

CHAPTER VI
Analytical and Other Reviews

Introduction

This chapter addresses two types of reviews ACG performed to supplement the detailed cost audit: 1) analytical reviews to gain an understanding of ComEd's recorded cost in the period 1985 through 2004, and 2) detailed follow-up analyses of specific issues identified during the course of the audit. The reviews discussed in this chapter are as follows:

Analytical Reviews

Budget Variance Analysis
Labor Analysis
Vintage Year Analysis
Impact of PECO Merger on Delivery System Costs

Other Reviews

General and Intangible Plant
Handy-Whitman Installed Unit Cost Analysis
Cable Fault Study
Capital and Expense Classification of Blanket Project Costs
Over-Age Work Orders
Examination of CBMS Activity Codes
Code of Conduct Allegation
Research Studies Relating to Number of Bidders and Project Costs
1999 Reclassification of Assets

Summary Conclusion

Although ACG proposes no adjustments to plant in service as a result of the work in this chapter, the analyses performed support the need for adjustments developed in other areas of the audit. As described in this chapter, ACG performed various analyses of cost relationships and trends, covering both O&M and Capital expenditures over the 1985 through 2004 timeframe. The analyses show that since about 1999 ComEd began incurring increased levels of capital expenditures compared to prior years primarily reflecting ComEd's increased investment programs to improve the reliability of its distribution system. In addition, during the period, ComEd implemented accounting changes and made operational decisions that reflect a systematic plan to shift costs from O&M expense to capital. Programs such as the 2002 O&M Recovery Plan reported in this chapter are unusual but within the bounds of generally accepted accounting principles. Other changes such as those relating to the change in Cable Fault accounting discussed in this chapter, the related change in other Property Unit Catalog definitions discussed in Chapter VII and accounting for Departmental Overheads to include contractor labor in the base for loading discussed in Chapter V, are beyond those that accounting principles relating to consistency and cost causation can allow. Further, with rising costs related to affiliate transactions, and single source procurement relating to contractor and materials costs, ComEd has demonstrated that at times during the Original Cost Audit period, it has not been particularly cost conscious in the implementation of its capital program.

Analytical Reviews

Budget Variance Analysis

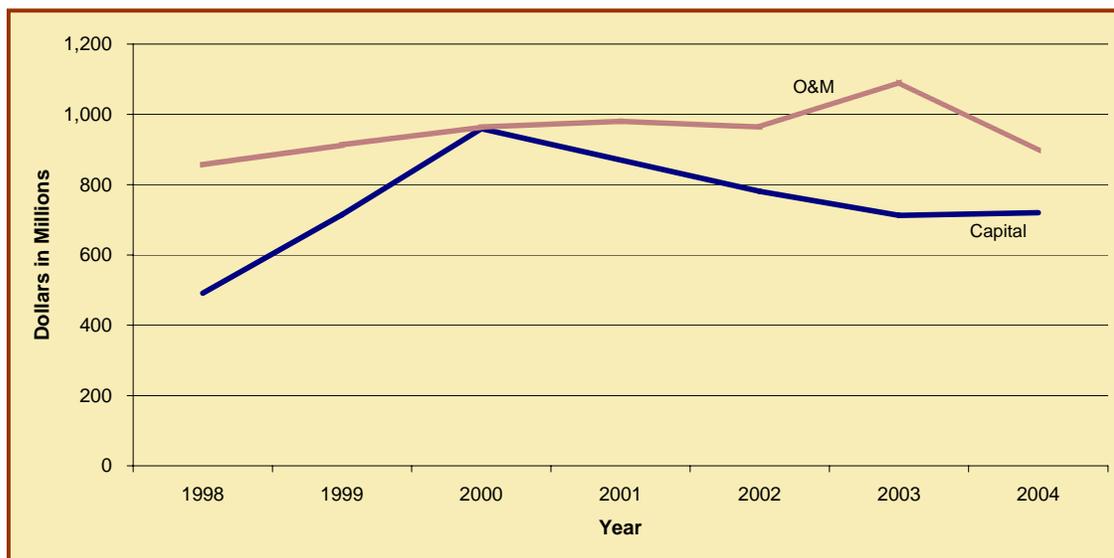
Background and Summary of Audit Procedures

In order to gain a general understanding of ComEd's expenditure patterns and to identify any anomalies for further investigation, ACG obtained and analyzed ComEd budget and actual capital and O&M expenditures in the period 1998 to 2004. Information prior to 1998 is not readily available due to a change in ComEd's financial systems in 1998.²⁴⁷

Findings and Conclusions

1. ACG's analysis of ComEd budget and actual capital and O&M expenditures in the period 1998 to 2004 did not identify any significant anomalies which required further investigation.
 - **Exhibit VI-1** shows ComEd capital and O&M actual expenditures in the period 1998 through 2004.
 - ⇒ ComEd's annual capital expenditures increased from \$491.4 million in 1998 to \$720.3 million in 2004, with expenditures of \$959.0 million in 2000. The increased capital expenditures are primarily associated with work to improve the reliability of its distribution system subsequent to a series of high profile outages in 1999 and 2001 and to increase system capacity to cover continued system growth and new business requirements.^{248 249}
 - ⇒ ComEd's annual O&M expenditures increased slightly from \$856.5 million in 1998 to \$896.0 million in 2004, with a spike to \$1.1 billion in 2003, driven primarily by restructuring severance costs.^{250 251 252}

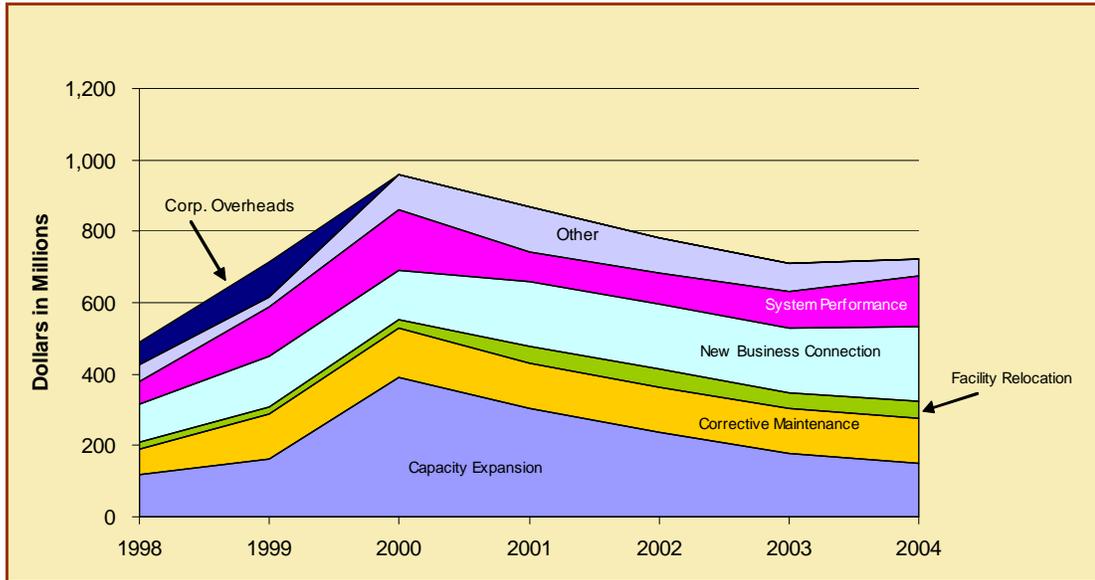
Exhibit VI-1
ComEd O&M and Capital Expenditures 1998 to 2004



Source: DR EAL-35 and DR EAL-36, Bates OCA 0092928 and OCA 0116596.

- ⇒ One significant factor influencing both the capital and maintenance expenditure patterns was ComEd's adoption of a revised Property Unit Catalog, effective April 1, 2002. Among other changes, the revised Property Unit Catalog included a change in the capitalization policy related to cable replacement. This change resulted in the maintenance of underground line expense shifting downward by \$62 million in 2003-2004, with an increase of the same amount in the capital accounts for underground lines.²⁵³ The change in cable capitalization policy is discussed in Conclusion 10. The quantification of the effects of changes to the Plant Unit Catalog are discussed in the Depreciation Chapter of the report, following this chapter.
- ⇒ As shown in **Exhibit VI-2**, most of the increase in ComEd's capital expenditures in 2000 and after was for capacity expansion. Starting in 1999, ComEd made significant capital plant additions to maintain and improve reliability and to replace poor performing equipment.²⁵⁴

Exhibit VI-2
ComEd Capital Expenditures by Cost Category

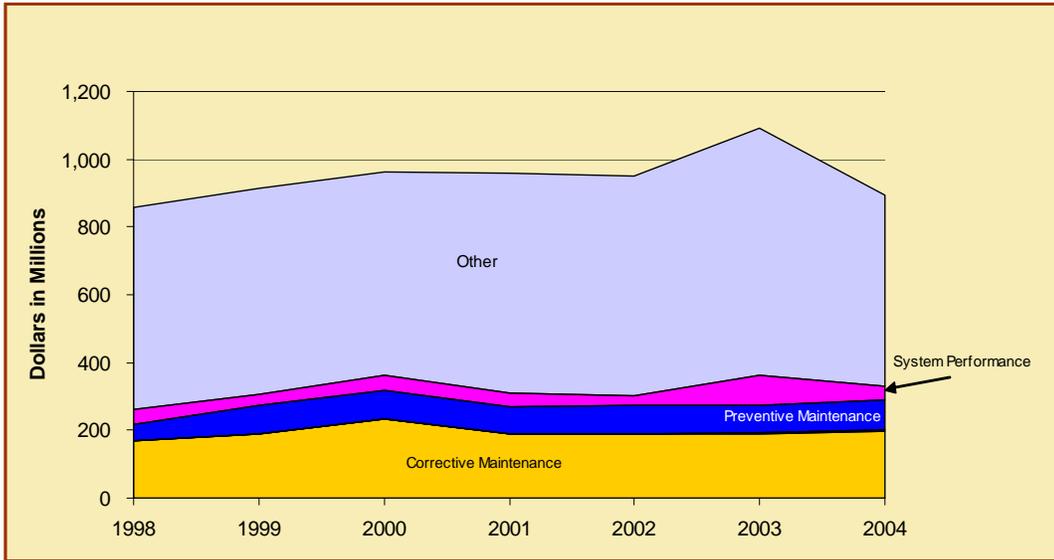


Note: Exhibit does not show expenditures less than \$1 million. ComEd had preventive maintenance expenditures of approximately \$700,000 in 2003, and a credit to generation of approximately \$900,000 in 2004.

Source: DR EAL-35 and DR EAL-36, Bates OCA 0092928 and OCA 0093588.

⇒ As shown in **Exhibit VI-3**, most of the 2003 increase in O&M expenditures is in the category “Other.” This includes an \$83.2 million increase in general company activities (charges which are not recorded at a work group level), including restructuring severance charges of \$137 million and a \$54 million increase in customer and marketing services fleet management.²⁵⁵ There was a \$230 million decrease in general company activities between 2003 and 2004, primarily attributable to a reduction in restructuring severance and the direct assignment of costs into remaining work categories for cost accountability purposes.^{256 257}

Exhibit VI-3
Actual O&M Expenditures by Category



Source: DR EAL-35 and DR EAL-36, Bates OCA 0092928 and OCA 00116596.

⇒ O&M expenses are generally higher than capital expenditures. As shown in **Exhibit VI-4**, with the exception of years 2000 through 2002, and excluding \$137.0 million of restructuring severance in 2003, O&M is 124 percent to 174 percent of capital expenditures.

Exhibit VI-4
ComEd Capital and O&M Expenditures 1998 to 2004

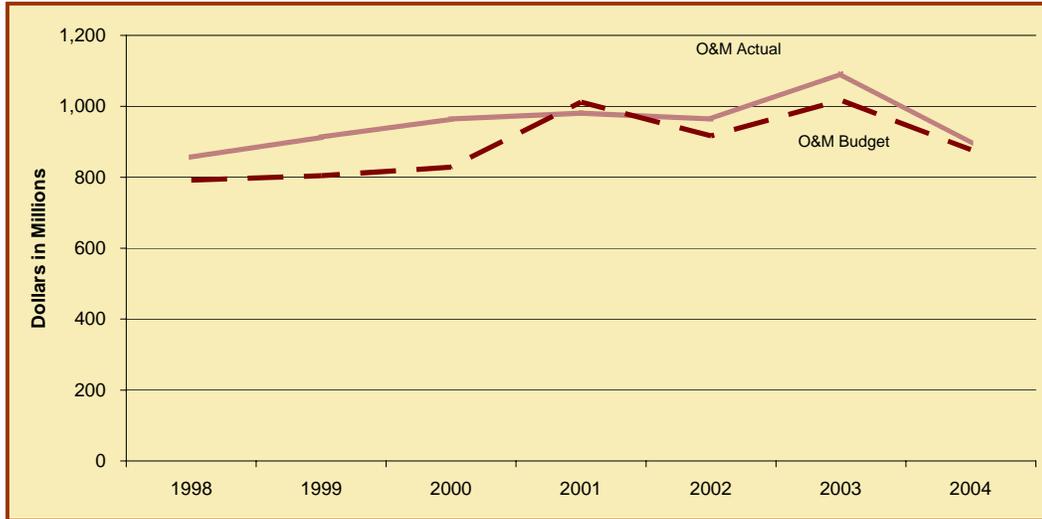
Year	Capital Actual	O&M Actual	O&M/Capital
1998	491.4	856.5	174%
1999	714.8	912.8	128%
2000	959.0	964.0	101%
2001	870.3	981.0	113%
2002	780.7	964.0	123%
2003	712.4	1,092.2 [Note 1]	153%
2004	720.3	896.0	124%

Note 1: Includes \$137.0 million of restructuring severance.

Source: DR EAL-35 and DR EAL-36, Bates OCA 0092928 and OCA 0116596; 2003 FERC Form 1. Bates OCA 0008436.

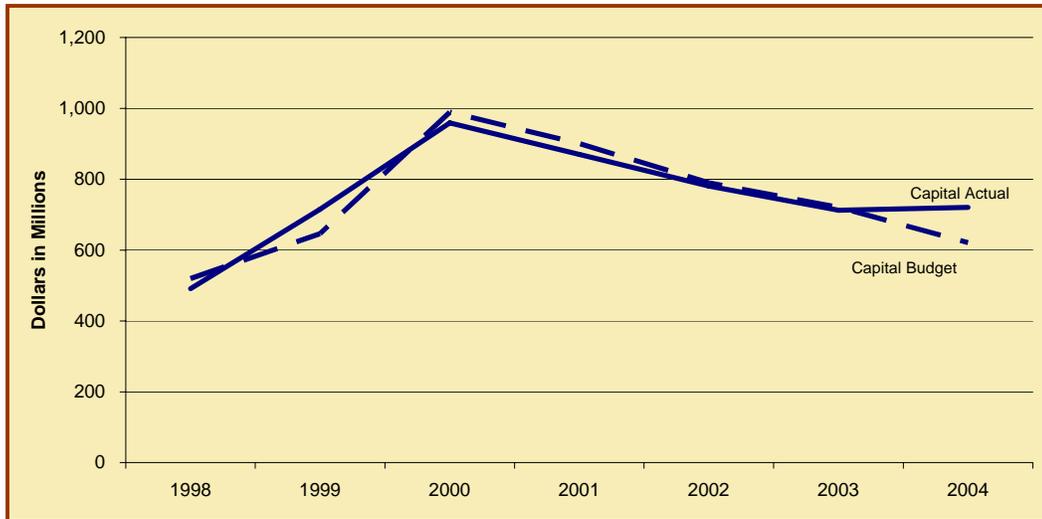
⇒ As shown in **Exhibit VI-5** and **Exhibit VI-6**, the examination of actual O&M and capital expenditures as a percent of budget indicates that there was no significant shifting between capital and expense after the budgets were set.

Exhibit VI-5
ComEd Budgeted and Actual O&M Expenditures 1998 to 2004



Source: DR EAL-35, Bates OCA 0116596.

Exhibit VI-6
ComEd Budgeted and Actual Capital Expenditures 1998 to 2004



Source: DR EAL-36, Bates 0093588.

Labor Analysis

Background and Summary of Audit Procedures

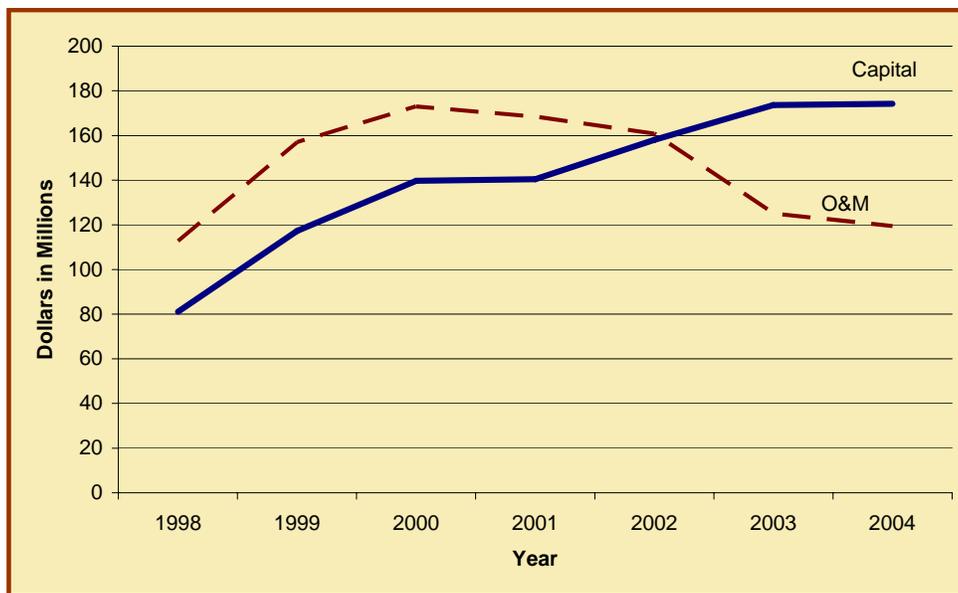
ACG reviewed ComEd’s capital and O&M labor costs in the period 1998 through 2004 in order to identify any trends which might reflect changes in ComEd’s work activities or accounting treatment of labor costs. ComEd has limited labor resources to allocate each year to maintenance expense and capital improvements. This analysis assumes that ComEd has a relatively fixed amount of labor resources that is deployed to capital and maintenance projects on an annual basis. Contractors are used to fill peaks in the annual work load and are usually assigned to construction projects.

ComEd was not able to provide O&M and capital labor cost information prior to 1998 due to a change in its financial systems.²⁵⁸ ComEd does not break out capital labor expenditures between transmission and distribution; accordingly, ACG’s review includes both transmission and distribution labor.²⁵⁹ Transmission is a relatively small component of total transmission and distribution O&M labor costs including contractors, ranging from 12 percent of total O&M labor in 1998 to 26 percent in 2002.²⁶⁰

Findings and Conclusions

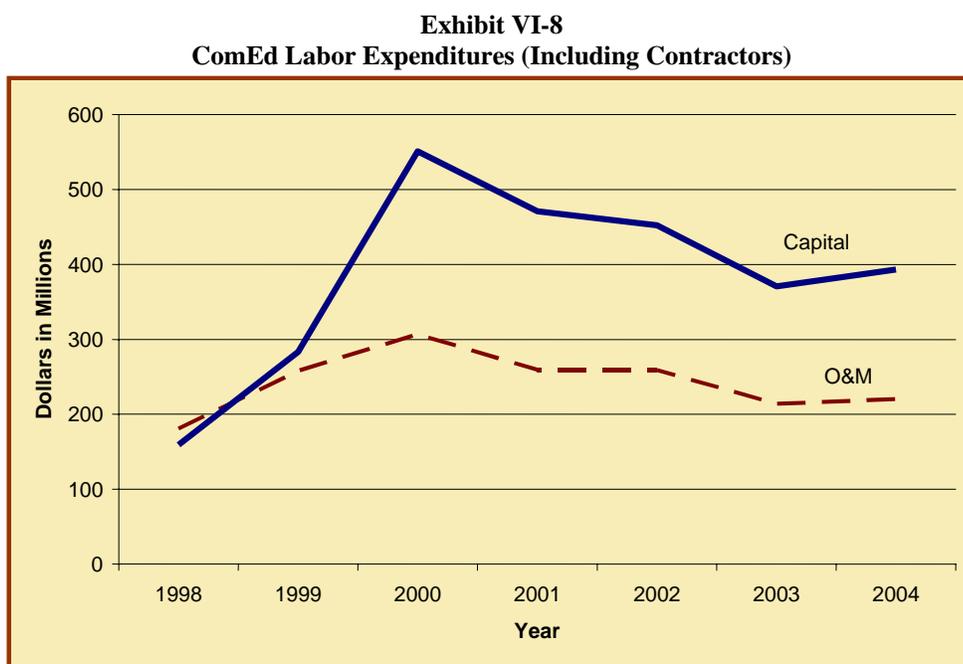
2. Between 2002 and 2004 there was an increase in the amount of capitalized ComEd labor, and a decrease in O&M labor. Both changes in ComEd operations and its accounting practices contributed to these trends.
 - As shown in **Exhibit VI-7**, from 2002 to 2004 there was an increase in the amount of capitalized ComEd labor, and a decrease in O&M labor.

**Exhibit VI-7
ComEd Labor Expenditures (Excluding Contractors)**



Source: DR EAL 27, Bates OCA 0091225 and DR EAL 39, Bates OCA 0093465.

- ⇒ The decline in ComEd O&M labor is coincident with implementation of ComEd’s revised Property Unit Catalog in 2002.
- ⇒ As discussed in Conclusion 17, actions taken as part of the ComEd’s 2002 O&M Recovery Plan also contributed to the shift between O&M and Capital labor costs.
- As shown in **Exhibit VI-8**, ComEd and contractor capital labor costs are significantly greater than O&M costs in the 2000 to 2004 period. The marked increase in the contractor capital labor costs reflects work performed in accordance with the Chicago Franchise Settlement Agreement and the Chicago Optimization Plan.²⁶¹

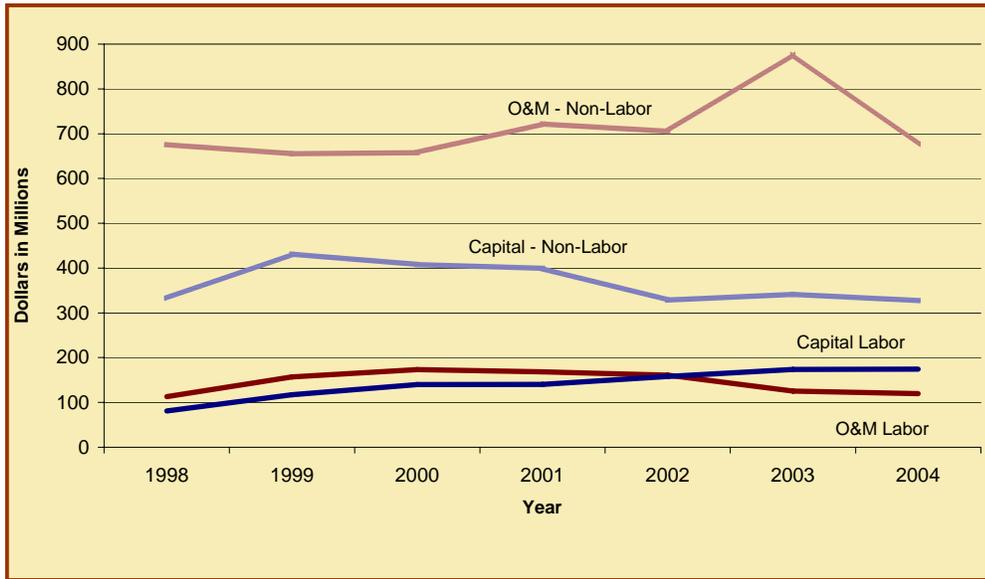


Source: DR EAL 27, Bates OCA 0091225 and DR EAL 39, Bates OCA 0093465.

- As shown in **Exhibit VI-9**, in the 2002 to 2004 period, ComEd O&M and capital labor cost trends do not follow the trends in non-labor expenditures.
 - ⇒ Although there was no increase in non-labor capital expenditures, there was an increase in ComEd labor charged to capital.
 - ⇒ While there was not a significant decrease in non-labor O&M expenditures, there was a decrease in the amount of ComEd labor charged to O&M.ⁱ Again, this might reflect actions taken as part of the ComEd’s 2002 O&M Recovery Plan, including a shift in internal resources from O&M to capital work, as discussed in Conclusion 17, and changes to the Plant Unit Catalog.

ⁱ Capital expenditures include distribution, transmission and general plant. Labor includes both transmission and distribution labor. According to ComEd, it is not possible to breakout capitalized labor between Transmission and Distribution (DR EAL-27). On the O&M side, Transmission is a relatively small component of total T&D costs, ranging from 12 percent in 1998 to 26 percent in 2002 (DR EAL-27).

Exhibit VI-9
ComEd Capital and O&M Expenditures

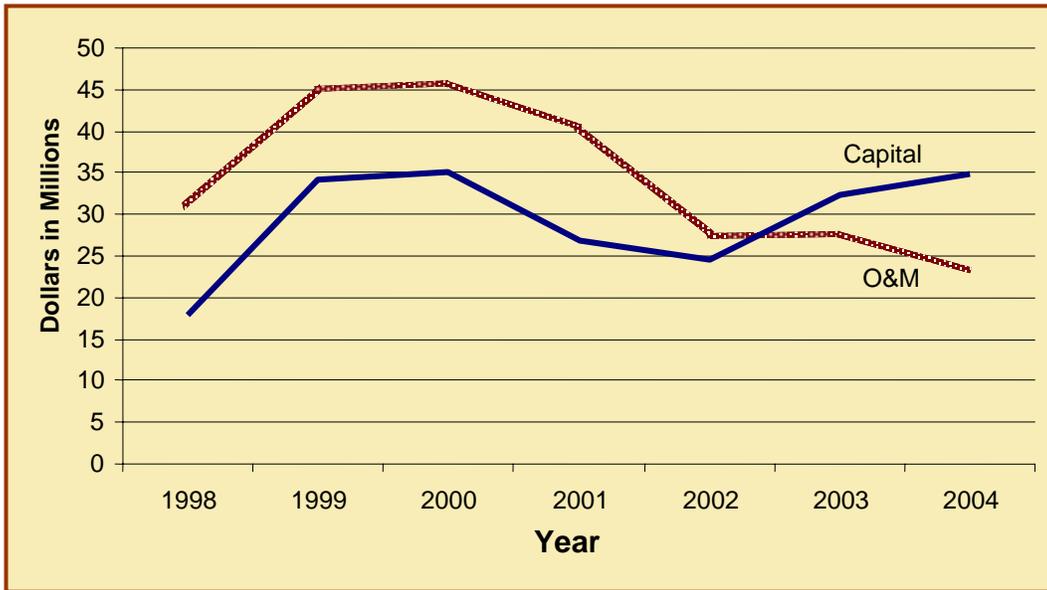


Note: Contractor costs are not included in this exhibit.

Source: DR EAL-27, Bates OCA 0091225; DR EAL-39, Bates OCA 0093465; DR EAL-35, DR EAL-35, Bates OCA 0092928; and DR EAL-36, Bates 0116596.

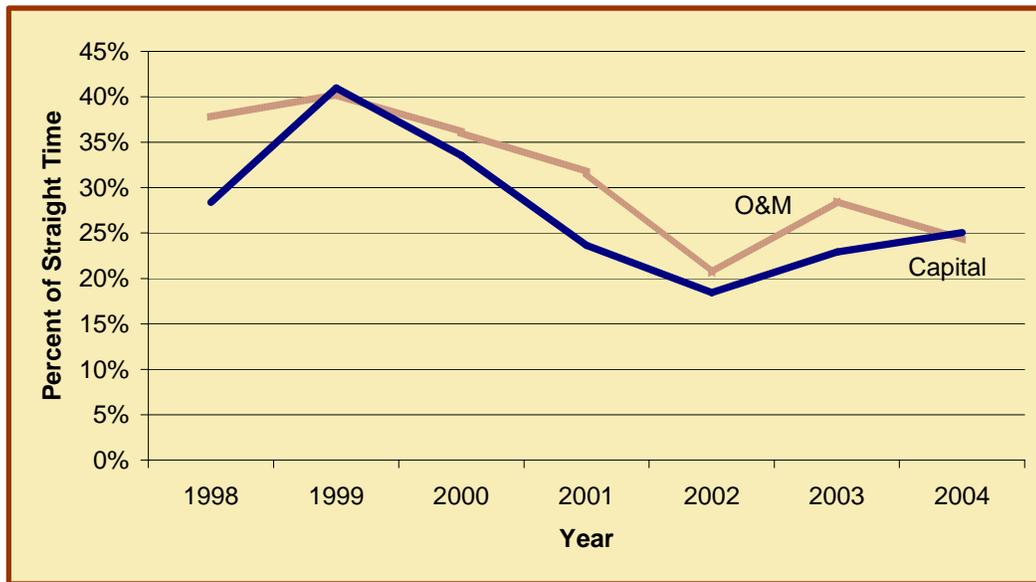
3. A review of the dollar amount of ComEd overtime expenditures, and percentage comparisons of overtime to straight time labor indicates there was no unusual shifting of overtime between capital and expense in the 1998 through 2004 time period.
 - As shown in **Exhibit VI-10**, the dollar amount ComEd of O&M overtime expenditures exceeded capital overtime costs until 2001. ComEd capital overtime expenditures exceeded O&M overtime expenditures in 2003 and 2004, following the trend in straight time labor shown in Exhibit VI-7.
 - As shown in **Exhibit VI-11**, beginning in 1999, ComEd capital and O&M overtime costs as a percentage of straight time labor costs exhibit the same pattern, with some decrease in the percentage of overtime costs through 2002, with an upswing thereafter.

Exhibit VI-10
ComEd Overtime Expenditures



Source: DR EAL-27, Bates OCA 0091225 and DR EAL-39, Bates OCA 0093465.

Exhibit VI-11
ComEd Overtime Expenditures as Percent of Straight Time



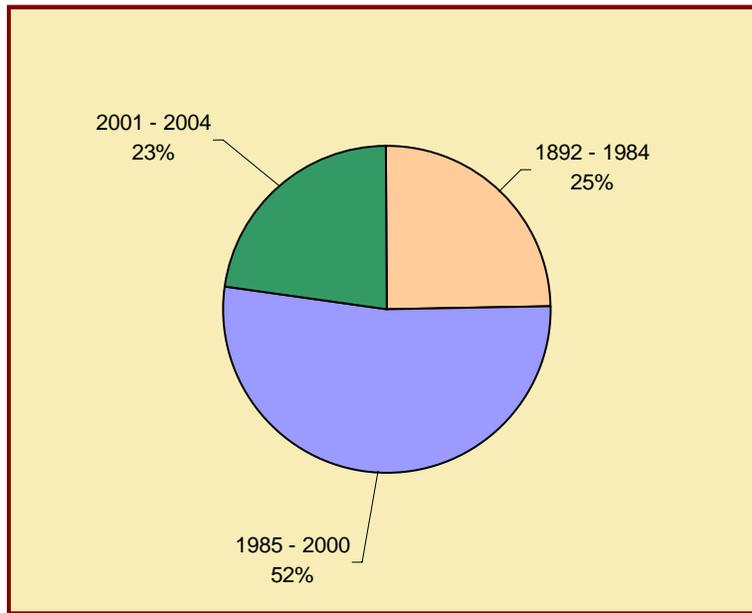
Source: DR EAL-27, Bates OCA 0091225 and DR EAL-39, Bates OCA 0093465.

Vintage Year Analysis

Background and Summary of Audit Procedures

ACG sought to refine its audit effort by examining the breakdown of the net book value of Delivery System plant by vintage year in order to focus the audit on high dollar periods and accounts. Data regarding the recorded cost of ComEd's distribution plant by vintage year is readily available from ComEd's asset records, and is shown in **Exhibit VI-12**.

Exhibit VI-12
ComEd's Distribution Plant by Vintage Year
Recorded Cost as of December 2004



Source: DR EAL-3, Attachment 2, Bates OCA 0023678 through 0023681; ACG Analysis

In order to determine the net book value for an account by vintage year it is necessary to have data for both the recorded cost and the accumulated depreciation reserve by vintage year. ComEd does not routinely determine depreciation reserve amounts on a vintage year basis. As discussed in Chapter VII, ComEd applies depreciation rates to plant balances under the group or composite depreciation method; therefore accumulated reserves are maintained for each depreciation group and not for each vintage year.²⁶² At ACG's request, and using ACG's methodology, ComEd estimated depreciation reserves by vintage year and calculated the resultant net book value for its delivery system accounts. ComEd estimated the depreciation reserves by vintage year using 2002 depreciation study rates for vintage years 2002 to 2004 and the 1988 depreciation study rates for vintage years prior to 2002.²⁶³

Findings and Conclusions

4. ACG was not able to limit the scope of the audit through the exclusion of any accounts or time periods based on a review of ComEd’s Delivery System net book value by vintage year. Almost all of ComEd’s Delivery System net plant balance was placed in service during the 1985 through 2004 original cost audit period.
 - As shown in **Exhibit VI-13**, 94 percent of the net book value of ComEd’s distribution plant balance as of December 31, 2000 is associated with additions made since December 31, 1984, the date of the last Commission-approved determination of ComEd’s original cost of electric utility plant in service and the related accumulated provision for depreciation.
 - Although almost all of ComEd’s distribution land assets have vintage years earlier than 1985, the beginning of ACG’s original cost audit period, these land assets comprise less than one percent of ComEd’s distribution plant costs.

Exhibit VI-13
Distribution Plant Net Book Value at December 31, 2000
 (Dollars in Thousands)

Vintage Year	Distribution-High Voltage		Distribution Including Line Transformers and Meters		Distribution - HVD Land in Fee		Distribution Land in Fee		Total	
	Dollars	%	Dollars	%	Dollars	%	Dollars	%	Dollars	%
Pre-1985	127,775	15	94,085	3	16,376	63	3,304	91	241,540	6
1985 to 2000	704,358	85	3,392,009	97	9,455	37	333	9	4,106,154	94
Balance at 12/31/2000	832,133	100	3,486,093	100	25,831	100	3,636	100	4,347,694	100
Percent	19%		80%		1%		0%		100%	

Source: DR JDH-5, Attachment 1, Bates OCA 0038197 through 0038205; ACG Analysis.

- Almost all of the net book value of ComEd’s general plant balance as of December 31, 2000 is associated with additions made since 1984. As shown in **Exhibit VI-14**, only 3 percent of the net book value of the general plant balance is associated with pre-1985 additions.

Exhibit VI-14
Estimated Net Book Value by Vintage Year for Selected General Plant Accounts
(Dollars in Thousands)

FERC Account		Gross Plant Balance as of 12/31/2004	Est. Net Plant Balance	Percent Breakdown by Vintage Year		
				1984 and Earlier	1985 through 2000	2001 through 2004
389	Land and Land Rights	8,632	8,632			
390	Structures and Improvements	246,210	159,998	11%	67%	22%
391	Office Furniture and Equipment	118,705	107,052	0%	26%	74%
392	Transportation Equipment	150,070	Not available - depreciated on a per-unit basis			
393	Stores Equipment	7,816	-			
394	Tools Shop and Garage Equipment	94,717	60,343	0%	72%	28%
395	Laboratory Equipment	11,980	-			
396	Power Operated Equipment	7,671	-			
397	Communication Equipment	516,794	309,914	0%	49%	51%
398	Miscellaneous Equipment	2,602	-			
399	Asset Retirement Costs	976	-			
	Total General Plant [Note 1]	1,166,173	-	3%	52%	45%

Note 1: Estimated net plant balance and vintage year breakdown for selected accounts only.

Source: 2004 FERC Form 1, Bates OCA 0008785 and 0008786, DR JDH-26, Attachments 1 through 4, Bates OCA 0045638 through 0045643; ACG analysis.

- All of ComEd's Intangible Plant assets were added during the 1985 through 2004 original cost audit period.
- ⇒ **Exhibit VI-15** shows the in-service year breakdown of the gross book value of ComEd's Intangible Plant assets. All assets were added since 1984.

Exhibit VI-15
In-Service Year Breakdown of Intangible Plant Balance as of December 31, 2004
(Dollars in Thousands)

FERC Account		Gross Plant Balance as of 12/31/2004	Percent Breakdown of In-Service Dates		
			1984 and Earlier	1985 through 2000	2001 through 2004
301	Organization	80			
303	Miscellaneous Intangible Plant (Software costs)	258,688	0%	48%	52%
	Total Intangible Plant	258,768	0%	48%	52%

Source: 2004 FERC Form 1, Bates OCA 0008785 and 0008786, DR JDH-26, Attachment 1, Bates OCA 0045637 through 0045643; ACG analysis.

