – BUs test all key controls; IAS audits key controls related to 2004 significant deficiencies in PECO Meter to Cash and Taxes.

Sarbanes Processes

Medium Risk

- Procure to Pay (I.e., Procurement, Accounts Payable, Materials and Supplies Inventory)
- Fuel
- Payroll
- Power Marketing
- Close to Report
- ISO Billing
- Exelon Energy
- Disclosures
- Cash and Fund Management

High Risk

- PECO Meter to Cash**
- Taxes**
- ComEd Meter to Cash
- Property, Plant, and Equipment
- IT Governance

*   Determination of Medium or High Risk based on 2004 testing results, complexity of process, potential new areas for audit in 2005, and readiness of BUs to conduct self-assessment testing

**   Significant Deficiency Identified in this Process in 2004

NOTE: Entity-Level Controls to be testing by IAS; Sithe will not be a key process in 2005; Contract Administration will be absorbed into existing processes

Exelon SM

2005 Sarbanes Budget Summary

2005 SOX Compliance Budget - $18.1 M (62.9% of 2004 total spend)

Key Drivers 2005 SOX Compliance Costs

Decreases to Costs

- Contractor time percentage should decrease in 2005 to 30% of time needed for documentation and testing
- Sarbanes guidance should stabilize in 2005 compared to the frequent changes in 2004. These changes occurred up to December 20, 2004, which caused a large amount of re-work
- Standard processes and documentation developed in 2004 will serve as advanced starting point in 2005, which will significantly decrease documentation and testing time in 2005
- Experience gained in 2004 will aid efficiency

Increases to Costs

- Must assert at registrant level, which lowers materiality and increases scope
- BU resources to increase ownership of controls testing in 2005. Currently, no BU resources are dedicated to this effort and familiarity with audit methodology is low; therefore, training costs will increase
- 2005 implementation planned for SOX software
- Need for ongoing involvement in significant controls changes (i.e., PassPort v.10 upgrade, automation of ComEd unbilled revenue calculation); more significant changes planned in 2005
- Merger implications

2005 SOX Compliance Budget

Areas	Labor Costs	Contractor Costs	Capital Costs	Total 2005
IT	$ 5,150,817	$ 2,413,663	$ 812,851	$ 8,377,331
Documentation and Testing*	$ 1,178,100	$ 1,627,627	$ -	$ 2,805,727
Oversight	$ 800,000	$ 720,000	$ -	$ 1,520,000
Business Unit Assistance *	$ 2,238,300	$ -	$ 500,000	$ 2,738,300
PricewaterhouseCoopers		$ 2,677,500		$ 2,677,500
2005 Total	$ 9,367,217	$ 7,438,790	$ 1,312,851	$ 18,118,858

* Total projected 2005 direct Business Unit costs are $3,641,163, which assumes Business Units are responsible for 50% of the documentation and testing effort. This total includes documentation, testing, and other assistance costs.

Key 2005 Budget Assumptions

- Internal resources will be able to handle 70% of hours included in Documentation and Testing; contractors will handle the other 30%
- 2005 Sarbanes guidance will not significantly increase the need for documentation and testing
- Controls optimization will offset increase in scope due to new certification requirements at registrant level

Exelon

SARBANES-OXLEY SECTION 404
COSTS AND REMEDIATION OF DEFICIENCIES: ESTIMATES FROM A SAMPLE OF FORTUNE 1000 COMPANIES

PREPARED BY

Charles River Associates

1201 F Street, N.W., Suite 700

Washington, D.C. 20004

April 2005

CRA No. D06155-00

Section 404 of the Sarbanes-Oxley Act of 2002, in conjunction with related SEC rules and Auditing Standard No. 2 (AS No. 2) established by the PCAOB, requires management of a public company and the company's independent auditor to issue two new public reports:

- A management report on the effectiveness of the company's internal control over financial reporting.
- In conjunction with the audit of the company's financial statements, an independent auditor's report that includes both an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting.

