

DIRECT TESTIMONY

OF

THOMAS L. GRIFFIN

ACCOUNTING DEPARTMENT

FINANCIAL ANALYSIS DIVISION

ILLINOIS COMMERCE COMMISSION

PROPOSED GENERAL INCREASE IN ELECTRIC RATES

COMMONWEALTH EDISON COMPANY

DOCKET No. 07-0566

FEBRUARY 11, 2008

Table of Contents

Page

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

I.	Introduction.....	Error! Bookmark not defined.
A.	Witness Identification	Error! Bookmark not defined.
B.	Purpose of Testimony	Error! Bookmark not defined.
II.	Schedule Identification	Error! Bookmark not defined.
III.	Adjustments to Pro Forma Plant in Service.....	Error! Bookmark not defined.
IV.	Common Facilities at Substations.....	Error! Bookmark not defined.
V.	AICPA SPO 98-01	Error! Bookmark not defined.
VI.	Software Developed or Obtained for Internal Use	Error! Bookmark not defined.
VII.	Departmental Overheads.....	Error! Bookmark not defined.
VIII.	Stores Clearing Account	Error! Bookmark not defined.
IX.	Changes to the Property Unit Catalog	Error! Bookmark not defined.
X.	Accumulated Deferred Income Taxes	Error! Bookmark not defined.
XI.	Original Cost Audit Expense	Error! Bookmark not defined.
XII.	Construction Work in Process	Error! Bookmark not defined.
XIII.	Adjustments to Rate Case Expense.....	Error! Bookmark not defined.
XIV.	Recommendations Regarding Accounting Practices	Error! Bookmark not defined.
XV.	Conclusion	Error! Bookmark not defined.

24 **I Introduction**

25

26 A. Witness Identification

27

28 **Q. Please state your name and business address.**

29 A. My name is Thomas L. Griffin. My business address is 160 North LaSalle

30 St. Chicago, Illinois 60601.

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

32 A. I am an Accountant in the Accounting Department of the Financial

33 Analysis Division of the Illinois Commerce Commission ("Commission").

34 **Q. Please describe your qualifications.**

35 A. For sixteen years prior to my employment with the Commission, I served

36 private industry in various capacities, ranging from Staff Accounting

37 positions to Manager of Accounting and encompassing all areas of

38 accounting and internal auditing. Since joining the Commission's

39 Accounting Department in 1978 I have participated in or supervised the

40 accounting activity in cases involving gas, electric, telephone and water

41 utilities as well as cases involving companies in the transportation

42 industry. On behalf of the Commission and the US Government. I have

43 prepared training material and taught Utility Accounting and other Utility

44 Regulation issues in the Republic of Kazakhstan. I have also made

45 presentations on Utility Regulation Issues to delegates from the nations of
46 Egypt, Brazil, Romania and Armenia.

47 I have a degree in Business Administration with a concentration in
48 Accounting from Governors State University and a degree in Advanced
49 Accounting from International Accountants.

50 **Q. Have you previously offered expert testimony?**

51 A. Yes, I have testified in numerous cases before the Illinois Commerce
52 Commission. I have also testified or presented affidavits as an expert
53 accounting witness before the Circuit Courts in Rock Island, Illinois;
54 McHenry, Illinois; and Chicago, Illinois.

55 **Q. What are your responsibilities in this case?**

56 A. I have been assigned to this case by the Manager of the Commission's
57 Accounting Department. My responsibilities are to review the filing by
58 Commonwealth Edison Company ("ComEd" or "Company"), analyze the
59 underlying data and propose adjustments when appropriate.

60 B. Purpose of Testimony

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

62 A. The purpose of my testimony is to present my analysis and proposed
63 adjustments for ComEd relating to plant in service and rate case expense

64 and to make other recommendations regarding the Companies'
65 accounting practices.

66 **II. Schedule Identification**

67 **Q. Are you sponsoring any schedules to support your direct testimony?**

68 A. Yes, I am sponsoring the following schedules:

69 Schedule 2.1 Adjustments to Pro Forma Additions to Plant in
70 Service

71 Schedule 2.2 Adjustment to Plant in Service

72 Schedule 2.3 Adjustments to Software Developed or Obtained for
73 Internal Use

74 Schedule 2.4 Adjustments to Departmental Overheads

75 Schedule 2.5 Adjustments to Stores Clearing Account

76 Schedule 2.6 Changes to the Property Unit Catalog

77 Schedule 2.7 Adjustment to Original Cost Audit Expense

78 Schedule 2.8 Adjustments to Rate Case Expense

79 **III Adjustments to Pro Forma Plant in Service**

80 **Q. Please explain Schedule 2.1, Adjustments to Pro Forma Additions to**
81 **Plant in Service.**

82 A. Schedule 2.1 presents my adjustment to plant in service to disallow
83 certain 2008 construction projects that are not known and measurable.
84 ComEd has not properly applied the known and measurable standard for
85 including pro forma adjustments to plant in service as “reasonably certain”
86 to occur and determinable as required by 83 Ill. Adm. Code 287.40.