- ⇒ It is not possible to estimate the net book value by vintage year of ComEd's intangible plant assets. The Miscellaneous Intangible Plant account is used for recording computer software costs. Computer software is predominately grouped by major computer system and each major system group has a specific expected end of life date through which the costs will be amortized. Since software is grouped by computer system and assigned a specific expected end of life date, the approach for allocating the reserve to determine the estimated net book value does not apply to Miscellaneous Intangible Plant.²⁶⁴
- ⇒ As discussed in Conclusion 6, there was a \$89.8 million increase in ComEd's intangible plant in 1998 when ComEd capitalized the costs to develop or obtain software for internal use consistent with AICPA Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use.

Impact of PECO Merger on Delivery System Costs

Background and Summary of Audit Procedures

On October 20, 2000, Exelon became the parent corporation of ComEd and PECO Energy Company (PECO) as a result of the completion of the transactions contemplated by an Agreement and Plan of Exchange and Merger, as amended (Merger Agreement), among PECO, Unicom Corporation (Unicom) and Exelon Corporation (Exelon). As a result of the Merger, Unicom ceased to exist and its subsidiaries, including ComEd, became subsidiaries of Exelon.

In order to assess the impact of the merger on ComEd's delivery system costs ACG reviewed ComEd's FERC and ICC submissions and approvals in connection with the accounting entries for the merger and reviewed the discussion of the PECO merger in ComEd's 2000 FERC Form 1.

Findings and Conclusions

5. The accounting entries to record the 2000 merger with PECO had no impact on ComEd's distribution plant, general plant and intangible plant original costs because differences in recorded cost and the allocated purchase price were appropriately recorded as a plant acquisition adjustment.
 - The purchase method of accounting was used to record the merger. Under this method, the purchase price is allocated to the underlying assets purchased and liabilities assumed based on the estimated fair value at the acquisition date, establishing a new basis of accounting in the acquired entity's (ComEd) records.
 - The accounting entries to record the Merger primarily affected Account 114 (Electric Plant Acquisition Adjustments). Entries to this account include Goodwill of \$4.8 billion, representing the purchase price allocation to ComEd in excess of net assets acquired in the Merger, and a decrease to the estimated fair value of utility plant at the acquisition date of \$4.8 billion.²⁶⁵

- Accounts 114 (Electric Plant Acquisition Adjustments) and 115 (Accumulated Provision for Amortization of Electric Plant Acquisition Adjustments) have historically been excluded from ComEd's rate base for ratemaking purposes in Illinois.²⁶⁶
- Therefore, the accounting entries to record the merger had no impact on the FERC accounts used to record general plant, intangible plant and distribution plant.²⁶⁷

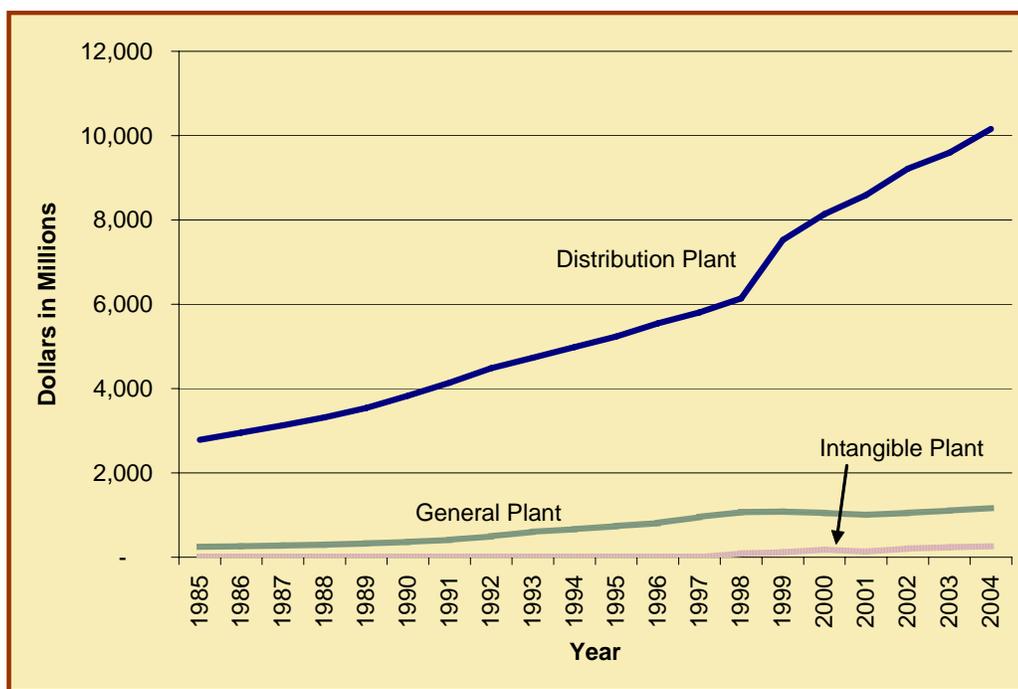
Other Reviews

General and Intangible Plant

Background

General plant includes furniture, transportation equipment and other equipment; intangible plant includes the costs of software developed for internal use and a small amount of organization expense. The specific FERC accounts included in general and intangible plant are listed in **Appendix V-1**. As shown in **Exhibit VI-16** below, general plant and intangible plant amounts represent a relatively small portion of ComEd’s Delivery System Plant accounts.

Exhibit VI-16
Distribution, General and Intangible Plant Amounts
1985 through 2004



Source: ComEd FERC Form 1’s 1985 through 2004; ACG Analysis.

The general plant and intangible plant accounts include the amounts associated with all of ComEd’s operations (not just delivery services). Prior to ComEd’s 1999 fossil and 2001 nuclear plant divestitures the general and intangible plant balances included furniture, equipment and software related to ComEd’s power generation activities.

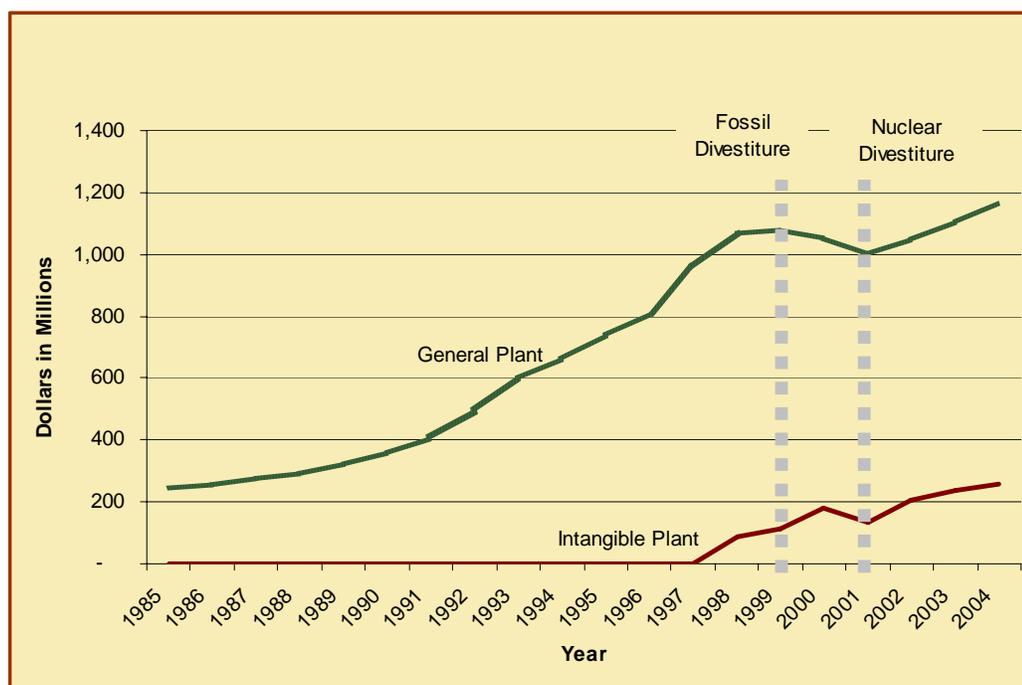
Summary of Audit Procedures

In this area, ACG investigated the cause of changes in ComEd’s general and intangible plant balances. We also examined ComEd’s accounting treatment for its general and intangible plant assets in connection with the divestiture of its fossil and nuclear plants.

Findings and Conclusions

6. The changes in ComEd's general plant and intangible plant balances during the 1985 through 2004 audit period are adequately explained as they relate to ComEd's operations and implementation of new accounting guidelines promulgated by FERC and the AICPA.
 - **Exhibit VI-17** shows the changes in ComEd's general plant and intangible plant balances during the audit period.

Exhibit VI-17
ComEd General and Intangible Plant Balances



Source: ComEd FERC Form 1's 1985 through 2004; DR EAL-63, Bates OCA 0110079; ACG Analysis.

- In 2000 ComEd recorded \$144.0 million in general plant retirements, including \$82.6 million for transportation equipment and \$54.0 million for the retirement of office furniture and equipment.
 - ⇒ The \$82.6 million retirement of transportation equipment in 2000 was made in order to adjust the continuing property records to the fleet inventory summary; it was not the result of a change in accounting policies or regulatory guidelines.²⁶⁸ The transaction includes retirements of vehicles as old as a vintage year 1900 truck.²⁶⁹
 - ⇒ The \$54.0 million retirement of Office Furniture and Equipment was a result of ComEd's implementation of Accounting Release (AR) 15 for various General Plant accounts, including Office Furniture and Equipment.²⁷⁰ The adoption of AR-15 is more thoroughly discussed in Chapter VII.

- As discussed further in Conclusion 7, ComEd divested \$24.5 million of general plant assets with the sale of its fossil generating assets in 1999 and transferred \$105.1 million in general plant assets in association with its nuclear plant divestiture.²⁷¹

- In accordance with AICPA Statement of Position 98-1 (SOP 98-1), Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, in 1998 ComEd capitalized \$89.8 million to develop or obtain software for internal use as a long-lived asset and amortized over the useful life of the software.²⁷²
 - ⇒ SOP 98-1 was issued in March 1998 and required all non-governmental entities to capitalize certain internal-use software costs once certain criteria were met. SOP 98-1 was required to be adopted for fiscal years beginning after December 15, 1998, although earlier adoption was encouraged.²⁷³

 - ⇒ **Exhibit VI-18** lists the additions to ComEd's intangible plant balance in the period from 1998 to 2004, including charges that are not consistent with SOP 98-1. ACG's assessment of ComEd's compliance with SOP 98-1 guidelines is discussed in Chapter V.

Exhibit VI-18
Changes in ComEd's Intangible Plant Balance 1998 to 2004

Year	Change in Plant Balance	ComEd Explanation
1998	\$89.8 million addition	\$52.0 million related to ComEd's customer billing system - Customer Information & Marketing System (CIMS) \$37.8 million related to ComEd's general ledger system - Competitive Business Management System (CBMS).
1999	\$22.4 million addition	\$20.5 million related to CIMS and \$1.9 million related to CBMS.
2000	\$67.6 million addition	\$35.2 million related to ComEd's customer choice system - PowerPath \$14.2 million related to Passport, Generation's Supply Chain system \$11.3 million related to CIMS \$4.3 million related to CBMS \$1.8 million related to a Shareholder Value System (SVA), \$.8 million related to other miscellaneous intangible plant additions.
2001	\$15.5 million net addition (\$58.3) million adjustment (\$2.3) million transfer	\$15.3 million of the additions related to PowerPath. \$0.2 million of the additions related to other miscellaneous intangible plant assets. \$58.3 million adjustment relates to the change of reporting entities with the formation of Exelon Corporation and the transfer of ComEd's nuclear assets to the GenCo. The transfer consisted of \$44.1 million for CBMS and \$14.2 million for PassPort, which were separated to BSC and GenCo, respectively. \$2.3 million transfer for CBMS to BSC.
2002	\$71.1 million addition	\$26.0 million related to PassPort, Transmission & Distribution's Supply Chain system \$22.9 million related to CIMS \$10.9 million related to PowerPath \$8.9 million related to Mobile Data \$2.6 million related to other miscellaneous intangible plant additions.
2003	\$28.5 million addition	\$27.7 million related to PowerTools and the remaining \$0.8 million related to other miscellaneous intangible plant additions.
2004	\$22.2 million addition	\$6.7 million related to PowerTools \$4.9 million related to CIMS \$4.3 million related to PowerPath \$6.3 million related to other miscellaneous intangible plant additions.

Note: Systems shown in the table above supporting Generation became part of the assets transferred in connection with the fossil and nuclear generation divestitures. Some of the remaining systems may support functions in addition to the distribution system function and will need to be allocated to distribution and other functions in the determination of Delivery System rate base.

Source: ComEd FERC Form 1's 1985 through 2004; DR EAL-26, Bates OCA 0088377, 0114378 and 0114379.

7. ComEd properly determined the amount of general plant to transfer with the divestitures of its fossil and nuclear plants and both FERC and the ICC approved the transfer amounts.
- ComEd transferred \$105.1 million of general plant and \$58.3 million of intangible plant when it divested its nuclear stations on January 1, 2001 as part of a corporate restructuring following the merger with PECO and the formation of Exelon.
 - ⇒ During January 2001, Exelon undertook a corporate restructuring to separate its generation and other competitive businesses from its regulated energy delivery businesses at ComEd and PECO. As part of the restructuring, ComEd's generation related operations assets and liabilities were transferred to Exelon Generation LLC.²⁷⁴
 - ⇒ ComEd transferred \$105.1 million of general plant associated with its nuclear stations and the wholesale marketing group.²⁷⁵ The divested general plant assets include land and land rights, structures and improvements, office furniture and equipment and communication equipment.²⁷⁶
 - ⇒ The amount of the general and intangible plant for land and land rights, and structures and improvements was based on the asset location (site-specific). The nuclear divestiture amount for the other general plant accounts was based on the number of Exelon Nuclear employees who used the equipment as a percentage of all employees that used the equipment.²⁷⁷
 - ⇒ ComEd's final accounting entries related to the assets and liabilities transferred to the generation company were filed with the ICC on July 20, 2001.²⁷⁸
 - ⇒ An adjustment of \$58.3 million was made to the beginning balance due to the change of reporting entities with the formation of Exelon. Prior to 2001, ComEd's operations included functions which were transferred to Exelon's Business Service Company (BSC) and Exelon's Generation Company (GenCo) as part of the corporate restructuring. In 2001, the BSC and GenCo assets, including intangible assets that were previously owned by ComEd, were transferred from FERC regulated ComEd to Exelon. Accordingly, the 2001 transfer from ComEd's intangible assets consisted of \$44.1 million for CBMS and \$14.2 million for PassPort, which were separated to BSC and GenCo, respectively.²⁷⁹
 - ⇒ ComEd's transfer of \$105.1 million of general plant and \$58.3 million of intangible plant associated with the 2001 reorganization is reflected in its 2001 FERC Form 1 filing.²⁸⁰
 - ComEd divested \$24.5 million of general plant assets with the sale of its fossil stations in December 1999.
 - ⇒ \$24.5 million of general plant assets were divested, including Furniture & Equipment, Computer Equipment, Transportation Equipment and Communication

Equipment.²⁸¹ The \$24.5 million divestiture amount is included in the general plant retirements reported in ComEd's 1999 FERC Form 1.²⁸²

- ⇒ The general plant fossil divestiture amount was determined based on the number of fossil employees at the time of the sale as a percentage of total employees. This allocation was used for Furniture & Equipment, Computer Equipment, Transportation-Passenger Cars, Transportation Trucks less than 13,000 lbs and Communication Equipment.²⁸³
- ⇒ The \$87 million net gain on the sale of the fossil plants, including the divestiture of related general plant assets, was recorded to reduce the amount of the regulatory asset previously recorded related to fossil plant impairment in accordance with Financial Accounting Standards No. 121.²⁸⁴

Handy-Whitman Installed Unit Cost Analysis

Background and Summary of Audit Procedures

In order to help identify unusual trends in ComEd's distribution plant costs, ACG performed an analysis of the annual unit costs of distribution plant assets, using the Handy-Whitman Index of Public Utility Construction Costs Index (Handy-Whitman Index) to normalize the plant costs by vintage year to a standard year cost. The Handy-Whitman Index provides a yardstick for the fluctuations in the value of property using average prices and cost trends for a specific geographic region. According to the Foreword Section of the Handy-Whitman Index, the use of indices for an appropriate property item or group will provide a reliable guide to changes in cost.²⁸⁵ It would be expected, therefore, that the normalized unit costs for an asset would in the same general range from year to year, absent other factors.

It is necessary to use caution in the application of the Handy-Whitman Index to determine comparable unit costs for the following reasons:

- Handy-Whitman indices are developed for specific regions of the country but are not weighted to account for utility size or geographic attributes (i.e., a large utility in an urban area with more volume of work would not be weighted more than a smaller utility in a rural area with less volume of work).²⁸⁶
- Fringe benefits (e.g., pension benefits and insurance) are included in the development of the Handy-Whitman indices but no attempt is made to differentiate the level of benefits provided by individual utilities.²⁸⁷

Despite these limitations, the normalized unit cost data may help identify anomalies and trends to serve as a starting point for further investigation.

ACG calculated the normalized unit costs by vintage year for the 213 different types of assets included in ComEd's distribution plant balance as of December 31, 2004.²⁸⁸ While this analysis showed a general increase in the normalized costs of many retirement units, starting in the late 1990s, it was difficult to perform meaningful analysis of so many different assets.

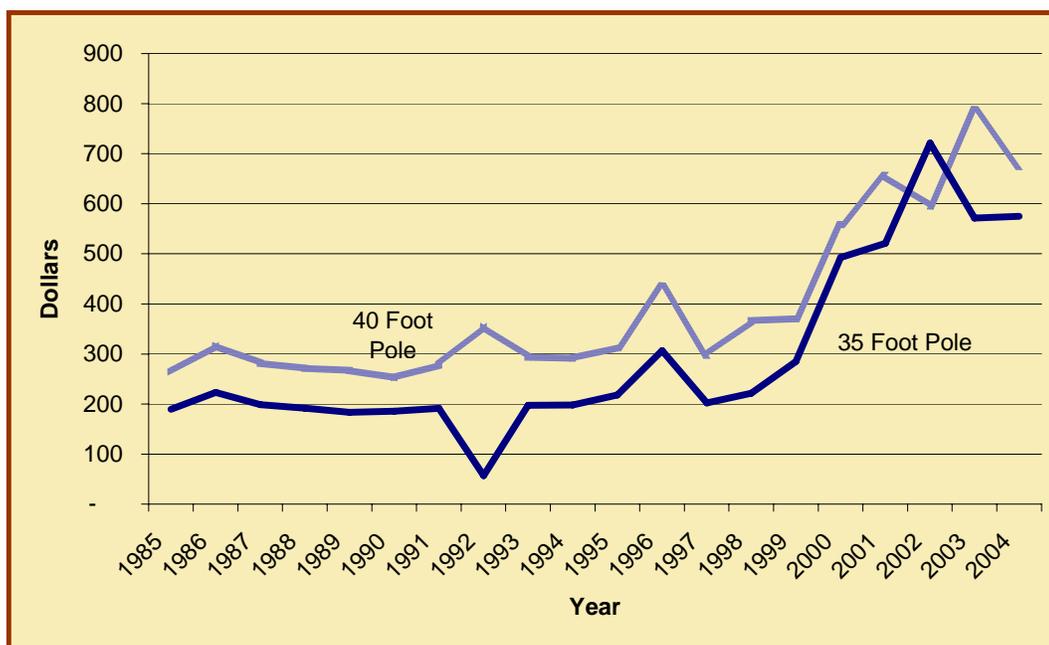
Accordingly, we focused our review on wood poles in order to gain an understanding of the type of factors that might impact ComEd’s costs.

Findings and Conclusions

8. ACG’s analysis found that there was a significant increase in the normalized unit costs of 35 and 40 foot wood poles in the period 1999 to 2003. Although ACG was unable to identify all the drivers of this cost increase, it is likely that higher overheads, pensions and benefits costs contributed to the higher unit costs.

- **Exhibit VI-19** shows the cost trend for 35 foot and 40 foot wood poles in Account 364.00. These cost trends are generally representative of the cost trends for wood poles of various sizes.²⁸⁹ As shown in Exhibit VI-19 there is a significant increase in the unit costs starting in 1999.

Exhibit VI-19
Normalized Unit Costs of 35 foot and 40 foot Wood Poles
Account CED 364.00: Distribution – Poles and Towers – WO < 69kv

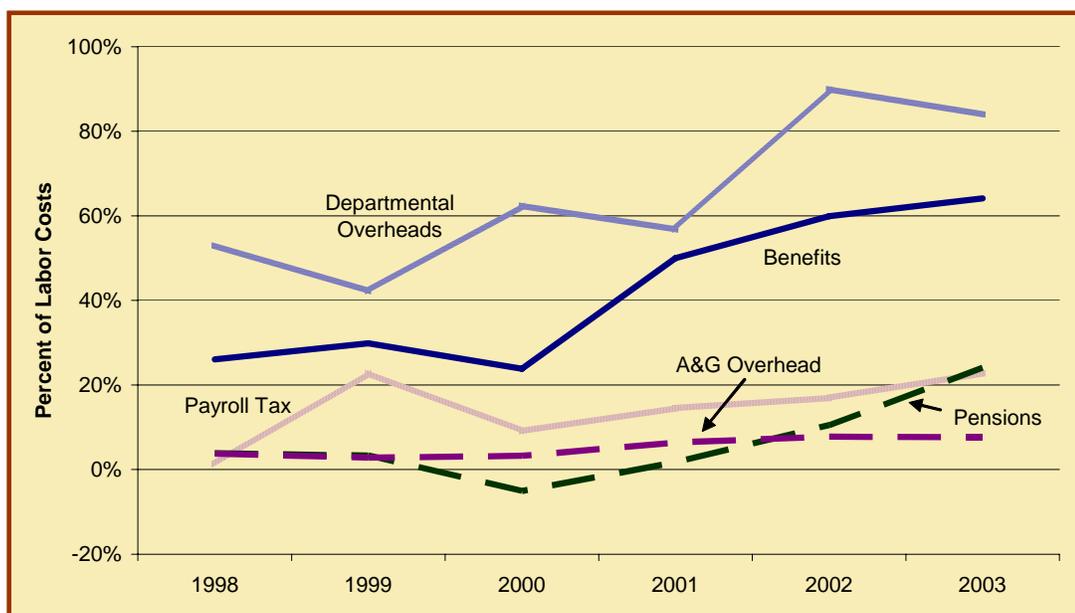


Source: ACG analysis of vintage year data provided in DR EAL-23, Bates OCA 0045536 through OCA 0045594, using the Handy-Whitman Index data provided in DR EAL-2, Bates OCA 0023664 through OCA 0023673.

- In order to investigate possible drivers of the increase in unit costs, we examined detailed cost information for four selected work orders which included the installation of 35 foot poles. We encountered some challenges in our review which limited our ability to identify cost drivers with a high degree of certainty:
 - ⇒ Work orders and projects include the installation of many different types of retirement units.

- ⇒ It is not possible to trace the recorded costs of a pole to specific work order line items. Cost detail (e.g., invoices, materials, journal entries, and overheads) is not maintained at the retirement unit level.²⁹⁰
- As shown in **Exhibit VI-20**, ComEd’s departmental overhead, pension and benefit costs increased significantly during the same general period that the wood pole unit costs increased.²⁹¹ While this may not fully explain the increase in the unit cost of wood poles, it is likely these increased costs contributed to the increases in wood pole unit costs.
- ⇒ Exhibit VI-20 depicts A&G overhead (referred to by ComEd as Admin and Legal), departmental overhead, pension, benefit and payroll taxes as a percent of labor for four selected projects with 35 foot wood poles. As shown in the exhibit, there was a significant increase in overheads and benefits from 1999 to 2002, and an increase in pension costs between 2000 and 2003.

Exhibit VI-20
Overheads, Pension, Benefits, and Payroll Tax Percent of Labor for Four Selected Projects



Source: ACG analysis of DR EAL-34, Attachment 2, Bates OCA 0092972 through 0093019.

- ⇒ The negative pension amount in the year 2000 reflects a net pension benefit (as opposed to cost) of \$29.0 million. This benefit was primarily caused by an increase in the Expected Return on Pension Assets, driven by the strong financial market performance during this timeframe, and a decrease in Pension Service Costs, driven by a higher discount rate.²⁹²
- ⇒ ACG performed an analysis of ComEd’s overhead cost pools and loading procedures as described in Chapter V of the report.

- An increase in the price of wood poles may also have contributed to the increase in the normalized property unit value of wood poles. It is not possible to tell the extent to which this price increase is reflected in the Handy-Whitman Index.
 - ⇒ As shown in **Exhibit VI-21**, there was an increase in ComEd’s average purchase price of 35 foot wood poles between 2000 and 2004. ComEd was unable to provide data related to the average purchase price of wood poles for years prior to 2000.²⁹³
 - ⇒ It is likely the purchase price of the poles was at least partially reflected in the Handy-Whitman Index values, but it is also possible that these increased pole prices contributed to ComEd’s higher unit costs.

Exhibit VI-21
Average Purchase Price of 35 Ft. Wood Poles in 2000 and 2004

Pole Class	2000	2004	Percent Increase
Class 2	134.35	215.09	160%
Class 1	50.30	240.95	479%
Class 4	113.17	182.51	161%
Class 5	98.12	154.59	158%

Source: DR EAL-52 , Bates OCA 0109168.

Cable Fault Study

Background and Summary of Audit Procedures

On April 1, 2002 ComEd issued a revised Capitalization Policy and Property Unit Catalog. The property units for cable replacements were revised to include all cable installed that is equal to or greater than two feet.²⁹⁴ Previously, cable replacements were capitalized only if the cable was between two property units that are normally used as points of termination or terminating devices.²⁹⁵ To implement the policy changes, ComEd performed a study to determine what percent of the dollars charged to cable fault repair work orders were for installations greater than or equal to two feet. This study served as the basis for the allocation between O&M and Capital for future cable fault repair projects and cable fault repairs completed after April 1 but prior to the date of the study. The September 2002 study was based on data obtained from the Maintenance and Construction regions regarding the amount of cable replaced on cable fault repairs over a specified time period.²⁹⁶

There were separate projects for cable fault repairs inside and outside Chicago. The major difference between the work inside and outside of Chicago is that most underground cable inside Chicago is run in conduit or duct bank, thus any cable faults in mid span necessitate replacement of the entire span of cable, which is much greater than two feet. In the suburbs, most underground cable is direct buried. In some cases, a simple splice may be used; in other cases, a section of additional cable is required to replace the damaged section.²⁹⁷ Prior to the change in capitalization policy both cable repair projects were charged 100 percent to

expense.²⁹⁸ As a result of the September 2002 cable fault study, the accounting treatment of the cable fault repair projects was revised as follows:

Exhibit VI-22
Accounting Treatment of Cable Fault Repairs

Location	Accounting Treatment	
	Prior to 4/1/2002	Effective 4/1/2002
Inside Chicago	100% Expense	91% capital 9% expense
Outside Chicago	100% Expense	67% capital 33% expense

Source: DR MDF-18, Bates OCA 0039067.

These projects retained the above accounting treatment through the end of the audit period.²⁹⁹

As part of its review of ComEd’s accounting treatment of cable repairs, ACG examined ComEd’s September 2002 Cable Fault study and associated journal entries, and reviewed Code of Conduct Allegations which pertained to the September 2002 Cable Fault Study.

Findings and Conclusions

9. Although ComEd used an informal sampling process to obtain information for the September 2002 cable fault study, the study methodology itself was appropriate.

[Confidential]

- ComEd determined the capital/expense split for cable fault work blanket work orders based on survey results from Maintenance and Construction regions inside and outside of Chicago. The cable work breakdown was based on a sample of data. The sample size evolved during the conduct of the study, and may not accurately reflect the work performed at the various regions.
 - ⇒ In order to obtain the cable fault repair data, crew leaders completed a form indicating the amount of cable fault repairs over a specified time period.³⁰⁰
 - ⇒ Each region set up repair work orders to track labor hours and material. The repair crews completed the survey, tracking each cable fault repaired, indicating whether the cable length was greater than two feet, and whether it was a primary, secondary, or street light fault.³⁰¹
 - ⇒ ComEd received 412 acceptable responses from Outside Chicago regions, and 99 were received from Chicago.³⁰² A survey response was considered to be acceptable if it was filled out with a valid work order number with charges and indicated how much cable was installed (less than two feet, or two feet or more.)³⁰³

- ⇒ The only steps taken to validate the cable fault work data that was submitted by the regions was to determine that the work order numbers provided were valid and had charges recorded.³⁰⁴ There was no verification of survey data regarding cable length.
- ⇒ An August 23 email increased the sample size, but there was no attempt to align the sample size for each region with the relative amount of work performed by the region: “[I]t has been decided that we need to expand the cable fault study to include every barn in the Outside Chicago Regions. As discussed in the meeting, the sample data of 80 is not sufficient to complete the analysis...We are still in need of samples, please keep faxing them in.”³⁰⁵ (As used in this email, a “barn” is the reporting location in which a Maintenance and Construction work crew is based.)³⁰⁶
- ⇒ The September 2002 cable fault study did not survey all Outside Chicago regions; however, this had minimal impact on the study results as the four excluded regions accounted for less than three percent of Outside Chicago cable fault expenditures January 2002 through July 2002.³⁰⁷
- ⇒ The samples from the regions may not reflect the relative amount of work performed in the regions. For example, the Glenbard region submitted 100 samples with 41/59 percent capital/expense split, while the Libertyville region submitted only seven samples, which were 100 percent capital.³⁰⁸ To the extent that the length of cable differs between regions, this would affect the study results.

[Confidential]

**Exhibit VI-23
 Concerns Identified in Code of Conduct Allegation
 Regarding 2002 Capitalization of Cable Fault Work**

[Confidential]

Allegation Concerns	ComEd Assessment

- In August 2002, a transaction to accrue an estimated \$3 million shift from expense to capital due to the Cable Fault study was recorded in the WFR (waiting for redistribution) overhead account.³¹⁶ However, this entry was reversed. The \$3.0 million accrual journal entry was reversed and re-accrued monthly until the Cable Fault Study was finalized.³¹⁷
- ComEd took action to address the direction given to contractors to only install cable which was two feet or greater in length.
 - ⇒ On August 9th, nearly two weeks into the study an email was sent to both Inside and Outside Chicago Regions regarding contractors beginning work on cable faults on August 19th and the email stated “contractors are being instructed to replace a minimum of 2 feet of cable.”³¹⁸
 - ⇒ A week later, on August 16, 2002, ComEd sent an email clarifying that “Only the amount of cable required to fix the fault be used. In no way should a prescribed amount of cable be used to meet the minimum requirements of the capitalization policy so the work can be capitalized rather than expensed.”³¹⁹
- In November 2002, ComEd performed a second cable fault study to validate the results of the September 2002 study, in part due to the Code of Conduct allegations.³²⁰ The study was completed primarily to revalidate the Outside Chicago original

samples, and was based on a reduced sample size. The revalidation of the cable fault study showed a 29 percent to 71 percent O&M to Capital split for the Outside Chicago regions. Because the revalidation results were within five percent of the original sampling, the original results were considered to be reasonable.³²¹

10. Journal entries shifting \$7.7 million from expense to capital relating to the Cable Fault study were appropriate.

- As discussed above, a \$3.0 million accrual was recorded in August 2002. This entry reflected an estimate of the expected impact on O&M and Capital based on the preliminary results of the Cable Fault study. The \$3.0 million accrual was reversed and re-accrued monthly until the Cable Fault Study was finalized.³²²
- As a result of the change in cable capitalization policy and the September 2002 cable fault repair policy, ComEd made three journal entries totaling \$7.7 million to shift dollars from O&M to capital as shown in **Exhibit VI-24**.

Exhibit VI-24
2002 Journal Entries to Shift Cable Fault Work Costs from O&M to Capital
(Dollars in Millions)

Transaction Date	Adjustment Period	Amount
September 2002	April through July	2.2
November 2002	July through October	4.1
December 2002	November	1.4
	Total	7.7

Source: DR JDH-64, Bates OCA 0046459; DR EAL-75, Bates OCA 0114368; DR JDH-207, Bates OCA 0116568.

- Cable fault work prior to the April 1, 2002 issuance of the consolidated EED Property Unit Catalog that did not meet the threshold for capitalization was charged to expense projects. Capital cable replacements that did meet the threshold for capitalization were charged to blanket projects that closed to plant in-service monthly.³²³
- Beginning in December 2002, new projects were issued with the revised O&M/Capital splits, so no further adjusting entries were required.³²⁴

Capital and Expense Classification of Blanket Project Costs

Background

For blanket projects, ComEd charges project costs to capital and expense based on the accounting distribution (split) attributable to each project ID. ComEd determines the capital and expense split when the project ID is initially set up. The financial system then allocates the actual costs incurred between capital and expense based on the established project splits.³²⁵

Prior to 2003, ComEd determined the capital and expense allocations for blanket work orders based on engineering or other estimates. In late 2003, ComEd began to use information from a new module of the PassPort system which provided actual cost data on materials, labor and other costs from similar projects in the preceding period. This data could then be used to determine the percentage of capital and expense work charged to various blanket projects.³²⁶

ComEd performed three studies of the accounting treatment of blanket work orders which are pertinent to this audit. The first review, performed in September 2003, examined only 12 projects.ⁱⁱ The second review, performed in late 2004 in response to an Internal Audit finding, examined 48 projects representing more than 80 percent of blanket project expenditures. A third review, performed during the Docket 05-0597 proceeding, was a retrospective review of 118 projects in the 2001 to 2003 time period.

Overall, ComEd’s 2003 and 2004 blanket project validation reviews resulted in capital split increases to most blanket projects. As shown in **Exhibit VI-25**, as a result of the 2003 study there was an increase in the capital allocation for nine of the 12 projects reviewed.

Exhibit VI-25
Impact of 2003 Blanket Project Review on Capital and Expense Cost Assignment

EPS Project ID	CBMS Project ID	Project Name	Account Split 9/03 and prior	Account Split Effective 11/4/03	Capital Increase?
MCOH4K	MCXX22	Circuit Patrol Repairs 4 /12 kv or Feeder Repairs 4/12 kv	30% Capital, 70% Expense	54% Capital, 46% Expense	Y
MCXX23	MCXX23	Circuit Patrol Repairs 34kv or Feeder Repairs 34kv	40% Capital, 60% Expense	54% Capital, 46% Expense	Y
FLTRXX	FLTRXX	Transformer Failures, Replacement or Repair - Distribution	60% Capital, 40% Expense	30% Capital, 70% Expense	N
MCNWKR	MCXX27	Network Protector Repairs	20% Capital, 80% Expense	73% Capital, 27% Expense	Y
MCRGLS	MCXX33	Regulator Repairs	75% Capital, 25% Expense	89% Capital, 11% Expense	Y
MCATOR	MCXX26	ATO Repairs	63% Capital, 37% Expense	37% Capital, 63% Expense	N
MCXX29	MCXX29	Vault Repairs	5% Capital, 95% Expense	24% Capital, 76% Expense	Y
MCXX30	MCXX30	Manhole Repairs	10% Capital, 90% Expense	12% Capital, 88% Expense	Insig
MCXX31	MCXX31	Pad Mounted Corrective Maintenance	20% Capital, 80% Expense	55% Capital, 45% Expense	Y
MCCAPS	MCXX32	Capacitor Repairs	30% Capital, 70% Expense	38% Capital, 62% Expense	Y
MCXX34	MCXX34	34Kv Switch Repairs	10% Capital, 90% Expense	53% Capital, 47% Expense	Y
RRECLD	RRECLD	Repair Recloser	0% Capital, 100% Expense	30% Capital, 70% Expense	Y

Source: DR JDH-11_ Attachment 17, Bates OCA 0033718.

ⁱⁱ In its discussion of the 2003 study in unpublished testimony in Docket 05-0597, ComEd lists 14 projects. There were no data available for 2 of the projects; and no analyses were performed.

The 2004 review identified only two projects requiring revised accounting treatment—the expense allocation for one project increased from 46 percent to 49 percent and increased from zero to two percent for the other project. In 2004 ComEd determined that the annual cost impact of this change was approximately \$125,000.³²⁷

Summary of Audit Procedures

ACG reviewed ComEd’s 2003 and 2004 blanket project accounting reviews and associated work papers and assessed the logic and analysis used to assign the blanket work order costs.