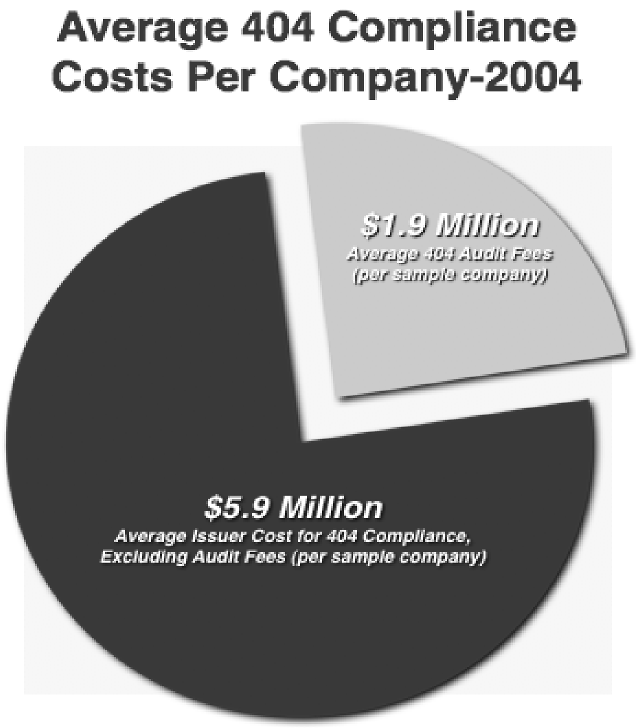
In response, public issuers initiated last year an intensive examination of their internal control over financial reporting. Section 404 also has prompted significant public debate about the magnitude of this effort and the associated benefits.[1] A number of public officials and investor representatives have lauded the Section 404 requirements as providing significant new protection against corporate fraud and have predicted that the new reporting would improve the reliability of public companies' financial statements. Some business executives and audit committee members have said that the Section 404 requirements have enabled them to improve internal control systems over financial reporting and enhance aspects of operational effectiveness overall. Other business leaders have commented that the cost of compliance with Section 404 exceeds the benefits and have urged regulators to modify implementation rules to reduce the costs associated with Section 404.

To assist in the evaluation of the conflicting claims by injecting additional empirical data into the public discussion of Section 404, the nation's four largest accounting firms asked Charles River Associates (CRA) to review relevant data for a sample of 90 of the firms' clients belonging to the *Fortune* 1000.[2]

For each company, auditors on the specific client account collected the client-specific data on client revenues and Section 404-related audit fees and deficiencies for 2004. They also provided their best estimates of 2004 and 2005 total of Section 404-related issuer costs. The firms then averaged the results for the companies for which they were able to provide data and estimates, and the averages were provided to CRA.

[1]See, for example, "Accounting Rule Exposes Problems But Draws Complaints About Costs," by Deborah Solomon, *The Wall Street Journal*, March 2, 2005; "Businesses are Pushing Against Requirements of Sarbanes-Oxley Act," by David Nicklaus, *St. Louis Post Dispatch*, January 26, 2005; "Compliance Law Changes Urged," by Andrew Countryman, *Chicago Tribune*, January 3, 2005; "Death, Taxes & Sarbanes-Oxley?," *BusinessWeek*, January 17, 2005.

[2] See the Appendix for more on sample selection and data definition.



Section 404 Audit Fees Accounted for One Quarter of Total Section 404 Compliance Costs

Consistent with other anecdotal evidence, a review of the data provided by the four firms shows that these issuers spent substantial sums in connection with the new reporting requirements.

On average, the companies in the sample were estimated to have spent a total of $7.8 million each to implement Section 404 overall, including audit fees related to Section 404. These audit fees accounted for approximately one quarter of the total compliance costs, or an average of $1.9 million.

These estimates suggest that, on average, Section 404 compliance costs represented slightly more than one-tenth of one percent of total company revenue in 2004, and fees for audit work related to Section 404 represented about 1/40th of one percent of revenue for the companies sampled.

2004 Costs of Compliance with Section 404, Average per Company in Sample

Average Audit Fees	$1.9 Million
Average Issuer Costs, Excluding Audit Fees	$5.9 Million
Total Average Compliance Costs	$7.8 Million
Average Company Revenue	$8.1 Billion
404 Compliance Costs as a Percent of Revenue	0.10 %
404 Audit Fees as a Percent of Revenue	0.02 %

Data for 90 *Fortune* 1000 companies

Deficiencies Remediated or Identified for Remediation Next Year

A primary benefit of Section 404, according to some observers, is that the heightened attention to internal control over financial reporting created by Section 404 will enhance the reliability of financial statements by helping companies to identify internal control deficiencies and enabling them to remediate these deficiencies in a timely fashion.[3]