87 **Q. Please provide rationale for your adjustment to disallow the 2008**
88 **construction projects that are not known and measurable.**

89 A. ComEd filed a 2006 historical test year and is allowed to make pro forma
90 adjustments that are known and measurable. Known and measurable is
91 defined in 287.40 to be **reasonably certain** to occur subsequent to the
92 historical test year within 12 months after the filing date of the tariffs and
93 where the amounts of the changes are determinable. Since ComEd filed
94 its tariffs on October 17, 2007, this means that pro forma adjustments to
95 plant that are reasonably certain to occur by October 17, 2008 and are
96 determinable can be considered in the development of the revenue
97 requirement. The standard applied by ComEd for pro forma adjustments
98 to plant is “reasonably expected” to occur. (ComEd Ex. 7.0, p. 13)

99 The governing language of Section 287.40 is as follows:

100 Section 287.40 Pro Forma Adjustments to Historical Test Year:

101 A utility may propose pro forma adjustments (estimated or calculated
102 adjustments made in the same context and format in which the affected
103 information was provided) to the selected historical test year for all known
104 and measurable changes in the operating results of the test year. These
105 adjustments shall reflect changes affecting the ratepayers in plant
106 investment, operating revenues, expenses, and cost of capital where such
107 changes occurred during the selected historical test year or are
108 **reasonably certain** to occur subsequent to the historical test year within
109 12 months after the filing date of the tariffs and where the amounts of the
110 changes are **determinable**. Attrition or inflation factors shall not be
111 substituted for a specific study of individual capital, revenue and expense
112 components. Any proposed known and measurable adjustment to the test
113 year shall be individually identified and supported in the direct testimony of
114 the utility. Each adjustment shall be submitted according to the standard
115 information requirement schedules prescribed in 83 Ill. Code 285.
116 (Emphasis Added)

117 Q. **How did ComEd calculate their pro forma plant in service**
118 **adjustments?**

119 A. ComEd included capital projects that were reasonably expected to be
120 closed to plant in service by September 30, 2008. They included the
121 budgeted cost of these projects in rate base as pro forma plant
122 adjustments.

123 Q. **Does ComEd's pro forma plant adjustment meet the known and**
124 **measurable requirements under Section 287.40?**

125 A. No. While some of the projects are reasonably certain to close by
126 September 30, 2008, not all are. Furthermore, the projected costs of
127 these projects are not reasonably certain. The Company's response to
128 Staff data request JMO 4.02 indicated an actual to budget variance for
129 distribution plant of +29.5%, + 24.3% and +0.1% for 2004, 2005 and 2006
130 respectively and an actual to budget variance for general and intangible
131 plant of +52.5%, -6.7% and -27.8% for 2004, 2005 and 2006 respectively.
132 In light of these budget variances, I do not consider the 2007 and 2008
133 construction budgets to support the position that ComEd's budget
134 projections are "reasonably certain" to occur and are determinable.

135 **Q. How do you recommend that pro forma additions to plant in service**
136 **be calculated?**

137 A. The Company's response to Staff Data Request JMO 5.01 provided an
138 update to ComEd Schedule WPB 2.1a showing projects that were actually
139 closed during 2007. These projects closed during 2007 meet the known
140 and measurable standards for pro forma adjustments of being reasonably
141 certain and determinable. Thus, my adjustment allows the Company's net
142 plant balance at December 31, 2007 as the Company's net plant in rate
143 base.

144 The Company has not provided evidence that projects expected to close
145 during the first three quarters of 2008 meet the known and measurable

146 standard under Section 287.40. Therefore, I recommend the disallowance
147 of the 2008 construction projects.

148 I will consider additional evidence that ComEd may provide in rebuttal
149 testimony that 2008 construction projects meet the requirements of
150 Section 287.40.

151 **Q. Please explain Schedule 2.2, Adjustments to Plant in Service**

152 A Schedule 2.2 adjusts plant in service and accumulated depreciation
153 balances to the actual amounts known at December 31, 2007. Pro forma
154 adjustments are used to reflect known and measurable changes in the
155 operation results of the test year. Therefore pro forma adjustments should
156 not produce a result that is inconsistent with the operating results those
157 pro forma adjustments are intended to represent when those actual
158 operating results are known. The pro forma adjustments for plant
159 additions through December 31, 2007 should not overstate what we know
160 the actual net plant balance to be at December 31, 2007. My proposed
161 adjustment limits ComEd's pro forma plant additions to an amount
162 consistent with the actual net plant balance at December 31, 2007.