We examined recorded capital costs and expenses for blanket projects to determine whether the recorded costs properly reflect the capital/expense allocations determined in its blanket project accounting reviews. We also assessed the degree to which management discretion was applied in the allocation of delivery system expenditures between capital and expense, and any changes that may have occurred in this policy during the audit period.

Findings and Conclusions

11. With the implementation of the results of detailed accounting studies using actual cost data, the use of management discretion in the determination of capital and expense splits for blanket projects decreased; however these studies were not performed until 2003 and 2004, at the end of the original cost audit period.

- Prior to 2003 and 2004, ComEd made the allocations based on engineering or other estimates because detailed historical data were not available.³²⁸
- Beginning in 2003, ComEd was able to use actual cost data from the PassPort system; however, the 2003 study addressed only 12 projects. This population of projects was originally set up in December 2001 and January 2002 based on engineering estimates of work to be performed. During the same time period, the Company also placed a portion of the PassPort system in service, which can track and maintain records for labor hours spent and materials installed for maintenance tasks performed in the field. In September 2003, with nearly two complete years of data in PassPort, PassPort data was used to validate the accounting splits for this population of projects. The analysis was reviewed by the Engineering organization and the documentation is maintained by Finance.³²⁹
- There were deficiencies in ComEd’s blanket project accounting determination process subsequent to the 2003 review, as identified a November 2004 Internal Controls review:

[Confidential]

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- To address the Internal Control issue, in late 2004 ComEd instituted a control to annually review the propriety of the accounting treatment of blanket projects. In the first study, performed in December 2004, ComEd selected 45 projects representing more than 80 percent of ComEd's total year-to-date September 2004 blanket project expenditures.³³¹
 - In Docket 05-0597, the ICC Staff identified concerns regarding the accounting splits for blanket projects. In order to address these concerns, ComEd performed a review of the 118 projects that comprise the top 80 percent of the blanket project expenditures for 2001 – 2003 totaling \$992.7 million.³³² ComEd found that based on the review of the accounting treatment for the 118 blanket projects, no evidence suggests that the capital portion of the projects increased causing a shift which increased capital and simultaneous decreased maintenance expense.³³³
 - ⇒ One hundred four of the 118 blanket projects were 100 percent capital projects throughout the three years of the analysis.
 - ⇒ Fourteen projects had a capital and expense split. The Capital and O&M percentages changed for only five of these projects during the three-year period of analysis.³³⁴ The changes to these five projects were the results of the 2002 Cable Fault Study and the 2003 Blanket Project Review.³³⁵
12. The 2003 and 2004 accounting reviews of blanket work orders were performed properly, and there were no significant errors in the determinations of the splits between expense and capital.
- ComEd's accounting review methodology was essentially the same for the 2003 and 2004 studies.
 - ⇒ In order to validate the expense and capital splits, ComEd reviewed PassPort information for work orders with a status of completed (all work has been completed for the work order), closed (work is complete, no more changes can accrue to the work order) or await/C (work order labor completed, awaiting completion comments) and classified each work order as expense or capital based on whether or not replacement (retirement) costs were included in the work order.³³⁶
 - ⇒ The total project expense versus capital split was based on the costs of work orders classified as expense and the costs of work orders classified as capital.³³⁷
 - ⇒ In the 2004 Study, ComEd also determined the allocation of capital costs between installation and removal cost.³³⁸

- There were work papers and a formal review process for both the 2003 and 2004 studies, with cover sheets signed by the preparer and reviewer on the work paper.³³⁹
 - ACG performed a detailed examination of the work papers supporting the 2003 and 2004 studies and identified some minor anomalies, but nothing with a significant impact on the allocation between capital and expense. ACG identified a few instances in which work orders with no retirement units were classified as capital. According to ComEd, it is reasonable that a work order with no property units is classified as capital if the work order is developed to capture the activities to install units in another work order.³⁴⁰
13. ComEd's recorded capital costs and expenses for corrective maintenance projects in 2004 properly reflected the capital and expense allocations determined in its blanket project accounting reviews.
- ComEd's recorded costs reflect the allocations for selected blanket work orders which were determined in the 2002 cable fault study and the 2003 blanket project accounting review.
 - ⇒ The actual recorded costs do not exactly reflect the capital and expense percent splits determined in the various blanket project review studies due to the allocation of A&G costs. The EPS financial system allocates actual direct costs between capital and expense based on the established project splits. The portion of A&G costs capitalized is allocated over specific capital projects using a clearing rate methodology. The A&G costs remaining in expense are not allocated to specific projects.³⁴¹
 - ⇒ The impact of the A&G assignment is negligible. As shown in **Exhibit VI-26**, the recorded costs are within a few percentage points of the blanket project review results.

Exhibit VI-26
Capital/Expense Split for Corrective Maintenance Projects in 2004
(Dollars in Thousands)

Project	Recorded Costs			Blanket Project Review Results		Blanket Project Review
	2004 Total	Capital	Expense	Capital	Expense	
FLTR10	1,457.1	32%	68%	30%	70%	2003 Study
FLTR30	240.7	32%	68%			
FLTR40	840.9	32%	68%			
FLTR50	638.4	32%	68%			
FLTR60	803.6	31%	69%			
FLTR70	588.5	32%	68%			
FLTR80	497.1	31%	69%			
MC0127	181.3	76%	24%	73%	27%	
MC0129	274.9	26%	74%	25%	75%	
MC1036	4.0	92%	8%	91%	9%	
MCCAPS	1,832.1	39%	61%	38%	62%	
MCCBLF	49,036.4	69%	31%	67%	33%	2002 Cable Fault Study

Source: DR EAL-56, Bates OCA 0109493 through 0109595.

Over-Age Work Orders

Background and Summary of Audit Procedures

ACG reviewed ComEd internal audit reports in the period 1995 to 2004 to identify issues that could have a possible impact on the recorded cost of Delivery System plant. These internal audit reports identified a number of issues relating to plant accounting, including:

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ACG investigated ComEd's actions taken in response to the internal audit findings and the current status of these issues. Our review of ComEd's response to the over-age work order issue is discussed in this section of the report. The timeliness of ComEd's recording of retirements and unitization is discussed in Chapters V and VII, Detailed Cost Audit and Depreciation, respectively.

[Confidential]

In order to investigate ComEd's response to the over-age work order issue, ACG examined journal entries made to adjust CWIP balances to remove charges in cancelled work orders.

ⁱⁱⁱ ComEd uses the term "overage." For the purpose of this report, we use the term "over-age" to clarify the meaning of the term.

Findings and Conclusions

14. ComEd took adequate steps to address the over-age work order issue that was identified in its 1995 and 1996 internal audits.

- According to ComEd, as a result of the 1995 and 1996 Plant Processes Internal Control Reviews, Plant Accounting began sending out an over-age work order and project listing to the field to review work orders and projects that were inactive for a period of time (e.g., 6 or 12 months).
 - ⇒ ComEd issued over-age work order and project listings in November 1996, June 1997, the Fourth Quarter of 1999, December 2000, June 2001, August 2001, the Third Quarter of 2003, the Fourth Quarter of 2003, May 2004, and October 2004.³⁴⁷
 - ⇒ The ComEd Operations organization reviewed the over-age project and work order listings and either updated the status or cancelled the project. If the work order or project status was updated from open to in-service, costs were transferred from Account 107 (Construction Work in Progress) to Account 106 (Non-Unitized Plant) in the next non-unitization process. If the project was cancelled, the cost would either be transferred to another valid capital project, if appropriate, or written off to expense.³⁴⁸ (The non-unitization process is the process wherein accumulated charges are automatically moved in CBMS or EPS from Account 107 (Construction Work in Progress) to Account 106 (Non-Unitized Utility Plant).³⁴⁹)
- ComEd Operations entered journal entries related to cancelled work orders and projects during the regular course of business, as well as when Plant Accounting issued over-age work order and project listings. Plant Accounting continuously monitors cancelled projects to ensure that the balances are written off or transferred.³⁵⁰
- As shown in **Exhibit VI-27**, in November and December 2001, Plant Accounting processed journal entries to record write-offs of cancelled and inactive projects which had \$9.9 million stranded in CWIP and RWIP accounts.³⁵¹
 - ⇒ The journal entries transferred amounts from capital to expense accounts as summarized in the exhibit below. An insignificant amount (just over one percent of the total) was transferred to Accounts 186 – Miscellaneous Deferred Debits and Accounts 105 – Electric Plant Held for Future Use.
 - ⇒ ComEd did not respond to ACG’s question regarding whether the adjustments made by Plant Accounting were the result of a specific effort to address over-age work orders. ComEd explained that Operations typically records the journal entries for these activities; however, Plant Accounting may assist Operations in recording the journal entry.³⁵²

Exhibit VI-27
ComEd Journal Entries to Correct Over-Age and Cancelled Projects
in December 2001 and January 2002
(Dollars in Thousands)

FERC Account	Description	Journal Entry					Total
		DP2160	DP2161	DP2162	DP2163	DP5200	
		Write-off over-age list Project G06797 – Expense Status	Write off Capital projects inactive 6 months or more in Expense Status	Write off Capital projects inactive 6 months or more in Expense Status	Transfer Amounts from Capital to Expense on Projects H12926 and H12932	Write-Off CBMS cancelled projects with capital account balances as of 10/31/01	
Transfer From							
106	Completed Construction Not Classified	-	-	-	-	(84)	(84)
107	Construction Work in Progress	(178)	(262)	(514)	(141)	(315)	(1,410)
108	Accumulated Provision for Depreciation of Electric Plant	-	22	-	-	(105)	(83)
	Total Transferred	(178)	(240)	(514)	(141)	(504)	(1,577)
Transfer To							
105	Electric Plant Held for Future Use	-	-	-	-	3	3
186	Miscellaneous Deferred Debits	-	63	-	-	51	114
560	Transmission - Operation Supervision & Engineering	20	-	57	15	-	92
566	Miscellaneous Transmission Expenses	-	-	-	-	453	453
568	Transmission - Maintenance Supervision & Engineering	13	-	39	11	-	63
580	Distribution - Operation Supervision and Engineering	68	-	197	54	-	319
590	Distribution - Maintenance Supervision and Engineering	77	-	223	61	-	361
920	Administrative and General (A&G) Salaries	-	177	-	-	(3)	175
	Total Transferred	178	240	514	141	504	1,577

Source: DR EAL-81, Bates OCA 116286 through 116290; ACG Analysis.

Examination of CBMS Activity Codes

Background and Summary of Audit Procedures

ACG reviewed delivery system plant costs by CBMS activity code for the period January 2001 through March 2003 and identified several CBMS activities that were not clearly delivery system plant related as shown in **Exhibit VI-28**. The activity descriptions indicate these costs may be related to transmission, maintenance, operations, or other activities not related to distribution plant.³⁵³

Exhibit VI-28
CBMS Activities Descriptions
Not Clearly Distribution Plant Related
(Dollars in Thousands)

Activity	Description	Amount [Note 1]
2873	Manage construction/mod-tranOH	3,340.4
605	Design Tran OH Lines	1,560.8
567	Maint tran SS-Bulk Power Sys	301.6
1296	Maint current software apps	289.7
648	Plan prot ctrl sys-tran SS	257.3
666	Trble-shoot relay sys-tran SS	186.1
1336	Operate dist system-OH	106.6
589	Estimate projects - tran	101.2
554	Perform siting activities-tran	97.1
4308	Livening Primary & trans - URD	97.1
1318	Conduct research & development	81.2
568	Maint dist SS-bulk pwr-volt eq	64.7
1316	Develop operating plans	62.4
658	Trble-shoot prot relay-distSS	62.2
1299	Analyze financial performance	39.2
1586	Anlyze/invst enrgy sys-tran SS	34.8
538	Manage financial applications	33.7
660	Maint/anal relay sys-tran SS	33.4
651	Set-config prot relay-tran SS	30.1
1329	Answer dist customer inquiries	29.1
76	Investigate unmetered current	27.1
1544	Operate dist system-UG	27.1
2875	Manage construction/mod-tranSS	23.8
65	Obtain indust meter readings	22.2
1547	Perf C1 dist maint prog-UG	20.7
1351	Perf dist ABS maint-OH	19.0
1535	Provide decomm services	18.6
1328	Analyze dist serv reqs	17.2
611	Rework drafting - tran	16.4
1548	Perf C1 dist maint prog-LnTran	14.7
698	184-Purch/handle Fossil Fuel	13.3
1524	Standby to restore dist servc	13.1
668	Trbl-shoot SCADA	11.3
1354	Perf dist line maint-OH	11.3
650	Devp-Maint Power Sys docs-tran	10.5
11	Maint pulverizer mills	10.5
Total		7,085.5

Note: The amounts listed are only the amounts associated with questioned activities for projects selected for detailed testing by ACG. CBMS costs for these selected projects totaled \$725.3 million for the period 2001 through 2003.

Source: CBMS data provided in DR RLR-15; ACG analysis.

ACG did not identify a similar issue with the EPS general ledger, which was implemented April 1, 2003. EPS does not use activity codes.

There were 69,211 line items with the activity codes listed in Exhibit VI-28.³⁵⁴ In order to determine whether these CBMS activities were appropriate Delivery System costs, ACG judgmentally selected 17 of these line items to investigate, then selected the largest transaction for each line item and requested data from ComEd which demonstrated the nature of the transaction amounts in the test.

Findings and Conclusions

15. Although the Delivery System project cost data includes several transactions with CBMS activity codes that do not appear to be delivery-system-related, ACG's analysis indicates that these transactions are correctly classified as delivery system capital costs.

- According to ComEd, activity coding of capital transactions was designed and implemented primarily for cost management purposes and was not used for accounting purposes.³⁵⁵ Nevertheless, ACG tested a sample of transactions with questionable CBMS activity codes to determine whether these were appropriate delivery plant system capital costs.
- ACG's testing of a sample of 17 transactions with the CBMS activity codes listed in Exhibit VI-28 found that all of the transactions were delivery system plant-related and classified correctly.³⁵⁶

Code of Conduct Allegation

Background

On September 10, 2002, a ComEd employee reported three concerns to Exelon's Ethics & Compliance Office:

[Confidential]

ComEd found item (2) to be substantiated and made a subsequent adjustment.³⁵⁸ As discussed in Chapter IV of this report, ComEd found items (1) and (3) to be unsubstantiated; however, ACG elected to perform further investigation of these matters, due to their significance in the audit.³⁵⁹ Item (1) is addressed in Conclusion 9 earlier in this chapter. Item (3) is addressed in this section of the report.

The full text of the allegation summarized as item (3) is as follows:

[Confidential]

The accounting problems related to the introduction of PassPort which are mentioned in this allegation refer to ComEd's determination, that some field personnel were bypassing the work order panel in PassPort when processing material request transactions. This resulted in the default of the associated costs to expense, even in cases where the materials were used for capital projects.³⁶¹

Summary of Audit Procedures

[Confidential]

ACG also interviewed ComEd personnel about the Code of Conduct allegation.

ACG judgmentally selected a sample of journal entries which transferred costs from expense to capital and reviewed documentation supporting the transfer in order to determine whether the transfer was appropriate. The sample included transactions from the first three quarters of 2002 in order to examine journal entries made during the period addressed in the Code of Conduct allegation, and journal entry transactions from remainder of the 2001 to 2004 audit period.

Findings and Conclusions

16.

[Confidential]

, ACG found no deficiencies in ComEd's journal entries transferring costs from O&M to capital.

- The exact intent of the Code of Conduct allegation regarding [Confidential] is unknown, as the employee who conducted the investigation is no longer with Exelon and ComEd.³⁶² ComEd personnel interviewed by ACG believe that this allegation conveys a concern that the journal entry accounting was performed in a sloppy manner, not that the transfer between expense and capital should not have occurred. The allegation regarding the [Confidential] refers to a concern that equipment was being reclassified as

-
- capital by charging it to an overhead account (which was cleared to active capital projects on a monthly basis), rather than charging the capital directly to the correct project.³⁶³
- The Ethics & Compliance Office files regarding this allegation did not contain any documents which specifically addressed the adequacy of standards or documentation to support the journal entries.³⁶⁴
 - Prior to the September 10, 2002 allegation, ComEd took steps to address its finding that field personnel were requesting material in PassPort without specifying a work order. As part of this effort, ComEd initiated steps to identify and correct the resultant mis-charges.
 - ⇒ On September 5, 2002, the ComEd Vice President of Regional Distribution Operations sent an email to numerous ComEd directors and others requiring all PassPort users to cease going directly to the "Material Requests" screen to order materials. In this email, he identified the accounting error, detailed the proper method for ordering materials and listed a number of action items, including having the accountants make corrective journal entries.³⁶⁵
 - ⇒ The September 5 email mentions a specific effort to be performed by a financial analyst to work to identify and correct mis-charges.³⁶⁶
 - ⇒ Following the September 5 email, on September 21, a Financial Planning and Analysis Manager sent an email requesting the financial analysts to follow-up on \$2.5 million of material requests that were not tied to a work order, asking them to determine whether journal entries had already been made.³⁶⁷
 - ACG's testing identified no deficiencies related to journal entries transferring costs from O&M to Capital in the first three quarters of 2002. There was no evidence of "sloppy" accounting by shifting O&M to capital using overhead accounts.
 - ⇒ Costs that were initially classified as expense because they were not assigned to a specific project in PassPort were assigned to specific projects when transferred to a capital account.³⁶⁸
 - ⇒ A transaction to accrue an estimated \$3 million shift from expense to capital due to the Cable Fault study was recorded in the WFR (waiting for redistribution) overhead account.³⁶⁹ However, this entry was reversed. The \$3.0 million accrual journal entry was reversed and re-accrued monthly until the Cable Fault Study was finalized.³⁷⁰ See Conclusion 10 for further discussion of the Cable Fault Study.
 - Journal entries transferring costs from expense to capital in the period 2001 through 2004 were appropriate; however ComEd was unable to provide support for one transaction.

Analytical and Other Reviews

- ⇒ ACG tested selected line items from six journal entries in the first three quarters of 2002 (the period addressed in the Code of Conduct investigation) and seven journal entries posted in the remainder of the audit period. ComEd was unable to provide documentation for one selected transaction, however the other 12 journal entry transactions selected for testing were adequately supported, and the transfer from expense to capital is appropriate.
- ⇒ **Exhibit VI-29** lists the reasons for transfers of costs from expense to capital for the journal entry line items tested by ACG.

Exhibit VI-29
Explanations for Transfer of Costs from Expense to Capital
for Journal Entry Line Items Tested by ACG

Period	Number of Items Tested	Reasons for Transfers
Jan 2002 through Sept 2002 (Code of Conduct Allegation Time Frame)	6	<ul style="list-style-type: none"> • Transfer costs that were initially not assigned to a project, defaulting to expense. • Transfer cable installation costs from expense to capital in accordance with property unit catalog. • Accrual for the expected impact of cable fault study.
2001 through 2004 (Remainder of Detailed Audit Time Period)	7	<ul style="list-style-type: none"> • Correction of charges made to incorrect project. • Transfer costs that were initially not assigned to a project, defaulting to expense. • Adjust capital vs. O&M split pursuant to September 2002 cable fault study. • Transfer of costs which were initially charged to a placeholder project for emergent work to the appropriate capital project.

Source: DR EAL-71, Bates OCA 01136375 and 01136376; DR EAL-72, Bates OCA 0113703, DR EAL-64. Bates OCA 0110073: EAL 58, Bates OCA 0109999 through 0110011.

- ⇒ ComEd was unable to locate supporting documentation regarding a \$0.5 million transfer from expense to capital posted on June 3, 2003 in a journal entry described as “MCXXXX Project Split Corrections.” Because the amount is small, and because support for the remaining transactions in the test sample was appropriate, ACG does not propose an adjustment relating to this amount.³⁷¹

17. In 2002, ComEd was concerned with the level of O&M expenditures and made a determined effort to shift costs from expense to capital.

- The documents in the Exelon Corporate Ethics office files which pertain to the follow-up of the Code of Conduct allegation regarding journal entries to correct incorrect charges include an August 15, 2002 email regarding "O&M Recovery Plan – Potential Opportunities for Recovery Plan."³⁷² This email states that "[a]fter the Financial Results Meeting on Wednesday, 8/14/02, [certain ComEd individuals] were charged with developing an O&M Recovery Plan" and provides a summary of the top six O&M reduction recommendations, as summarized below:

Exhibit VI-30
2002 ComEd O&M Recovery Plan Recommendations

O&M Recovery Recommendation	Further Explanation by ComEd
<p>Cable faults capitalization (primary) Make a decision regarding the capitalization of primary cable fault and communicate the new process.³⁷³</p>	
<p>Review and reduce blanket (typically all O&M type work) Run a report to show what percent of labor is going to blankets. Each Region to review all the blankets for the projects. Check the Project ID's to see the Capital and O&M splits. Make appropriate changes.³⁷⁴</p>	<p>Construction & Maintenance and Distribution personnel were to review the nature of the work being performed by their groups and ensure that all associated costs were being charged to the correct blanket or unique project. For those costs that were not being charged to the correct project, the statement to "make appropriate changes" meant that correcting journal entries had to be recorded by the financial analysts supporting each group.³⁷⁵</p>
<p>Review Cap/O&M split for non craft (WFR) Look to see how everyone is lined-up for each Region. Make appropriate changes.³⁷⁶</p>	<p>WFR refers to costs that are Waiting For Redistribution and is also commonly referred to as the General & Administrative (G&A) allocation. [Note 1] The statement to "look to see how everyone is lined-up for each Region, make appropriate changes," meant that the regional directors and their financial support staff were responsible for ensuring that the capital versus expense split for their regional G&A costs were correctly aligned with the capital versus expense split of non-G&A work performed by the region. In cases where the splits were not correctly aligned, the financial analysts were responsible for ensuring that the G&A splits were adjusted appropriately.³⁷⁷</p>
<p>Overhead Electrician Specialist on Capital work (OES, AO, TI, MI) Regional Directors, Operation Managers, and Construction come up with a plan to change the work from O&M work to Capital work for Overhead Electrician Specialists (OES), Area Operators, Technical Investigators, and Maintenance Inspectors. Example: Have the OES perform commercial and residential connections.³⁷⁸</p>	<p>The example given is that OESs could focus on work that would appropriately be capitalized. During periods when an OES is not engaged in his primary responsibilities an OES's labor cost is generally charged to expense. The example described a New Business customer capital cable connection that an OES could work on during those periods when not otherwise engaged in his primary activities. This shifting of OES work assignments does result in the OES's labor costs being charged to capital.³⁷⁹</p>

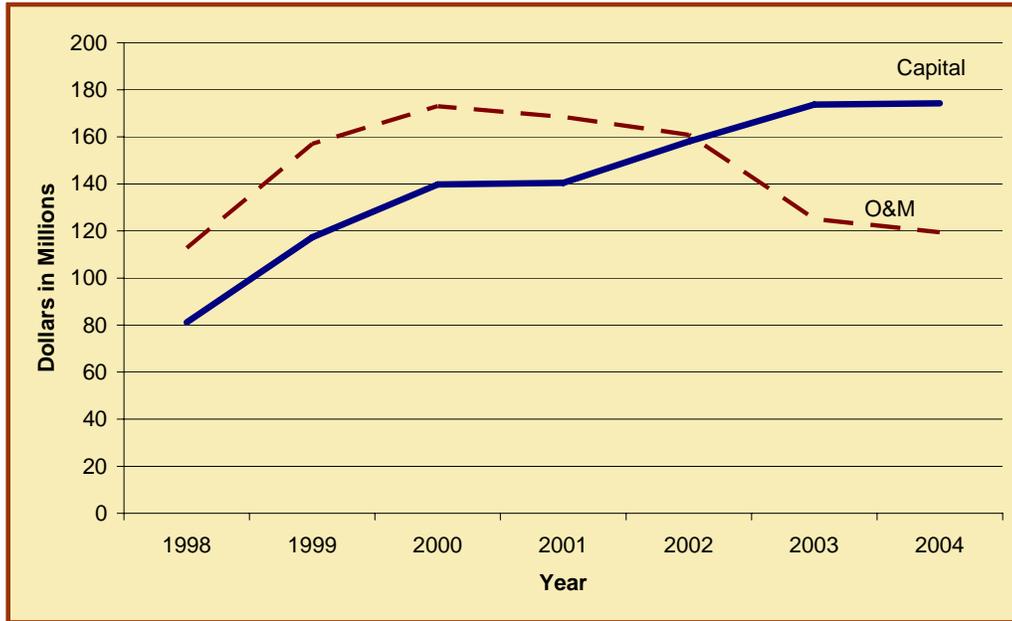
**Exhibit VI-30
2002 ComEd O&M Recovery Plan Recommendations**

O&M Recovery Recommendation	Further Explanation by ComEd
<p>Find/Fix, Like/Like, Feeder Repairs; Check splits. Conduct a questionnaire. Go back to each of your work locations and ask them what are they charging for Like-for-Like, etc. ³⁸⁰</p>	
<p>Chase miss charges diligently Assign this to a Regional team. Each Region to develop their own team to get this done. Make appropriate charges. ³⁸¹</p>	<p>ComEd’s actions to address this issue are addressed in Conclusion 16. As explained in the September 5, 2002 email, this recommendation relates to the PassPort-related accounting problem in which material requests were not linked to work orders, resulting in capital items being charged to expense. ³⁸²</p>

Note 1: The G&A allocation includes the Departmental Overhead allocation, as discussed in Chapter V.

- ComEd was not able to locate a copy of the O&M recovery plan summarized in the email. ³⁸³
- ComEd was not able to locate any additional reports, emails or other documentation regarding the execution of the referenced O&M recovery plan, other than the aforementioned documentation pertaining to the cable fault capitalization (addressed in Conclusion 10) and to the correction of PassPort-related accounting problems (addressed in Conclusion 17). ³⁸⁴
- The O&M recovery plan recommendations clearly show that ComEd was concerned with the level of O&M expenditures and made a concerted effort to shift costs from expense to capital, through changes in the type of work performed, the revised cable fault capitalization policy, and accounting reviews.
- According to ComEd personnel interviewed by ACG, there were concerns about exceeding the O&M budget and ComEd took actions to address this. There is some flexibility in when maintenance work can be performed, as long as work is done by June for reliability purposes. Therefore, it is possible to shift work to capital when there are concerns about exceeding the O&M budget. ³⁸⁵
 - ⇒ As previously shown in Exhibit VI-5 and Exhibit VI-6, ComEd’s 2002 actual O&M expenditures were just slightly over budget (actual expenditures were 102 percent of budget, with \$964.0 million actual and \$948.3 million budget), and the actual 2002 capital expenditures were just slightly under budget (actual expenditures were 85 percent of budget, with \$780.7 million actual and \$916.7 million budget). ³⁸⁶
 - ⇒ The O&M Recovery Plan recommendation to change labor activities from O&M to capital work for certain employees could have contributed to the shift between O&M and Capital labor costs previously shown in Exhibit VI-7, shown below for convenience.

Exhibit VI-31
ComEd Labor Expenditures (Excluding Contractors)



Source: DR EAL 27, Bates OCA 0091225 and DR EAL 39, Bates OCA 0093465.

Research Studies Relating to the Number of Bidders and Project Costs

Background and Summary of Audit Procedures

As part of the analysis of unique projects in the Detailed Tests of Transactions (see Chapter V), ACG reviewed 68 contracts (including change orders) with a total value of \$356.6 million, and summarized contract information as shown in **Exhibit VI-32** below.

Exhibit VI-32
Summary of Contracts by Award Category
(Dollars in Millions)

Contract Award Category	Number	Amount	Percent	
			Number	Amount
Contractor of Choice	17	201.2	25.0	56.4
Single Source	28	36.7	41.2	10.3
Competitive Bid	16	101.1	23.5	28.4
Other	7	17.6	10.3	4.9
Total	68	356.6	100.0	100.0

Source: DR RLR-13, RLR-16, RLR-38, RLR-40, RLR-51, DR JDH 213-28, Attachment 1, Bates OCA 0116648 through 0116651; and ACG analysis.

The “other” category above consists primarily of contracts for which the documentation in the files was not adequate for ACG to determine the contract award category. However, one “other” contract for \$7.7 million is for BSC services which we would not expect to be bid; two contracts relate to land purchases; and three contracts are for IT equipment replacement

contracts which most likely must be awarded to the original supplier of the equipment being replaced.

There are also three transactions totaling \$5.7 million with M. J. Electric (a ComEd affiliate) classified as Contractor of Choice and single source in the table above. Although ComEd objected to providing and did not provide information regarding its relationship with M. J. Electric, the contracts were awarded using market based pricing as described in Chapter V of the report.

During the course of the audit field work, ComEd objected to providing and did not provide the information ACG requested relating to the Contractor of Choice (COC) program or the contractors who are program participants. In addition, ComEd objected to providing a copy of its policies and procedures relating to competitive bidding in the selection of contractors.³⁸⁷ However, during the Task Report Verification process, ComEd provided some basic information of its choosing relating to this program which is summarized below in the manner reported by ComEd and without ACG verification..

In October 2000 ComEd sent out an RFP for Distribution Construction support services. This RFP process was used to select contractors for the COC program based on a "weighted evaluation" model that included pricing, technical capabilities, resources, and safety performance. This was a competitive process that was used to determine the "best value" contractors for ComEd. Additionally, this same process was used in the summer of 2001 to select COC contractors for Substation & Transmission construction support. As part of the "Exelon Way" initiative in late 2003, a similar process was used to select COC contractors while expanding the portfolio of work to include PECO's spend to add additional "buying power" or leverage in the market.³⁸⁸

A 2005 article in *Transmission and Distribution World* touts the success of the COC program. In the article, a ComEd manager cites the benefits from relationships developed over time, noting that they were able to incorporate lessons learned in both the design and construction phases, as the same team was kept together.³⁸⁹ An executive manager with Kenny Construction, one of ComEd's contractors of choice, explains that at first Kenny worked with ComEd on an engineer, procure, construct (EPC) basis, then on a 'time and material not to exceed' basis. Finally ComEd asked Kenny to take an additional 25% to 30% of cost out of the work: "ComEd agreed to take the risk out of the business by going to an alliance team concept selecting Kenny and S&L (Sargent & Lundy) as contractor/engineer of choice. Together, we looked at every opportunity to reduce costs. We lengthened schedules so we no longer had to stack trades. We scheduled concrete work so we didn't pour in the winter. We opened our books so we could track every single dollar."³⁹⁰

Although ComEd objected to providing a copy of its policies and procedures relating to competitive bidding in the selection of contractors, based on the review of project files, it is apparent that ComEd procedures require justification when contracts are not competitively bid. Although the exact elements of the form used to document decisions changed during the audit period, the following **Exhibit VI-33** summarizes the reasons given for the 28 single source awards shown in Exhibit VI-32 above.

**Exhibit VI-33
Documented Reasons for Single Source Contracting**

Reason No.	Reason Description	Times Used
1	The specifications limit this item/work to a specific source	7
2	The nature of the item/work limits the award to one acceptable source	9
3	The item is required under emergency conditions	1
4	Minority business development	5
5	Utilizing this blanket order outweighs the advantages of competitive bidding	6
6	Item or service has a standard price covered by a published catalog or price list.	None
7	Based on recent bids, test of market, or similar information, the advantages of taking bids would be more than offset by other cost involved	1
8	Item or service is subject a prior sale and a commitment is required to meet a necessary delivery date	None
9	Our company specifications limit procurement to a single source or replacement parts exceed \$50,000 and are required from an original equipment manufacturer (OEM)	None
10	Because the nature of the item or service required, only one acceptable source is available	3
11	The time and money saved utilizing a blanket order issued to a designated single source clearly outweighs the advantages of competitive bidding	1
12	Form not used. Single source supported by memo or explanatory comment, or not supported.	5
Total (includes multiple reasons)		38

Source: DR RLR-13, RLR-16, RLR-38, RLR-40, RLR-51 and ACG analysis.

To test the possible implications of single source contracting noted in the Detailed Test of Transactions, ACG obtained and reviewed engineering and construction management studies relating to the relationship between contractor selection methods and project performance and costs.

Findings and Conclusions

18. Research studies have found that that increasing the number of bidders will result in lower project bid prices, but some studies recite considerations other than price in the vendor selection process.

- An investigation of bid price competition published in November 2005 found that reducing the number of bidders results in an increase in project bid prices.

⇒ The purpose of the study was to investigate the relationship between the number of bid offers received on bid day, and the resulting cost deviation from the pre-bid project estimate.

-
- ⇒ The data for the study were collected through retrieval and analysis of the bid results for 19 public works educational construction programs in upstate New York. The data from the 84 awarded projects was evaluated. The data focused on the value of the awarded contract (bid) prices, each project's budget, and the number of bidders for each project.
 - ⇒ The study found that there is a statistically significant relationship between the number of bidders on a project and the low bid received, relative to the project budget. As the number of bidders increases, there is a related reduction in the bid price offer from the low bid contractor.
 - ⇒ The regression analysis shows that, on average, for each bidder lost from the competition there will be a 3.79 percent increase in project cost.³⁹¹
 - ⇒ The best-fit curve analysis found there that was a 24 percent reduction from receiving only a single bid, to the robust competition of six bidders actively pursuing the contract. The seventh bidder added another 2 percent reduction, while the eighth bid yielded an additional 1 percent reduction, at which time the curve flattened to near zero.³⁹²
 - ⇒ The evaluation of the final project cost compared to the bid day offer was beyond the scope of the study.³⁹³
 - A 1997 review of literature regarding competition versus sole-source procurements found that competitive procurements often do achieve some savings over sole-source procurements, but the savings is not always substantial, or is diminished by other costs associated with competition.³⁹⁴ The review made apparent the following points:
 - ⇒ There is probably some rationale supporting competition over sole-source procurements, but not all competitive procurements produce savings, and the savings are probably less than 25 percent.
 - ⇒ One should consider several factors before a competitive procurement is chosen; these include production quantity, complexity of the item, capacity utilization of the industry involved, special skill, and sufficient data on the item.
 - ⇒ Decision makers should probably perform a cost-benefit analysis before choosing competitive procurement, to determine if that avenue will actually result in any savings.
 - ⇒ Competition is probably the base choice for acquisition of low-dollar-value spares required in considerable quantity. Or for component parts and systems that are jointly and extensively used by private industry.³⁹⁵

19. Research indicates that the use of supplier alliances results in price savings and other benefits.

- A 2005 paper found that supplier alliances had successfully been used on energy sector capital projects costing hundreds of millions or even billions of dollars. The supplier alliances results in initial price savings in the range from 6 to 10 percent.³⁹⁶
 - ⇒ The paper addresses the question of whether an engineering, procurement, construction (EPC) contractor is better off using his own engineering/management department to write low-bid oriented specifications, or whether it would be a “better buy” to collaborate with the suppliers.³⁹⁷
 - ⇒ The paper presents a study, in which 16 companies in the capital project market participated, to investigate the industry’s assessment of key issues concerning supplier alliances. Findings included cost savings on engineering and engineered equipment, time savings by eliminating procurement cycle for engineered equipment, and a reduction in design errors and change orders.³⁹⁸
- The United States General Accountability Office cites a 25 percent premium for sole-source contracts. A 2006 GAO study found that the “Army’s approach to acquire contract guard services under sole-source contracts at 46 of 57 installations resulted in the Army paying 25 percent more for its sole-source contracts than for those it previously awarded competitively.”³⁹⁹

20. ComEd has not used a lowest evaluated bid methodology to support the award of contracts during the 2001 through 2004 audit period, and cannot demonstrate that the cost of its plant additions does not include a premium related to its single source procurement.

- Although documentation provided indicates that ComEd procedures require competitive bidding or justification when exceptions are made, of the 61 bidding situations analyzed in the audit, only 16 were competitively bid. Twenty-eight contracts totaling \$36.7 million were awarded on a single source basis, and another 17 contracts totaling \$176.5 million were awarded under the COC program which ACG was unable to evaluate.
- Based on ACG’s analysis, contract awards are likely to be anywhere from 5 to 25 percent higher when competitive bidding is not used.
- ComEd objected to providing information which would enable ACG to evaluate potential offsets, including cost savings in the procurement process, and schedule and budget performance on projects under alternative procurement mechanisms, which might have been discussed in the PIAs.
- Based upon ACG’s evaluation of contracts summarized above, and the total amount of contract dollars in the databases used in the audit, ACG estimates that ComEd may have paid a premium of from \$5.8 million to \$28.4 million relating to single source contracting during the 2001 through 2004 audit period, as shown in **Exhibit VI-34** below, and cannot provide an estimate of the costs or benefits of the COC program.