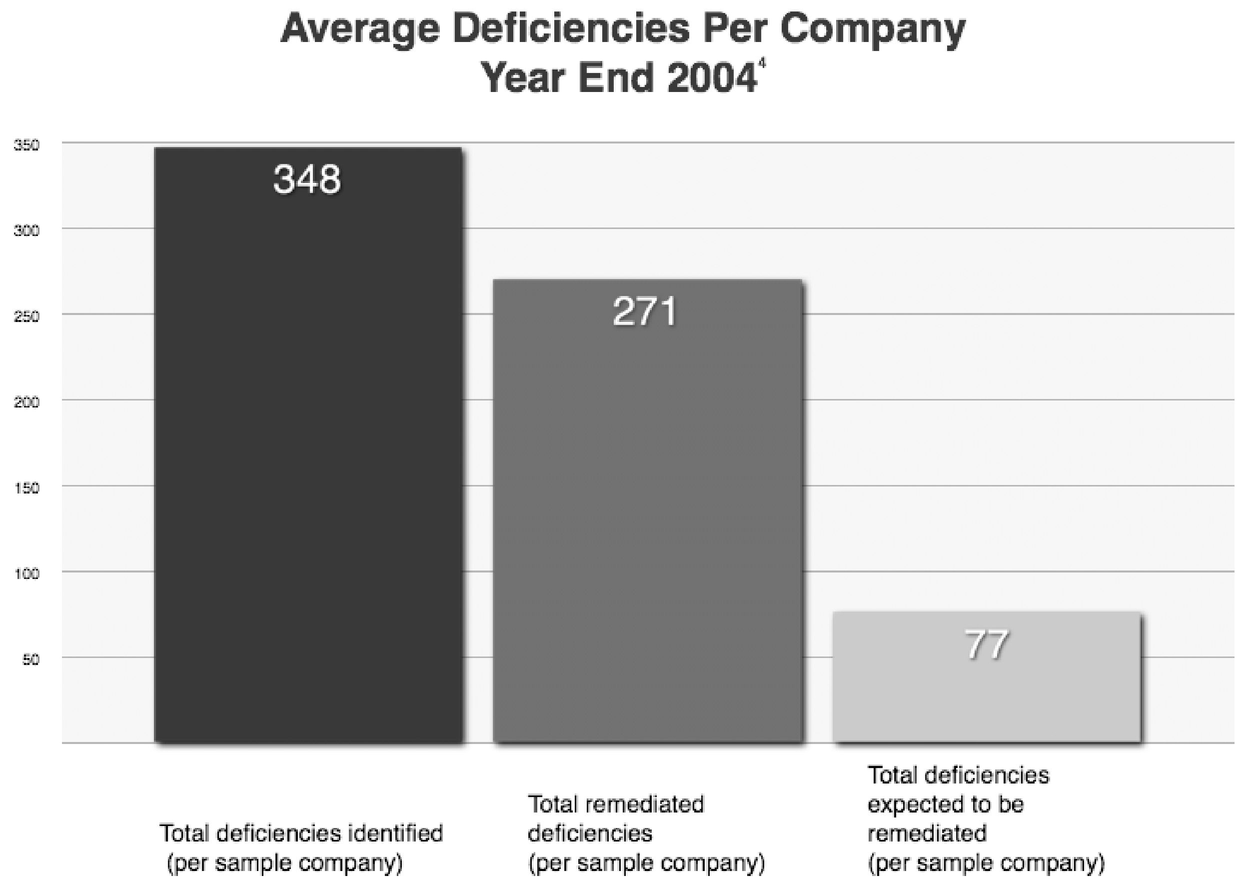
For Section 404 purposes, management and the independent auditor are required to disclose in their public reports only material weaknesses that exist as of the year-end assessment date. Whether deficiencies are identified by management or the auditor, management may implement new controls or strengthen existing procedures to correct deficiencies before the company's year-end assessment date, in effect remediating these potential problems. By identifying and remediating control deficiencies during the year, fewer material weaknesses likely were reported.

The survey gathered information about the total number of deficiencies identified by the issuer or the auditor in the Section 404 implementation process and remediated prior to the year-end assessment date. If a deficiency was remediated prior to the year-end assessment date, management and auditors would not necessarily have evaluated whether the deficiency would have been a significant deficiency or material weakness as defined by the PCAOB in AS No. 2. Therefore, the number of deficiencies remediated prior to the year-end assessment date was collected in the aggregate without determination as to whether some would have been classified as significant deficiencies or material weaknesses.

The data shows that sampled companies remediated an average of 271 deficiencies prior to their year-end assessment date.

The survey also collected data on the number of deficiencies identified by the issuer or auditor in the Section 404 implementation process that were not remediated by the year-end assessment date but were expected to be remediated thereafter. These deficiencies were broken down by classification.

[3] Donald T. Nicolaisen, Chief Accountant, SEC, Interview with *Journal of Accountancy*, January 2005; Keynote speech by Charles D. Niemeier, AICPA Annual SEC and PCAOB Conference, December 7, 2004; "Telling It Like It Is," by William M. Sinnett, *Financial Executive*, January 1, 2005; "Compliance Law Changes Urged," by Andrew Countryman, *Chicago Tribune*, January 3, 2005.