163 **IV Adjustment to Software Developed or Obtained for Internal Use**

164 **Q. Please explain Schedule 2.3, Adjustments related to Software**
165 **Developed or Obtained for Internal Use.**

166 A. Schedule 2.3 reflects my adjustments to software developed or obtained
167 for company use that 1) removes costs improperly capitalized under
168 AICPA Statement of Position 98-01 (“SOP 98-1”) and 2) removes the
169 impact of the Company’s change to lower the threshold for capitalizing
170 software developed or obtained for internal use from \$10,000,000 to
171 \$100,000.

172 **Q. Please explain the portion of your adjustment that removes costs**
173 **improperly capitalized under SOP 98-1.**

174 A. ComEd capitalizes software developed or obtained for internal use in
175 accordance with SOP 98-1. Included as costs that cannot be capitalized
176 under SOP 98-1 is work not directly related to software design and
177 programming, analysis of customer billing data, BSC facility charges and
178 training.¹

179 In the Company’s response to Staff data request TLG 2.05 the Company
180 identified \$14,000 of such costs that they have inadvertently capitalized
181 since ComEd’s last rate case. However, it should be noted that in the
182 Company’s response to TLG 2.05, the Company indicated that it
183 implemented a new general ledger system which no longer includes the
184 necessary activity codes to identify costs which should not have been
185 capitalized according to SOP 98-1. The Company identified the \$14,000

¹ A summary of SOP 98-1 was provided in the Company’s response to Staff Data Request JMO 2.03, attachment 9.

186 by performing a special query of some projects. Therefore, it is possible
187 that additional costs were improperly capitalized.

188 **Q. Please explain the portion of your adjustment that removes the**
189 **impact of the Company's change to lower the threshold for**
190 **capitalizing software developed or obtained for internal use from**
191 **\$10,000,000 to \$100,000.**

192 A. Effective January, 2002, ComEd lowered the threshold for capitalizing
193 software developed or obtained for internal use from \$10,000,000 to
194 \$100,000.² This change could lead to significantly more costs being
195 capitalized that were previously expensed. The Company's response to
196 Staff Data Request JMO 7.01 provided the following reasons for the
197 decision to change the capitalization threshold for software:

- 198 1) Align the Capitalization Policy and Property Unit Catalogs with affiliated
199 Companies;
- 200 2) Allow for consistent accounting treatment between the affiliated
201 Companies; and
- 202 3) Streamline work practices between the affiliated Companies.

² ComEd's response to Staff Data Request JMO 2.03

203 The changes in the property unit catalog increased the amount of costs
204 that are capitalized. It is not reasonable that rate payers should pay more
205 or less for utility services simply because the utility wants to align
206 capitalization policies and property unit catalogs with affiliates. If the
207 Company was to perform an analysis which specifically demonstrated that
208 the \$10,000,000 threshold was inappropriate and that a lower threshold
209 was more appropriate, it might then be appropriate to change the
210 threshold.

211 The Company's response to Staff Data Requests JMO 7.04 thru JMO 7.05
212 provided costs capitalized under the new threshold that would not have
213 been capitalized under the old threshold. I recommend that the
214 capitalized costs not be included in plant in service for the derivation of the
215 revenue requirement in this proceeding

216 **V. Adjustment to Departmental Overheads.**

217 **Q. Please explain Schedule 2.4, Adjustment to Departmental Overheads.**

218 A. Schedule 2.4 presents my adjustment to the allocation of departmental
219 overheads to capital versus expense. In 2003 ComEd changed the
220 method of capitalizing departmental overheads to include contract labor
221 costs in the base for loading departmental overheads. In other words, C
222 ComEd started allocation departmental overheads to capital or expense in

223 proportion to the amount of direct and Contractor labor charged to capital
224 or expense.

225 In response to Staff Data Requests TLG-2.01 and TLG-2.02, ComEd
226 explained that the primary reason for this change in accounting practice is
227 that there are more contractors used to supplement internal labor, and
228 asserted that the departmental overhead resources used to manage and
229 administer the contractor's work are similar to those used to manage
230 internal labor. However this change in allocation methodology effectively
231 raises costs to rate payers was not supported by any study nor did ComEd
232 show that using contract labor had the same impact upon departmental
233 overhead costs as the internal labor that the contract labor replaced.

234 In my opinion, it is not reasonable to assume that contractor labor requires
235 the same level of departmental overhead resources as internal labor. For
236 example, a contractor may have its own supervisors on its team which
237 would alleviate the level of supervision required t by ComEd's personel. In
238 my opinion, absent such a study or other detailed evidence showing the
239 relationship of contractor labor on departmental overheads, including
240 contractor labor in the base for loading departmental is not just and
241 reasonable and contractor labor should not beincluded in the base for
242 loading departmental overheads.