**Exhibit VI-34
 Estimated Premium Relating to
 Single Source Contracting
 (Dollars in Thousands)**

Res-Type or SubAccount	Category Description	Amount
117	Total CBMS Contracts Costs in Database	330,492
514060 & 516010	Total EPS Contracts Costs in Database	14,165
	Total Population of Database Contracts	344,657
	Total Amount of Contracts in Sample	315.9
	Single Source Amount	36.7
	Percent Single Source	11.6
	Estimated Amount of Single Source Procurement in Database	40,041
	Total Plant Additions 2001 - 2004	2,858,020
	Total Plant Additions in Database	1,006,493
	Percent Database to Total Additions	35.2
	Estimated Single Source Contracts in Total Additions	113,699
	Premium at 5 percent	5,685
	Premium at 25 percent	28,425

Source: General Ledger databases provided in DR RLR- 13, RLR-38, RLR-40, RLR-51, and ACG analysis.

1999 Reclassification of Assets

Background

In December 1999, ComEd reclassified a portion of its FERC-jurisdictional transmission assets as state-jurisdictional distribution assets, using the seven factors established in FERC Order No. 888 as indicators of local distribution. The FERC indicators are:

- 1) Local distribution facilities are normally in close proximity to retail customers.
- 2) Local distribution facilities are primarily radial in character.
- 3) Power flows into local distribution systems; it rarely, if ever, flows out.
- 4) When power enters a local distribution system, it is not reconsigned or transported on to some other market.
- 5) Power entering a local distribution system is consumed in a comparatively restricted geographical area.
- 6) Meters are based at the transmission local distribution interface to measure flows into the local distribution system.
- 7) Local distribution system will be of reduced voltage.⁴⁰⁰

ICC Order 98-0894, dated July 28, 1999, addresses ComEd's refunctionalized plant costs, and approves ComEd's proposed journal entries with certain modifications.⁴⁰¹ Pursuant to this Order, ComEd reclassified approximately \$1.0 billion of transmission assets as high voltage distribution plant in 1999.⁴⁰² ComEd's delineation of its transmission and local distribution facilities was based upon its existing plant as of December 31, 1997. The use of the December 31, 1997 cut-off point was consistent with ComEd's use of an historic 1997 test year in its delivery services rate case filing in ICC Docket 99-0117.⁴⁰³

In order to determine the classification of assets in accordance with FERC Order 888, ComEd's Plant Accounting Department generated detailed spreadsheets from ComEd's plant accounting systems which listed all of ComEd's transmission assets as of December 31, 1997.⁴⁰⁴ These spreadsheets were then given to ComEd's Asset Management and Planning Department, which determined whether each asset should be classified as production, transmission or distribution. Plant Accounting summarized these classification assignments to the FERC Form 1 accounts and allocated the overhead costs and accumulated depreciation reserve.⁴⁰⁵

Some of the assets to be reviewed had been placed in service, but not yet unitized. ComEd classified the non-unitized assets at a work order level. That is, all assets in the work order were classified as either transmission or distribution. During the ACG audit, ComEd explained that for non-unitized projects, the predominant function of the assets being place in service was identified from the project (work order) description, location (typically a specific transmission line or substation) and the asset account description. For transmission line projects, the line number and location were used to identify the specific line or portion of a

line on the system diagram that was affected by the project. The function of that portion of the system could be determined from the annotation and confirmed by the system configuration. For substation projects, the name of the substation would be sufficient to determine the function of assets placed in service by the project if all facilities at the substation were of the same function. At substations with assets used for different functions, the description of the project generally included the voltage level and type of equipment being placed in service. ComEd used this information to identify the location of the equipment on the system diagram and to determine its function.⁴⁰⁶

Summary of Audit Procedures

In order to assess ComEd's 1999 asset refunctionalization, ACG first reviewed the ICC Final Order and associated testimony in ICC Docket 98-0894, the proceeding which addressed the delineation of transmission and local distribution facilities pursuant to FERC Order 888. We then interviewed ComEd personnel regarding ComEd's plant accounting process to refunctionalize the transmission assets, reviewed associated documentation, and determined whether reviews of the refunctionalization accounting had been performed. Finally, we tested a sample of refunctionalized assets in order to verify that: 1) that the classification of the asset as distribution is supported by appropriate documentation, 2) that the correct direct costs and overhead amounts were transferred.

ACG did not assess the appropriateness of ComEd's asset reclassifications because this matter was addressed in ICC refunctionalization docket proceeding.⁴⁰⁷ The proceeding included consideration of the seven FERC indicators of local distribution. The ICC Staff reviewed ComEd's asset reclassification, acknowledged that the delineation between transmission and distribution is really an issue for FERC, and acknowledged that a number of its classification concerns were identified for informational purposes.⁴⁰⁸

Findings and Conclusions

21. ComEd's reclassification of assets from transmission to high voltage distribution in 1999 and 2000 pursuant to FERC Order No. 888 is adequately supported, and ComEd transferred correct direct cost and overhead amounts.

- Other than the ICC proceeding, there were no reviews of Plant Accounting's reclassification of transmission assets as distribution assets in 1999.⁴⁰⁹
- ACG reviewed the documentation supporting the reclassification of a sample of assets from transmission to distribution and found that the refunctionalization was adequately supported and that the transferred overhead amounts were correct.⁴¹⁰
 - ⇒ Asset refunctionalizations were adequately supported by engineering work papers which classified each asset or work order as generation, transmission or distribution.
 - ⇒ In the legacy plant system, overhead costs were recorded separately, and not included in recorded cost of a specific asset. ComEd determined the amount of

overhead costs transferred with the refunctionalized assets based on the percentage of transferred direct costs in each functional class.⁴¹¹

Recommendations for the Company

1. Design and implement a statistically based sampling methodology in connection with future Cable Fault studies. (Refers to Conclusion No. 9)

Chapter VII
Reserves for Depreciation

CHAPTER VII
Reserves for Depreciation

Background

Our work in this area is for the purpose of determining whether the Company has properly recorded depreciation expense (FERC account 403 and clearing accounts) and maintained the accumulated provision for depreciation (FERC account 108) in accordance with generally accepted accounting principles and applicable rules of FERC and the Illinois Commerce Commission (ICC or Commission).

Depreciation Accounting

Depreciation accounting is the process of amortizing the original cost of depreciable property, adjusted for net salvage, to operations over the property's useful life. Depreciation is usually computed on a straight-line, group method. The establishment of depreciation rates should be based on the asset life and net salvage data to insure that rates remain consistent with actual operations.

In accordance with FERC instructions, when a property unit is replaced or removed, the related original cost is removed from the plant accounts and charged to the accumulated provision for depreciation (depreciation reserve), and the related cost of removal and salvage are charged or credited, as appropriate to the accumulated provision for depreciation.⁴¹² As a result, a normal retirement of an asset does not result in the recognition of a gain or loss. Rather, any difference between the net book value of the asset and the value realized at retirement (salvage proceeds less cost of removal) are embedded in the depreciation reserve and considered in the determination of prospective depreciation rates.

Although the ComEd has the capability of recording depreciation expense relating to each of its distribution system plant accounts, historically it has assigned assets to depreciation groups, and continues to do so. ComEd applies a composite rate for the group in making the depreciation expense accrual. The accounting for the accumulated reserves for depreciation is also by asset group. The group depreciation reserve is spread back to the individual asset accounts when the Company performs depreciation studies, and for other analysis.⁴¹³

Property Unit Catalog

In 2002, Exelon Energy Delivery (ComEd Energy Delivery and PECO Energy Delivery) performed a review of the companies' property unit catalogs. According to the Company, the purpose of this review was to: 1) align the capitalization policy and property unit catalogs of the companies, 2) provide for consistent accounting treatment between the companies, and 3) streamline work practices between the companies. A consolidated EED Property Unit Catalog was developed and implemented in April 2002 and has been used by ComEd since its implementation.⁴¹⁴ In general, the changes to the Property Unit Catalog had the effect of increasing capital expenditures recorded in ComEd's utility plant accounts and reducing maintenance expense recorded in its income and expense accounts. The changes in the Property Unit Catalog are analyzed in this chapter of the report. The change in ComEd's

cable replacement capitalization policy is discussed in Chapter VI, as part of the ACG analysis of changes in allocation of costs between capital and maintenance expense.

Audit Objectives

- Determine whether depreciation accruals and other transactions included in the reserve for depreciation during the 1985 to 2004 period are recorded in accordance with generally accepted accounting principles and applicable rules of FERC and the Commission.
- Determine whether retirements of delivery system plant assets during the 1985 to 2004 period have been properly identified and recorded in accordance with generally accepted accounting principles and applicable rules of FERC and the Commission.
- Determine whether the Company has performed periodic depreciation studies and implemented depreciation rate changes in accordance with Commission requirements.
- Determine whether the Company has developed appropriate Property Unit Catalogs and unitized and retired property in accordance with Commission requirements or other industry guidelines.

Evaluative Criteria

- Are depreciation accruals and other transactions included in the reserve for depreciation during the 1985 to 2004 time period recorded in accordance with generally accepted accounting principles and applicable rules of FERC and the Commission?
- Have retirements of delivery system plant assets during the 1985 to 2004 time period been properly identified and recorded in accordance with generally accepted accounting principles and applicable rules of FERC and the Commission?
- Has the Company performed periodic depreciation studies and implemented depreciation rate changes in accordance with Commission requirements?
- Has the Company developed appropriate Property Unit Catalogs and unitized and retired property in accordance with Commission requirements or other industry guidelines?

Summary of Audit Procedures

ACG analyzed the reserves for depreciation for all years in the 1985–2004 audit period, with particular emphasis on the 1995–2004 period, for which detailed information is available as shown in **Appendix VII-1** at the end of the report. In performing our tests in this area, ACG used the data contained in FERC Form 1 reports to analyze the reserves for depreciation for the period from 1995 through 2004. The FERC Form 1 reports prior to 1995 do not contain sufficient detailed information regarding the separation of depreciation expense charged to the reserve, cost of removal, salvage and adjustments by functional categories such as generation, transmission and distribution. To support our tests of reserve for depreciation

transactions for years prior to 1995, we used a combination of FERC Form 1 data at an aggregated level and the external independent auditor work papers which were available for 1990. As part of our analysis of the reserves for depreciation, we:

- Recalculated depreciation expense on a test basis.
- Analyzed cost of removal and salvage in comparison to retirements, and retirements in comparison to plant additions.
- Reviewed the depreciation studies prepared by or for the Company during the audit period.
- Performed tests to determine that depreciation rate changes were implemented as described in the studies.
- Obtained a listing of delayed retirements related to completed construction not classified in Account 106 as of December 31, 2004, and determined the effect on depreciation expense and the related accumulated reserve for depreciation.

In connection with the work performed in the analytical review of transactions, ACG analyzed the effects of transfers of transmission property and the divestiture of generation assets on the reserves for depreciation.

ACG also assessed the changes to the Property Unit Catalog (Catalog) in 2002. To determine the propriety of these changes and analyze their effects, we compared line items in the Catalog with those in effect earlier to identify the significant areas of change, and compared the definitions from the Catalog and the previous catalog against FERC and Florida Public Service Commission benchmarks. In addition, ACG reviewed work papers and reports prepared by the EED study team and reviewed both the ComEd and PECO property unit catalogs in effect prior to the 2002 change to ensure that the revisions were consistent with at least one of the companies' practices in effect prior to the merger.

Findings and Conclusions

Depreciation Studies and Rates

1. ComEd did not prepare an adequate number of depreciation studies during the 20-year audit period. This contributed to a significant decrease in the distribution system depreciation rate when ComEd adopted the most recent rates in 2002.
 - Periodically, utilities perform remaining life studies and adjust depreciation rates based upon published mortality curves. During the 20-year audit period, ComEd performed two depreciation studies: one study was based on data as of December 1988 and was adopted in 1991 (referred to as the 1988 study) and the other study was based on data as of December 2001 and was adopted in 2002 (referred to as the 2002 study).

- In its book *Public Utility Depreciation Practices* (Practices), the National Association of Regulatory Utility Commissioners (NARUC) suggests that a general review take place every year and that a detailed review and study be completed every three years. The Practices also note that for extremely long-lived plant, a five or six year review interval may be appropriate. NARUC also recommends that schedules for depreciation reviews be established by regulatory agencies.^{415 i}
 - ComEd plant accounting personnel stated in an interview that it is their preference for the Company to perform detailed depreciation studies at five year intervals; however, this was not done.
 - ⇒ During the 1990s, ComEd lost historical mortality data due to electronic archiving problems, and was unable to perform a reliable depreciation study until the 2002 depreciation study was issued.
 - ⇒ Prior to adoption of the depreciation rates in the 2002 study, ComEd performed benchmarking of its rates against published industry surveys and started two additional depreciation studies that were not completed.⁴¹⁶
 - A comparative analysis of data contained in the 1988 and 2002 depreciation studies is shown in **Appendix VII-2** at the end of the report.
 - ⇒ This comparison shows that there was a significant increase in the average service life of distribution plant assets at the time of the 2002 study. This in combination with a higher depreciation reserve ratio resulted in a decrease in the distribution plant depreciation rate from 3.63 percent in the 1988 study to 2.44 percent in the 2002 study.
 - ⇒ Based upon a depreciable distribution plant balance of \$6.8 billion (excluding meters and transformers which are accounted for separately) as of December 31, 2004, the annual effect of a 1.2 percent change in the depreciation rate is equal to about \$81.6 million, with the effect of lowering depreciation expense and the related reserve for depreciation. In an analyses contained in its 2002 audit work papers, PricewaterhouseCoopers, LLP (PwC) estimated the effect of the annual rate change for all accounts to be \$99 million.⁴¹⁷
 - ⇒ In the 2002 study, ComEd also adopted a separate 2.02 percent depreciation rate for the high voltage distribution (HVD) plant group.
2. During the OCA period, changes to the Company's depreciation rates were made in accordance with Commission requirements.

ⁱ Although *Public Utility Practices* was updated in 1996, the later edition purposely omitted policy statements. Accordingly, ACG looked to the earlier version for guidance on this subject.

- Regulatory requirements relating to the establishment of ComEd depreciation rates and the need for Commission approval are set forth in Sec. 5-104 of the Public Utilities Act.
 - ⇒ Subsection (b) provides that the Commission may fix ComEd's depreciation rates by order, and absent further order, the Company is required to conform its depreciation accounts to the rates determined.
 - ⇒ Subsection (c) provides that ComEd may change its depreciation rates so long as the rates are consistent with generally accepted accounting principles. Under this provision, ComEd is required to file a statement with the Commission setting forth the new rates with a certification by an independent certified public accountant that the new rates are consistent with GAAP. Upon the filing of such statement, the new rates of depreciation are deemed to be approved by the Commission as the rates of depreciation to be applied thereafter as though an order had been entered pursuant to subsection (b).
 - ⇒ Subsection (d) provides that the Commission may determine not to use the rates developed pursuant to paragraph (c) above in establishing the depreciation expense component of ComEd's cost of service. If the Commission fixes new rates by order and uses them for purposes of the rate proceeding, they are required to be employed by the Company until the end of the first full calendar year following the date of the Commission's determination, and thereafter until altered in accordance with subsection (b) or (c) above.⁴¹⁸
- In the Sixth Interim Order for consolidation of Docket Nos. 87-0427, 87-0169, 88-0189 and 88-0219 dated December 31, 1988, the Commission authorized depreciation expense for non-nuclear plant to be recovered at a rate of 3.85 percent. The Commission's Order did not specify depreciation rates by plant group.⁴¹⁹
- The Commission Order in Docket 90-0169, dated March 8, 1991, addressed depreciation rates for nuclear and non-nuclear production plant, but did not address all of the rates that were developed by the Company in the 1988 study. However, ComEd adopted depreciation rates for distribution, transmission and general plant from the 1988 study in accordance with Sec. 5-104, Subsection (c) of the Public Utilities Act.⁴²⁰
- In Docket No. 01-0423 relating to delivery system tariffs, dated March 28, 2003, ComEd's revenue requirement reflected depreciation rates of 2.4 percent for high voltage distribution system and 3.6 percent for the remainder of the distribution system.⁴²¹
 - ⇒ The proposed depreciation rates were developed by using a composite of the individual account rates from the 1988 study and the December 31, 2001 plant investment from ComEd's 2002 study for weighting.⁴²²

- ⇒ In Docket No. 01-0423, Commission approved depreciation expense based on these composite rates.
 - The 2002 depreciation study rates were sent to the Commission for filing with a certification by PwC in July 2002, and are deemed to be approved in accordance with Sec. 5-104. Subsection (c) of the Public Utilities Act.
 - ⇒ In its March 28, 2003 Order in Docket No. 01-0423, the Commission stated that it should be understood that its order is not making or relying upon any determination regarding the new depreciation study filed in July 2002 and the rates therein.
 - ⇒ The order also stated that the 2002 Depreciation Study was not before the Commission in this docket and there was no need to make any findings with regard to the new depreciation rates proposed in the study.⁴²³
 - In its rate case in Docket No. 05-0597, ComEd proposed a level of depreciation expense to be used for customer rate determinations.
 - ⇒ The July 26, 2006 Commission Order in this proceeding did not specify the depreciation rates to be used, but adopted a specific level of depreciation expense for customer rate determination. The Commission allowed \$320.1 million in depreciation expense and specified a Proforma Rate Base of \$11.5 billion.⁴²⁴
 - ⇒ This is equal to a 2.78 percent composite rate for depreciation based on ACG calculations. The combined 2002 depreciation study rate for the ComEd delivery system is 2.61 percent.⁴²⁵
3. ACG's review of the 2002 depreciation study identified two sets of errors that should not be carried forward in future depreciation studies.
- These errors have no immediate effect on rate base. However, they create a reserve deficiency related to assets with shorter than the group average remaining lives, and skew depreciation rates upward for the group.
 - Referring to **Exhibit VII-1** below, the Company should have used the same average service lives and remaining lives for services, installations on customer premises and street lighting in both the distribution plant category (excluding HVD) and the combined distribution plant category including HVD since these accounts do not have an HVD component.⁴²⁶
 - The second error is the use of the "retrospective method" for allocating the book depreciation reserve to the plant accounts included in the study, whereas the "prospective method" should have been used.

- The 1968 edition of *Public Utility Practices* identifies two methods of determining the theoretical reserve for distribution of an existing reserve.ⁱⁱ
 - ⇒ The “Retrospective Method” of reserve distribution is only used where a remaining life cannot be determined.⁴²⁷ This was the method used by the Company, even though the estimated remaining lives of the plant assets were known. The Company refers to this method as a Dollar Weighted Average Method where the investment is simply multiplied by only the average service life for weighting purposes.⁴²⁸
 - ⇒ The “Prospective Method” of reserve distribution between accounts is based on estimated future accruals, where the average service life and remaining life of the assets can be determined.⁴²⁹ Under the “Prospective Method” the reserve distribution ratio is calculated by dividing the future life expectancy (remaining life) by the average life (average service life).⁴³⁰ Since the 2002 depreciation study contained both the average service life and average remaining life by plant account, the prospective method would have been the appropriate method to use.⁴³¹

**Exhibit VII-1
Misuse of Average and Remaining Service Lives**

Account	Description	Distribution Plant (excluding HVD)		Combined Distribution Plant (including HVD)	
		Average Service Life	Remaining Life	Average Service Life	Remaining Life
369	Services	40.00	24.14	47.79	31.63
371	Installation on Customer Prem.	30.00	22.87	31.27	21.06
373	Street Lighting	25.00	18.06	51.33	43.04

Source: DR JDH-31, Attachment 1, Bates OCA 0039092, 2002 Depreciation Study, and ACG analysis.

Depreciation Expense and Reserve Analysis

4. ACG’s analysis of transactions recorded in the depreciation reserve raised questions about possible under accruals of depreciation expense in the 1999 through 2004 time period, and identified a number of other relationships and transactions requiring investigation.
 - ACG recomputed depreciation expense recorded by the Company from 1991 through 2004, using information contained in the annual FERC Form 1 reports. The FERC Form 1 reports for years prior to 1991 do not contain sufficient information to perform this type of test and an alternative approach was used as discussed in Conclusion No. 5 below.

ⁱⁱ Although *Public Utility Practices* was updated in 1996, the later edition purposely omitted policy statements. Accordingly, ACG looked to the earlier version for guidance on this subject.

- Referring to **Exhibit VII-2** below, ACG compared the average depreciable plant investment reported in FERC Form 1 to the average distribution plant investment (including distribution HVD, meters and transformers) calculated using the plant balances reported on FERC Form 1 (This calculation is shown in **Appendix VII-3** at the end of the report). The differences in the years 1999 through 2004 were investigated as explained below.⁴³²

Exhibit VII-2
Understatement of Depreciation Accruals
(Dollars in Thousands)

Activity Year	Functional Category	Average Depreciable Plant Base (FERC Page 337)	Average Depreciable Plant Investment (Schedule VII-3)	Difference	Depreciation Rate (Schedule VII-2)	Estimated Under Accruals
	(a)	(b)	(c)	(d=b-c)	(e)	(f=d*e)
1991	Distribution Depreciable Plant	3,982,342	3,978,473	3,870		
1992	Distribution Depreciable Plant	4,308,749	4,304,880	3,870		
1993	Distribution Depreciable Plant	4,605,040	4,601,171	3,869		
1994	Distribution Depreciable Plant	4,854,764	4,850,788	3,976		
1995	Distribution Depreciable Plant	5,104,100	5,100,019	4,082		
1996	Distribution Depreciable Plant	5,387,341	5,383,254	4,088		
1997	Distribution Depreciable Plant	5,675,595	5,671,349	4,246		
1998	Distribution Depreciable Plant	5,969,209	5,964,357	4,853		
1999	Distribution Depreciable Plant	6,280,941	6,804,082	(523,141)	3.60%	(18,833)
2000	Distribution Depreciable Plant	7,681,828	7,789,102	(107,274)	3.60%	(3,862)
2001	Dist (Incl HVD, Met & Trans)	8,060,731	8,316,735	(256,004)	3.60%	(9,216)
2002	Dist (Incl HVD, Met & Trans)	8,658,404	8,847,303	(188,899)	3.04%	(5,743)
2003	Dist (Incl HVD, Met & Trans)	9,137,035	9,351,334	(214,299)	2.48%	(5,315)
2004	Dist (Excl HVD, Met & Trans)	9,749,127	9,821,572	(72,445)	2.47%	(1,789)
1999-2004		49,568,066	50,930,128	(1,362,062)		(44,758)
1999-2004 Total (Depreciation Expense and Depreciation Reserve potentially understated)						(44,758)
Actual understatement of Depreciation Expense following investigation						(2,700)

Source: DR ACG-03, FERC Form 1 Reports, 1991-2004, pages 337 and Schedule VII-3 containing ACG analysis.

- The differences for years 1991 through 1998 are normal and expected because of the seasonality of construction and trailing retirements.
- The differences in the years 1999 through 2004 do not appear normal and were not expected. However, except for a \$4.6 million difference attributable to the implementation of FERC Accounting Release AR-15 (AR-15)ⁱⁱⁱ for meters and transformers in 2001, differences are adequately explained as follows:

ⁱⁱⁱ Accounting under AR-15 is more fully analyzed in Conclusion 10 below.

- ⇒ The difference in 1999 relates to the timing of the reclassification of \$452 million in transmission plant investment to the distribution high voltage accounts with the implementation of FERC Order 888. This adjustment was recorded in November and December 1999, causing an overstatement of the beginning and end of the year average plant balance used in ACG's test. Further, ComEd continued to use the 2.47 percent depreciation rate for the distribution assets included in the HVD account until new depreciation rates were calculated in the 2002 depreciation study.⁴³³ This is appropriate since no other rate was available.
 - ⇒ The difference in 2000 is primarily attributable to the continued use of the 2.47 percent depreciation rate for the transferred transmission assets until new depreciation rates were calculated in 2002.
 - ⇒ The difference in 2001 is partially attributable to a change in the method of estimating unrecorded retirements discussed in paragraphs 6 through 9 below, and the continued use of the 2.47 percent depreciation rate for the transferred transmission assets.
 - ⇒ In addition, ComEd inappropriately reversed a portion of the 2001 depreciation accrual relating to meters and transformers with its implementation of AR-15. On July 23, 2001 FERC approved ComEd's request for the adoption of AR-15 principles relating to meters and transformers. The adoption of vintage year accounting became "effective immediately upon approval of the request."⁴³⁴
 - ⇒ Effective December 31, 2001, ComEd retired \$141.5 million in meters and transformers placed in service prior to 1972. This accounting reflects the adoption of AR-15 as of January 1, 2001, which is prior to the date of FERC approval. Also as of December 31, 2001, ComEd's depreciation accrual work papers reflect an unrecorded retirement of \$1.5 billion which has the effect of reversing approximately \$4.6 million of depreciation expense for the year. A literal interpretation of "effective immediately" would indicate that FERC approved the transaction as of July 31, 2001, meaning that 7/12 of this amount relates to a period prior to approval. Accordingly, depreciation expense for 2001 and the related reserve are understated by approximately \$2.7 million.⁴³⁵
 - ⇒ The differences in 2002 through 2004 reflect an adjustment to the Average Depreciable Plant Base on FERC report page 337 for estimated unrecorded retirements that are not reflected in the Average Depreciable Plant Investment in Appendix VII-3.
5. The analytical review of transactions recorded in the reserves for depreciation during the period 1985 through 1995 disclosed no matters of great significance.
- A review of Arthur Andersen, LLP (Andersen) work papers during the period from 1985 through 1995 showed that tests of depreciation expense accruals and an analysis of the reserve for depreciation were performed in all of the years for which work papers were available (1987, 1990 and 1995). An interview with an Exelon executive

who was previously with Andersen and had continuity on the ComEd audit from 1985 through 1999, confirmed that Andersen audit procedures remained substantially the same throughout the period from 1985 through 1999.⁴³⁶

- In our review of the Andersen work papers referred to above, ACG found that depreciation accruals were reasonable and noted no unusual transactions recorded in the reserves.
- An analysis of FERC Form 1 report data showed no changes in the depreciation reserves that were not consistent with changes in investment levels and depreciation rates.⁴³⁷

Transaction Processing Delay and Estimated Retirements

6. Although improving over time, ComEd had an extensive history of delay in the unitization of its plant additions and the recording of related retirements. However, the balance of completed construction not classified in FERC account 106 as of December 31, 2004, had an insignificant effect on delivery system original cost as of that date.
 - An analysis of FERC Account 106, Completed Construction not Classified for the four years ended December 31, 2004 is provided in **Exhibit VII-3**.
 - ⇒ This exhibit shows a backlog of about 5,000 projects with a total cost of \$906.8 million as of December 31, 2000, requiring unitization and closing to account 101.
 - ⇒ As of March 2003 the number of projects had decreased to about 1,700, but the total cost requiring unitization had increased to \$1.2 billion. Ten percent of these projects were from the 1998 and 1999 time period.⁴³⁸
 - ⇒ As of December 31, 2004, the backlog was reduced to about 300 projects with an aggregate cost of \$346.4 million.

Exhibit VII-3
ComEd Original Cost Audit
Analysis of Activity in FERC Account 106
for the Four Years Ended December 31, 2004
(Dollars in Thousands)

	Beg. Balance	UADD	NURV	URET	UTRF	UTRT	End Balance
2001							
Amount	906,787	576,855	(710,461)	(98)	(35,642)	252,732	990,172
Projects	5,046	759	2,182	2	195	307	3,440
2002							
Amount	990,172	636,674	(736,587)		(9,833)	30,009	910,437
Projects	3,440	1,115	2,970		41	80	1,626
2003							
Amount	910,437	356,010	(827,030)				439,416
Projects	1,626	1,214	1,496				566
2004							
Amount	439,416	448,198	(541,226)				346,388
Projects	566	654	809				309
Activity Code	Description						
UADD	Specific addition (closed from Account 107 to Account 106).						
NURV	Addition to Account 101 with Account 106 credit generated automatically.						
URET	Normal electric plant retirement						
UTRF	Transfer from plant in service account within a company						
UTRT	Transfer to plant in service account within a company						

Source: DR JDH-14, Attachment 1, Bates OCA 0027019

Note: Amounts shown in the columns headed URET, UTRF, and UTRT relate primarily to the refunctionalization of transmission plant assets in 1999.⁴³⁹

[Confidential]

The delay in unitizing projects in account 106 creates the need for ComEd to estimate the amount of related unrecorded retirements, which as of December 31, 2004, totaled about \$41.3 million.

- ⇒ ComEd has no detail listing of unrecorded retirements. Instead, it estimates the amount using the ratio of historical negative net salvage to historical retirements and applies this ratio to the amount of negative net salvage (Retirement Work in Progress) as of the calculation date.⁴⁴²
 - ⇒ Unrecorded negative net salvage (cost of removal less salvage) is recorded as Retirement Work in Progress (RWIP) in a depreciation reserve sub-account until the project is unitized to the plant in service accounts. The amount of RWIP not unitized was approximately \$17.4 million as of December 31, 2004.⁴⁴³
 - ⇒ Cost of removal included in RWIP is reported in the ComEd financial statements together with other elements of the depreciation reserves. Unless specifically identified and adjusted, cost of removal will also be included in rate base when ComEd files a rate case.⁴⁴⁴
 - ⇒ ComEd performs a routine calculation to quantify the effect of unrecorded non-unitized retirements on depreciation expense and to adjust the depreciation expense and reserve to reflect the impact. The amount calculated for the month of December 31, 2004, was about \$77,000 which is in itself not significant in this audit.⁴⁴⁵
7. The reduction in the backlog of non unitized plant has also reduced the amount of estimated unrecorded retirements and the related depreciation accrual adjustment.
- As shown in **Exhibit VII-4**, the monthly adjustment to depreciation expense related to estimated unrecorded retirements was about 10 times higher in December 2001 than the \$77,000 adjustment needed in December 2004.

Exhibit VII-4
Depreciation Expense and Reserve Adjustments
Related to Estimated Unrecorded Retirements
(Dollars in Thousands)

Year	December Depreciation Adjustment	Total of Monthly Adjustments for Year
2001	725	3,798
2002	322	4,255
2003	191	3,346
2004	77	1,201

Sources: DR JDH-17, Attachment 1, Bates OCA 0028497 and DR JDH-107, Depreciation Adjustment calculations, Bates OCA 0092964 through 0092968, corrected in DR RLR-44, Attachment 1, Bates OCA 0112112 through 0112127.

8. Following the implementation of the PowerPlant system, in 1999 ComEd changed its method of estimating and accounting for unrecorded retirements. Adjustments to balances remaining from use of the old method have no impact on rate base.
- Upon conversion, there was approximately \$57 million in unrecorded retirements in Account 101.002, used to record preliminary retirements. Although depreciation calculations reflected this amount, there was no actual retirement and the reserve balance was not adjusted. There is no impact on original cost, since both the plant accounts and reserves are overstated by the same amounts.⁴⁴⁶
 - The 2002 PwC audit work papers indicate that there was no timeframe for the elimination of the unitization backlog. Once all of the pre-2001 estimated retirements have been identified the remaining balance in the account will be adjusted with a normal retirement entry with no impact on rate base.⁴⁴⁷
 - After implementation of the PowerPlant system, ComEd changed the method used to calculate and account for unrecorded retirements, and new estimated retirements were not recorded.
 - ⇒ Previously retirements were estimated to be 33 percent of recorded additions for mass location property, and were actually recorded prior to 1999.⁴⁴⁸
 - ⇒ Following conversion, ComEd used the historical ratio of net salvage to recorded retirements as the basis for its estimates. The logic supporting this change is that if a project has removal cost or salvage proceeds, it means that something was retired.⁴⁴⁹
9. Although estimated unrecorded retirements are no longer actually recorded for accounting purposes, ACG's analysis of estimated unrecorded retirements which were in fact booked in prior years shows that actual retirements are approximately 10 percent of amounts originally estimated. This means that between the dates estimates are originally made, and when they are finally recorded, the estimating process causes an understatement of both the original cost of plant and the related depreciation reserves.
- **Exhibit VII-5** is a summary of retirements during the 2001 through 2004 time period reported in FERC Form 1 Reports. We have highlighted amounts that appear abnormal, both because they are higher than the average for the account or lower and in some cases negative in amount (reverse retirements).

Exhibit VII-5
Distribution Plant Retirements, Cost of Removal and Salvage [Note 1]
(Dollars in Thousands)

Account	Description	1999	2000	2001	2002	2003	2004
360	Land and Land Rights	0	13	0	0	47	0
361	Structures & Improvements	0	1,756	489	1,180	840	782
362	Station Equipment	6,096	1,394	7,411	7,556	11,088	7,247
364	Poles, Towers, and Fixtures	2,479	17,568	4,088	8,006	925	5,958
365	Overhead Cond. & Dev.	14,390	1,264	(828)	3,123	1,032	3,329
366	Underground Conduit	1,320	(265)	(415)	487	56	142
367	Underground Cond.& Dev	22,676	1,465	311	6,735	1,054	4,457
368	Line Transformers	0	91	90,933	16,193	16,457	21,021
369	Services	283	(6,514)	1,468	2,765	7,585	14,870
370	Meters	0	630	42,030	2,961	4,139	5,128
371	Installations on Cust. Prem	311	63	45	62	8	20
373	Street Light & Signal Sys.	368	637	258	144	111	502
Total Distribution System Retirements		47,923	18,103	145,790	49,214	43,350	63,457
Total Distribution Plant Retirements (excluding meters and transformers)		47,923	17,382	12,827	30,060	22,754	37,038
Cost of Removal [Note 3]		19,345	45,375	24,497	33,841	50,348	43,476
Salvage [Note 3]		1,666	4,163	52	6,635	14,125	645
Negative net salvage as a percent of retirements		37%	237%	191%	91%	159%	116%

Note 1: Shading indicates amounts that ACG investigated because they are significantly higher or lower than the average account amount or have negative values (reverse retirements).

Note 2: Meter and Line Transformer amounts investigated by ACG are discussed in Conclusion 10.

Note 3: Cost of removal and salvage amounts for 1999 and 2000 include Removal and Salvage Work in Progress. Amounts for other years do not include such amounts.

Source: DR AGC-03, FERC Form 1, Distribution Plant Retirements, DR JDH-84, Att.1, Bates OCA 0086562, Distribution System Cost of Removal and Salvage, and Task Report Verification Meeting May 11, 2007.

- ComEd's response to requests for information relating to the retirement amounts highlighted in Exhibit VII-6 indicates that prior to 2000, ComEd estimated and recorded retirements prior to the identification of actual retirement units for a large number of the work orders ACG selected for review. After the implementation of PowerPlant, ComEd stopped recording new estimated retirements, but continued to reverse, re-estimate and record retirements previously recorded.⁴⁵⁰
- The recording of large estimated retirements and subsequent reversals produces significant year-to-year variances in reported retirement data which affects depreciation expense calculations which ComEd adjusts on a monthly basis, and also impacts historical mortality and net salvage data used in depreciation studies.
- **Exhibit VII-6** shows the history of estimated unrecorded retirements and subsequent reversals during the 1999 through 2004 period for selected accounts and six projects with more than \$500,000 in retirements. To illustrate, the table shows that during the year 2000, more than \$4.3 million in previously estimated unrecorded retirements

were reversed in the Account 365, (Overhead Conductors) and at least \$828,000 in retirements were reversed in 2001.

Exhibit VII-6
Work Order Retirement Activity Greater than \$500,000
(Dollars in Thousands)

Account	Retirement Description	W.O.	Retirement Amounts					
			1999	2000	2001	2002	2003	2004
364	Retirements less than \$500K			10,443			925	
	Corrections & Adj.			7,125				
	Total			17,568			925	
365	Retirements less than \$500K		8,651	5,021	(253)			
	Estimated	A10746		575	(575)			
	Subtotal			5,596	(828)			
	Overhead Plant	B00002	1,408					
	Estimated	A10746	1,265	(1,265)				
	Estimated	A10746				6		
	Estimated	A10813	828	(828)		34		
	Estimated	A10769	613	(613)		20		
	Estimated	A10810	556	(556)		36		
	Estimated	A06634	539	(539)		0		
	Estimated	A10767	529	(529)		14		
	Subtotal for amount discussed in text			(4,330)				
	Total		14,390	1,264	(828)	110		
366	Retirements less than \$500K			442	(415)			
	Estimated	A10821		(707)				
	Total			(264)	(415)			
367	Retirements less than \$500K		11,694	807			1,055	
	Blanket Work Orders		1,580	755				
	Estimated	A10742	593					
	Estimated	A10468	676					
	Estimated	A10406	681					
	Estimated	A10466	739					
	Estimated	A10741	868					
	Estimated	A10409	886					
	Estimated	A10743	950					
	Estimated	A10474	1,257					
	Estimated	A07829	1,299	(591)				
	Estimated	A07826	1,453	(661)				
	Total		22,675	310			1,055	
369	Retirements less than \$500K			2,070			1,894	6,977
	PP Conversion	A00566		626				
	Corrections and Adj.	106327		(12,463)				
	Overhead Plant	A00542		1,000				
	Overhead Plant	V00542		2,254				
	Service Connections	103469					5,691	
	Storm 3/5/04	SRC029						594
	Wire Restoration	MC8007						815
	Overhead Plant	B00002						876
	Emergency Replacements	EB5021						1,301
	Emergency Replacements	EB5021						1,750
	Emergency Replacements	EB5021						2,558
	Total			(6,514)			7,585	14,870

Source: Dr JDH-42, Attachment 1, Bates OCA 0045736 through OCA 0045738 and DR JDH-90, Attachment 2, Bates OCA 0088381.