The sampled companies identified about 77 additional deficiencies on average for subsequent remediation. Of these unremediated deficiencies, almost 96 percent were classified as control deficiencies not rising to the level of a significant deficiency or material weakness. The standard defines a control deficiency as "a deficiency when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis." The data show an average of 74 control deficiencies and three significant deficiencies per company still existed and were expected to be remediated after the year-end. A *total* of five material weaknesses were unremediated as of the year-end assessment date across the 90 companies for which data was available.

Compliance Costs Expected to Decline in 2005

It has been suggested that some Section 404 compliance costs in 2004 are one-time start-up expenditures and "learning curve" costs that typically occur with any new compliance regime. Others have suggested that the first-year costs for some companies also include "deferred maintenance" of internal control systems that have been allowed to degrade.[4]

If these views are correct, compliance costs associated with Section 404 would be expected to decline over time. Survey responses by audit firm members support this hypothesis. On average, the audit firm respondents believe that the total 2005 compliance costs of the clients in the sample, including Section 404 audit fees, will average $4.2 million – 46 percent less than the estimated 2004 costs.

Projected Sample Issuer Costs of Compliance with Section 404 of Sarbanes-Oxley – 2005

Category	Costs	Percent Decline 2004-2005
Projected Issuer Total Costs, Including Audit Fees (Average Per Company)	$4.2 million	- 46%

[4] "Corporate Backlash Over Sarbanes-Oxley: Disclosure Law Called Overly Onerous," by Jenny Strasburg, *The San Francisco Chronicle*, March 23, 2005; Remarks by Daniel L. Goelzer, PCAOB member to 21st Annual Washington Economic Policy Conference, March 21, 2005.

APPENDIX: SAMPLE SELECTION AND DATA DEFINITIONS

The four largest public accounting firms asked Charles River Associates (CRA)[5] to assist them in gathering and compiling information pertaining to costs and deficiencies identified as a result of the implementation of Sarbanes-Oxley Section 404. To attempt to provide a representative sample of *Fortune* 1000 clients of the four firms, the firms were asked to seek information on a total of 96 clients randomly selected from the population of all of the firms' *Fortune* 1000 clients. The firms were able to supply at least some responses for 90 of these clients.

To measure the costs of implementation of Section 404 for the public companies in the sample, the four firms provided data pertaining to the following categories:

- 2004 fees paid by issuers for Section 404 audits.

- 2004 and 2005 total issuer costs for Section 404 compliance (projected by the audit firms). Total costs include Section 404 audit fees as well as the cost of hours expended by issuer personnel, fees paid to providers other than the auditor, and out-of-pocket expenses for travel, recruiting, hiring new personnel, training, software purchase, etc. directly related to Section 404 implementation.

To measure the average number of deficiencies identified as a result of Section 404 implementation for the surveyed firms, the firms provided data for each company pertaining to the following categories:

- 2004, total deficiencies (control deficiencies, significant deficiencies and/or material weaknesses) identified either by the issuer or the auditor as a result of Section 404 implementation and remediated prior to the year-end assessment date.

- 2004, "control deficiencies" identified either by the issuer or the auditor as a result of Section 404 implementation and not remediated prior to year-end but that are expected to be remediated subsequent to the year-end assessment date.

- 2004, "significant deficiencies" identified either by the issuer or the auditor as a result of Section 404 implementation and not remediated prior to year-end but that are expected to be remediated subsequent to the year-end assessment date.

[5] The primary authors of this report are Perry Quick and Jay Johnson, Charles River Associates, Washington, DC. They can be reached at 202/662-3800. The views expressed herein are those of the authors and do not necessarily reflect the views of other CRA staff.

- 2004, “material weaknesses” identified either by the issuer or the auditor as a result of Section 404 implementation and not remediated prior to the year-end assessment date such that they will be reported in connection with the issuer’s 10-K.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the company's ability to initiate, authorize, record, process or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the company's annual or interim financial statements that is more than inconsequential will not be prevented or detected. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.[6]

For each firm, auditors on the specific client account collected the client-specific data on client revenues and Section 404-related audit fees and deficiencies for 2004. They also provided their best estimates of 2004 and 2005 total Section 404-related issuer costs. The firms then averaged the results for the companies for which they were able to provide data and estimates.

In order to maintain the confidentiality of the clients in the survey, the firms provided CRA with only the sample averages, the number of responses and a measure of variance. From the data obtained we have aggregated the individual firm numbers, and presented the results in the attached tables.