243 **VI Adjustment to Stores Clearing Accounts**

244 **Q. Please explain Schedule 2.5, Adjustment to Stores Clearing Account.**

245 A. Schedule 2.5 presents my adjustment to reverse the Company's entry to
246 clear the stores clearing account to zero at December 31, 2006. The
247 stores clearing account contains the cost of supervision, labor and
248 expenses incurred in the operation of general storerooms, including
249 purchasing, storage, handling and distribution of materials and supplies.
250 In 2003 ComEd changed the accounting practice for the stores clearing
251 account and cleared the entire stores clearing account at year end to Plant
252 in Service (i.e. leaving the account with a zero balance). The Company's
253 response to Staff Data Request TLG-2.03 gave no business reason for the
254 change in accounting practice except that the FERC Uniform System of
255 Accounts states that this account "shall not exceed" a balance reasonable
256 relative to inventory levels. ComEd's proposed Materials and Supplies
257 Inventory balance, after the proposed adjustment recommended by Staff
258 witness Ostrander, in rate base is \$32,937,000. Although the FERC
259 Uniform System of Accounts states that the stores clearing account should
260 not exceed a level that is relative to inventory levels, a zero associated
261 balance in the stores clearing account is not reasonable. There are
262 always some stores clearing costs associated with the Materials and
263 Supplies inventory in rate base. I derived my adjustment by applying the
264 Company's own stores handling rate to the Materials and Supplies
265 Inventory balance.

266 **VII Changes to Property Unit Catalog**

267 **Q. Please explain Schedule 2.6, Changes to the Property Unit Catalog.**

268 Schedule 2.6 presents my adjustment to reverse the capitalization of
269 certain costs that would not have been capitalized but for changes made
270 by the Company to its property unit catalog in 2002. A property unit
271 catalog identifies retirement units or components that meet a corporation's
272 capitalization policy. The Company's response to Staff data request JMO
273 2.04 provided the following rationale for the changes in the property unit
274 catalog:

- 275 1) Align the Capitalization Policy and Property Unit Catalogs
276 between the affiliated Companies;
- 277 2) Allow for consistent accounting treatment between the affiliated
278 Companies; and
- 279 3) Streamline work practices between the affiliated Companies.

280 The changes in the property unit catalog increased the amount of costs
281 that are capitalized. It is not reasonable that rate payers should pay more
282 or less for utility services simply because the utility wants to align the
283 capitalization policy and property unit catalog with affiliates.

284 If the Company were to perform analyses that specifically demonstrated
285 the need for changes in the property unit catalog, those reasons could be
286 evaluated. By way of contrast, the Company's response to Staff Data
287 Request JMO 2.04 listed nine subsequent changes to the Property Unit
288 Catalog from 2002 thru 2006 and provided documentation to support the
289 changes. Accounting and Engineering ICC Staff reviewed the evidence
290 and proposed no adjustments to rate base associated with these
291 subsequent changes to the Property Unit Catalog which the Company had
292 justified.

293 In response the Staff Data Request TLG 2.07, ComEd only listed Cable
294 Faults as a change in their Property Unit Catalog in 2002 that had an
295 impact on capitalization. Therefore, my adjustment only reflects the
296 changes associated with Cable Faults. If I am able to identify additional
297 changes to the Property Unit Catalog that were made in 2002, I will reflect
298 any appropriate adjustment in my Rebuttal Testimony.

299 VIII Accumulated Deferred Income Taxes

300 **Q. How did you calculate your adjustments to Accumulated Deferred**
301 **Income Taxes related to your proposed adjustments to Plant in**
302 **Service?**

303 A. With the exception of my adjustments to Pro Forma Plant in Service which
304 are shown on Schedule 2.1, I calculated an estimated amount for

305 Accumulated Deferred Income Taxes by taking a ratio of Accumulated
306 Deferred Income Taxes to Plant in Service as shown on ComEd Schedule
307 B-1. If ComEd would like to calculate more precise adjustments to
308 Accumulated Deferred Income Taxes which relate to my proposed
309 adjustments, I will consider them in my rebuttal testimony.

310 **X Adjustment to Original Cost Audit Expense**

311 **Q. Please Explain Schedule 2.7, Adjustment to Original Cost Audit**
312 **Expense.**

313 A. Schedule 2.7 presents my adjustment to disallow legal fees associated
314 with the original cost audit. On April 5, 2006 the Commission issued an
315 Interim Order in Docket No. 05-0597 which required that an original cost
316 audit be done to verify the original cost of the Company's distribution plant
317 in service balance at December 31, 2004. ComEd is seeking to recover
318 \$2,342,000 amortized over three years to recover the costs associated
319 with that audit.

320 **Q. Do you agree with ComEd's request?**

321 A. No. The Company paid \$1,547,700 to the auditor pursuant to the contract
322 approved by the Commission. The \$794,000 in legal fees that ComEd
323 incurred during the audit should not be recovered from rate payers
324 because the legal fees were not approved by the Commission in Docket

325 No. 05-0597 and a proceeding to litigate the results of the report has not
326 yet been initiated. It is unreasonable for legal fees to represent half the
327 cost of the audit itself and for ratepayers to be required to fund legal fees
328 for which ratepayers have realized no benefit.