- ACG evaluated the accuracy of the Company's estimated unrecorded retirements as shown in **Exhibit VII-7**. This analysis shows that the final retirement recorded in 2002 for these six projects was only 10.1 percent of the initial estimated retirements in 1999.

Exhibit VII-7
Comparison of Estimated and Actual Retirements
(Dollars in Thousands)

Work Order	Additions 4 th Qtr 1999	Estimated Retirements 4 th Qtr 1999	Utility Account	Actual Retirement Recorded in 2002	Actual Retirement as % of Estimated
A10813			364	128,368	
			365	33,706	
			371	2,370	
			373	55	
Totals	2,510,567	828,487		164,499	19.9
A06634	1,633,264	538,977	364	0	0.0
A10746			364	14,652	
			365	6,496	
			367	7,901	
Totals	3,834,128	1,265,262		29,049	2.3
A10767			364	52,158	
			365	14,454	
Totals	1,604,392	529,449		66,611	12.6
A10769			364	40,079	
			365	19,710	
Totals	1,858,381	613,266		59,789	9.7
A10810			364	28,449	
			365	36,344	
			373	120	
Totals	1,683,942	555,701		64,914	11.7
Total Retirements	11,491,410	3,792,165		384,862	10.1

Source: DR JDH-90, Attachments 1 and 2, Bates OCA 0088378 through OCA 0088381.

10. With the adoption of FERC Accounting Release 15, ComEd made normal retirements of plant assets in accordance with FERC guidelines, which created theoretical reserve deficiencies in the non-AR-15 distribution system reserve accounts.
- When originally issued in January 1997, AR-15 allowed for the retirement of certain types of general plant assets after a specified useful life. Using this vintage accounting method, utilities capitalize assets when purchased and retire the assets after the specified life, whether or not the physical assets have a shorter or longer useful life.
 - Following the release of AR-15, ComEd requested FERC permission to apply AR-15 principles to meters and transformers in Accounts 368 and 370. FERC granted

ComEd permission on July 23, 2001, but did not modify AR-15 to include these accounts.

- ComEd notified the ICC of its intended change in accounting on July 31, 2001.
- Exhibit VII-5, shows unusually high retirement amounts for meters and transformers in the amounts of \$42.0 million and \$90.9 million, respectively in 2001. These charges to the reserve for depreciation reflect the retirement of all meters and transformers in vintage years 1971 and prior in the amounts of \$43.7 million and \$97.8 million, respectively in accordance with AR-15's 30-year guideline.⁴⁵¹
- ComEd also adopted AR-15 for many general plant asset accounts and established useful lives in accordance with FERC guidelines as shown in **Exhibit VII-8**.

Exhibit VII-8
ComEd's Adoption of AR-15

FERC Account	Account Description	Amortization Period	Rate (Percent)
368	Line Transformers	30 Years	3.33
370	Meters	30 Years	3.33
391	Office Furniture and Equipment	10 Years	10.00
391	Computer Equipment	5 Years	20.00
391	Office Machines	10 Years	10.00
393	Stores Equipment	20 Years	5.00
394	Tools, Shop and Garage Equipment	25 Years	4.00
395	Laboratory Equipment	15 Years	6.67
396	Power Operating Equipment	20 Years	5.00
398	Miscellaneous Equipment	15 Years	6.67

Source: DR ACG-08, Attachment 2, OCA 0000052 , July 31, 2001 Notification to ICC.

- ComEd implemented AR-15 using a multi-step process, and three depreciation groups: 1) distribution excluding high voltage and meters and transformers; 2) distribution high voltage; 3) and meters and transformers.
 - ⇒ First, retirements were processed against both the investment and depreciation reserve for all AR-15 investments listed on the property records older than the amortization lives shown in Exhibit VII-8 above.
 - ⇒ Next, the amount of the depreciation reserve needed for AR-15 investments was assigned to the AR-15 accounts based on an age life assignment.
 - ⇒ Finally, the remaining reserve was assigned to the remaining non AR-15 accounts.
- Although this methodology is correct, the truing up of the AR-15 depreciation reserves resulted in theoretical reserve deficiency for the remaining accounts. The 2002 Depreciation Study Remaining Life depreciation rates for non AR-15 accounts

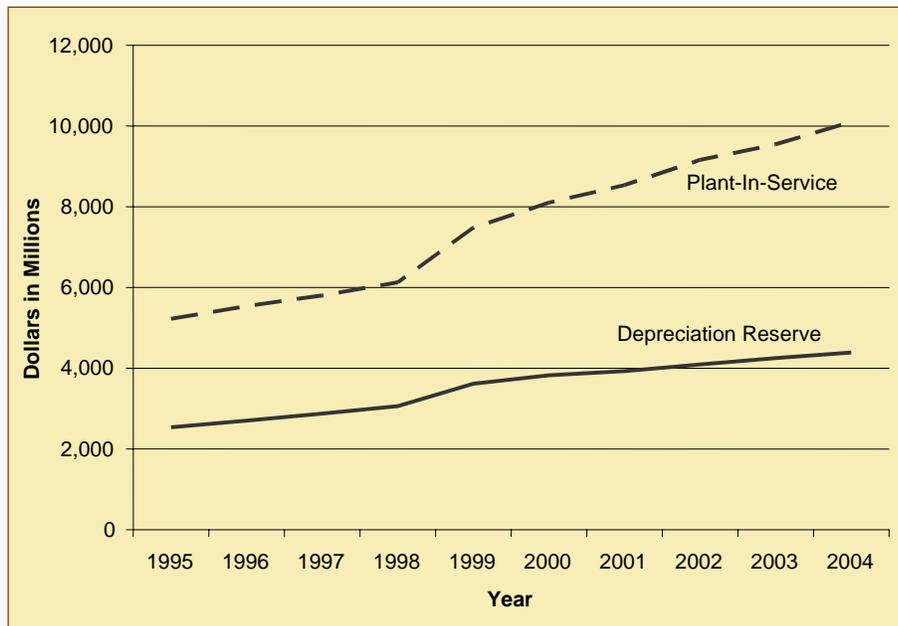
reflect an increase in the amount to be recovered through rates to compensate for this result.

- One consequence of the conversion to AR-15 is that the accounting records can no longer be used to support the physical existence of AR-15 assets. For meters and transformers, ComEd relies upon a combination of its Automated Micro System (AMS) to track meters and transformers in service, in testing or in stock. Meters in service are also identified in the Customer Information Management System (CIMS) which includes meter information for billing purposes. Beginning in 2006, ComEd established an annual reconciliation procedure to identify open AMS orders issued from CIMS to the records processed in CIMS.⁴⁵²

11. ACG’s analysis indicates that changes in ComEd accounting policies and depreciation practices contributed to an increase in rate base and shifted the recording of maintenance expense to cost of removal.

- A comparison of distribution system plant balances and reserves for depreciation is shown in **Exhibit-VII-9**. This exhibit shows that while plant-in-service balances and depreciation reserves increased at approximately the same rate from 1995 to 1998, the recorded cost of plant increased at a higher rate than the related depreciation reserves in the 1998 to 2004 period.

Exhibit-VII-9
Distribution Plant and Depreciation Reserve



Source: DR ACG-3, FERC Form 1 and ACG analysis.

- From 1995 through 2004, plant balances increased at the rate of 7.6 percent per year while the depreciation reserve increased at a 6.3 percent rate. In the later years, the percentage increases were 8.7 and 6.1 percent, respectively.

- The audit investigation identified five reasons for this divergence and resulting increase in rate base.
 - ⇒ Distribution system capital expenditures increased during the period.
 - ⇒ With the implementation of FERC Order 888, transmission plant with relatively longer useful lives and lower depreciation rates was reclassified to the high voltage distribution accounts, with the effect of lowering the plant to reserve ratio.⁴⁵³
 - ⇒ ComEd decreased its distribution system depreciation rates from 3.60 percent to 2.44 percent with the implementation of the 2002 depreciation study.⁴⁵⁴
 - ⇒ Negative net salvage as a percent of retirements recorded in the reserve for depreciation has increased, resulting in a lowering of the depreciation reserve.
 - ⇒ The change in the method of estimating unrecorded retirements resulted in an overstatement of recorded amounts that were subsequently reversed in later periods, resulting in an inappropriate lowering of the reserve until actual retirements were identified and recorded.
- Historically, ComEd recorded \$2.20 of retirements for every dollar of net salvage. During the 2001 through 2004 time period, this ratio was reduced to \$0.82 of retirements for each dollar of net salvage. Based on this analysis, and considering the effects of the change in property unit catalog definitions discussed below, using the data shown in Exhibit VII-5, ACG estimates that ComEd has shifted the recording of costs from maintenance expense to cost of removal in the approximate amount of \$50.1 million since 2001, as shown in **Exhibit VII-10** below.⁴⁵⁵

**Exhibit-VII-10
Estimated Effects on Depreciation Reserve
Of ComEd Changes in Capitalization Policy**

Description of Elements Used in Analysis	Reference	Factor	Amount (In Thousands)
Sum of Retirements 2001-2004	Exhibit VII-5		102,679
Deduct Accounts 360-364 not significantly affected by change in Property Unit Definitions	Exhibit VII-5		55,517
Remainder			47,080
Percent Impacted Accounts to Total			45.8
Historical Dollar of Retirement per Dollar of Removal Cost and Salvage [Note 1]		\$2.20	
Reciprocal amount representing net cost of removal per dollar of retirement		45.45%	
Calculated net salvage applicable to actual retirements			21,398
Sum of Actual Negative Net Salvage 2001-2004	Exhibit VII-5		130,705
Difference			(109,307)
Ratio of Impacted Accounts to Total			45.8
Capitalized cost of removal in excess of historical amounts			(50,110)

Source: JDH-107, Bates OCA 0092966, Estimated Unrecorded Distribution Retirements.

Property Unit Catalog

12. Although not in violation of any specific utility regulations, in conforming the ComEd and PECO Property Unit Catalogs in 2002, the companies' adopted property unit definitions with minimum capitalization quantity thresholds that are not supported by electric utility industry standards, and have had the effect of increasing utility plant balances and the related reserves for depreciation for property units added and retired after adoption of the change.

- The Commission has no specific requirements relating to retirement unit definitions contained in Property Unit Catalogs.⁴⁵⁶
- **Exhibit VII-11** provides a comparison of selected property unit definitions from the ComEd property unit catalog in use prior to 2002, and the EED Catalog used by ComEd and PECO beginning in April 2002. This exhibit also shows definitions developed by the Florida Public Service Commission (FPSC) that are required to be used by all electric utilities in Florida subject to FPSC regulation and definitions prescribed by FERC prior to 1997.
- As shown in Exhibit VII-11, some of ComEd's old retirement unit definitions are inconsistent with the pre-1997 FERC definitions and the definitions developed by the FPSC, and with the adoption of the 2002 Catalog, ComEd moved further away from these benchmarks. The inconsistencies noted include:

- ⇒ Identifying the component parts of HVAC and Fire Protection systems as units of property is not in conformance with the FERC and FPSC benchmarks.
- ⇒ The change in definitions for overhead wire from a span to a foot is not in line with the FERC and FPSC benchmark definitions of two continuous spans.
- ⇒ The same is true for Conduit, Buried Cable and Services.
- ⇒ The use of a \$500 minimum for the capitalization of furniture is also not in conformance with FERC and FPSC standards.
- The FERC definitions shown in Exhibit VII-11 were published in CFR 18, Part 116 prior to 1997. In July 1997, FERC issued a Notice of Proposed Rulemaking in Docket No. RM97-6-000 and later eliminated the requirement for utilities to use these definitions observing that the level of detail prescribed in Part 116 placed an unnecessary burden on companies, were not current, were too restrictive, and appear to provide a minimal benefit to either utilities or to the FERC.⁴⁵⁷
- It is possible that even under FERC rules in effect prior to 1997, ComEd might have adopted property unit definitions as small as those contained in the EED Catalog in 2002. Prior to the elimination of the specific definitions, in CFR 18, Part 116, FERC also provided for the use of smaller units of property. Item (2) in the Instructions to Part 116 says that “The retirement units listed herein are of maximum size and while a subdivision thereof, or the addition of other units, is permitted, the combination or the increase in size of such units is not permitted without the approval of the Commission.”⁴⁵⁸

Exhibit VII-11
Comparison of Selected Property Unit Definitions
in ComEd's Old and New Property Unit Catalogs and Benchmark Documents

Property Unit Description	Pre 1997 FERC	Florida PSC	ComEd Old	ComEd New
HVAC (361)	Complete system	Each (complete system)	Complete system	Component parts
Fence (361)	Complete, with gates	Each	500 ft. or more	Complete area or 500 ft. whichever is less
Fire Protection (361)	Complete system	Each	Complete system	Component parts
Single Conductor Wire (365)	Two continuous spans of one circuit	Two continuous spans	Complete span	Per foot
Distribution Line Conduit and Conduit in Tunnels (366)	Continuous run between two property units	Between termination points	Continuous run between two property units	Per foot
Manhole (366)	Each complete	Each	50 sq. ft. or more of interior space	Each complete
Buried Cable (367)	Continuous run between two property units	Terminal point to terminal point	Continuous run between two property units	Per foot (see footnote ⁱⁱⁱ on page following)
Services (369)	Each overhead service, and underground service, with our without ducts	Each	Capitalized and charged to service identification number	Per foot capitalization
Overhead Conductor Customer Premises (371)	Refers to other accounts – See 365 above	Each span	Each span length	Per foot
Underground Conductor Customer Premises (371)	Refers to other accounts – See 367 above	Termination to termination	Continuous between two properties	Per foot
Office Furniture and Equipment (391)	Office furniture; desk, cabinet, safe, file	Complete set with \$1,000 minimum	Per unit cost \$750 or greater	Per unit cost \$500 or greater

Source: ComEd Property Unit Catalogs, 2002 Revision (DR ACG-7, Bates OCA 0000007 through 0000016) and 1987 Edition (DR EAL-5, Bates OCA 0019858 through 0020073), 1987 General Plant Catalog, (DR JDH-101, Bates OCA 0091267), CFR 18, Part 116 rescinded in 1997 in FERC Docket No. RM97-6-000, List of Retirement Units as of January 1, 2000, Florida Public Service Commission, Division of Economic Regulation, Depreciation Section, obtained from the Florida PSC website, and ACG Analysis.

13. In conforming their Property Unit Catalogs, ComEd and PECO adopted the smallest of the minimum capitalization thresholds in use by either company, and in at least one instance reduced the minimum thresholds of both companies while achieving consistency. Further, the change in ComEd property unit definitions raises a question regarding the consistency of the Company's application of accounting principles.

- For property units listed in Exhibit VII-11 above, ACG reviewed the PECO Property Unit Catalog in effect prior to the change, and the comparative analysis prepared by the EED Consolidation Team and determined the following:
 - ⇒ PECO reduced the minimum threshold for fencing from 1000 feet to 500 feet to conform with the ComEd property unit definition.
 - ⇒ ComEd reduced the minimum thresholds for wire, conduit, buried cable, services, and overhead and underground conductor to “per foot” to conform with the PECO property unit definitions in effect prior to the change.^{iv}
 - ⇒ ComEd reduced the minimum thresholds for furniture, lab equipment, office machines, stores equipment, tool, shop and garage equipment, and other tangible equipment to \$500 to conform with the PECO property unit definition in effect prior to the change.⁴⁵⁹
- The companies also added a number of property units to their catalogs to conform to one another. For example, ComEd added property units for ceilings, draperies, fire detection systems, fire protection, fire escape systems, and floor coverings, separating these items from the cost of a complete facility.
- Under their individual company property unit catalogs, ComEd and PECO used a threshold for the capitalization of computer software of \$5 million and \$10 million, respectively, both requiring a 10 year useful life. Under the new Catalog, both companies adopted a \$100,000 capitalization threshold.
- **Exhibit VII-12** provides the companies' quantification of the changes to the property unit catalogs, on an annualized basis following implementation of the change effective April 1, 2002.

^{iv} To qualify for capitalization, cable measurement must exceed 2 feet, not including the splice or joint. See ACG analysis in Chapter VI of the report.

Exhibit VII-12
EED Quantification of the O&M to Capital Shift
Due to Changes in the ComEd and PECO Property Unit Catalogs in 2002
(Annual Dollars in Millions)

Change Description	EED Quantification	
	ComEd	PECO
Alignment of Property Unit Catalogs: Change in minimum capitalization quantity thresholds for many property units.	2.5	1.3
Identification of Additional Property Units: HVAC and Fire Protection Systems components for example.	1.5	.1
Capitalization of Computer Software: Establish minimum project cost of \$100,000 with useful life greater than one year	2.1	1.5
Total	6.1	2.9

Source: EED Capitalization Policy Review June 2002 Status Report, DR
ACG-39, Attachment 6, Bates OCA 0023764 through 0023769.

- The estimated quantification of the changes in the Property Unit Catalog shown in the table above were developed by the EED Consolidation Team based on discussions with various Distribution, Transmission & Substation, Operations, Finance, and other personnel performing work in the areas being updated. There are no additional work papers that quantify the effect of the changes outside this summation.⁴⁶⁰
14. Our review of FERC audit work papers provides evidence that ComEd has previously changed Property Unit Catalog definitions to “smooth earnings.”
- ACG reviewed FERC audit work papers prepared in connection with their 1991 through 1995 audit.
 - The work papers show that ComEd adopted Property Unit Catalog revisions for generation related assets effective September 20, 1991 that resulted in an increase in capitalized costs with an estimated annual effect of \$44.6 million as shown in **Exhibit VII-13** below:

Exhibit VII-13
Quantification of the O&M to Capital Shift
Due to ComEd's 1991 Changes to its Property Unit Catalog
(Dollars in Thousands)

Retirement Unit	Property Unit Catalog Page	Amount Capitalized
Peakers	344.001 through 344.009	30,284
Fiber Optics	397.015	1,139
Containment Bellows	322.035C	9,874
Containment Penetration	322.035B	3,279
Total		44,576

Source: FERC 1991-1995 audit work papers, Section J-5.

- The FERC work papers indicate that “FERC staff concluded that the changes were made to smooth earnings. However, after discussions with [a FERC supervisor] it was determined that staff would not take an exception on this issue.”⁴⁶¹
15. ComEd applied the 2002 Catalog definitions in the unitization process beginning April 1, 2002, meaning that the \$903.8 million backlog of distribution system related completed construction not classified in account 106 was unitized based on the new definitions.
- Based upon ACG’s analysis of the proposed account distribution for completed construction not classified as of April 1, 2002, \$903.8 million pertains to the distribution system and \$369.4 million pertains to the accounts predominately affected by the change in property unit catalog definitions.⁴⁶²
 - However, unitization of this amount using the new Property Unit Catalog definitions will have no current consequences because the Company has in effect adopted the new definitions for all units of property as explained in the paragraph below.
16. Although ComEd did not specifically redefine older vintage year property units when adopting the lower capitalization thresholds, its retirement accounting methodology has the same effect.
- For example, ComEd states that the retirement accounting for distribution overhead wire being replaced is based on the quantity of overhead wire replaced multiplied by the average cost for the particular vintage year of the wire being replaced.⁴⁶³
 - ACG interprets this as saying that if less than a span of wire is replaced, the total cost in the account for a vintage year would be divided by the number of feet on average for all spans of wire, and the average cost of the number of feet replaced would be retired. So, in effect, the retirement amount is based on the new property unit definition.

Recommendations for the Company

1. In the preparation of future depreciation studies, use the Prospective Method for the distribution of the reserve for depreciation among accounts. (Refers to Conclusion No. 3)
2. To properly state the original cost of plant and the related depreciation reserve balance, revert to ComEd's former procedure of actually recording estimated unrecorded retirements. This will avoid the necessity of adjusting depreciation expense, provide more reliable information for allocation of depreciation reserves in the preparation of depreciation studies, and raise the visibility of this matter for assessment in connection with the general accounting process. (Refers to Conclusion Nos. 8 and 9)

Policy Issues for the Commission

1. Establish schedules for the preparation and filing with the Commission of ComEd depreciation studies at three to five year intervals. Following staff review of ComEd filings, approve the implementation of new depreciation rates for use until depreciation issues are addressed in the next general rate proceeding. The filing of depreciation studies and staff review should take place outside of the rate case setting to provide adequate time for review and reflection. (Refers to Conclusion No. 1)
2. Establish Property Unit Catalog definitions based on industry benchmarks or ComEd past practices and require ComEd to adopt the new definitions. The definitions promulgated by the Florida Public Service Commission might be implemented for ComEd's use in Illinois, or alternatively, the Commission might impose the use of ComEd definitions in effect prior to the implementation of the change in Property Unit Catalog definitions in 2002. Ensure that all unitization performed using the new definitions is adjusted to reflect the Commission mandated definitions. (Refers to Conclusions No. 12, 13, 15 and 16)

Questioned Costs

The following **Exhibit VII-14** summarizes Questioned Costs identified in this Chapter of the report.

Exhibit VII-14
Summary of Questioned Costs
(Dollars in Thousands)

Description of Questioned Cost	Reference	Reason Cost is Questioned	Increase or (Decrease) Rate Base
Depreciation expense understated due to retroactive application of AR-15 for meters and transformers	Exhibit VII-2	Accounting	(2,700)
Adjustment to the reserve for depreciation to eliminate removal costs related to unrecorded retirements.	Conclusion No. 6	Accounting	(17,400)
Estimated effects of changes in Property Unit Catalog definitions, shifting costs from maintenance expense to cost of removal.	Exhibit VII-10	Inconsistent Application of Accounting Principles	(50,110)
Total			(70,210)

Appendix



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November 13, 2007

John D. Heaton
Managing Director
Alliance Consulting Group
5574 Brookline Drive
Orlando, FL 32819

Dear Mr. Heaton,

Commonwealth Edison Company (“ComEd”) submits this letter in response to Alliance Consulting Group’s (“ACG”) draft report entitled Commonwealth Edison Company Delivery System Original Cost Audit as of December 31, 2004 (“Audit Report”), dated October 9, 2007.

ComEd has prepared this letter in response to a request from ACG for a summary of ComEd’s comments on the draft Audit Report, and expects that it will be included in its entirety with the submission of the Audit Report. ComEd has previously provided detailed comments on draft audit report chapters that ACG provided to it (referred to by ACG as Task Reports). The comments provided by this letter supplement the comments that ComEd provided on the Task Reports and are as detailed as possible given the time constraints imposed by the auditor. ComEd does not waive its position with respect to any comments it previously provided in written or oral form but which are not specifically repeated herein. Furthermore, ComEd expressly reserves the right to dispute any of the content of the Audit Report, including its findings, conclusions, and recommendations, regardless of whether ComEd has previously commented on that content or does so in this letter.

EXECUTIVE SUMMARY OF COMMENTS ON AUDIT REPORT

ComEd has carefully reviewed in detail the Task Reports and the draft Audit Report and has previously provided substantive, detailed comments. Where ComEd found merit in the Audit Report’s analysis, it voluntarily made adjustments. For example, the Audit Report recommends that ComEd transfer \$81 million from distribution to transmission rate base. ComEd acknowledged that these transfers were appropriate and made them. It is analyzing whether some other small adjustments are appropriate.

There remain, however, many conclusions in the Audit Report with which ComEd fundamentally disagrees. Among numerous other deficiencies, three are most glaring: (1) The Audit Report includes discussion and analysis of many issues that are

outside the scope of the audit as ordered by the Commission; (2) the auditor proposes adjustments for items that the Audit Report acknowledges conform to GAAP and/or Illinois Commerce Commission (“ICC” or “Commission”) rules; and (3) the Audit Report utilizes faulty sampling and extrapolation techniques. ComEd’s position on these three major areas is summarized below.

First, the Audit Report goes well beyond verifying that ComEd’s distribution electric utility plant-in-service at December 31, 2004 is appropriately recorded at original cost — the scope of the audit expressly ordered by the ICC in Docket No. 05-0597 in its April 5, 2006 Interim Order. During the course of the audit, ACG has, in many places, improperly attempted to re-examine the reasonableness of costs that already have been litigated and decided by the Commission. The Audit Report discusses and analyzes ComEd’s procurement practices, affiliate transactions, and various aspects of project management, such as analysis of budget variances, project schedule, and project approval. These subjects have nothing to do with whether ComEd’s rate base is recorded at original cost. ComEd properly objected to several data requests on those subjects. While Staff Counsel recognized some merit in ComEd’s position, the auditor did not. The auditor’s conclusion that an “external audit impairment” exists, due to ComEd’s refusal to respond to data requests that exceeded the scope of the audit, is unsound.

Second, several areas of the report identify issues and proposed adjustments that are not based on accounting errors or violations of recognized accounting standards. Rather, they are based on the auditor’s preference for other accounting methods, even when contrary to Commission-approved practices, or reliance on standards used in other jurisdictions that have never been applied in Illinois. For example, the Audit Report addresses common facilities (land, fencing, security equipment, etc.) at six substations that have both distribution and transmission functionality. Consistent with the Commission-approved methodology, ComEd allocated those facilities to either transmission or distribution based upon the predominant use of each substation. The Audit Report acknowledges that the Commission specifically approved this methodology for all Illinois utilities in Docket 98-0894. However, because the auditor disagrees with the Commission-approved methodology, the Audit Report proposes a \$24 million downward adjustment to ComEd’s rate base.

Similarly, the Audit Report proposes another \$50 million in rate base adjustments because the auditor believes that ComEd should adopt accounting standards said to be applied by the Florida Public Service Commission (“PSC”). ComEd is governed by the ICC, not the Florida PSC, and the ICC has never adopted such standards.

Third, the Audit Report identifies proposed adjustments based on a lack of “sufficient” paper support for a limited number of small dollar projects, and then applies a flawed and improper extrapolation not reflecting sound statistical methods to inflate the disallowance. For example, the auditor “judgmentally selected” 30 small projects (under \$1 million) from a population of 611 to review documentation dating back to 2001. The

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John Heaton

Alliance Consulting Group

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Audit Report claims that 14 of those projects (worth a total of \$4 million) had "unauthorized" and "unsupported" costs because ComEd was unable to locate certain categories of project documents that the auditor thought should exist. Without making any effort to examine the related assets or determine whether they were prudently acquired and are serving customers, the Audit Report concludes that the *entire* cost of all of those projects should be disallowed. Inexplicably, the Audit Report next assumes that *all* small dollar projects suffer from the same problem in the same proportion as the judgmental sample and therefore 100% of those project costs — or \$90 million — should also be disallowed from rate base. This extrapolation violates the most basic statistical techniques and established auditing standards.

The Audit Report identifies \$360 million of proposed rate base adjustments. The three areas identified above account for more than \$197 million of the proposed rate base adjustments:

- \$101 million involving the mis-application of sampling techniques;
- \$50 million for proposed adjustments based on Florida, rather than Illinois, standards; and
- \$46 million based not on violations of any accounting standards, but on the auditor's preference as to certain accounting methods, including the \$24 million related to common facilities at substations with both distribution and transmission functionality discussed above, \$17 million in connection with removal costs related to unrecorded retirements, and \$5 million related to accounting for stores handling expense.

Of the remaining \$163 million proposed adjustments, ComEd has acknowledged and made the appropriate transfers of \$81 million to transmission rate base and \$4 million was either double counted or was originally expensed. None of the remaining \$78 million of proposed adjustments has any merit:

- \$43 million relates to a change in ComEd's accounting for departmental overheads to include contractor labor. ComEd does not agree with the Audit Report's conclusion that the inclusion of contractor labor was inappropriate.
- \$27 million relates to accounting treatment of certain software costs (the \$30 million shown in the Audit Report included \$4 million of costs that were either double counted or originally expensed). ComEd disagrees that the full \$26 million proposed adjustment is appropriate, and believes that the Audit Report relies on a mischaracterization and misapplication of the applicable accounting standard.
- \$5 million relates to the absence of certain documentation, which ComEd does not agree supports the proposed adjustment.
- \$3 million relates to ComEd's accounting treatment in connection with meters and transformers. ComEd disagrees that its accounting treatment in this area was inappropriate.

Beyond all of these errors and deficiencies, it must be noted that the Audit Report uses gross plant figures when calculating the adjustments without recognizing necessary ratemaking adjustments. The report fails to adjust the proposed disallowances to account for accumulated depreciation and accumulated deferred income taxes. These are basic ratemaking adjustments that ComEd makes and the Commission requires in every rate order. They take on added significance in this case because of the twenty-year span of the audit. [Because the Audit Report relies upon extrapolation of the auditor's findings to support larger reductions, it is virtually impossible to associate gross plant dollars with specific in-service dates and thereby calculate the necessary reductions to arrive at proper net plant adjustments.] For example, if one assumes that ComEd improperly capitalized \$30 million in computer software placed into service in 2001, that gross plant balance should be reduced by approximately \$13.5 million for accumulated depreciation and another \$8.4 million for accumulated deferred income taxes. So, even if accepted by the Commission, the actual reduction to rate base would be only about \$8.1 million, not \$30 million. Because distribution plant assets have a longer useful life than computer software, the effect of accumulated depreciation and taxes would be less dramatic on such assets placed in service in 2001, but would require these necessary reductions nonetheless. This lessens the actual rate base effect of all of the Audit Report's proposed adjustments.

The remainder of this letter describes more specifically ComEd's disagreement with the Audit Report's proposed adjustments and, subject to our previous "no waiver" reservation, sets out in detail ComEd's comments on the draft Audit Report. This letter is arranged by the chapters in the Audit Report.

CHAPTER I – EXECUTIVE SUMMARY

Proposed Adjustments as of and after December 31, 2004

The Executive Summary in the Audit Report summarized proposed adjustments to ComEd's original cost rate base of delivery system plant as of December 31, 2004. ComEd disagrees with the proposed adjustments for reasons specifically detailed throughout this letter. In addition, the Audit Report's proposed adjustments are overstated because the adjustments do not consider depreciation of the underlying assets or the impacts of accumulated deferred income taxes ("ADIT") affected by the proposed adjustments as of December 31, 2004. Moreover, because of flawed assumptions, an appropriate depreciation or ADIT adjustment cannot feasibly be calculated for the proposed adjustments because such adjustments are often not tied to specific assets or projects.

Additionally, of the \$360.2 million of adjustments to distribution plant as of December 31, 2004 proposed in the Audit Report, \$80.9 million relates to net reclassifications of distribution plant to transmission plant already recorded by ComEd. In July 2005, ComEd reclassified \$23.3 million of the \$80.9 million relating to the State

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Street substation project T787LN (and properly reflected in the 2005 ComEd Distribution Rate Case); and in August 2007, ComEd reclassified \$57.6 million of the \$80.9 million relating to the substation costs summarized in Exhibit V-15.

Finally, in addition to identifying specific adjustments as of December 31, 2004, the Audit Report also states that “ComEd has continued to use the questioned accounting practices since [December 31, 2004]” and that “many of the proposed adjustments require updating to a current date in connection with an Original Cost determination after the audit date.” The auditor has no authority to make any conclusions regarding ComEd’s practices after December 31, 2004, and ComEd objects to these statements in the Audit Report as outside the scope of the audit as ordered by the Commission. The Commission has clearly stated that “the scope of the original cost audit is to verify that distribution electric utility plant in service *at December 31, 2004* is appropriately recorded at original cost.” (Interim Order dated April 5, 2006 at p.2 (emphasis added).) The auditor also has no basis for these conclusions because data requests and ComEd’s responses were limited to the time period identified in the Interim Order, which went through the end of 2004.

CHAPTER II – AUDIT SCOPE AND APPROACH

Audit Scope Issues/External Audit Impairment/Questioned Costs

The Audit Report notes that ComEd raised two issues relating to the scope of the audit. The first dealt with issues relating to General Plant and Intangible Plant. As the Audit Report further notes, this issue was the subject of an agreement between ComEd and Commission Staff which, according to the Audit Report, had “little effect on the conduct of the audit.” That issue is not discussed further in this letter.

The other issue was whether “reasonableness” of costs was within the scope of the original cost audit. The auditor took the position that the scope of the original cost audit properly includes identification of “questioned costs,” one of the criteria of which is “costs resulting from the application of questionable accounting principles or other management actions that do not seem reasonable under the circumstances.” (*See, e.g.,* Audit Report p. II-25.) ComEd objected to the inclusion of these reasonableness and management prudence issues on grounds that they were clearly beyond the scope of the audit ordered by the Commission. This dispute was not resolved and the Audit Report concluded that ComEd’s failure to produce documentation requested by the auditor in connection with these issues constitutes an External Audit Impairment under Generally Accepted Government Auditing Standards (“GAGAS”). ComEd disagrees, for the following reasons.

The Commission Order initiating the audit clearly and unequivocally stated that the audit should be a review of the proper recording of plant costs, not a review of the reasonableness of costs. Pursuant to the Commission’s April 5, 2006 Interim Order in

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Docket 05-0597, the scope of the audit is “to verify that distribution electric utility plant in service at December 31, 2004 is *appropriately recorded at original cost*. Such determination will be conducted performing appropriate tests *to determine that ComEd’s books and accounts are maintained in accordance with ICC rules* and accurately reflect additions, retirements, and other changes to electric utility plant in service in accordance with the Uniform System of Accounts for electric utilities as prescribed by the Commission.” See April 5, 2006 Interim Order at p. 2 (emphasis added). Nothing in this Order identifies the reasonableness of costs or management prudence issues as within the scope of the audit. Significantly, the Interim Order also does not refer to the applicable section of the Public Utilities Act (Section 8-102) that does authorize the Commission (upon making certain findings) to audit the reasonableness of costs or the prudence of management decisions. In addition, the Commission, in the rate case that gave rise to this audit and after fifteen months of litigation among Staff and several other parties, decided the reasonableness of the cost of ComEd’s rate base as of the end of the audit period. See July 26, 2006 Order in ICC Docket 05-0597; December 20 Order on Rehearing. A re-examination of those costs is wasteful and prohibited by law.

The auditor relies on a mischaracterization of the Interim Order to contend that the reasonableness of costs is properly within the scope of the audit. The Audit Report cites to language from the Interim Order stating that the auditors are to perform “appropriate tests.” (p. II-20.) The Audit Report also cites to Paragraph 2.E. in the General Instructions in the FERC Uniform System of Accounts for the proposition that the amounts included in the prescribed accounts must be “just and reasonable.” (p. II-21.) These generalized references do not support the scope position taken in the Audit Report, which takes the cited language out of context. The first sentence of the Interim Order language quoted in the Audit Report clearly delineates the scope of the audit: to verify that distribution electric utility plant in service at December 31, 2004 is appropriately recorded at original cost. The FERC General Instruction cited by the auditor simply reflects the established precept that cost recovery must be just and reasonable; it has nothing to do with authorizing a prudence or reasonableness review in the context of an original cost analysis.

The auditor’s attempt to expand the audit scope to include “questioned costs” by citing a United States Office of Management and Budget (“OMB”) Circular is also improper. First, the Interim Order does not reference the OMB Circular or suggest in any way that the scope of the audit should include the OMB’s notion of “questioned costs.” Moreover, by its very terms, OMB Circular A-133 sets forth standards to be applied by federal agencies for the audit of states, local governments, non-profit agencies, and other non-federal agencies expending federal awards. This circular does not apply to the original cost audit and was explicitly not intended to apply to costs expended under utility procurement contracts.

ComEd further disputes that it is stated in “or may be reasonably inferred from” the Interim Order that one of the audit objectives is to “determine that the Company’s

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capitalization policy, property unit catalog, and system for recording capital costs are appropriate and have been maintained and applied in a consistent manner.” (p. II-13.) This language does not appear in the Interim Order and nothing in that order explicitly or implicitly discusses the “appropriateness” of ComEd’s policy, catalog, or system.