[6] http://www.sec.gov/rules/pcaob/34-49544.htm#toc1.

Supplemental Materials

2004 Deficiencies
Identified Through the Implementation of Section 404

	Number of Deficiencies	Number of Companies in Sample
Average Deficiencies Remediated	271.0	88
Average Control Deficiencies Not Remediated	73.5	88
Average Significant Deficiencies Not Remediated	3.1	90
Average Material Weaknesses Not Remediated	0.1	90

Note:

The term "deficiencies" includes control deficiencies and those that could have been determined to be significant deficiencies or material weaknesses, and therefore reflects a wide variation in matters identified, both in terms of severity of the effects on the financial statements and the effort required for remediation.

The definition of control deficiencies, significant deficiencies and material weaknesses are used as set forth in PCAOB Auditing Standard No. 2, and are summarized below:

- A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A control deficiency that is not a significant deficiency or material weakness generally relates to deficiencies where there is a remote likelihood of an undetected, material misstatement occurring in the financial statements.

- A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the company's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the company's annual or interim financial statements that is more than inconsequential will not be prevented or detected.

- A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

2004-2005 Internal and External Costs
Incurred by the Issuer as a Result of Section 404 Implementation

	2004	2005	Change
Section 404 Auditor Fees (Millions of Dollars)[1]	$ 1.9		
Percent of Total Costs	*25%*		
Number of Companies in Sample	90		
Total Issuer Section 404 Costs (Excluding Audit Fees)[1] (Millions of Dollars)	$ 5.9		
Percent of Total Costs	*75%*		
Number of Companies in Sample	69		
Total Issuer Section 404 Costs (Millions of Dollars)[1]	$ 7.8	$4.2	*-46%*

Notes:

1. These are averages for companies for which data was provided by the four accounting firms.

EVIDENCE SUPPORTING COMED'S ADMINISTRATIVE & GENERAL EXPENSES

II. NEW RECORD MATERIALS

TAB 6. DEPRECIATION OF INFORMATION TECHNOLOGY ("IT") ASSETS AND SEC AND CORPORATE GOVERNANCE ALLOCATIONS

IT ASSETS

Exelon Business Services Company
IT systems Depreciation Billed to ComEd as A&G
For the Year 2004

Area	Activity Amount	Methodology	ComEd %		Amount Billed	% Expensed		% Distribution
BSC Corporate SLA	7,054,832.52	MMF	33.1%		2,335,149.56	100%	2,335,149.56	2,082,953.41
BSC Finance	13,943,665.92	MMF	33.1%		4,615,353.42	100%	4,615,353.42	4,116,895.25
BSC Gen Company Activities	(378,350.90)	Total Expenditures	32.1%		(121,450.64)	100%	(121,450.64)	(108,333.97)
BSC Info Technology	5,895,146.03	Transactional	31.7%	(1)	1,868,761.29	60%	1,121,256.77	1,000,161.04
BSC Legal Services	890,000.04	Transactional	30.8%	(1)	274,120.01	100%	274,120.01	244,515.05
BSC Supply Srv	111,000.00	Transactional	14.3%	(1)	15,873.00	100%	15,873.00	14,158.72
BSC Support Services	2,278,943.62	Transactional	35.4%	(1)	806,746.04	100%	806,746.04	719,617.47
	29,795,237.23		32.9%		9,794,552.69		9,047,048.17	8,069,966.97

(1) Percent used is based on the percent billed to ComEd compared to total billing for the area.

SEC ALLOCATION

Increase in Corporate Governance Allocation Due to SEC Change in Method

	($000's)
Increase in Corporate Governance Allocation due to Change to MMF (1)	$12,000
Jurisdictional Allocation Factor	89.20%
Increase in Corporate Governance Allocation due to Change to MMF - Jurisdictional	$10,704

(1) Source: 05-0597 Order, Page 80, and ComEd Exhibit 18.0, Corr. Pages 11 , lines 237-243.

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Commonwealth Edison Company	**:**	
	:	
Proposed general increase in	**:**	**05-0597**
rates for delivery service.	**:**	
(Tariffs filed on August 31, 2005)	**:**	

<u>ORDER</u>

July 26, 2006

states that consent or approval of an affiliate interest agreement, such as the GSA, by the Commission does not constitute approval of payments thereunder for the purpose of computing expense of operation in any rate proceeding. (*Id.*, p. 51).