329 **Q. Do you agree with the proposed three year amortization period?**

330 A. Yes. Assuming another rate case is filed by the Company in three years,
331 and taking into consideration the amortization period proposed by the
332 Company in this case for rate case expense, the original cost audit costs
333 should be recovered by ComEd by the time it files its next rate case. As a
334 result, ComEd's next rate case will not reflect any cost for this expense.

335 **XI Adjustments to Rate Case Expense**

336 **Q. Please explain Schedule 2.8, Adjustments to Rate Case Expense.**

337 A. Schedule 2.8 presents my adjustment to rate case expense to disallow the
338 amount of rate case expense in excess of the amount approved by the
339 Commission for rate case expense in Docket No. 05-0597, ComEd's last
340 rate case, and to allow only those expenses that ComEd can support for
341 the current rate case.

342 **Q. Please explain your rationale for disallowing the amount of rate case**
343 **expense in excess of the amount approved by the Commission for**
344 **rate case expense in ComEd's last rate proceeding.**

345 A. I am disallowing costs that are in excess of the rate case expense amount
346 approved by the Commission in the Company's last rate proceeding,
347 Docket No. 05-0597. The Company should not be allowed to true-up its
348 prior rate case expense to actual amounts incurred as the Company
349 proposes in the instant proceeding. The Commission-approved rate case
350 expense is the amount that should be considered for recovery in future
351 cases if not yet amortized by the time a Company files its next rate case.

352 The revenue requirement in this case should be based on the rate case
353 cost for this proceeding plus any unamortized balances from Docket No.
354 05-0597 at the Commission-approved level. The reason for including the
355 unamortized balances in this case is that the Commission-approved
356 amortization period for such costs has not expired. It would be contrary to
357 the plain language of the prior order to disallow such costs. I am unaware
358 of any Commission order allowing a Company to include as costs in the
359 unamortized balance of its prior rate case costs that are in excess of the
360 level approved by the Commission in that case.

361 **Q. Please provide your rationale for allowing only the rate case**
362 **expenses that ComEd can support for the current rate case.**

363 A. The Company's rate case expense is supported by estimates as reflected
364 on ComEd Schedule C-10. ComEd should only be allowed to recover from
365 ratepayers those rate case expenses which can be supported. Based on
366 the information provided to date regarding rate case expense that has
367 been incurred through October 31, 2007, ComEd has supported
368 \$2,953,000 of rate case expense.

369 I am concerned that the Company has over estimated its rate case
370 expense. With less than three months left before hearings begin, ComEd
371 has spent only 26% of the estimated costs. In addition, the estimate for
372 the current case is 10% higher than what was spent just two years ago in
373 the last rate case (ComEd Schedule C-10). In rebuttal testimony the
374 Company should provide additional support for its rate case expense
375 estimates relative to rate case expense incurred to date.

376 When I file my rebuttal testimony, I will update my adjustment for rate case
377 expense to recognize any additional rate case expense that has been
378 supported by the Company. I will also include any reasonable estimate of
379 additional rate case expense that can be adequately supported by the
380 Company at that time.

381 **Q. What amortization period did ComEd use to calculate their rate case**
382 **expense?**

383 A. ComEd has calculated an amortization period of three years for their rate
384 case expense.

385 **Q. Do you agree with ComEd's amortization period?**

386 A. Yes. For this case I believe that a three year amortization period is
387 appropriate.

388 **XI Recommendations regarding Accounting Practices**

389 **Q. Do you have any recommendations?**

390 A. Yes, I have three recommendations:

391 1) Annual reporting on significant changes in accounting policy and
392 Practices

393 2) Periodic depreciation studies; and

394 3) Allocate common plant for substations according to the proportion
395 of the distribution facilities and transmission facilities that are at the
396 plant

397

398 Annual Reporting

399 **Q. Please explain your first recommendation that there be an annual**
400 **reporting on significant changes in accounting policy and practices.**

401 A. I recommend that ComEd notify Commission Staff (Public Utilities Bureau
402 Chief, Director of the Financial Analysis Division, and the Manager of
403 Accounting) in writing by March 1st each year whether there were any
404 significant changes made to the Company's accounting practices or
405 policies, including changes to the property unit catalog in the previous
406 calendar year and if any changes are being contemplated for the current
407 year. ComEd has made a number of accounting policy and practice
408 changes in the past few years of which Staff was unaware. These
409 changes can have a significant impact on the Company's revenue
410 requirement.

411 Periodic Depreciation Studies

412 **Q. Please explain your recommendation for periodic depreciation**
413 **studies.**

414 A. I recommend that ComEd conduct the depreciation study that is being
415 considered for 2008 and then schedule new depreciation studies no less
416 frequently than every five years. ComEd's response to Staff Data
417 Request TLG-2.12 indicates that ComEd does not conduct depreciation

418 studies on a regular basis. Depreciation studies were performed in 1988
419 and in 2001 and the Company is considering whether or not to do one in
420 2008, presumably using 2007 data. Given changes in technology and
421 other factors, it is reasonable to conduct depreciation studies on a regular
422 basis at reasonable intervals.