Based on the foregoing, ComEd objected during the course of the audit and continues to object to the inclusion in the Audit Report of management prudence or cost reasonableness issues.¹ Specifically, the following areas of the Audit Report at least are outside the scope of the original cost audit as ordered by the Commission: analysis and discussion of the reasonableness of costs, including cost variance discussion and analysis relating to small dollar and other projects, analysis and discussion related to ComEd’s procurement practices and vendor selection, ComEd’s affiliate relationships, costs related to Exelon Business Services Company (“BSC”) including, but not limited to, strategic sourcing services and its labor rates, ComEd’s choices between accounting methods, including its accounting for storm damage repairs, and ComEd’s capitalization policy and changes to its Property Unit Catalog.

Accordingly, ComEd’s failure to produce documents that may be responsive to “reasonableness” or “management prudence” issues does not constitute an External Audit Impairment. Moreover, the Interim Order established a procedure to be used in the event of a discovery dispute, which procedure was not pursued.

To the extent that ComEd provided any information in any of the areas that are beyond the scope of the original cost audit, either in the course of discussing scope issues with the auditors or reviewing draft chapters of the report, this information was provided without waiver of ComEd’s objections to ACG’s inquiry into those areas or their inclusion in the Audit Report.

CHAPTER III – REGULATORY HISTORY

A. ACG’s Review of Commission Rate Orders

The Audit Report asserts that the Commission’s most recent determination of ComEd’s original cost of electric utility plant in service was as of December 31, 1984 in an order dated December 8, 1993 in Docket No. 93-0145. ComEd does not agree that this was the Commission’s most recent determination. The Commission can, and often does, make determinations regarding original cost in its rate orders, pursuant to Section 9-210 of the Public Utilities Act. *See, e.g.*, January 9, 1995 Order in Docket 94-0065, Finding (10). The auditor’s interpretation of previous rate case orders, including its unfounded opinion as to their original cost determinations (*see* Chapter III note ii), is

ⁱ With respect to Exhibit II-4 in the draft Audit Report, ComEd responds that the table omits the following data requests to which ComEd also objected: EAL 87; JDH 157; JDH 162; JDH 176; JDH 213-02; JDH 213-03; JDH 213-17; JDH 213-20; JDH 213-28; and JDH 213-29.

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incorrect and irrelevant legal opinion that they are unqualified to make and is outside the scope of the original cost audit.

ComEd also disagrees with certain implications in the Audit Report's discussion of Rate Order Treatment of Distribution Plant and Related Reserves for Depreciation. First, with respect to Docket 99-0117, the Audit Report's statement "that the authorized rate base amount is approximately \$50 million less than proposed due to the exclusion of certain estimated distribution projects" incorrectly implies that the estimated projects are not used and useful. (*See* p. III-39.) This implication is unfounded and incorrect. Second, the Audit Report's discussion fails to acknowledge the terms of the Agreement Regarding Various Matters Involving or Affecting Rates For Electric Service Offered By Commonwealth Edison Company, dated as of March 3, 2003, which states in the Commission's Final Order (issued March 2003) that rate base was not to be adjusted on a retrospective basis (Agreement, page 15).

With respect to the Audit Report's discussion of Rate Order Treatment of General Plant and Intangible Plant, the discussion of the allocation method used to determine the portion of General and Intangible Plant to be included in ComEd's delivery services rate base is irrelevant. (*See* p. III-39). Allocation of plant has no role in the determination of original cost and the Audit Report's discussion of allocation is therefore outside the scope of the original cost audit.

B. Withdrawn Testimony from Docket 05-0597

ComEd disagrees that it is appropriate to include in the Audit Report testimony by the Commission Staff in Docket 05-0597 that was never admitted into evidence or tested on cross-examination and was ultimately withdrawn. This testimony, particularly the Audit Report's summary of "concerns" regarding ComEd's accounting for capital versus expense of its distribution plant additions (pp. III-40 to III-41), is not relevant to the original cost audit. Moreover, even if relevant, the inclusion of this testimony is misleading and one-sided as it fails to also include the specific ComEd rebuttal testimony responding to these points, which was also withdrawn. Finally, the Audit Report cites withdrawn testimony that was designated "confidential" and, if cited at all, should be designated as such in the Audit Report.

C. Management Audits

The Audit Report's discussion of specific findings contained in an audit report issued by Liberty Consulting Group in October 2002 is misleading and incomplete. (*See* pp. III-41-42.) These findings were not adopted by the Commission.

D. FERC Audits

The Audit Report describes three FERC audits conducted during the audit period and states that those audits did not address plant costs. ComEd disagrees with the Audit Report's characterization of the FERC audits, including their scope and purpose. The very purpose of FERC audits is to verify a utility's recordation of costs — including plant costs — in accordance with the FERC Uniform System of Accounts as contained in the Code of Federal Regulations ("CFR"), title 18. As part of the FERC's audit process, the audit report prepared by FERC staff is submitted for comment to state jurisdictional bodies such as the Commission.

CHAPTER IV – INTERNAL CONTROLS

ComEd disagrees with the conclusion reflected in Exhibit IV-6 that schedules for regular updating of depreciation and remaining life studies are not adequate. ComEd operates under Commission rules, and the reference to NARUC guidelines in Note 2 of this exhibit is therefore irrelevant, improper, and outside the scope of the original cost audit, which is to verify original cost in accordance with *ICC* rules. ComEd is not in violation of any *Commission* requirements.

Second, the Internal Controls chapter contains an irrelevant discussion of certain ComEd information systems. That conclusion states that "[w]hile ComEd's geographic information and outage management systems perform critical operating functions, they could not be effectively used to support the original cost audit." (Conclusion 4)ⁱⁱ These systems were intended to serve purposes separate from and unrelated to support of the original cost audit, and they do effectively serve their intended function(s). Accordingly, this finding is irrelevant.

Third, ComEd objects to Exhibit IV-10 to the extent it reflects internal audit report findings that are outside the scope of the original cost audit as ordered by the Commission, *e.g.*, findings regarding project authorizations and budget issues.

Fourth, the Audit Report concludes (Conclusion 13) that "ComEd has established procedures which pertain to Utility Plant and Project Accounting; however, external audit work papers indicate that ComEd did not consistently follow the procedures regarding project authorizations and reauthorizations." ComEd disagrees with this conclusion. The Audit Report indicates that the source for this conclusion is "a 2003 *draft* PwC management letter comment." (emphasis added) Reliance on a comment in a draft management letter is inappropriate. That comment was never incorporated into the final report and was ultimately determined by ComEd's auditors not to raise a legitimate issue.

ⁱⁱ Except as otherwise noted, all Conclusions and Recommendations cited in this letter are those that appear in the chapter of the Audit Report being discussed.

Nothing in the Audit Report suggests that the conclusion of ComEd external audit team was unfounded.

Finally, the Audit Report contains an “addendum” to the Internal Controls Chapter, a draft of which ACG did not previously provide to ComEd. The addendum identifies issues related to records retention, procurement practices, changes in accounting procedures and affiliate transactions that are outside the scope of the audit as ordered by the Commission. These areas, as well as ComEd’s disagreement with the Audit Report’s analysis related to AICPA Statement of Position 98-1 (“SOP 98-1”), are discussed more specifically below.

CHAPTER V – DETAILED TESTS OF TRANSACTIONS

A. Detailed Tests of Transactions Background

Preliminarily, and as more fully discussed above, issues encompassing a review of ComEd’s management practices relating to its construction program (including procurement policies and vendor selection, project approval, project schedule and budget performance, procedures for post-implementation review and other areas of project management) are outside the scope of the audit ordered by the Commission. ComEd objects to the characterization of its objection to providing documents relating to these issues, based on its good faith and reasonable belief that they are outside the scope of the audit, as an “external audit impairment.” That the dispute resolution procedures unequivocally spelled out by the Commission in its Order were not followed is yet another reason why the auditor’s conclusion is inappropriate.

B. Detailed Review of Project Costs

With respect to its detailed review of project costs, the Audit Report concludes: “Although clear cut exceptions in the Detailed Tests of Transactions are few in number, our review of other information in the project files raised significant questions regarding the propriety of capitalized costs and the classification of costs in the accounts.” (Conclusion 1) ComEd disagrees with the characterization that any issues identified as a result of this test were “significant.” Further, the Audit Report fails to explain what is meant by “propriety of capitalized costs,” and also fails to provide any explanation, justification, analysis or standard to support the conclusion that the “exception amounts” should not be capitalized.

In connection with this conclusion, the Audit Report identifies a proposed base adjustment of \$255,000 in the test sample, as shown in Exhibit V-5 (but incorrectly shown as \$37,000 in Exhibits I-1 and V-36) and \$11.1 million when the base amount is extrapolated. The Audit Report does not properly support the exception amount (whether it is \$37,000 or \$255,000). In addition, extrapolation of the base exception amount is inappropriate. The Audit Report states that “judgmental sampling techniques” were used

to select the sample, but fails to give any further explanation of how that sampling was conducted. Extrapolation is generally appropriate only where the sample was derived in a random and statistically sound manner. Because the sample used was not so derived, the Audit Report's conclusion that "it is fair to assume that the error rate in the test sample would extend to all transactions in the databases for which adequate support was provided" is flawed. Additionally, \$54,000 of the \$255,000 in the test sample is counted twice in the proposed rate base adjustment - - here and as an adjustment in Exhibit V-32.

As part of this discussion, the auditor recommends (Recommendation 1) that ComEd review and revise its procedures related to accounting so that it can "clearly demonstrate that all retirements and related salvage credits are properly recorded in a timely manner." ComEd plans to continue to perform unitization on a timely basis so that unrecorded retirements are not necessary, and this recommendation is therefore unnecessary.

C. Review of Project Documentation

In this section of Chapter V, the Audit Report states that "[b]ecause ComEd objected to providing and did not provide needed documentation relating to vendor selection, project scopes and budgets, and post implementation appraisals, ACG performed the Detailed Test of Transactions outside a proper context for such a review." (Conclusion 4) ACG's inquiry relating to these documents is outside the scope of the audit ordered by the Commission. ComEd did not provide the information referenced for that reason.

The cost estimate "variances" for unique projects Exhibit V-8 purports to provide are similarly outside the scope of the original cost audit.

This section of the Audit Report fails to account for the fact that disbursements recorded to ComEd's blanket projects are authorized, accounted for, and supported at the individual transaction level, *i.e.*, expenditures are approved (or not) at the time the costs are to be incurred.

D. Missing Documentation

ComEd disagrees with the Audit Report's conclusion that ComEd "did not provide adequate support for a number of the line items selected for testing in the Detailed Tests of Transactions, resulting in a proposed adjustment to the accounts for the unsupported disbursements, and raising questions regarding the implementation of its records retention policy." (Conclusion 5)

First, the Audit Report mischaracterizes ComEd's efforts to locate documentation in response to a voluminous data request from the auditors. ComEd provided a series of supplemental responses to the data request, and also met with the auditor to explain

documentation. Throughout, ComEd continued its efforts to locate the requested documentation, and provided additional information on a rolling basis to expedite review.

Second, the Audit Report does not explain why the absence of some portion of documentation related to a project should result in a total disallowance of the costs of that project. Although the Audit Report states that ComEd failed to provide “adequate support” for a number of line items, it fails to explain what constitutes “adequate support,” or how the available information was inadequate. Similarly, although the Audit Report proposes an “inadequate documentation” adjustment “in accordance with GAGAS,” it fails to identify what specific GAGAS standard applies. Finally, the auditor made no effort to inspect the assets resulting from those projects to determine if they were prudently acquired at a reasonable cost and were serving customers.

For these reasons, ComEd does not believe that the \$5,229,000 adjustment proposed for “missing documentation” is necessary or appropriate. ComEd also takes issue with the Audit Report’s calculation of the adjustment *if* the base amount were to be extrapolated to a larger group of projects. The report explicitly concedes that extrapolation of the base adjustment is not appropriate because “better” documentation was available for more recent transactions, the exceptions found in the population of transactions for which support was provided were minor, and other tests and analyses made extrapolation less compelling. In light of all of those factors, it is wholly inconsistent and improper for the Audit Report to then quantify and reference the amount of a speculative extrapolated adjustment.

E. Clearing Accounts and Other Overheads

The Audit Report’s Conclusion 7, that General and Administrative (“G&A”) “overhead allocations to capital have increased during the 2001 through 2004 audit period due in part to a change in the allocation base which now includes contract labor,” is wrong. The allocation base has nothing to do with the amount of G&A overhead allocations to capital. The allocation cost pool is predetermined based on annual studies that are not affected by contract labor.

ComEd also disagrees with the Audit Report’s conclusions that “[a] change in ComEd’s accounting for departmental overheads has resulted in the inappropriate capitalization of overhead costs during the 2001 through 2004 audit period” and “[o]ur review of the departmental overhead cost pools...shows that they have little or no relationship to contractor labor costs and we believe that the change is not adequately supported and justified. Cost Causation principles underlie the accounting for overheads, and are not present in this situation.” (Conclusion 8) ComEd’s business practices changed, with internal labor costs decreasing and more contractors used to supplement internal labor. The use of contractor labor requires resources to manage and administer their work similar to those used to manage internal labor, so ComEd’s practices are supported by cost causation principles and are otherwise consistent with GAAP.

For reasons stated in the preceding paragraph, the analysis reflected in Exhibit V-11 concerning a proposed adjustment of \$42,921,000 related to departmental overheads is not valid. Contractor labor had a \$6 million effect on capitalized department overheads in 2003 and 2004, not \$42.9 million. The auditor incorrectly performed its calculation on all capitalized departments.

With respect to the Audit Report's statements regarding inclusion of contractor labor in G&A and Department Overheads not being supported by a study, these decisions were made during Exelon Performance System implementation sessions held with the business units. Because ComEd and other business units were increasingly supplementing internal labor with contractor labor, and this was determined to be the more appropriate allocation basis, a study was not necessary. The Audit Report presents no valid reason to challenge inclusion of contractor labor in the overhead calculations.

In connection with its discussion of stores expense in Appendix V/3, the Audit Report states that costs related to strategic sourcing services increased from \$2.3 million in 2003 when performed by PECO to \$5.4 million in 2004 when performed by Exelon Business Services Company ("BSC"). First, this observation is outside the scope of the original cost audit ordered by the Commission. More importantly, the observation reflects an inaccurate comparison of costs. Prior to 2004, the strategic sourcing function was comprised of services received from ComEd Supply and PECO Supply. The PECO Supply costs were charged to ComEd and recorded in subaccount 516221 (Inter-company Charge – PECO), while the ComEd Supply costs retained their original account designations within the ComEd general ledger (labor was charged to the labor subaccount). The \$2.3 million attributable to PECO does not include the ComEd supply costs charged to stores expense. In 2004, the PECO and ComEd strategic sourcing functions were centralized within BSC Supply and charged back to ComEd and PECO using subaccount 529460 (BSC Indirect Bill – Supply Services). Therefore, the \$2.3 million is not comparable to the \$5.4 million.

ComEd also disagrees with the Audit Report's conclusion and proposed adjustment of \$4.4 million (as shown in Exhibit V-12, but shown as \$4.6 million in Exhibit 1-1) related to its accounting methods to maintain a zero balance stores handling expense. This conclusion states: "[a]s a result of a change in accounting methods relating to stores handling expense in 2003, ComEd's distribution system plant balances are overstated by approximately \$4.4 million as of December 31, 2004." (Conclusion 9) First, as the Audit Report acknowledges, maintaining a zero balance is a permissible practice. The FERC Uniform System of Accounts, which the Audit Report cites, states that this account "shall not exceed" a balance reasonable relative to inventory levels. Nothing prohibits a zero balance.

The Audit Report's observation that "ComEd performed no analysis and has no business reason for the change to a less preferable method of accounting," simply reflects

an unsupported and irrelevant opinion as to what the auditor believes is a less preferable method of accounting. Moreover, the Audit Report fails to completely quote ComEd's response to the auditor's inquiry regarding the change. That complete response, which fully explains the change, states:

Per direction from the EED [Finance Officer], a decision has been made to clear out these balances to zero by year-end. As such, ComEd has decided (per discussion with Operations and Supply) to clear this balance out in September. This decision was made so that on an on-going basis, there would not be a need to make accounting judgments as to what the appropriate year end balance should be. In addition, the treatment of Account 163 (Stores Handling) is consistent with other clearing accounts in which the goal is to have a zero or very minimal balance at year-end.

F. Classification of Substation Costs

The Audit Report's conclusion (15) that "[a]lthough ComEd classifies common facilities at substations with combined transmission and distribution functions based upon the primary function of the substation, ACG believes an alternative classification is more appropriate" is improper and inconsistent with approved Commission practices. The current method of classification is based on an ICC-approved methodology. In ICC Docket 98-0894 (ComEd's Refunctionalization Petition), the ICC approved ComEd's position that the treatment of "combination stations and the facilities within them should be classified on the primary function of the substation or such facilities by specific utility application." The Audit Report's conclusion that "[a]lthough the Commission approved this proposal, there is no evidence that the subject of common facilities was addressed in this proceeding" is incorrect. The section quoted above from ICC Docket 98-0894 was meant to and did address common facilities. ComEd's continued use of the approved methodology described in ICC Docket 98-0894 has been consistently accepted by the ICC. Further, the Audit Report does not provide any support for its claim that it is "common industry practice" to apportion common facility costs to multiple functions based on cost allocation principles. The reduction of \$24.1 million in distribution plant resulting from the proposed reclassification is therefore inappropriate.

G. Small Dollar Projects

ComEd objects to the Audit Report's discussion and analysis of small dollar projects as outside the scope of the original cost audit ordered by the Commission to the extent it addresses management and oversight of, or cost variances relating to, these projects.

Furthermore, Exhibit V-22 and the explanatory text regarding documentation required for small dollar projects are misleading. First, this chart summarizes the documentation provided for small dollar projects selected by basically unexplained

judgmental sampling techniques. Although this exhibit details how many of certain types of documents were available for the projects selected, it fails to note that many of the selected projects did not require the documentation the auditor sought. Eighty percent of the small dollar projects selected for review were valued at less than \$500,000. Documentation for project scope, design, cost estimates, and authorization were generally not required for projects of this scope.

The Audit Report's Conclusion 16, that project control information relating to small dollar projects is inadequate and resulted in "unauthorized and unsupported disbursements," is unwarranted. ComEd disbursements are authorized and supported at the individual transaction level. The assertion that "all of the items in the list [in Exhibit V-22] are fundamental project management tools, and if ComEd's procedures do not require such documentation, they should" is also incorrect. Project management policies and procedure are subject to cost/benefit constraints. Thus, differences in management guidelines between large and small projects are primarily based on whether the benefit of additional management guidelines would outweigh the cost to implement them.

The proposed adjustment of \$4,363,000 in the test sample is therefore inappropriate. This adjustment relates to a subset of small dollar projects for which ComEd was unable to locate certain project documents, and is "supported" by that reason alone. The Audit Report proposes no adjustment related to the projects for which documentation was located, and fails to explain why the lack of certain documentation leads to a complete 100% disallowance for the projects at issue.

Extrapolation of the base adjustment to \$90,157,000 for a larger group of untested projects is also inappropriate because, as previously discussed, judgmental sampling techniques were used to determine the test sample, and the 100% error rate assumed is without basis and inappropriate.

The Audit Report's Conclusion 17, that variances in small dollar projects indicate that "costs are not adequately controlled," is also incorrect and is not supported by any type of review of variance explanation. More fundamentally, this conclusion is outside the scope of the original cost audit ordered by the Commission.

H. Accounting for Storm Damage

The Audit Report makes several findings and recommendations regarding ComEd's accounting for storm damage. ComEd's practices in this respect comply with applicable requirements and nothing in the Audit Report suggests otherwise. The auditor's opinion (Conclusion 18) that ComEd's "capitalized cost of storm damage repairs is high in relation to its typical construction costs, and is not aligned with industry norms in comparison to the related maintenance expense," is not supported. The report cites only to a 2005 study from the Edison Electric Institute. That study specifically recognized that the ratio of capital to O&M costs can vary significantly from storm to

storm. ComEd capitalizes the portion of storm costs that meet its capitalization criteria, such as costs to replace poles, wire and transformers, and expenses the remainder. The auditor's views on other methods of accounting for storm damage are irrelevant and not within the scope of the original cost audit ordered by the Commission.

Similarly lacking support is the statement that instructions to contractors regarding their time charges are not adequately documented. Nor does the Audit Report provide any context for the statement that cost of removal is "more reasonable" for some periods than others, or what standard of "reasonableness" is being applied.

The Audit Report recommends the establishment of procedures for the use of Account 182.1 – Extraordinary Property Losses. ComEd does not agree. In ICC Docket 01-0423, ComEd proposed to the Commission an accounting reserve treatment for its variable storm damage costs. The Commission Staff opposed this, and the Commission denied ComEd's proposal.

I. BSC and Other Affiliate Transactions

ComEd objects to the Audit Report's Conclusion 22, that "there is evidence that the Company awarded contracts to affiliates at market-based pricing without competitive bids" and the related discussion on the grounds that this subject is outside the scope of the original cost audit ordered by the Commission. This question has nothing to do with whether rate base is properly recorded at original cost. Moreover, a competitive bid would not be expected to produce pricing that is other than "market-based pricing." Further, the related policy recommendation, to more thoroughly review ComEd affiliate transactions, is unnecessary. ComEd is already subject to a biennial audit of the Affiliate Interests Agreement and affiliate transactions. This audit is performed by Internal Audit and results in an audit report that is filed with the ICC by December 1 of each even-numbered year.

J. Compliance with SOP 98-1

The auditor's analysis of ComEd's compliance with AICPA Statement of Position 98-1 ("SOP 98-1") is deficient in a number of respects. First, the Audit Report quotes portions of SOP 98-1, but fails to fully quote examples or other language from SOP 98-1 that supports ComEd's treatment of software program costs. Further, the Audit Report asserts that employees whose payroll-related costs may be capitalized include only those who are directly involved with the development effort. The support cited for this statement is not SOP 98-1, but only the interpretation offered by a single AICPA Technical Manager. In fact, SOP 98-1 states that capitalized costs include: "[p]ayroll and payroll-related costs (for example, costs of employee benefits) for employees who are directly associated with and who devote time to the internal-use software project, to the extent of the time spent directly on the project. Examples of employee activities include but are not limited to coding and testing during the application development

stage.” Eligible employees under this definition include those employees directly involved with software development as well as those employees who are managing the project, and costs related to those employees (such as project managers and supervisors) are “directly associated with” the project under SOP 98-1. Similarly, the Audit Report’s discussion of General and Administrative and overhead costs relies on the AICPA Journal of Accountancy, which reflects only opinion and not an official interpretation of SOP 98-1. SOP 98-1 does not specifically define G&A and overhead costs, and ComEd does not consider costs billed by external vendor BSC (including costs identifiable to specific BSC contractors and employees working on specific projects) to be G&A or overhead costs; these are “external direct costs.” Finally, Exhibit V-30 incorrectly identifies “Business Process Reengineering Activities” as an AICPA SOP 98-1 project stage. This category is included in ComEd’s practices, but is not an SOP 98-1 defined stage of software development, as Exhibit V-30 implies.

Conclusion 25, that ComEd lacks adequate procedures to ensure compliance with SOP 98-1, is wrong. It also fails to address the fact that BSC was a third-party contractor to ComEd during the time that BSC was in existence during the audit period. During this time, BSC charges were properly classified as “external direct costs” in accordance with SOP 98-1.

Although the Audit Report states that ComEd relied on BSC Finance’s procedures and controls to ensure proper accounting for software costs, it completely fails to address the fact that, until 2004, ComEd IT internally performed almost all of the projects identified in Exhibit V-29. For the ComEd IT internally performed projects, ComEd received accounting guidance and support from ComEd Finance, not BSC. Furthermore, the reference cited in support of this statement relates to a specific group of projects managed by BSC referred to as the BSC enterprise projects. This is a subset of IT projects recorded on ComEd’s books, and all of the costs subject to SOP 98-1 identified in the Audit Report’s reference were expensed on ComEd’s books. ComEd also notes that, although BSC’s facilities costs are not “payroll related costs” addressed in SOP 98-1, they are indirectly part of the “external direct costs” charged to ComEd by BSC and are therefore properly capitalized.

ComEd also disagrees with the Audit Report’s Conclusion 26 that ComEd has inadequate controls regarding SOP 98-1 compliance and has charged overhead, administrative, and other costs to capital that should have been expensed.

The proposed \$30,442,000 adjustment to reflect software costs capitalized contrary to SOP 98-1 shown in Exhibit V-31 of the Audit Report is without any sound basis. The analysis supporting this adjustment is entirely speculative and based on superficial information. Based on ComEd’s detailed investigation, Exhibit V-31 should include only the following amounts:

Area of Investigation	Reference	Amount Capitalized Contrary to SOP98-1 (in 000's)
Review of 3 Projects in the Detailed Testing of Transactions	Exhibit V-32	\$54
Assessment of Project Descriptions	Exhibit V-33	0
Identification Administrative and Overhead Costs	Exhibit V-34	0
Review of ComEd Labor Activities	Exhibit V-35	516
Total		\$570

Further explanation for ComEd's changes to this exhibit is set out in the remaining paragraphs in this section. Preliminarily, the Audit Report states that its results do not include any review of BSC activities or overhead costs (which ComEd objected to providing based on its belief that this material is outside the scope of the audit). The Audit Report then concludes that BSC charges - - though apparently unreviewed by the auditor - - include costs that are not properly capitalized. The auditor plainly lacks sufficient information from which to draw this conclusion.

The bases for ComEd's disagreement as to amounts identified in Exhibit V-31 as improperly capitalized include the following. As discussed above, ComEd disagrees that work that is not directly related to software design and programming - - such as financial services support, office relocation and management of vendor contracts - - cannot be capitalized. ComEd also disagrees that BSC facility charges are not properly capitalized. These are "external direct costs" from a third party vendor, which may be capitalized consistent with SOP 98-1. The \$32,000 questioned amount identified in Exhibit V-32 is therefore improperly included. The \$210,000 questioned amount associated with Project 107519 in that exhibit is also improperly included; this amount relates to work that was done in the application development stage and is properly capitalized. Although ComEd is reviewing the classification of the \$54,000 charge described as training costs, this charge has been double counted as a proposed rate base adjustment here and in Exhibit V-5. Additionally, this cost is part of the \$11 million extrapolation in Exhibit V-6.

ComEd also disagrees with the conclusion, based on the auditor's limited review of software project descriptions, that \$10,648,000 was improperly capitalized. (See Exhibit V-33.) Basing the capital/expense determination solely on project descriptions is improper. The descriptions on which the auditor relies often state only a broad project objective. For instance, regarding Project 109081, the Risk Scoring Matrix is a software application utilized to determine the risk level of a customer default by evaluating payment history and collection activity on the customer's account. This project was established to capture the cost of internal labor and externally contracted resources

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employed to integrate the risk scoring model into ComEd's customer billing system (CIMS), including the provision of data reporting and analysis capabilities. The charges to this project were incurred for design, coding, testing, installation and deployment activities that are normally capitalized as part of a software development project. Per SOP 98-1, external direct costs of services consumed in developing or obtaining internal-use software should be capitalized.

Similarly, regarding Project 113498, these software costs were incurred to provide additional functionality within CIMS to allow customers, on an experimental basis, to choose retail hourly energy pricing. Specifically, the charges incurred were primarily for staff augmentation services utilized for software design and development. Per SOP 98-1, these costs should be capitalized. Regarding Project 106569, further testing is required to determine whether the project involved activities that should not be capitalized, and any conclusions drawn from the project description alone are nothing more than speculation.

ComEd also disagrees with the proposed adjustment of \$4,314,000 related to administrative and overhead costs (incorrectly stated in Exhibit V-31 as \$4,406,000). The Uniform System of Accounts requires the capitalization of administrative and general expenses and overheads applicable to construction work:

All overhead construction costs [ComEd interprets FERC's use of "construction costs" to be synonymous with "capital expenditures"], such as engineering, supervision, general office salaries and expenses, construction engineering and supervision . . . shall be charged to particular jobs or units on the basis of the amounts of such overheads reasonably applicable thereto, to the end that each job or unit shall bear its equitable proportion of such costs and that the entire cost of the unit, both direct and overhead, shall be deducted from the plant accounts at the time the property is retired.

ComEd's administrative and general expenses and overheads are applied to its construction costs in an "equitable proportion" in accordance with the above guidance and consistent with the application of FAS No. 71 "Accounting for the Effects of Certain Types of Regulation." ComEd has traditionally capitalized these types of costs which, without the application of FAS 71, would not be capitalized, whether on software or other capital activities. ComEd's capitalization of administrative and general expenses and overheads has not been a contested issue in ComEd's prior rate proceedings and no adjustments related to ComEd's practices in this regard have been adopted by the Commission. ComEd has traditionally treated all capital expenditures in the same manner.

ComEd also disagrees with the Audit Report's proposed adjustment of \$15,072,000 related to ComEd's labor activities. This conclusion is entirely speculative, as the auditor lacked (and did not request) the appropriate data on which to base any

conclusion. First, \$688,000 of the costs identified as capital costs in the proposed adjustment were actually expensed. Second, several of the activities identified in Exhibit V-35 as not meeting SOP 98-1 criteria were general activity descriptions commonly used by managers and supervisors to record their time. These activities are specifically attributable to the project to ensure appropriate supervision and management and should be capitalized. Third, ComEd's evaluation of the Other Activities amount in Exhibit V-35 shows that they relate to payroll taxes and benefits charged based on predetermined allocations, and System Billing employees who provided specialized user knowledge for the design, development and testing of software. All of these costs are appropriately capitalized. Finally, ComEd notes that \$3.0 million of costs related to Project 106569 are improperly double-counted in Exhibits V-33 and V-35.

ACG's assertion that SOP 98-1 does not permit inclusion of facilities charges in BSC's fully loaded labor rates lacks merit, for reasons previously stated. ComEd further objects to the assertion that ComEd is "using BSC as a vehicle for capitalizing costs that it would not be permitted to record as capital if they were not incurred by ComEd directly." This speculative conclusion is made without any factual basis or support. Such a serious and inflammatory allegation should be included in an audit report only on the basis of well-documented and supported evidence. Here, because no such evidence exists, the allegation should be deleted.

CHAPTER VI – ANALYTICAL AND OTHER REVIEWS

A. Analytical and Other Reviews Introduction and Conclusions

The conclusion that since 1999 certain ComEd accounting changes and operational decisions reflect a "systematic plan to shift costs" from expense to capital is inaccurate and in fact contradicted by the evidence cited by the auditors themselves. The various analyses of cost relationships and trends, covering both O&M and capital expenditures, reflected in the Audit Report confirm that beginning in 1999, ComEd began incurring increased levels of capital expenditures compared to prior years. This increase is primarily a result of ComEd's increased investment in programs to improve the reliability of its distribution system in response to a series of high profile outages in 1999 and 2001 and to increase system capacity to cover continued system growth and new business requirements. Capital costs also increased, but to a far lesser degree, due to changes in accounting practices for Property Unit Catalog capitalization criteria and allocation of General and Administrative as well as Departmental Overheads to contractor labor. In addition, the summary negative conclusion that "at times," ComEd "has not been particularly cost conscious in the implementation of its capital program" not only is so vague and general as to be meaningless, but also lacks any support and should be deleted.

B. Budget Variance Analysis

ComEd disagrees with the Audit Report’s analysis of Exhibit VI-1 and that the related conclusion that ComEd’s adoption of a revised Property Unit Catalog was a “significant factor” influencing capital and maintenance expenditure patterns. First, Exhibit VI-1 reflects a decrease in capital expenditures from 2000 through 2003, with capital expenditures steady after that time. The absence of an increase with the 2002 implementation of Property Unit Catalog changes is fundamentally inconsistent with the auditor’s hypothesis. Further, Exhibit VI-1 reflects increased O&M expenditures from 2002 to 2003, and the Audit Report acknowledges that the spike in 2003 was due primarily to restructuring severance costs, but fails to note the corresponding decrease from 2003 to 2004. Exhibit VI-1 provides no support for the auditor’s attempt to connect capital and O&M patterns to Property Unit Catalog changes.

Exhibit VI-2 similarly fails to support any conclusion regarding the effect of Property Unit Catalog changes. At most, that exhibit reflects a potential influence in two of the categories of capital expenditures identified, System Performance and New Business Connection. As this exhibit also illustrates, however, capital expenditures fell from 2002 to 2004, following the implementation of the Property Unit Catalog changes.

C. Labor Analysis

ComEd disagrees with the Audit Report’s speculation that changes in the Property Unit catalog caused a decrease in O&M labor cost. Exhibit VI-7 does not support this conclusion. While this exhibit does reflect a decrease in O&M Labor, the Audit Report fails to examine whether any other causes contributed to this decrease, such as a change in the use of contract labor. The Audit Report states only that the decrease in O&M labor is “coincident” with the Property Unit Catalog changes. It presents no evidence sufficient to draw any conclusion that the decrease was *due to* any such changes.

D. General and Intangible Plant

ComEd disagrees with the Audit Report’s statements made in connection with Chapter VI Conclusion No. 6 and Exhibit VI-18 regarding charges that are not consistent with SOP 98-1. ComEd’s comments regarding ACG’s analysis related to SOP 98-1 are set out at pages 16-20.

E. Handy-Whitman Installed Unit Cost Analysis

The Handy-Whitman Index is limited in its application, which the Audit Report explicitly acknowledges. The Audit Report’s analysis and discussion related to the Handy-Whitman Index is therefore not relevant or appropriately included in the report.

F. Code of Conduct Allegation

With respect to certain Code of Conduct allegations, the Audit Report incorrectly states that ComEd personnel interviewed by ACG indicated a concern that “journal entry accounting *was* performed in a sloppy manner.” (Emphasis added) In fact, the concern was how these entries *would be* made, and the allegations were found to be unsubstantiated. ComEd also disagrees with the Audit Report’s inclusion of statements regarding a lack of documents in Compliance Office files related to this unsubstantiated allegation. No documentation exists because the conduct that was the subject of the allegation (*i.e.*, what *might* happen) did not occur.

The Audit Report’s Conclusion 17, that “[i]n 2002, ComEd was concerned with the level of O&M expenditures and made a determined effort to shift costs from expense to capital,” is without support. A cited e-mail referring to an “O&M Recovery Plan” does not support a conclusion that ComEd made a “concerted effort to shift costs from expense to capital.” In 2002, ComEd took action to address the nature of certain *work* performed. It was the nature of the work performed that changed. The change in focus from expense to capital work is not the same as — and is not accurately characterized as — “an effort to shift costs.”

G. Research Studies Relating to the Number of Bidders and Project Costs

ComEd objects to the Audit Report’s discussion of and conclusions relating to ComEd’s procurement processes because this subject is outside the scope of the original cost audit ordered by the Commission. Further, these conclusions are based on unsupported speculation. In an effort to address the inaccurate information and unsupported conclusions in this report, without waiver of its objections, ComEd provided the auditor with information regarding ComEd’s Contractor of Choice (“COC”) program. Only a small part of this information was incorporated in the Audit Report, and much was omitted.

The COC program is based on competitive processes, and ComEd disputes that it paid a premium for the services it obtained through this program. ComEd has been utilizing the COC program since late 2000. In October 2000, ComEd sent out an RFP for Distribution Construction support services. This RFP was used to select contractors for the COC program based on a weighted evaluation model that included pricing, technical capabilities, resources, and safety performance. This was a competitive process to determine the best value contractors for ComEd. ComEd used this same process in the summer of 2001 to select COC contractors for Substation & Transmission construction support. As part of the Exelon Way initiative in late 2003, a similar process was used to select COC contractors while expanding the portfolio of work to include PECO's spend to add additional buying power.

These programs allow both ComEd and the contractor to focus on continual improvement processes and cost reduction initiatives to reduce ComEd's overall project and program costs. These cost reductions have been documented in numerous presentations to ComEd management. The COC program allows both parties to focus on risk management, cost management, and most importantly worker safety while improving quality and system reliability. These performance metrics have been well documented.

The Audit Report's conclusion that ComEd paid a premium between 5 and 25% for the services it received under its procurement practices is nothing more than speculation. The only "basis" for this conclusion is a general 2005 study of construction contracting in upstate New York and a GAO study of procurement of contract guard services. The Audit Report makes no effort to discuss how those conclusions could possibly be applicable to the very different circumstances of ComEd's contracting practices. That failure is particularly egregious given the Report's citation of a 1997 literature review that concluded specifically not all competitive procurements produce savings and generally reached mixed results as to the benefits of competitive procurement. Unless a detailed cost analysis is done on every project and construction technique, it cannot be concluded that a premium was paid just because competitive bidding was not used for each project. Furthermore, as the Audit Report states, there are numerous opinions and articles as to what is the best, value-added contracting strategy. Finally, this issue was addressed in the 2001 management audit conducted by Liberty Consulting Group and by the Commission in Docket 01-0423.