CUB-CCSAO-City

CCC concurs with Staff that corporate governance costs should be allocated based on actual cost information, rather than projected. Corporate governance costs are allocated using the MMF, which uses gross revenues, total assets, and direct labor as inputs to the allocation formula. (Staff Ex. 1.0 at 9, L. 177-179). ComEd calculated the test year MMF based upon 2004 projected gross revenues and direct labor, as well as assets at their September 30, 2003, value. CCC agrees with Staff witness Ms. Hathhorn's recommended adjustment to allocate the test year costs based on actual 2004 data, rather than projections. (*Id*. at 9, L. 182-184).

CCC asserts that ComEd witness, Ms. Houtsma, acknowledged on cross-examination that ComEd could – and does – conduct an after the fact calculation using actual data to develop the MMF allocators; it just chose not to do so for practical reasons. For purposes of exacting the most precise level of corporate governance charges to be collected from the regulated utility and charged to ratepayers, and to maintain compliance with the just and reasonable and known and measurable standards articulated in the Commission's rules, CCC propose that the Company regenerate the corporate governance allocators using the most recent actual 2004 values for these inputs, to better match the historical test year with actual 2004 activity. This would result in a $663,000 decrease to corporate governance charges included in ComEd's test year A&G expense.

Commission Analysis and Conclusion

ComEd seeks recovery of $49,867,000 in jurisdictional corporate governance expenses paid by ComEd to Exelon BSC in the 2004 test year. ComEd explains that corporate governance services are provided to ComEd by BSC under the terms of the GSA approved by the ICC and the SEC. Section 7 of ComEd's GSA, defines as: "…those activities and services reasonably determined to be necessary for the lawful and effective management of Exelon System business. Corporate Governance Services may be supplied from functions such as accounting, finance, executive, strategic planning, legal, human resources/benefits, audit, corporate communications and public affairs, environmental health and safety, government affairs and policy, and investor relations…" Costs for these services are directly charged to ComEd where possible, and if costs cannot be direct charged, they are allocated to ComEd and the other Exelon affiliates using an allocation factor reflecting cost connection. Hill Dir., ComEd Ex. 5.0 Corr., 26:569-27:573.

ComEd and Exelon uses the MMF to allocate corporate governance costs. ComEd and Exelon were required to use the MMF for corporate governance costs by the SEC starting in 2004. The MMF uses three factors, gross revenues, total assets and direct labor, as inputs to its allocation formula. ComEd used projected values for gross revenues and direct labor and an actual value for assets from near the end of the calendar year 2003 and used them as data inputs into the MMF to calculate the corporate governance allocation factor for the year 2004.

Staff proposes an adjustment of $663,000 in operating expenses to reduce ComEd's corporate governance charges from BSC to match the historical test year with actual 2004 activity. Staff's witness Ms. Hathhorn's adjusted ComEd's corporate governance charges using the most recent actual 2004 values for the inputs to the formula used to allocate corporate governance charges instead of using ComEd's forecasted inputs.

The Commission finds Staff's analysis persuasive. Since 2004 was the first year the MMF was used to allocate ComEd's corporate governance charges, Staff's reasonableness analysis based on the amounts of indirect corporate governance costs charged to ComEd versus its affiliates in 2004 makes sense. ComEd and its regulated affiliate, PECO, received almost exactly the same ratio of direct to indirect corporate governance charges from BSC—11% direct and 89% indirect. The two non-regulated affiliates of ComEd-- Exelon, and Genco-- received almost exactly the same ratio of direct to indirect corporate governance charges from BSC, 28% direct and 72% indirect. The non-regulated affiliates received much lower percentages of indirect corporate governance costs. This indicates that indirect corporate governance costs were not allocated fairly and equitably among the Exelon family of companies in 2004.

The Commission accepts Staff's proposed adjustment ratemaking purposes, and does not intend a change in the amount recorded under the methodology approved in the GSA. No one claimed that Staff's adjustment is inconsistent with the GSA. Tellingly, ComEd itself considered an adjustment to reflect the actual inputs in place of the estimated ones and the Commission often approves adjustments to test-years to change the amount actually recorded by a utility to a more appropriate amount for ratemaking purposes. Additionally, under the PUA, amounts included in rates may be different than those calculated according to a Commission-approved affiliate interest allocation agreement, (See 220 ILCS 5/7-101(3Consent or approval of an affiliate interest agreement, such as the GSA, by the Commission does not constitute approval of all payments there under for the purpose of computing expense of operation in any rate proceeding.

In conclusion, the Commission agrees with Staff in making this adjustment based on actual costs. Therefore, Staff's proposed adjustment of $663,000 is approved.

d.) Exelon BSC Expenses

ComEd

ComEd proposed a revised figure of $143,392,000 in rebuttal testimony for expenses allocated to ComEd (and recorded in A&G Accounts 920, 921 and 923) for the provision by BSC of centralized services in the test year under the GSA. (Houtsma Reb., ComEd Ex. 18.0 Corr., Sched. 18.1).