423 Allocation of common plant for substations

424 **Q. Pleas explain your recommendation to allocate common plant for**
425 **substations according to the proportion of distribution facilities and**
426 **transmission facilities that are at the plant.**

427 A. I recommend that common facilities at combination substations be
428 allocated according to the proportion of distribution facilities and
429 transmission facilities that are at the plant. For example, if 42% of the
430 facilities in a substation are transmission facilities and 58% are distribution
431 facilities, allocation of common costs should be 42% to transmission plant
432 and 58% to distribution plant. This method would allocate cost equitably.
433 Because these facilities are not used exclusively for either transmission or
434 distribution, but rather are shared by distribution and transmission, it is
435 logical to allocate the costs based upon how the facilities are shared.

436 **Q. How does ComEd allocate common plant for substations which have**
437 **both transmission and distribution facilities?**

438 A. ComEd allocates the cost of common facilities for substations which have
439 both distribution and transmission facilities within those substations based
440 on the primary function of the substation. For example, if 42% of the
441 facilities in a substation are transmission facilities while 58% are
442 distribution facilities, ComEd will allocate 100% of the common costs to
443 distribution plant for this substaion.

444 **Q. What is included in common facilities?**

445 A. Common facilities include land, land improvements, structures, fencing
446 and security equipment.

447 **Q. Why does ComEd allocate the cost of common facilities according to**
448 **primary function?**

449 A. My understanding is that In Docket No. 98-0894, the Commission adopted
450 "The Illinois White Paper" (White Paper) prepared by a Task Force of
451 Illinois Jurisdictional Utilities dated July 14, 1998 as a guideline to explain
452 and interpret FERC's seven factor tests. The FERC seven factors were
453 established in FERC Order No. 888 to delineate between transmission
454 and local distribution facilities. The White Paper stated that "Combination
455 Substations and the facilities within them should be classified based on
456 the primary function of the substation or such facilities by specific utility
457 application". (White Paper at 5)

458 As a result of the Commission's adoption of the White Paper, ComEd has
459 allocated common facilities in combination substations by primary
460 function. While it is understandable why ComEd allocated common
461 facilities by primary function given the Commission's Order in Docket No.
462 98-0894, I do not believe that allocation by primary function is the most
463 appropriate allocation method to use.

464 **Q. What allocation method do you believe would be more appropriate?**

465 A. I recommend that common facilities at combination substations be
466 allocated according to the proportion of distribution facilities and
467 transmission facilities that are at the plant. For example, if 42% of the
468 facilities in the State substation are transmission facilities and 58% are
469 distribution facilities, allocation of common costs should be 42% to
470 transmission plant and 58% to distribution plant. This method would
471 allocate cost more equitably. Because these facilities are not used
472 exclusively for either transmission or distribution, but rather are shared by
473 distribution and transmission, it is more equitable to allocate the costs
474 based upon how the facilities are shared.

475 **Q. Given the Commission Order in Docket No. 98-0894 do you believe**
476 **that the Commission should adopt your recommendation?**

477 A. Yes, while the Commission adopted the recommendations in the White
478 Paper in that docket, I have seen no evidence that the issue of the

479 allocation of common facilities at combination substations was discussed
480 or challenged in that docket. Therefore, I believe that the Commission
481 could order a change in the allocation method in this docket on a going
482 forward basis. I believe that the Commission, on a going forward basis
483 after an order is issued in this case, should adopt the allocation method I
484 propose because it assigns the cost more equitably based on cost
485 causation. I am working with the Company to determine if it is possible,
486 given their accounting system, to derive a test year adjustment to
487 reallocate the common costs. If it can be reasonably be done, I will
488 propose and adjustment in my Rebuttal Testimony. Staff witness Ronald
489 Linkenback has offered testimony supporting this position. (See Staff
490 Exhibit 8.0)

491 **XII Conclusion**

492 **Q. Does this conclude your Direct Testimony?**

493 **A. Yes.**

Commonwealth Edison Company Adjustments to Pro Forma Additions to Plant in Service

For the Test Year Ending December 31, 2006
 (In Thousands)

Line No.	Description <hr style="width: 25%; margin: 0 auto;"/> (a)	Amount <hr style="width: 25%; margin: 0 auto;"/> (b)	
1	Pro Forma Additions to Gross Utility Plant per Staff	\$ 767,841	
2	Pro Forma Additions to Gross Utility Plant per Company	<u>1,472,306</u>	Co. Sch B-2
3	Proposed Adjustment	<u><u>\$ (704,465)</u></u>	(1)
4	Corresponding Adjustments:		
5	Accumulated Depreciation	\$ (64,181)	(1)
6	Accum. Deferred Income Tax	\$ 5,831	(1)
7	Depreciation Expense	\$ (17,400)	(2)

Note:

(1) ComEd Response to Data Request JMO 5.01 Attachment 1, pg 1, col d less col e less col c

(2) Line 3 x composit depreciation rate, .0247

Commonwealth Edison Company
 Adjustment to Plant in Service

For the Test Year Ending December 31, 2006
 (In Thousands)

Line No.	Description	Plant in Service	Accumulated Depreciation
	(a)	(b)	(c)
1	2006 Plant in Service per Company	(1) 12,147,135	(5,030,255)
2	2007 Removals	(2) (113,100)	113,100
3	2007 Additions per Staff	(3) <u>767,841</u>	<u>26,634</u>
4	Sub Total	12,801,876	(4,890,521)
5	2007 Plant in Service per Company	(4) <u>12,747,466</u>	<u>(5,214,054)</u>
6	Staff Adjustment	(54,410)	(323,533)

Corresponding Adjustments:

Accum. Deferred Income Tax	\$	428	(1)
Depreciation Expense	\$	(1,344)	(1)

Note:

- (1) ComEd Schedule B-1 Col (B)
- (2) ComEd Response to Staff Data Request JMO 8.01
- (3) ComEd Response to Staff Data Request JMO 5.01
- (4) ComEd Response to Data Request AG (DJE) 5.01

Allocating Gebral and Intangible per ComEd Schedule WPB-1 pg 1

Commonwealth Edison Company
Adjustments to Software Developed or Obtained for Internal Use

For the Test Year Ending December 31, 2006
 (In Thousands)

Line No.	Description	Amount	
	(a)	(b)	
1	Capitalized Software Costs per Staff	\$ -	
2	Capitalized Software Costs per Company	<u>14,951</u>	(1)
3	Proposed Adjustment	<u>\$ (14,951)</u>	
4	Corresponding Adjustments:		
5	Accumulated Depreciation	\$ 547	(2)
6	Accum. Deferred Income Tax	\$ 118	(3)
7	Depreciation Expense	\$ (369)	(4)

Note:

- (1) Page 2 Col c
- (2) Page 2 Col d
- (3) Line 3 times (ComEd Sch B-2 line 11 Col (B) divided by line 4 Col (B))
- (4) Line 3 x composit depreciation rate, .0247

Commonwealth Edison Company
Adjustments to Software Developed or Obtained for Internal Use

For the Test Year Ending December 31, 2006
 (In Thousands)

Line No.	Year	(a) Due to SOP 98-1	(1) (b) Due to Threshold	(c) Total Amount	(d) Accumulated Depreciation	(3)
1	2005	\$ 9	\$ 5,794	\$ 5,803	\$ 358	
2	2006	5	3,082	3,087	114	
3	2007		6,061	6,061	75	
4	Total	<u>\$ 14</u>	<u>\$ 14,937</u>	<u>\$ 14,951</u>	<u>\$ 547</u>	

Note:

- (1) ComEd Response to Staff Data Request TLG 2.05
- (2) ComEd Responses to Staff Data Requests JMO 7.03 - 7.05
- (3) col a at composit depreciation rate of .0247 using 1/2 year convention

Commonwealth Edison Company Adjustments to Departmental Overheads

For the Test Year Ending December 31, 2006
 (In Thousands)

Line No.	Description	Amount	
	(a)	(b)	
1	Capitalized Departmental Overheads per Staff	\$ -	
2	Capitalized Departmental Overheads per Company	901	(1)
3	Proposed Adjustment	\$ (901)	
4	Corresponding Adjustments:		
5	Accumulated Depreciation	\$ 13	(2)
6	Accum. Deferred Income Tax	\$ 7	(3)
7	Depreciation Expense	\$ (22)	(4)

Note:

- (1) Page 2 Col b
- (2) Page 2 Col c
- (3) Line 3 times (ComEd Sch B-2 line 11 Col (B) divided by line 4 Col (B))
- (4) Line 3 x composit depreciation rate, .0247

Commonwealth Edison Company Adjustments to Departmental Overheads

For the Test Year Ending December 31, 2006
 (In Thousands)

Line No.	(a) Year	(b) Capitalized Overheads	(c) Accumulated Depreciation ⁽¹⁾ ₍₂₎
1	2005	\$ 84	\$ 3
2	2006	<u>817</u>	<u>10</u>
3	Total	<u>\$ 901</u>	<u>\$ 13</u>

Note:

(1) ComEd Response to Staff Data Request TLG 2.05

(2) col a at composit depreciation rate of .0247 using 1/2 year convention

Commonwealth Edison Company Adjustments to Stores Clearing Account

For the Test Year Ending December 31, 2006
 (In Thousands)