Aside from the absence of any sound basis for the 5 to 25% premium range, the calculation of premiums reflected in Exhibit VI-34 embodies numerous other deficiencies. First, although ComEd's contracting practices may result in benefits other than price to ComEd and its customers, Exhibit VI-34 does not attempt to account for those benefits. Second, the calculations in this exhibit contain factual errors in the population of contract services costs and sampling errors. There is no description or data in the auditor's database to support the proposition that the assumptions used for the sample data are sufficiently representative of the larger population of projects to support an extrapolation to the larger population. Third, this exhibit assumes that COC is not a competitive process. As discussed above, the COC is a competitive process, and these contracts should not be included in the calculation. Fourth, it is incorrect to apply the sample data to all capital plant additions, as many capital additions are "material" cost only or heavily weighted ComEd labor projects.

CHAPTER VII – RESERVES FOR DEPRECIATION

A. Depreciation Background

ComEd records depreciation expense by assigning assets to depreciation groups. The Audit Report states that ComEd has the capability of recording depreciation expense relating to each of its distribution system plant accounts, that it historically has assigned

assets to depreciation groups, and that it continues to do so. The report implies that ComEd's approach is an inferior method. The FERC requirement is to maintain accumulated reserve at functional class of plant, which ComEd does.

B. Depreciation Studies and Rates

ComEd disagrees with the Audit Report's Conclusion 1 that it did not prepare an adequate number of depreciation studies during the 20-year audit period. While the Audit Report states that "periodically utilities perform remaining life studies and adjust depreciation rates based upon published mortality curves," the ICC does not require utilities to perform a depreciation study at any specific interval. Additionally, while the Audit Report cites the NARUC *Public Utilities Depreciation Practices* for the proposition that regulatory agencies establish schedules for depreciation reviews, the referenced document has been revised and the most recent version (1996) does not contain this suggestion.

ComEd disagrees with the Audit Report's characterization (Conclusion 3) of "two sets of errors" identified by the auditor's depreciation analysis and review. First, the Audit Report states that ComEd should have used the same average service lives and remaining lives for both distribution plant excluding high voltage distribution and the combined distribution plant including high voltage distribution. This conclusion is irrelevant because the combined distribution including high voltage distribution category is used for informational purposes only and does not affect the depreciation rate associated with either distribution excluding or including high voltage distribution.

Second, the Audit Report incorrectly characterizes ComEd's use of the "retrospective method" for allocating book depreciation reserve to plant accounts, instead of the "prospective method," as an "error." For support, the Audit Report relies on an outdated and superseded guideline, provisions in NARUC's guidelines *from 1968* - - guidelines not included in the revised 1996 NARUC version. The 1996 version of the NARUC *Public Utility Practices* further recognizes that "[i]t should be realized, therefore, that the determination of theoretical reserves is not an exact science, but a calculation resulting from the approximation of the actual reserve." ComEd expects that it will review which method is appropriate the next time it conducts a depreciation study, and the method adopted will depend upon the circumstances existing at that time. It is improper for the Audit Report to dictate, in a vacuum, the method that should be adopted at that time.

C. Depreciation Expense and Reserve Analysis

ComEd disagrees with the \$2.7 million adjustment identified in the Audit Report regarding unrecorded retirements related to FERC Accounting Release 15 ("AR-15") assets and discussed as part of Conclusion 4. Upon receipt of the FERC letter approving this transaction, ComEd applied that approval effective with the beginning of the year. In

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any event, because the FERC approval was received in July, it would be applied for six months even under ACG's approach.

The Audit Report concludes that for the period 1999-2004, although it identified potential under accrual of depreciation expense and reserve of \$44.8 million, adequate explanations existed for all but \$4.6 million (derived from the AR-15 issue discussed above). The results of this analysis are shown in Exhibit VII-2. Aside from its position on AR-15, ComEd does not agree with the calculations reflected in Exhibit VII-2. This Exhibit compares ACG's own calculation of "Average Depreciable Plant Investment" to the Average Depreciable Plant Base as reported in FERC Form 1 Page 337. The Audit Report calculates the "Average Depreciable Plant Investment" by simply taking the average between the plant balances, from FERC Form 1 page 206, at the beginning and end of the year. Calculation of Average Depreciable Plant Base reported in FERC Form 1 is based upon a monthly depreciable plant base, which is calculated by taking the previous month's ending base and increasing / decreasing it by half of all plant activity for the month. The Average Depreciable Plant Base reflects the sum of each month's depreciable plant base divided by twelve. Exhibit VII-2 then takes the difference between the "Average Depreciable Plant Investment" and the Average Depreciable Plant Base as reported in FERC Form 1 and multiplies that difference by a single depreciation rate: 3.60% in 2000-01 and 3.04% in 2002. However, in those years High Voltage Distribution Plant had a different rate from Distribution Plant Excluding High Voltage Distribution Plant. In 2000 and 2001, the High Voltage Distribution Plant rate was 2.4% and Distribution excluding High Voltage Distribution Plant rate was 3.60%. In 2002, ComEd's depreciation rates changed to 2.02% for High Voltage Distribution Plant and 2.44% for Distribution excluding High Voltage Distribution Plant. These separate rates are not reflected in the rates shown in Exhibit VII-2.

D. Transaction Processing Delay and Estimated Retirements

ComEd disagrees with the Audit Report's Conclusion 6 that \$17.4 million of Retirement Work in Progress ("RWIP") not unitized as of December 31, 2004 requires an adjustment to rate base. RWIP that has not been unitized is included as a component of the Accumulated Reserve (FERC Account 108) and historically has been included in rate base. The ICC has accepted this accounting treatment in prior rate cases.

In connection with the analysis of unrecorded retirements, the Audit Report recommends: "To properly state the original cost of plant and the related depreciation reserve balance, revert to ComEd's former procedure of actually recording estimated unrecorded retirements." ComEd responds that it plans to continue to perform unitization in a timely manner so that recording of estimated retirements is not necessary.

ComEd also disagrees with Audit Report Conclusion 10 that ComEd's adoption of AR-15 created theoretical reserve deficiencies in the non-AR-15 distribution system reserve accounts. After the adoption of AR-15 for Meters and Transformers in December

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2001, ComEd created two new depreciation groups and transferred the original cost and accumulated reserve related to the meters and transformers, respectively, from the one group to their new groups. In July 2002, ComEd completed a depreciation study and filed those new rates with the Commission. During the period January 1, 2002 to June 30, 2002, the Company continued to depreciate the Distribution group as one composite group using the last Commission approved depreciation rate of 3.6%.

ComEd also disagrees with Audit Report Conclusion 10 that a consequence of the conversion to AR-15 is that the accounting records no longer support the physical existence of the AR-15 assets. The primary purpose of AR-15 is to relieve the accounting records of the burden of maintaining physical locations of voluminous AR-15 assets.

ComEd disagrees with Conclusion 11, that ComEd, by changing its accounting policies and depreciation practices, has shifted the recording of costs from maintenance expense to cost of removal in the approximate amount of \$50.1 million since 2001, and with the proposed adjustment related to this issue. This conclusion was made from a comparison of only four years of historical ratios of dollars of plant retirements to dollars of net salvage without any testing of transactions. In addition, Exhibit VII-10, which purports to calculate the effects of the change, is incorrect for the following reasons:

- Sum of Retirements 2001 – 2004: The EED Property Unit Catalog was implemented during 2002 (not in 2001) which would result in the exclusion of all 2001 and portions of 2002 retirements from the retirement amount.
- Historical Dollar of Retirement per Dollar of Removal Cost and Salvage: This \$2.20 (rounded) relates to the relationship of *all* retirements to removal and salvage closed to the Distribution reserve through November 2002, and is not specific to the property units that were changed when the EED Property Unit Catalog was implemented in 2002.
- Sum of Actual Negative Net Salvage 2001-2004: As stated above, the EED Property Unit Catalog was implemented during 2002 (not in 2001) which would result in all 2001 and portions of 2002 and future years to be excluded from the removal and salvage amounts.
- Projects Pending Unitization: As identified in the response to Data Request EAL 11, in the “2001 ComEd Energy Delivery Capital Asset Report,” as of January 2002, the amount of projects pending unitization has been reduced to 3,800 projects (of which 700 were less than one year old) having a value of approximately \$1.3 billion. The \$124,968 amount relates to Cost of Removal and Salvage closed to the reserve which occurs during the unitization process (see discussion below). The \$124,968 does not relate only to removal and salvage costs incurred from 2001 to 2004.

As a result the \$124,968 in cost of removal and salvage closed to the reserve would be comprised of various components:

- i. Projects Prior to the EED Property Unit Catalog - projects with removal and salvage that existed before the implementation of the EED Property Unit Catalog change which should not be included.
- ii. Projects After the EED Property Unit Catalog Change Not Affected by the Change - the projects with removal and salvage incurred and closed to the reserve after the implementation of the EED Property Unit Catalog, but were not impacted by the EED Property Unit Catalog which should not be included.

E. Property Unit Catalog

The Audit Report explicitly recognizes that ComEd's 2002 changes to its Property Unit Catalog are "not in violation of any specific utility regulations." (Conclusion 12) Yet, the Audit Report concludes that "in conforming the ComEd and PECO Property Unit Catalogs in 2002, the companies adopted property unit definitions with minimum capitalization quantity thresholds that are not supported by electric utility industry standards, and have had the effect of increasing utility plant balances and the related reserves for depreciation for property units added and retired after adoption of the change." (*Id.*) In reaching this conclusion, the Audit Report improperly relies on "standards" not applicable to ComEd.

First, the Audit Report inappropriately measures ComEd's actions against property unit definitions developed by the Florida Public Service Commission ("PSC"). It is inappropriate to use Florida PSC benchmarks to assess ComEd. ComEd is not subject to Florida PSC jurisdiction and that Commission's standards are not a proper basis for any adjustments to ComEd's rate base, and certainly not retroactive adjustments. Further, the report identifies as an Audit Objective and Evaluative Criteria to determine whether ComEd has developed appropriate Property Unit Catalogs and retired property in accordance with industry guidelines, without defining those "industry guidelines." To the extent the auditor adopted this as an Audit Objective, once again it acted outside the scope of the original cost audit ordered by the Commission.

Second, the Audit Report improperly compares ComEd's property unit definitions to outdated and superceded, pre-1997 FERC definitions. FERC guidelines applicable from 2002 to the present do not address any of the practices listed in the Audit Report, and therefore those practices are neither relevant nor applicable. As the Audit Report admits, the pre-1997 FERC definitions were withdrawn as not current, too restrictive, and because they provided minimal benefit. Further, the Audit Report explicitly recognizes that ComEd's property unit definitions were permissible under the pre-1997 FERC rules, even if they were applicable.

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The Audit Report questions, without any support or discussion, whether the change in property unit definitions raises an issue of the consistency of ComEd's application of accounting principles. (Conclusion 13) Consistency refers to applying accounting methods over a span of time. Considering that the 2002 update of the Property Unit Catalog was the first major update in almost 20 years, ComEd disagrees that this update raises any question about its consistent application of accounting principles.

ComEd also takes issue with Audit Report Conclusion 14 that a review of FERC audit work papers "provides evidence" that in 1991 ComEd changed Property Unit Catalog definitions related to generation assets to "smooth earnings." Inclusion of this observation seems entirely pointless given the further recognition that "after discussions with [a FERC supervisor]" FERC Staff did not take an exception with respect to that issue. It is unclear why this discussion even appears in the Audit Report. If ACG has included this point to support some type of inference that the 2002 Property Unit Catalog definitions were changed to "smooth earnings," this is entirely inappropriate and without any basis whatsoever. To use a rejected allegation made 16 years ago to support an inference of "smoothing earnings" 11 years later does not meet even the lowest threshold of credibility. ComEd strongly disputes ACG's assertion that it has engaged in any conduct to "smooth earnings" and because ACG has absolutely no basis to make such a suggestion, the discussion in connection with Conclusion 14, and the Conclusion itself, should be excised from the Audit Report.

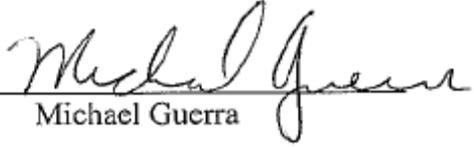
In addition, the Audit Report's statement in Conclusion 15, that "ComEd applied the 2002 Catalog definitions in the unitization process beginning April 1, 2002, meaning that the \$903.8 million backlog of distribution system related completed construction not classified in account 106 was unitized based on the new definitions," is not true. ComEd's changes to its Property Unit Catalog went into effect April 1, 2002, but any projects previously completed would have been capitalized using the old catalog.

CONCLUSION

ComEd has carefully and thoroughly reviewed the Audit Report, and has voluntarily made adjustments as appropriate where it has found merit in the Audit Report's analysis. For the reasons set out in this letter, however, ComEd fundamentally disagrees with many conclusions in the Audit Report. ComEd hopes that the auditor will consider these comments and reconsider the conclusions in the Audit Report in light of the facts and applicable accounting standards.

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By: 
Michael Guerra
Vice President Regulatory
Policy and Strategy

cc: Thomas L. Griffin — ICC Accounting Department, Financial Analysis Division

Appendix II-1
ComEd Objections to ACG Document Requests
As of September 30, 2007

DR #	Due	Items Requested	ComEd's Response
RLR-46	4/12/07	Description of Contractor of Choice Program	"ComEd objects to this data request as beyond the scope of the original cost audit"
RLR-47	4/12/07	List of Vendors that participated in Contractor of Choice Program 2001 – 2004	"ComEd objects to this data request as beyond the scope of the original cost audit"
RLR-51	4/12/07	Specific contractor information (contracts, POs, billing) and large project startup information (Capital Projection Evaluation Report, Memo to EED Sr. Mgt., Business Case Review Committee Approval, ECAP project approval, BOD approval, Project Charter)	ComEd has provided the 3 rd Supplement of data – it has completed its search. "ComEd states that the information sought in this request is related to the reasonableness or prudence of ComEd's actions. ComEd provides such information for original cost purposes only (i.e. establishing paper trails and tracing funds) and such information is not to be used for any analysis evaluation of reasonableness or prudence." Additionally, the Capital Projection Evaluation Report is "beyond the scope of the original cost audit"
RLR-52	5/7/07	Post Implementation Assessments (PIAs) for 48 large projects	"ComEd objects to this data request as beyond the scope of the original cost audit"
RLR-53	5/9/07	Large project startup information (Capital Projection Evaluation Report, Memo to EED Sr. Mgt., Business Case Review Committee Approval, ECAP project approval, BOD approval, Project Charter) for those projects with little or no contractor expense.	ComEd provided information on the 11 unique projects, however, "ComEd states that the information sought in this request is related to the reasonableness or prudence of ComEd's actions. ComEd provides such information for original cost purposes only (i.e. establishing paper trails and tracing funds) and such information is not to be used for any analysis evaluation of reasonableness or prudence." Additionally, the Project Evaluation Reports are "beyond the scope of the original cost audit"
RLR-54	5/9/07	Project startup information (Project Request Data, EED Project Authorization Request, Cost Estimate, Project Review form, project diagrams and engineering drawings, Project Setup Report and Post Implementation Assessments (PIA's) for thirty selected small projects.	ComEd provided the information that it could locate for the 30 smaller projects. Mainly this consisted of 6 Project Request Data, 10 Project Review Forms, 10 Project Diagrams, and all 30 Project Setup Reports. ComEd did not provide any PIAs as being "beyond the scope to the original cost audit".

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Appendix II-1 ComEd Objections to ACG Document Requests As of September 30, 2007

DR #	Due	Items Requested	ComEd's Response
JDH-135	5/10/07	Please provide ComEd's definition of "Original Cost Audit" together with source references.	ComEd objects to this data request as calling for a legal conclusion. Moreover, ComEd states that the definition of an "Original Cost Audit" is irrelevant as an abstract matter. The relevant inquiry is the scope of the audit as ordered by the Commission, which is: "...to verify that distribution electric utility plant in service at December 31, 2004 is appropriately recorded at original cost. Such determination will be conducted performing appropriate tests to determine that ComEd's books and accounts are maintained in accordance with ICC rules and accurately reflect additions, retirements, and other changes to electric utility plant in service in accordance with the Uniform System of Accounts for electric utilities as prescribed by the Commission." See April 5, 2006 Interim Order at p. 2. Also see the May 7, 2007 letter from Richard G. Bernet to John Feeley in regard to the Illinois Commerce Commission Original Cost Audit of Commonwealth Edison Company – Scope Issues.
JDH-136	5/31/07	Provide a copy of the Company's policies and procedures related to competitive bidding in the selection of contractors.	ComEd objects to this data request as beyond the scope of the original cost audit as ordered by the Commission in Docket No. 05-0597 and because it is inconsistent with the Public Utilities Act insofar as it seeks to re-determine the prudence of ComEd's policies and procedures related to competitive bidding. Also see the May 7, 2007 letter from Richard G. Bernet to John Feeley in regard to the Illinois Commerce Commission Original Cost Audit of Commonwealth Edison Company – Scope Issues.
JDH-137	5/31/07	For the period 2001 through 2004, provide a listing of contracts for which the related cost is included in CBMS Resource Type 117 - Services and EPS Sub Account 516010 - Contracting that were awarded on the basis of competitive bids. Include contractor name, contract date, project description, original contract amount, and final contract amount including change orders.	Same as above

Appendix II-1
 ComEd Objections to ACG Document Requests
 As of September 30, 2007

DR #	Due	Items Requested	ComEd's Response
EAL-69	6/20/07	<p>The table in this DR lists software program costs which are included in FERC Account 303 – Miscellaneous Intangible Plant. Please provide the following information for these software programs as listed in the column “Provide Data” in the table: a) For each software program, list and describe all projects associated with the program, including, but not limited to: Original program development and design, program upgrades and enhancements, maintenance, training, on-going support. b) For each project listed in (a) above, please provide detailed cost data (journal line data similar to that provided in DR RLR-15) for the period 1998 through 2004. Please provide this information in an electronic format (Microsoft Excel or Access). c) For each project listed in (a) above, please provide the following: project start date, date software design and coding began, date testing completed and software put in use. If existing project management reports or actual schedules are available which provide information regarding project activities and/or the project schedule, please provide these documents. d) For each project listed in (a) above, please provide any available reports which breakdown the budgeted and/or actual costs by tasks or activities at each stage of the project. (AICPA SOP 98-1 gives an example of three software project stages: 1) Preliminary Project Stage; 2) Application Development Stage, and 3) Post-Implementation Operating Stage.) If possible, provide the most recent report, i.e., the report which lists the final actual project costs.</p>	<p>To the extent that this data request seeks information about budgeted costs, ComEd objects to that part of this data request as beyond the scope of the original cost audit as ordered by the Commission in Docket No. 05-0597 and because it is inconsistent with the Public Utilities Act insofar as it seeks to re-determine the prudence of the charges at issue. Also see the May 7, 2007 letter from Richard G. Bernet to John Feeley in regard to the Illinois Commerce Commission Original Cost Audit of Commonwealth Edison Company – Scope Issues.</p>

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ComEd Objections to ACG Document Requests
As of September 30, 2007

DR #	Due	Items Requested	ComEd's Response
JDH-152	7/9/07	Referring to DR RLR-40, Project No. 109497 and the five page document beginning at OCA 0107447, provide a list of the contractors to whom Jones Lang LaSalle sent this RFP, and identify the contractors that submitted a response expressing an interest in performing the work.	ComEd objects to this data request as beyond the scope of the original cost audit as ordered by the Commission in Docket No. 05-0597 and because it is inconsistent with the Public Utilities Act insofar as it seeks to re-determine the prudence of ComEd's policies and procedures related to contractor selection. Also see the May, 7, 2007 letter from Richard G. Bernet to John Feeley in regard to the Illinois Commerce Commission Original Cost Audit of Commonwealth Edison Company – Scope Issues.
JDH-160	7/24/07	For each of the years in the 2001 through 2004 audit period, provide the total amount of ComEd payments to Exelon Business Services Company under the General Services Agreement dated as of January 1, 2001. In addition, provide the detail by project number, description, FERC account, and amount of BSC payments charged to distribution system and general and intangible plant accounts during each of the years in this period, and the amounts included in the various overhead pools portions of which are charged to capital.	With regard to the 2001-2004 total amount of ComEd payments to Exelon Business Services Co requested in this DR, ComEd objects to that portion of the request as beyond the scope of the original cost audit as ordered by the Commission in Docket No. 05-0597 and because it is inconsistent with the Public Utilities Act insofar as it seeks to re-determine the prudence of the charges at issue. Also see the May 7, 2007 letter from Richard G. Bernet to John Feeley in regard to the Illinois Commerce Commission Original Cost Audit of Commonwealth Edison Company – Scope Issues.
JDH-161	7/24/07	Referring to the response to DR JDH-148, Attachments 2 and 3: <ul style="list-style-type: none"> • Describe the affiliate relationship between ComEd and M.J. Electric, Inc. and provide a description of the Electrical Maintenance Services provided. • Provide the amount of M.J. Electric services charges charged to ComEd plant accounts during each of the years in the 2001 – 2004 audit period. • Provide excerpts from the SEC Order and AIA supporting the market based pricing for such services through 6-30-03, and cost based pricing for the period ended 12-31-03. Explain why M.J. Electric, Inc. is not shown on the list of parties to the AIA as of February 2004, and the time frame during the 1985 through 2004 audit period that M.J. Electric provided services to ComEd.	With regard to the first, third and fourth bullet pointes above, these bullet points seek information about ComEd's relationship with and pricing from a particular vendor. ComEd does not understand how its relationship with particular vendors, whether or not affiliates of ComEd, or the basis for its pricing from those vendors is relevant to any issues presented by the original cost audit. ComEd is willing to consider any explanation form ACG concerning how this information is relevant to original cost audit issues and then discuss the scope of these requests with ACG and possibly reconsider its position. At this time however, ComEd objects to providing the information requested by the first, third and fourth bullet points in Data Request JDH 161.

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Appendix II-1 ComEd Objections to ACG Document Requests As of September 30, 2007

DR #	Due	Items Requested	ComEd's Response
JDH-164	7/26/07	Referring to the response to DR JDH-146, provide a definition of "strategic sourcing services."	Exelon Business Services Company's 'strategic sourcing' activities do not appear to be within the scope of the original cost audit. Also see the May 7, 2007 letter from Richard G. Bernet to John Feeley in regard to the Illinois Commerce Commission Original Cost Audit of Commonwealth Edison Company – Scope Issues. ComEd provides such information for original cost purposes only and any such information is not to be used for any analysis or evaluation of reasonableness or prudence. Without waiving its objections, ComEd states that strategic sourcing services include contract management services and associated programs.
JDH-165	7/26/07	Provide copies of documentation prepared at the time the strategic sourcing function was transferred to BSC describing the scope of such services, the budget forecast for such services in 2004, and the estimated allocation of costs to ComEd and the other recipients of such services.	With regard to the 2004 budget forecast and estimated allocations of cost to ComEd and the other recipients of services, ComEd objects to that portion of the request as beyond the scope of the original cost audit as ordered by the Commission in Docket No. 05-0597 and because it is inconsistent with the Public Utilities Act insofar as it seeks to re-determine the prudence of the charges at issue. Also see the May 7, 2007 letter from Richard G. Bernet to John Feeley in regard to the Illinois Commerce Commission Original Cost Audit of Commonwealth Edison Company – Scope Issues.
JDH-166	7/26/07	Explain why ComEd's cost of strategic sourcing services increased from \$2.3 million in 2003 when performed by PECO to \$5.4 million in 2004 when performed by BSC. Compare actual costs in 2004 to the budget forecast in the DR item above and explain significant variations. Explain why ComEd's cost of strategic sourcing services increased from \$2.3 million in 2003 when performed by PECO to \$5.4 million in 2004 when performed by BSC. Compare actual costs in 2004 to the budget forecast in the DR item above and explain significant variations.	With regard to the 2004 actual variance, ComEd objects to that portion of the DR as beyond the scope of the original cost audit as ordered by the Commission in Docket No. 05-0597 and because it is inconsistent with the Public Utilities Act insofar as it seeks to re-determine the prudence of the charges at issue. Also see the 5/7/07 letter from Richard G. Bernet to John Feeley in regard to the ICC Original Cost Audit of the Commonwealth Edison Company - Scope Issues.

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Appendix II-1 ComEd Objections to ACG Document Requests As of September 30, 2007

DR #	Due	Items Requested	ComEd's Response
JDH-167	7/26/07	Referring to the response to DR JDH-146 and the meeting with [name] on July 11, 2007, provide a further explanation of why freight and sales taxes are no longer recorded in the Stores Clearing account, but instead become costs "chasing" the related inventory purchases. Include any comments ComEd may have regarding ACG's observation that this is a less preferable method of accounting and obscures the average weighted cost pricing of inventory.	In reference to the second sentence of this request, ACG's observation as to what it considers a "less preferable" method of account does not appear to be relevant to the original cost audit. An explanation by ComEd as to the reasons why it follows a particular accounting convention does not appear to be relevant to the OCA. At this time ComEd objects to providing the "comments" requested by JDH 167.
JDH-168	7/26/07	Explain the reasons for the following change in the accounting for Stores Handling expense: In CBMS Stores Handling expense was recorded as a distinct Res-type. In EPS, Stores Handling expense is recorded in the Materials Sub Account. In addition, provide a comparison of the two methods, and explain any benefits and problems from both an accounting and operations perspective.	An explanation by ComEd as to the reasons why it follows a particular accounting convention or why it changed from one method to the other and an explanation of the "benefits and problems" of each do not appear to be relevant to the original const audit. ComEd therefore objects to providing any further "explanation" or comparison" requested by JDH 168.
JDH-185	8/6/07	Provide copies of the Project Setup Reports and Post Implementation Review documents relating to the [substation] projects identified in the DR [184] above.	See JDH 185_Attach 1, JDH 185_Attach 2, and JDH 185_Attach 3 for copies of the project setup forms relating to the projects identified in JDH 184. With regard to the request for Post Implementation Review documents relating to projects identified in JDH 184, ComEd objects to this data request as beyond the scope of the original cost audit as ordered by the Commission in Docket No. 05-0597 and because it is inconsistent with the Public Utilities Act to the extent it seeks to re-determine the prudence the charges at issue. Also see the May 7, 2007 letter from Richard G. Bernet to John Feeley in regard to the Illinois Commerce Commission Original Cost Audit of Commonwealth Edison Company – Scope Issues.

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Appendix II-1 ComEd Objections to ACG Document Requests As of September 30, 2007

DR #	Due	Items Requested	ComEd's Response
JDH-211	9/24/07	Referring to the response to DR EAL-83, Attachment 1, for Project 102303, provide a representative example of the development of the BSC fully loaded labor rate. Include amounts (and the percent of total) for labor (payroll), payroll taxes and employee benefits, the facilities component, and a description and amount of any other components (line items) included in the rate used by BSC to bill ComEd for software development services.	ComEd does not understand how the components of charges from a particular vendor, whether or not an affiliate of ComEd, are relevant to any issues presented by the original cost audit, and objects to providing the information requested in JDH 211.
JDH-212	9/24/07	Provide the total amount by year of BSC labor costs charged to ComEd software projects identified in DR EAL 69, and the estimated amount of such charges by cost component using the cost breakdown requested in item 211 above.	ComEd does not understand how the components of charges from a particular vendor, whether or not an affiliate of ComEd, are relevant to any issues presented by the original cost audit, and objects to providing the information requested in JDH 212

Appendix V-1
Delivery Plant in Service 1985 through 2004
(Dollars in Thousands)

Account	Description	Year	Beg. Balance	Additions	Retirements	Adjustments	Transfers	End. Balance
360	Land and Land Rights	1985	5,252	2,137	81		77	7,385
361	Structures and Improvements		8,803	146	634		(7)	8,308
362	Station Equipment		309,034	25,538	8,925		(14,613)	311,034
363	Storage Battery Equipment		0	0	0		0	0
364	Poles, Towers, and Fixtures		311,434	14,682	2,130		194	324,181
365	Overhead Conductors and Devices		447,289	36,737	9,994		829	474,862
366	Underground Conduit		257,514	8,768	119		19	266,183
367	Underground Conductors and Devices		458,803	33,195	1,497		5,782	496,284
368	Line Transformers		393,191	32,256	1,231		8,090	432,307
369	Services		267,760	20,046	834		0	286,973
370	Meters		134,280	10,720	1,891		51	143,160
371	Installations on Customer Premises		10,065	967	230		0	10,802
372	Leased Property on Customer Premises		46	0	5		(22)	18
373	Street Lighting		20,966	612	215		0	21,363
	Total Distribution Plant		2,624,438	185,805	27,785		401	2,782,859
301	Organization		80	0	0		0	80
302	Franchises and Consents		0	0	0		0	0
303	Misc. Intangible Plant (all Software)		0	0	0		0	0
	Total Intangible Plant		80	0	0		0	80
389	Land and Land Rights		4,240	2	0		(166)	4,075
390	Structures and Improvements		81,908	1,343	7		(120)	83,123
391	Office Furniture and Equipment		19,125	1,639	882		(615)	19,268
392	Transportation Equipment		62,569	8,745	1,379		(181)	69,753
393	Stores Equipment		2,475	110	352		-	2,234
394	Tools Shop and Garage Equipment		22,030	1,221	690		(173)	22,387
395	Laboratory Equipment		4,428	53	462		(43)	3,977
396	Power Operated Equipment		2,799	382	(54)		(30)	3,204
397	Communication Equipment		35,248	4,058	48		(7)	39,251
398	Miscellaneous Equipment		509	62	10		-	561
399	Other		0	0	0		0	0
	Total General Plant		235,330	17,616	3,777		(1,336)	247,833
	Total Delivery System Plant		2,859,848	203,422	31,562		(936)	3,030,772

Appendix V-1
Delivery Plant in Service 1985 through 2004
(Dollars in Thousands)

Account	Description	Year	Beg. Balance	Additions	Retirements	Adjustments	Transfers	End. Balance
360	Land and Land Rights	1986	7,385	5	0		(16)	7,374
361	Structures and Improvements		8,308	32	71		0	8,270
362	Station Equipment		311,034	31,365	7,301		(16,916)	318,182
363	Storage Battery Equipment		0	0	0		0	0
364	Poles, Towers, and Fixtures		324,181	19,207	2,353		(44)	340,990
365	Overhead Conductors and Devices		474,862	31,443	4,514		80	501,870
366	Underground Conduit		266,183	10,533	256		30	276,490
367	Underground Conductors and Devices		496,284	36,965	2,368		6,482	537,362
368	Line Transformers		432,307	30,368	5,164		10,071	467,581
369	Services		286,973	22,374	589		38	308,795
370	Meters		143,160	9,862	(238)		(14)	153,246
371	Installations on Customer Premises		10,802	972	274		12	11,513
372	Leased Property on Customer Premises		18	0	0		0	18
373	Street Lighting		21,363	1,228	210		0	22,381
	Total Distribution Plant		2,782,859	194,354	22,862		(277)	2,954,074
301	Organization		80	0	0		0	80
302	Franchises and Consents		0	0	0		0	0
303	Misc. Intangible Plant (all Software)		0	0	0		0	0
	Total Intangible Plant		80	0	0		0	80
389	Land and Land Rights		4,075	16	0		(5)	4,086
390	Structures and Improvements		83,123	851	43		(1)	83,930
391	Office Furniture and Equipment		19,268	1,497	581		0	20,183
392	Transportation Equipment		69,753	10,036	4,507		(623)	74,660
393	Stores Equipment		2,234	171	72		0	2,334
394	Tools Shop and Garage Equipment		22,387	1,711	823		294	23,569
395	Laboratory Equipment		3,977	748	117		0	4,608
396	Power Operated Equipment		3,204	294	257		80	3,322
397	Communication Equipment		39,251	1,860	3		(2)	41,106
398	Miscellaneous Equipment		560	74	19		0	616
399	Other		0	0	0		0	0
	Total General Plant		247,833	17,258	6,421		(257)	258,413
	Total Delivery System Plant		3,030,772	211,612	22,862		(534)	3,212,568

Appendix V-1
Delivery Plant in Service 1985 through 2004
(Dollars in Thousands)

Account	Description	Year	Beg. Balance	Additions	Retirements	Adjustments	Transfers	End. Balance
360	Land and Land Rights	1987	7,374	(2)	0		5	7,377
361	Structures and Improvements		8,270	28	5		0	8,293
362	Station Equipment		318,182	30,308	7,380		2,087	343,197
363	Storage Battery Equipment		0	0	0		0	0
364	Poles, Towers, and Fixtures		340,990	17,247	2,024		11	356,225
365	Overhead Conductors and Devices		501,870	24,318	2,945		(6)	523,237
366	Underground Conduit		276,490	7,159	239		0	283,410
367	Underground Conductors and Devices		537,362	46,768	2,938		(41)	581,151
368	Line Transformers		467,581	34,592	5,579		(2,732)	493,862
369	Services		308,795	23,067	348		0	331,515
370	Meters		153,246	14,270	3,076		2	164,442
371	Installations on Customer Premises		11,513	1,191	309		1	12,396
372	Leased Property on Customer Premises		18	0	1		(5)	13
373	Street Lighting		22,381	1,056	239		0	23,197
	Total Distribution Plant		2,954,074	200,003	25,084		(678)	3,128,315
301	Organization		80	0	0		0	80
302	Franchises and Consents		0	0	0		0	0
303	Misc. Intangible Plant (all Software)		0	0	0		0	0
	Total Intangible Plant		80	0	0		0	80
389	Land and Land Rights		4,086	0	0		(65)	4,021
390	Structures and Improvements		83,930	1,460	152		0	85,238
391	Office Furniture and Equipment		20,183	1,789	779		0	21,193
392	Transportation Equipment		74,660	9,464	3,969		(428)	79,727
393	Stores Equipment		2,334	24	157		0	2,201
394	Tools Shop and Garage Equipment		23,569	1,556	1,287		254	24,091
395	Laboratory Equipment		4,608	534	228		624	5,538
396	Power Operated Equipment		3,322	613	383		(22)	3,530
397	Communication Equipment		41,106	3,282	220		8,545	52,713
398	Miscellaneous Equipment		616	0	35		0	581
399	Other		0	0	0		0	0
	Total General Plant		258,413	18,722	7,210		8,909	278,834
	Total Delivery System Plant		3,212,568	218,724	32,294		8,231	3,407,229

Appendix V-1
Delivery Plant in Service 1985 through 2004
(Dollars in Thousands)

Account	Description	Year	Beg. Balance	Additions	Retirements	Adjustments	Transfers	End. Balance
360	Land and Land Rights	1988	7,377	1	0		(31)	7,347
361	Structures and Improvements		8,293	50	3		(141)	8,199
362	Station Equipment		343,197	27,665	9,562		(6,754)	354,546
363	Storage Battery Equipment		0	0	0		0	0
364	Poles, Towers, and Fixtures		356,225	15,689	2,009		(25)	369,880
365	Overhead Conductors and Devices		523,237	23,222	3,105		6	543,360
366	Underground Conduit		283,410	14,738	257		58	297,948
367	Underground Conductors and Devices		581,151	52,280	3,883		1,417	630,964
368	Line Transformers		493,862	37,542	2,116		4,109	533,396
369	Services		331,515	22,991	1,243		0	353,263
370	Meters		164,442	16,121	2,279		8	178,292
371	Installations on Customer Premises		12,396	892	192		0	13,096
372	Leased Property on Customer Premises		13	0	0		9	21
373	Street Lighting		23,197	1,611	367		0	24,441
	Total Distribution Plant		3,128,315	212,801	25,015		(1,347)	3,314,753
301	Organization		80	0	0		0	80
302	Franchises and Consents		0	0	0		0	0
303	Misc. Intangible Plant (all Software)		0	0	0		0	0
	Total Intangible Plant		80	0	0		0	80
389	Land and Land Rights		4,021	6	0		(8)	4,020
390	Structures and Improvements		85,238	925	7		0	86,156
391	Office Furniture and Equipment		21,193	2,046	816		0	22,423
392	Transportation Equipment		79,727	12,624	3,721		(242)	88,388
393	Stores Equipment		2,201	12	179		0	2,034
394	Tools Shop and Garage Equipment		24,091	1,851	1,373		109	24,678
395	Laboratory Equipment		5,538	406	268		0	5,676
396	Power Operated Equipment		3,530	556	224		(30)	3,833
397	Communication Equipment		52,713	3,382	744		123	55,475
398	Miscellaneous Equipment		581	0	54		0	527
399	Other		0	0	0		0	0
	Total General Plant		278,834	21,809	7,386		(47)	293,210
	Total Delivery System Plant		3,407,229	234,609	32,401		(1,393)	3,608,044