CORPORATE GOVERNANCE

Increase in Corporate Governance Allocation Due to Sale of Enterprises

	($000's)
Increase in Corporate Governance Allocation due to Sale of Enterprises (1)	$13,000
Jurisdictional Allocation Factor	89.20%
Increase in Corporate Governance Allocation due to Sale of Enterprises - Jurisdictional	$11,596

(1) Source: 05-0597 Order, Page 80, and ComEd Exhibit 18.0, Corr. Pages 11 - 12 , lines 244 - 249.

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Commonwealth Edison Company	**:**	
	:	
Proposed general increase in	**:**	**05-0597**
rates for delivery service.	**:**	
(Tariffs filed on August 31, 2005)	**:**	

ORDER

July 26, 2006

adjustment of $10.117 million results in a test year normalized balance of $117.8 million.[11] However, Ms. Hathhorn testified that she could not accept ComEd's further refinement of the adjustment for centralization of BSC functions (ComEd Ex. 18.1, Schedule 1, line 14) because her modification to include the EDSS expenses in the four-year average accomplishes the same result. (Staff Ex. 12.0, Schedule 12.8, line 5). Further, she stated that she could not accept ComEd's centralization adjustment because there was no support for it, noting that ComEd's workpapers on the BSC portion provided only circular references-- from one data request response to another-- with no underlying account balance or source documentation provided. (Staff Ex.12.0, p. 14).

CUB-CCSAO-City

CCC witness Mr. McGarry testified that ComEd's GSA expenses should be reduced to account for the costs associated with the divestiture of Exelon business entities that did not clearly benefit ratepayers. (CCC Ex. 5.0 at 38, L. 750-753). CCC maintained that the large increase in the level of corporate governance services charged to ComEd as a result of Exelon Corporation's sale of the Enterprise Businesses should be rejected by the Commission. CCC witness McGarry recommended that the Commission disallow $5.791 million in costs that did not benefit ratepayers. (CCC Ex. 2.02, Schedule MJM-14, (rev. Mar. 20, 2006)).

CCC witness Mr. McGarry testified that ComEd's GSA expenses should be reduced to account for the costs associated with the divestiture of Exelon business entities. Mr. McGarry states that this transaction did not clearly benefit ratepayers. CCC maintains that the large increase in the level of corporate governance services charged to ComEd as a result of Exelon Corporation's sale of the Enterprise Businesses should be rejected by the Commission. CCC witness McGarry recommends that the Commission disallow $5.791 million in costs that did not benefit ratepayers. Mr. McGarry also suggests that the Commission evaluate the charges and cost from this agreement between ComEd and Exelon BSC. According to Mr. McGarry this would be analogous to an audit, but he set no time frame for this request.

Commission Analysis and Conclusion

ComEd proposed a revised figure of $143,392,000 in rebuttal testimony for expenses allocated to ComEd (and recorded in A&G Accounts 920, 921 and 923) for the provision by BSC of centralized services in the test year. ComEd argues that there is no realistic expectation that Exelon BSC costs will revert back to the historical levels in place before 2004. According to the Company, it would be unrealistic to assume that a reorganization of this magnitude, with severance costs of $67 million, would be implemented for one year only, yet this is the result of Ms. Hathhorn's proposed adjustment. ComEd states that these facts establish both why there was a sharp

[11] ICC Staff Exhibit 12.0, Schedule 12.8 Line 4 Col. (h) $143,392,000 x 89.2% Jurisdictional Factor (Line 6) - $10,117,000 Staff Adjustment (Line 12)

increase in BSC costs in 2004 and why this higher level of BSC costs will continue in future years. Although overall ComEd costs were reduced as a result of the Exelon way, this centralization increased the portion of ComEd's costs that are attributed to Exelon BSC in the test year.

Staff in their response is proposing an adjustment to also account for EDSS costs in the calculation of the four year average balance. This changed the range of ComEd's costs from a low of $77 million in 2002 to a high of $143 million in 2004. Based on this four year average, Staff is proposing a revised adjustment of $10.117 million results in a test year normalized balance of $117.8 million. However, Staff 's witness Ms. Hathhorn testified that she could not accept ComEd's further refinement of the adjustment for centralization of BSC functions because her modification to include the EDSS expenses in the four-year average accomplishes the same result. Further, she stated that she could not accept ComEd's centralization adjustment because there was no support for it, noting that ComEd's work papers on the BSC portion provided only circular references-- from one data request response to another--with no underlying account balance or source documentation provided.