Line No.	Description <hr style="width: 100%; border: 0; border-top: 1px solid black; margin: 0;"/> <div style="text-align: center; font-size: small;">(a)</div>	Amount <hr style="width: 100%; border: 0; border-top: 1px solid black; margin: 0;"/> <div style="text-align: center; font-size: small;">(b)</div>	
1	Cleared from the Stores Clearing Account per Staff	\$ -	
2	Cleared from the Stores Clearing Account per Company	<u>1,556</u>	(1)
3	Proposed Adjustment	<u><u>\$ (1,556)</u></u>	
4	Corresponding Adjustments:		
5	Accumulated Depreciation	\$ 19	(2)
6	Accum. Deferred Income Tax	\$ 12	(3)
7	Depreciation Expense	\$ (38)	(4)
8	Distribution Expense	\$ (519)	(5)

Note:

(1) Page 2 Col d

(2) line 3 at composit depreciation rate of .0247 devided by2

(3) Line 3 times (ComEd Sch B-2 line 11 Col (B) devided by line 4 Col (B))

(4) Line 3 x composit depreciation rate, .0247

(5) Page 2 col e

Commonwealth Edison Company Adjustments to Stores Clearing Account

For the Test Year Ending December 31, 2006
 (In Thousands)

(a)	(b)	(c)	(d)	(e)
Plant Materials And Supplies	Stores Handling Rate	Col a x Col c	Capital	Expense
<u>32,937</u>	<u>6.3%</u>	<u>2,075</u>	<u>1,556</u>	<u>519</u>

Notes:

- (1) Response to Staff Data Request TLG 2.04 (a)
- (2) Supplemental Response to Staff Data Request TLG 2.04 (b)
- (3) Response to Staff Data Request TLG 2.03 (b)

Commonwealth Edison Company Changes to the Property Unit Catalog

For the Test Year Ending December 31, 2006
 (In Thousands)

Line No.	Description	Amount	
	(a)	(b)	
1	Changes to Property Unit Catalog per Staff	\$ -	
2	Changes to Property Unit Catalog per Company	89,457	(1)
3	Proposed Adjustment	\$ (89,457)	
4	Corresponding Adjustments:		
5	Accumulated Depreciation	\$ 3,356	(2)
6	Accum. Deferred Income Tax	\$ 704	(3)
7	Depreciation Expense	\$ (2,210)	(4)

Note:

- (1) Page 2 Col b
- (2) Page 2 Col c
- (3) Line 3 times (ComEd Sch B-2 line 11 Col (B) divided by line 4 Col (B))
- (4) Line 3 x composit depreciation rate, .0247

Commonwealth Edison Company Changes to the Property Unit Catalog

For the Test Year Ending December 31, 2006
(In Thousands)

Line No.	(a) Year	(b) Capitalized Overheads	(c) Accumulated Depreciation (1)	(2)
1	2005	\$ 40,638	\$ 2,510	
2	2006	22,846	846	
3	2007	<u>25,973</u>	<u>321</u>	
4	Total	<u>\$ 89,457</u>	<u>\$ 3,356</u>	

Note:

(1) ComEd Response to Staff Data Request TLG 2.07

(2) col a at composit depreciation rate of .0247 using 1/2 year convention

Commonwealth Edison Company
 Adjustment to Original Cost Audit Expense

For the Test Year Ending December 31, 2006
 (In Thousands)

Line No.	Description	Amount	
	(a)	(b)	
1	Original Cost Audit Expense per Staff	\$	516 (1)
2	Original Cost Audit Expense per Company		<u>781 (2)</u>
3	Proposed Adjustment	<u>\$</u>	<u>(265)</u>
		(a)	(b)
		<u>Total</u>	<u>1/3</u>
4	Cost of Original Cost Audit Per Staff	\$ 1,548.00	\$ 516.00
5	Cost of Original Cost Audit Per Company	\$ 2,342.00 (3)	\$ 780.67

Notes:

(1) Line 4 col b

(2) Line 5 col b

(3) ComEd WPC-2.10

Commonwealth Edison Company Adjustments to Rate Case Expense

For the Test Year Ending December 31, 2006
 (In Thousands)

Line No.	<u>Description</u>	<u>Amount</u>
	(a)	(b)
1	Rate Case Expense per Staff	\$ 984 (1)
2	Rate Case Expense per Company	<u>4,871</u> (2)
3	Proposed Adjustment	<u><u>\$ (3,887)</u></u>

	(a)		(b) Company		(c) 1/3		(d) Staff		(e) 1/3			
4	05-0597 Unapproved Rate Case Ex	\$	3,143	(3)	\$	1,048	\$	-	\$	-		
5	07-0566 Rate Case Expense		<u>11,500</u>	(4)	<u>3,833</u>		<u>2,953</u>	(5)	<u>984</u>			
6	Total	<u>\$</u>	<u>14,643.00</u>		<u>\$</u>	<u>4,881.00</u>		<u>\$</u>	<u>2,953.00</u>		<u>\$</u>	<u>984.33</u>

Notes:

- (1) Line 6 col e
- (2) Line 6 col c
- (3) ComEd Schedule C-2.15 pg 2
- (4) ComEd Schedule C-10
- (5) Reply to Staff Data Request TLG 1.02