ComEd responded that although Ms. Hathhorn's average includes EDSS, and the test year amount to which she compares the average also includes EDSS, because EDSS is higher in the 2004 test year than the prior years her averaging methodology has the effect of disallowing the increase in EDSS costs that resulted from centralization. Thus, the issue is whether on a going forward basis, the cost level for services provided by the EDSS department of BSC is more likely to be $9 million (the result of Ms. Hathhorn's four year "normalization" through averaging) or approximately $24 million. The Company argues that nothing in the record apart from the mathematics of averaging, supports a conclusion that during the years the rates established in this case will be in effect, the level of BSC costs for centralized services, and particularly EDSS services, will be anywhere close to $9 million. ComEd claims it has provided unrebutted evidence as to why the BSC costs increased and why the level of costs resulting from the reorganization will continue in future years. ComEd point out that it has provided unrebutted evidence that BSC costs in 2005, were virtually the same as in 2004.

Even CCC witness Mr. McGarry has acknowledged that the effects of centralization should be removed from Ms. Hathhorn's adjustment. ComEd witnesses testified that these costs will continue, and CCC witness McGarry has testified that these costs should be removed from Ms. Hathhorn's adjustment. ComEd claims it has provided a logical explanation of why a reorganization of the magnitude of Exelon Way would not be done for one year (the 2004 test year) only, and 2005 costs confirm that the test year costs are at a level likely to be incurred in future years. According to ComEd, Staff has supplied no affirmative evidence to the contrary.

ComEd asserts that the two arguments of CCC should be rejected. In regard to the increases in BSC costs allocated to ComEd as a result of the sale of Enterprises not being allowed, ComEd claims it has shown that such allocations can increase or decrease costs based on numerous factors. In regard to CCC's call for some form of evaluation or audit of BSC costs, ComEd argues that the record is devoid of any evidence that the BSC costs are unreasonable and thus there is no basis for an audit.

The Commission finds that there is no indication that the four year average as proposed by Staff will accurately reflect the costs allocated to Exelon BSC. As pointed out by ComEd, the costs for the 2005 year were almost the same as 2004. Further, ComEd has demonstrated that the increases in BSC costs attributable to centralization resulted in overall cost savings to ComEd. Therefore, the adjustments proposed by Staff and CCC are rejected and the proposal of ComEd is adopted. In addition, the Commission finds no basis on the record for CCC's suggestion that the Commission conduct an audit of the charges by Exelon BSC to ComEd under the GSA.

4. SALARY AND WAGE EXPENSE

ComEd

According to ComEd, it recognized that salary and wage expense at the end of the 2004 test year reflected the impact of certain permanent staff reductions related to the Exelon Way program, and made a downward *pro forma* adjustment to the test year expense. Specifically, ComEd lowered that salary and wage expense by $5,084,000 to "normalize" that expense for periods beyond 2004. (Hill Dir., ComEd Ex. 5.0 Corr., 38:817-1820; ComEd Ex. 5.1, Sched. C-2.13).

ComEd, in its rebuttal testimony, agreed to Staff's adjustment to remove $1,174,000 of ComEd's *pro forma* salary and wage increases adjustment for 2005.

Regarding Mr. Effron's proposal to lower ComEd's salaries and wage expense further because he believes that ComEd is recovering expense for more employees than it actually pays, ComEd contends that its 2004 wage and salary expense number is based on actual costs paid in 2004, not the number of employees. (*E.g.*, Hill, Tr. at 932:8-933:5). ComEd states that because the salary and wages expense number reflected in ComEd's revenue requirement did not include any funds for temporarily vacant positions, it is improper to use vacancies as a basis for any further downward adjustment as Mr. Effron's proposal does.

ComEd witness Mr. Hill described the "significant difference" between ComEd's *pro forma* adjustment made before the case was filed and Mr. Effron's additional adjustment. ComEd's reduction in expenses was to account for the reduction in employees due to the Exelon Way because ComEd considers and is committing that the Exelon Way reductions will be permanent vacancies. (Hill Reb., ComEd Ex. 19.0 Corr., 45:956-59). ComEd contrasted these reasons to Mr. Effron's adjustment, opining that he incorrectly assumes that the vacant positions will result in permanent reductions to ComEd labor costs. (Hill Reb., ComEd Ex. 19.0 Corr., 46:960-61). ComEd posits that it could have adjusted its payroll costs upward to recognize the temporary nature of the vacant positions, but did not do so. (Hill Reb., ComEd Ex. 19.0 Corr., 46:961-63).