Appendix V-1
 Delivery Plant in Service 1985 through 2004
 (Dollars in Thousands)

Account	Description	Year	Beg. Balance	Additions	Retirements	Adjustments	Transfers	End. Balance
360	Land and Land Rights	1989	7,347	12	0		(8)	7,351
361	Structures and Improvements		8,199	140	0		0	8,338
362	Station Equipment		354,546	31,520	4,163		3,418	385,321
363	Storage Battery Equipment		0	0	0		0	0
364	Poles, Towers, and Fixtures		369,880	16,906	2,075		83	384,794
365	Overhead Conductors and Devices		543,360	29,228	3,028		(24)	569,536
366	Underground Conduit		297,948	17,657	226		(0)	315,379
367	Underground Conductors and Devices		630,964	73,428	3,989		21	700,424
368	Line Transformers		533,396	39,348	5,839		(3,716)	563,189
369	Services		353,263	23,731	1,267		0	375,727
370	Meters		178,292	16,098	3,967		20	190,443
371	Installations on Customer Premises		13,096	1,316	196		0	14,216
372	Leased Property on Customer Premises		21	0	0		0	21
373	Street Lighting		24,441	2,270	481		0	26,231
	Total Distribution Plant		3,314,753	251,655	25,231		(206)	3,540,971
301	Organization		80	0	0		0	80
302	Franchises and Consents		0	0	0		0	0
303	Misc. Intangible Plant (all Software)		0	0	0		0	0
	Total Intangible Plant		80	0	0		0	80
389	Land and Land Rights		4,020	3	0		308	4,331
390	Structures and Improvements		86,156	21,106	371		9	106,899
391	Office Furniture and Equipment		22,423	3,240	910		0	24,753
392	Transportation Equipment		88,388	9,843	3,188		(195)	94,847
393	Stores Equipment		2,034	34	208		0	1,860
394	Tools Shop and Garage Equipment		24,678	1,057	1,429		151	24,457
395	Laboratory Equipment		5,676	680	295		0	6,062
396	Power Operated Equipment		3,833	369	258		(27)	3,917
397	Communication Equipment		55,475	1,816	194		14	57,111
398	Miscellaneous Equipment		527	0	55		0	472
399	Other		0	0	0		0	0
	Total General Plant		293,210	38,148	6,907		259	324,710
	Total Delivery System Plant		3,608,044	289,803	32,138		53	3,865,762

Appendix V-1
Delivery Plant in Service 1985 through 2004
(Dollars in Thousands)

Account	Description	Year	Beg. Balance	Additions	Retirements	Adjustments	Transfers	End. Balance
360	Land and Land Rights	1990	7,351	(4)	0		(27)	7,320
361	Structures and Improvements		8,338	174	22		11	8,502
362	Station Equipment		385,321	36,023	4,130		(3,648)	413,566
363	Storage Battery Equipment		0	0	0		0	0
364	Poles, Towers, and Fixtures		384,794	22,023	2,880		(6)	403,931
365	Overhead Conductors and Devices		569,536	39,828	3,984		(39)	605,341
366	Underground Conduit		315,379	25,593	195		(0)	340,777
367	Underground Conductors and Devices		700,424	106,444	4,566		(30)	802,271
368	Line Transformers		563,189	51,089	7,466		3,177	609,989
369	Services		375,727	22,450	1,211		0	396,966
370	Meters		190,443	11,196	3,276		0	198,363
371	Installations on Customer Premises		14,216	1,476	537		0	15,155
372	Leased Property on Customer Premises		21	0	0		0	21
373	Street Lighting		26,231	3,222	799		0	28,653
	Total Distribution Plant		3,540,971	319,513	29,067		(563)	3,830,855
301	Organization		80	0	0		0	80
302	Franchises and Consents		0	0	0		0	0
303	Misc. Intangible Plant (all Software)		0	0	0		0	0
	Total Intangible Plant		80	0	0		0	80
389	Land and Land Rights		4,331	(1)	0		0	4,330
390	Structures and Improvements		106,899	3,390	600		0	109,689
391	Office Furniture and Equipment		24,753	13,148	1,036		0	36,865
392	Transportation Equipment		94,847	11,972	3,628		(559)	102,632
393	Stores Equipment		1,860	140	241		0	1,759
394	Tools Shop and Garage Equipment		24,457	2,377	1,613		179	25,401
395	Laboratory Equipment		6,062	1,171	325		0	6,907
396	Power Operated Equipment		3,917	110	296		(21)	3,711
397	Communication Equipment		57,111	13,252	202		(73)	70,089
398	Miscellaneous Equipment		472	0	57		0	415
399	Other		0	0	0		0	0
	Total General Plant		324,710	45,559	7,997		(473)	361,798
	Total Delivery System Plant		3,865,762	365,072	37,064		(1,036)	4,192,734

Appendix V-1
 Delivery Plant in Service 1985 through 2004
 (Dollars in Thousands)

Account	Description	Year	Beg. Balance	Additions	Retirements	Adjustments	Transfers	End. Balance
360	Land and Land Rights	1991	7,320	(18)	0		(6)	7,295
361	Structures and Improvements		8,502	286	37		1	8,752
362	Station Equipment		413,566	41,439	16,731		(2,564)	435,711
363	Storage Battery Equipment		0	0	0		0	0
364	Poles, Towers, and Fixtures		403,931	30,757	3,331		(1,254)	430,104
365	Overhead Conductors and Devices		605,341	52,653	4,895		399	653,498
366	Underground Conduit		340,777	30,128	287		448	371,066
367	Underground Conductors and Devices		802,271	123,402	6,594		(137)	918,942
368	Line Transformers		609,989	34,903	7,500		1,388	638,780
369	Services		396,966	24,046	1,185		0	419,826
370	Meters		198,363	12,813	3,240		18	207,953
371	Installations on Customer Premises		15,155	1,573	316		0	16,412
372	Leased Property on Customer Premises		21	0	0		0	21
373	Street Lighting		28,653	4,722	987		0	32,388
	Total Distribution Plant		3,830,855	356,703	45,103		(1,708)	4,140,747
301	Organization		80	0	0		0	80
302	Franchises and Consents		0	0	0		0	0
303	Misc. Intangible Plant (all Software)		0	0	0		0	0
	Total Intangible Plant		80	0	0		0	80
389	Land and Land Rights		4,330	0	0		(1)	4,329
390	Structures and Improvements		109,689	6,613	5		(13)	116,285
391	Office Furniture and Equipment		36,865	16,643	699		0	52,810
392	Transportation Equipment		102,632	17,836	2,657		(201)	117,610
393	Stores Equipment		1,759	380	100		0	2,038
394	Tools Shop and Garage Equipment		25,401	3,831	1,047		69	28,254
395	Laboratory Equipment		6,907	140	174		(14)	6,860
396	Power Operated Equipment		3,711	3	56		0	3,658
397	Communication Equipment		70,089	5,719	91		14	75,730
398	Miscellaneous Equipment		415	66	17		0	464
399	Other		0	0	0		0	0
	Total General Plant		361,798	51,231	4,845		(146)	408,038
	Total Delivery System Plant		4,192,734	407,934	49,948		(1,854)	4,548,866

Appendix V-1
 Delivery Plant in Service 1985 through 2004
 (Dollars in Thousands)

Account	Description	Year	Beg. Balance	Additions	Retirements	Adjustments	Transfers	End. Balance
360	Land and Land Rights	1992	7,295	51	0		(5)	7,342
361	Structures and Improvements		8,752	929	6		0	9,675
362	Station Equipment		435,711	24,792	6,224		(1,472)	452,807
363	Storage Battery Equipment		0	0	0		0	0
364	Poles, Towers, and Fixtures		430,104	42,864	4,457		4	468,515
365	Overhead Conductors and Devices		653,498	75,428	5,749		49	723,226
366	Underground Conduit		371,066	32,819	179		3	403,709
367	Underground Conductors and Devices		918,942	124,692	8,090		122	1,035,667
368	Line Transformers		638,780	38,806	10,216		1,240	668,611
369	Services		419,826	25,663	1,194		0	444,295
370	Meters		207,953	12,633	6,493		(0)	214,092
371	Installations on Customer Premises		16,412	1,519	374		0	17,557
372	Leased Property on Customer Premises		21	0	0		0	21
373	Street Lighting		32,388	7,017	1,231		0	38,174
	Total Distribution Plant		4,140,747	387,215	44,213		(57)	4,483,691
301	Organization		80	0	0		0	80
302	Franchises and Consents		0	0	0		0	0
303	Misc. Intangible Plant (all Software)		0	0	0		0	0
	Total Intangible Plant		80	0	0		0	80
389	Land and Land Rights		4,329	204	0		6	4,540
390	Structures and Improvements		116,285	13,489	667		(4)	129,103
391	Office Furniture and Equipment		52,810	24,862	736		0	76,936
392	Transportation Equipment		117,610	28,850	2,609		7	143,858
393	Stores Equipment		2,038	460	70		0	2,429
394	Tools Shop and Garage Equipment		28,254	6,394	964		0	33,684
395	Laboratory Equipment		6,860	2,674	202		0	9,333
396	Power Operated Equipment		3,658	378	34		0	4,001
397	Communication Equipment		75,730	18,815	5,113		(2)	89,429
398	Miscellaneous Equipment		464	0	15		0	450
399	Other		0	0	0		0	0
	Total General Plant		408,038	96,126	10,409		7	493,763
	Total Delivery System Plant		4,548,866	483,341	54,622		(50)	4,977,534

Appendix V-1
 Delivery Plant in Service 1985 through 2004
 (Dollars in Thousands)

Account	Description	Year	Beg. Balance	Additions	Retirements	Adjustments	Transfers	End. Balance
360	Land and Land Rights	1993	7,342	0	0		(4)	7,338
361	Structures and Improvements		9,675	421	0		(20)	10,076
362	Station Equipment		452,807	15,279	4,040		(3,796)	460,251
363	Storage Battery Equipment		0	0	0		0	0
364	Poles, Towers, and Fixtures		468,515	31,616	4,100		(1,760)	494,272
365	Overhead Conductors and Devices		723,226	56,941	5,329		439	775,277
366	Underground Conduit		403,709	19,828	180		442	423,798
367	Underground Conductors and Devices		1,035,667	83,863	6,085		434	1,113,879
368	Line Transformers		668,611	24,527	8,670		3,439	687,907
369	Services		444,295	23,939	1,110		0	467,123
370	Meters		214,092	12,291	(5,893)		17	232,294
371	Installations on Customer Premises		17,557	1,710	347		0	18,919
372	Leased Property on Customer Premises		21	0	0		0	21
373	Street Lighting		38,174	5,119	1,078		1	42,217
	Total Distribution Plant		4,483,691	275,533	25,044		(807)	4,733,373
301	Organization		80	0	0		0	80
302	Franchises and Consents		0	0	0		0	0
303	Misc. Intangible Plant (all Software)		0	0	0		0	0
	Total Intangible Plant		80	0	0		0	80
389	Land and Land Rights		4,540	5,254	0		(2)	9,792
390	Structures and Improvements		129,103	51,080	895		(2,773)	176,516
391	Office Furniture and Equipment		76,936	18,840	860		0	94,916
392	Transportation Equipment		143,858	8,598	8,773		0	143,683
393	Stores Equipment		2,429	2,015	71		0	4,373
394	Tools Shop and Garage Equipment		33,684	14,023	894		0	46,813
395	Laboratory Equipment		9,333	1,028	208		0	10,153
396	Power Operated Equipment		4,001	381	273		0	4,109
397	Communication Equipment		89,429	24,569	1,044		(14)	112,939
398	Miscellaneous Equipment		450	0	31		0	419
399	Other		0	0	0		0	0
	Total General Plant		493,763	125,789	13,049		(2,789)	603,713
	Total Delivery System Plant		4,977,534	401,322	38,094		(3,596)	5,337,167

Appendix V-1
 Delivery Plant in Service 1985 through 2004
 (Dollars in Thousands)

Account	Description	Year	Beg. Balance	Additions	Retirements	Adjustments	Transfers	End. Balance
360	Land and Land Rights	1994	7,338	213	0		(6)	7,546
361	Structures and Improvements		10,076	375	4		0	10,447
362	Station Equipment		460,251	14,919	3,962		(3,423)	467,785
363	Storage Battery Equipment		0	0	0		0	0
364	Poles, Towers, and Fixtures		494,272	24,951	3,421		0	515,802
365	Overhead Conductors and Devices		775,277	44,282	3,869		0	815,691
366	Underground Conduit		423,798	29,470	103		0	453,165
367	Underground Conductors and Devices		1,113,879	84,273	5,432		1	1,192,721
368	Line Transformers		687,907	33,420	4,583		3,164	719,908
369	Services		467,123	29,453	874		0	495,702
370	Meters		232,294	8,971	3,965		(29)	237,272
371	Installations on Customer Premises		18,919	1,460	249		0	20,130
372	Leased Property on Customer Premises		21	0	0		0	21
373	Street Lighting		42,217	5,643	922		0	46,938
	Total Distribution Plant		4,733,373	277,431	27,383		(293)	4,983,129
301	Organization		80	0	0		0	80
302	Franchises and Consents		0	0	0		0	0
303	Misc. Intangible Plant (all Software)		0	0	0		0	0
	Total Intangible Plant		80	0	0		0	80
389	Land and Land Rights		9,792	192	0		(96)	9,888
390	Structures and Improvements		176,516	5,878	0		(2,858)	179,535
391	Office Furniture and Equipment		94,916	21,835	994		0	115,757
392	Transportation Equipment		143,683	15,731	463		0	158,951
393	Stores Equipment		4,373	759	82		35	5,084
394	Tools Shop and Garage Equipment		46,813	7,471	975		0	53,309
395	Laboratory Equipment		10,153	1,898	223		0	11,828
396	Power Operated Equipment		4,109	225	0		0	4,334
397	Communication Equipment		112,939	12,809	385		61	125,424
398	Miscellaneous Equipment		419	0	15		0	404
399	Other		0	0	0		0	0
	Total General Plant		603,713	66,798	3,138		(2,859)	664,513
	Total Delivery System Plant		5,337,167	344,229	30,522		(3,152)	5,647,722

Appendix V-1
Delivery Plant in Service 1985 through 2004
(Dollars in Thousands)

Account	Description	Year	Beg. Balance	Additions	Retirements	Adjustments	Transfers	End. Balance
360	Land and Land Rights	1995	7,546	25	0		(11)	7,560
361	Structures and Improvements		10,447	216	0		0	10,663
362	Station Equipment		467,785	13,410	(222)		(29,727)	451,691
363	Storage Battery Equipment		0	0	0		0	0
364	Poles, Towers, and Fixtures		515,802	27,898	7,068		0	536,632
365	Overhead Conductors and Devices		815,691	45,659	3,904		0	857,445
366	Underground Conduit		453,165	18,737	46		0	471,856
367	Underground Conductors and Devices		1,192,721	99,780	4,695		62	1,287,868
368	Line Transformers		719,908	36,295	21,564		29,785	764,424
369	Services		495,702	33,974	1,015		0	528,661
370	Meters		237,272	11,458	8,207		(5)	240,518
371	Installations on Customer Premises		20,130	2,034	590		0	21,575
372	Leased Property on Customer Premises		21	0	0		0	21
373	Street Lighting		46,938	7,022	819		0	53,140
	Total Distribution Plant		4,983,129	296,510	47,686		103	5,232,056
301	Organization		80	0	0		0	80
302	Franchises and Consents		0	0	0		0	0
303	Misc. Intangible Plant (all Software)		0	0	0		0	0
	Total Intangible Plant		80	0	0		0	80
389	Land and Land Rights		9,888	3,256	0		0	13,143
390	Structures and Improvements		179,535	30,213	303		0	209,445
391	Office Furniture and Equipment		115,757	8,934	1,278		0	123,414
392	Transportation Equipment		158,951	8,209	6,123		0	161,037
393	Stores Equipment		5,084	337	105		5	5,321
394	Tools Shop and Garage Equipment		53,309	6,488	1,045		0	58,753
395	Laboratory Equipment		11,828	1,725	261		0	13,291
396	Power Operated Equipment		4,334	311	415		0	4,231
397	Communication Equipment		125,424	27,982	2,682		0	150,724
398	Miscellaneous Equipment		404	0	17		0	387
399	Other		0	0	0		0	0
	Total General Plant		664,513	87,456	12,229		5	739,746
	Total Delivery System Plant		5,647,722	383,966	59,914		108	5,971,882

Appendix V-1
Delivery Plant in Service 1985 through 2004
(Dollars in Thousands)

Account	Description	Year	Beg. Balance	Additions	Retirements	Adjustments	Transfers	End. Balance
360	Land and Land Rights	1996	7,560	10	0		(46)	7,525
361	Structures and Improvements		10,663	353	12		21	11,025
362	Station Equipment		451,691	24,324	674		684	476,025
363	Storage Battery Equipment		0	0	0		0	0
364	Poles, Towers, and Fixtures		536,632	37,872	2,644		0	571,861
365	Overhead Conductors and Devices		857,445	54,275	3,718		0	908,003
366	Underground Conduit		471,856	22,074	113		0	493,816
367	Underground Conductors and Devices		1,287,868	107,513	4,383		19	1,391,017
368	Line Transformers		764,424	41,441	4,046		(724)	801,095
369	Services		528,661	30,488	699		0	558,451
370	Meters		240,518	10,414	1,908		0	249,024
371	Installations on Customer Premises		21,575	1,153	(101)		0	22,828
372	Leased Property on Customer Premises		21	0	0		0	21
373	Street Lighting		53,140	6,259	512		0	58,887
	Total Distribution Plant		5,232,056	336,176	18,608		(46)	5,549,578
301	Organization		80	0	0		0	80
302	Franchises and Consents		0	0	0		0	0
303	Misc. Intangible Plant (all Software)		0	0	0		0	0
	Total Intangible Plant		80	0	0		0	80
389	Land and Land Rights		13,143	(2)	0		0	13,141
390	Structures and Improvements		209,445	12,138	2,392		0	219,190
391	Office Furniture and Equipment		123,414	3,468	0		0	126,881
392	Transportation Equipment		161,037	1,635	3,078		0	159,595
393	Stores Equipment		5,321	224	0		0	5,545
394	Tools Shop and Garage Equipment		58,753	6,027	0		0	64,780
395	Laboratory Equipment		13,291	1,844	0		0	15,136
396	Power Operated Equipment		4,231	116	0		0	4,347
397	Communication Equipment		150,724	50,516	1,601		0	199,640
398	Miscellaneous Equipment		387	499	0		0	886
399	Other		0	0	0		0	0
	Total General Plant		739,746	76,466	7,071		0	809,142
	Total Delivery System Plant		5,971,882	412,642	25,678		(46)	6,358,801

Appendix V-1
Delivery Plant in Service 1985 through 2004
(Dollars in Thousands)

Account	Description	Year	Beg. Balance	Additions	Retirements	Adjustments	Transfers	End. Balance
360	Land and Land Rights	1997	7,525	438	0		(21)	7,941
361	Structures and Improvements		11,025	741	0		0	11,766
362	Station Equipment		476,025	11,231	2,373		0	484,882
363	Storage Battery Equipment		0	0	0		0	0
364	Poles, Towers, and Fixtures		571,861	31,597	1,820		0	601,639
365	Overhead Conductors and Devices		908,003	47,988	1,947		0	954,044
366	Underground Conduit		493,816	6,966	8		0	500,774
367	Underground Conductors and Devices		1,391,017	84,328	2,082		0	1,473,263
368	Line Transformers		801,095	48,820	5,177		0	844,738
369	Services		558,451	13,000	9		0	571,442
370	Meters		249,024	20,276	521		0	268,779
371	Installations on Customer Premises		22,828	1,506	74		0	24,260
372	Leased Property on Customer Premises		21	0	0		0	21
373	Street Lighting		58,887	7,105	913		0	65,079
	Total Distribution Plant		5,549,578	273,996	14,925		(21)	5,808,628
301	Organization		80	0	0		0	80
302	Franchises and Consents		0	0	0		0	0
303	Misc. Intangible Plant (all Software)		0	0	0		0	0
	Total Intangible Plant		80	0	0		0	80
389	Land and Land Rights		13,141	38	0		(381)	12,799
390	Structures and Improvements		219,190	14,179	2,419		(516)	230,434
391	Office Furniture and Equipment		126,881	25,939	1,828		0	150,992
392	Transportation Equipment		159,595	22,750	3,917		0	178,427
393	Stores Equipment		5,545	1,472	138		0	6,878
394	Tools Shop and Garage Equipment		64,780	7,638	1,520		0	70,898
395	Laboratory Equipment		15,136	1,186	336		0	15,985
396	Power Operated Equipment		4,347	1,015	0		0	5,362
397	Communication Equipment		199,640	85,069	818		0	283,891
398	Miscellaneous Equipment		886	0	17		0	869
399	Other		0	0	0		0	0
	Total General Plant		809,142	159,285	10,994		(897)	956,536
	Total Delivery System Plant		6,358,801	433,281	25,919		(918)	6,765,244

Appendix V-1
Delivery Plant in Service 1985 through 2004
(Dollars in Thousands)

Account	Description	Year	Beg. Balance	Additions	Retirements	Adjustments	Transfers	End. Balance
360	Land and Land Rights	1998	7,941	210	0		(19)	8,132
361	Structures and Improvements		11,766	0	0		0	11,766
362	Station Equipment		484,882	13,553	1		0	498,435
363	Storage Battery Equipment		0	0	0		0	0
364	Poles, Towers, and Fixtures		601,639	39,106	3,954		0	636,790
365	Overhead Conductors and Devices		954,044	51,960	5,745		0	1,000,259
366	Underground Conduit		500,774	2,524	0		0	503,298
367	Underground Conductors and Devices		1,473,263	148,206	4,244		0	1,617,225
368	Line Transformers		844,738	46,753	4,736		0	886,756
369	Services		571,442	26,067	32		0	597,477
370	Meters		268,779	14,645	1,461		0	281,963
371	Installations on Customer Premises		24,260	1,220	121		0	25,359
372	Leased Property on Customer Premises		21	0	0		0	21
373	Street Lighting		65,079	4,213	573		0	68,719
	Total Distribution Plant		5,808,628	348,457	20,866		(19)	6,136,200
301	Organization		80	0	0			80
302	Franchises and Consents		0	0	0			
303	Misc. Intangible Plant (all Software)		0	89,822	0			89,822
	Total Intangible Plant		80	89,822	0		0	89,903
389	Land and Land Rights		12,799	0	0		(838)	11,961
390	Structures and Improvements		230,434	13,657	0		(16,051)	228,040
391	Office Furniture and Equipment		150,992	90,532	5,018		0	236,507
392	Transportation Equipment		178,427	22,757	3,917		0	197,267
393	Stores Equipment		6,878	(1,205)	124		0	5,550
394	Tools Shop and Garage Equipment		70,898	2,251	1,582		0	71,567
395	Laboratory Equipment		15,985	116	356		0	15,745
396	Power Operated Equipment		5,362	432	0		0	5,793
397	Communication Equipment		283,891	11,013	0		0	294,904
398	Miscellaneous Equipment		869	579	23		0	1,425
399	Other		0	0	0		0	0
	Total General Plant		956,536	140,131	11,020		(16,889)	1,068,758
	Total Delivery System Plant		6,765,244	578,410	31,886		(16,908)	7,294,861

Appendix V-1
 Delivery Plant in Service 1985 through 2004
 (Dollars in Thousands)

Account	Description	Year	Beg. Balance	Additions	Retirements	Adjustments	Transfers	End. Balance
360	Land and Land Rights	1999	8,132	410	0		33,587	42,129
361	Structures and Improvements		11,766	68	0		93,097	104,931
362	Station Equipment		498,435	12,408	6,096		799,510	1,304,258
363	Storage Battery Equipment		0	0	0		0	0
364	Poles, Towers, and Fixtures		636,790	47,659	2,479		36,270	718,239
365	Overhead Conductors and Devices		1,000,259	82,235	14,390		23,410	1,091,514
366	Underground Conduit		503,298	8,944	1,320		39,845	550,767
367	Underground Conductors and Devices		1,617,225	199,562	22,676		63,440	1,857,552
368	Line Transformers		886,756	13,125	0		0	899,880
369	Services		597,477	(39,477)	283		(0)	557,717
370	Meters		281,963	12,851	0		(415)	294,400
371	Installations on Customer Premises		25,359	202	311		0	25,250
372	Leased Property on Customer Premises		21	0	0		0	21
373	Street Lighting		68,719	7,257	368		0	75,608
	Total Distribution Plant		6,136,200	345,245	47,923		1,088,745	7,522,267
301	Organization		80	0	0		0	80
302	Franchises and Consents		0	0	0		0	0
303	Misc. Intangible Plant (all Software)		89,822	22,358	0		0	112,180
	Total Intangible Plant		89,903	22,358	0		0	112,260
389	Land and Land Rights		11,961	1,480	0		(1,514)	11,927
390	Structures and Improvements		228,040	21,693	6,498		(5,313)	237,922
391	Office Furniture and Equipment		236,507	15,401	27,094		251	225,065
392	Transportation Equipment		197,267	11,084	1,311		0	207,040
393	Stores Equipment		5,550	248	46		0	5,751
394	Tools Shop and Garage Equipment		71,567	4,144	1,175		0	74,536
395	Laboratory Equipment		15,745	0	158		0	15,587
396	Power Operated Equipment		5,793	3	0		0	5,797
397	Communication Equipment		294,904	17,614	16,703		5	295,820
398	Miscellaneous Equipment		1,425	337	23		0	1,739
399	Other		0	0	0		0	0
	Total General Plant		1,068,758	72,005	53,009		(6,571)	1,081,183
	Total Delivery System Plant		7,294,861	439,608	100,932		1,082,174	8,715,711

Appendix V-1
 Delivery Plant in Service 1985 through 2004
 (Dollars in Thousands)

Account	Description	Year	Beg. Balance	Additions	Retirements	Adjustments	Transfers	End. Balance
360	Land and Land Rights	2000	42,129	(8)	13		9	42,117
361	Structures and Improvements		104,931	22,962	1,756		7,936	134,074
362	Station Equipment		1,304,258	15,432	1,394		176,447	1,494,742
363	Storage Battery Equipment		0	0	0		0	0
364	Poles, Towers, and Fixtures		718,239	46,183	17,568		18,514	765,368
365	Overhead Conductors and Devices		1,091,514	83,925	1,264		6,852	1,181,026
366	Underground Conduit		550,767	5,435	(265)		5,391	561,859
367	Underground Conductors and Devices		1,857,552	153,030	1,465		16,231	2,025,348
368	Line Transformers		899,880	37,574	91		(2,858)	934,506
369	Services		557,717	22,026	(6,514)		0	586,256
370	Meters		294,400	18,544	630		0	312,314
371	Installations on Customer Premises		25,250	(1,157)	63		0	24,029
372	Leased Property on Customer Premises		21	0	0		0	21
373	Street Lighting		75,608	3,593	637		0	78,565
	Total Distribution Plant		7,522,267	407,539	18,103		228,522	8,140,225
301	Organization		80	0	0		0	80
302	Franchises and Consents		0	0	0		0	0
303	Misc. Intangible Plant (all Software)		112,180	67,639	0		0	179,819
	Total Intangible Plant		112,260	67,639	0		0	179,899
389	Land and Land Rights		11,927	202	0		(1,070)	11,059
390	Structures and Improvements		237,922	4,596	(803)		3,876	247,198
391	Office Furniture and Equipment		225,065	32,542	54,077		(4,934)	198,595
392	Transportation Equipment		207,040	43,306	82,616		0	167,730
393	Stores Equipment		5,751	318	188		0	5,882
394	Tools Shop and Garage Equipment		74,536	6,401	3,368		(277)	77,292
395	Laboratory Equipment		15,587	422	2,082		0	13,928
396	Power Operated Equipment		5,797	3,031	6,322		0	2,506
397	Communication Equipment		295,820	26,527	(4,055)		1,734	328,136
398	Miscellaneous Equipment		1,739	82	251		(9)	1,562
399	Other		0	0	0		0	0
	Total General Plant		1,081,183	117,428	144,045		(680)	1,053,887
	Total Delivery System Plant		8,715,711	592,606	162,148		227,843	9,374,012

Appendix V-1
Delivery Plant in Service 1985 through 2004
(Dollars in Thousands)

Account	Description	Year	Beg. Balance	Adds Note 1	Retirements	Adjustments	Transfers	End. Balance
360	Land and Land Rights	2001	42,117	6,365	0	0	(285)	48,197
361	Structures and Improvements		134,074	7,159	489	0	106	140,851
362	Station Equipment		1,494,742	191,915	7,411	0	9,814	1,689,060
363	Storage Battery Equipment		0	0	0	0	0	0
364	Poles, Towers, and Fixtures		765,368	57,508	4,088	0	(2,590)	816,198
365	Overhead Conductors and Devices		1,181,026	67,916	(828)	0	9,910	1,259,679
366	Underground Conduit		561,859	16,307	(415)	0	1,049	579,631
367	Underground Conductors and Devices		2,025,348	171,879	311	0	5,809	2,202,725
368	Line Transformers		934,506	22,262	90,933	0	(11,237)	854,598
369	Services		586,256	19,016	1,468	0	(5,604)	598,200
370	Meters		312,314	18,578	42,030	0	(125)	288,737
371	Installations on Customer Premises		24,029	3,337	45	0	51	27,372
372	Leased Property on Customer Premises		21	0	0	0	0	21
373	Street Lighting		78,565	1,803	258	0	(1,779)	78,331
	Total Distribution Plant		8,140,225	584,045	145,790	0	5,121	8,583,601
301	Organization		80	23	0	0	0	103
302	Franchises and Consents		0	0	0	0	0	0
303	Misc. Intangible Plant (all Software)		179,819	15,441	0	(58,306)	(2,294)	134,660
	Total Intangible Plant		179,899	15,464	0	(58,306)	(2,294)	134,763
389	Land and Land Rights		11,059	125	0	(12)	(3,096)	8,076
390	Structures and Improvements		247,198	22,722	(329)	(17,081)	(29,873)	223,295
391	Office Furniture and Equipment		198,595	29,606	3,741	(82,737)	(86)	141,636
392	Transportation Equipment		167,730	24,225	15,037	0	0	176,918
393	Stores Equipment		5,882	139	325	0	1,783	7,479
394	Tools Shop and Garage Equipment		77,292	5,694	278	0	56	82,764
395	Laboratory Equipment		13,928	(66)	595	0	0	13,268
396	Power Operated Equipment		2,506	0	0	0	0	2,506
397	Communication Equipment		328,136	23,869	1,968	(5,296)	255	344,995
398	Miscellaneous Equipment		1,562	853	13	0	0	2,402
399	Other		0	0	0	0	0	0
	Total General Plant		1,053,887	107,168	21,628	(105,127)	(30,961)	1,003,339
	Total Delivery System Plant		9,374,011	706,677	167,418	(163,433)	(28,134)	9,721,703

Note 1: General and intangible plant transfers related to divestiture of generation plant assets.

Appendix V-1
Delivery Plant in Service 1985 through 2004
(Dollars in Thousands)

Account	Description	Year	Beg. Balance	Additions	Retirements	Adjustments	Transfers	End. Balance
360	Land and Land Rights	2002	48,197	(1,213)	0		6,965	53,949
361	Structures and Improvements		140,851	7,863	1,180		94	147,628
362	Station Equipment		1,689,060	225,738	7,556		28,244	1,935,486
363	Storage Battery Equipment		0	0	0		0	0
364	Poles, Towers, and Fixtures		816,198	48,967	8,006		33	857,192
365	Overhead Conductors and Devices		1,259,679	72,057	3,123		(455)	1,328,158
366	Underground Conduit		579,631	37,666	487		153	616,963
367	Underground Conductors and Devices		2,202,725	177,926	6,735		(2,025)	2,371,892
368	Line Transformers		854,598	42,238	16,193		(6,433)	874,210
369	Services		598,200	28,142	2,765		42	623,618
370	Meters		288,737	12,088	2,961			297,864
371	Installations on Customer Premises		27,372	2,063	62		0	29,373
372	Leased Property on Customer Premises		21	0	0		0	21
373	Street Lighting		78,331	(1,348)	144		0	76,839
	Total Distribution Plant		8,583,601	652,187	49,214		26,619	9,213,193
301	Organization		103	22	0		(45)	80
302	Franchises and Consents		0	0	0		0	0
303	Misc. Intangible Plant (all Software)		134,660	71,126	0		1,683	207,470
	Total Intangible Plant		134,763	71,148	0		1,638	207,550
389	Land and Land Rights		8,076	719	0		(127)	8,668
390	Structures and Improvements		223,295	3,482	2,695		(651)	223,430
391	Office Furniture and Equipment		141,636	21,064	16,601		(4,027)	142,073
392	Transportation Equipment		176,918	20,691	0		0	197,609
393	Stores Equipment		7,479	(1,463)	85		0	5,931
394	Tools Shop and Garage Equipment		82,764	5,125	338		(37)	87,514
395	Laboratory Equipment		13,268	0	398		0	12,870
396	Power Operated Equipment		2,506	1,008	0		0	3,513
397	Communication Equipment		344,995	25,523	1,404		(122)	368,992
398	Miscellaneous Equipment		2,402	9	0		(777)	1,634
399	Other		0	0	0		0	0
	Total General Plant		1,003,339	76,158	21,520		(5,742)	1,052,235
	Total Delivery System Plant		9,721,703	799,493	70,734		22,515	10,472,978

Appendix V-1
Delivery Plant in Service 1985 through 2004
(Dollars in Thousands)

Account	Description	Year	Beg. Balance	Additions	Retirements	Adjustments	Transfers	End. Balance
360	Land and Land Rights	2003	53,949	263	47		116	54,281
361	Structures and Improvements		147,628	97,759	840		(48)	244,499
362	Station Equipment		1,935,486	(67,650)	11,088		6,727	1,863,475
363	Storage Battery Equipment		0	0	0		0	0
364	Poles, Towers, and Fixtures		857,192	63,285	925		0	919,553
365	Overhead Conductors and Devices		1,328,158	74,239	1,032		12,196	1,413,561
366	Underground Conduit		616,963	17,996	56		0	634,903
367	Underground Conductors and Devices		2,371,892	193,342	1,054		(11,620)	2,552,559
368	Line Transformers		874,210	5,268	16,457		(4,423)	858,598
369	Services		623,618	21,722	7,585		0	637,755
370	Meters		297,864	7,539	4,139		0	301,263
371	Installations on Customer Premises		29,373	4,210	8		0	33,575
372	Leased Property on Customer Premises		21	0	7		0	15
373	Street Lighting		76,839	6,975	111		0	83,703
	Total Distribution Plant		9,213,193	424,949	43,350		2,948	9,597,741
301	Organization		80	0	0		0	80
302	Franchises and Consents		0	0	0		0	0
303	Misc. Intangible Plant (all Software)		207,470	28,492	0		(345)	235,617
	Total Intangible Plant		207,550	28,492	0		(345)	235,697
389	Land and Land Rights		8,668	0	0		0	8,668
390	Structures and Improvements		223,430	19,246	1,113		(20)	241,544
391	Office Furniture and Equipment		142,073	32,328	44,684		328	130,045
392	Transportation Equipment		197,609	15,958	47,739		0	165,829
393	Stores Equipment		5,931	7	100		0	5,838
394	Tools Shop and Garage Equipment		87,514	5,164	556		325	92,447
395	Laboratory Equipment		12,870	0	363		0	12,506
396	Power Operated Equipment		3,513	3,030	0		0	6,543
397	Communication Equipment		368,992	73,675	393		0	442,274
398	Miscellaneous Equipment		1,634	35	0		0	1,669
399	Other		0	656	0		0	656
	Total General Plant		1,052,235	150,098	94,949		633	1,108,018
	Total Delivery System Plant		10,472,978	603,539	138,299		3,236	10,941,456

Appendix V-1
Delivery Plant in Service 1985 through 2004
(Dollars in Thousands)

Account	Description	Year	Beg. Balance	Additions	Retirements	Adjustments	Transfers	End. Balance
360	Land and Land Rights	2004	54,281	460	0		2,360	57,101
361	Structures and Improvements		244,499	89,354	782		9	333,080
362	Station Equipment		1,863,475	26,967	7,247		139	1,883,334
363	Storage Battery Equipment		0	0	0		0	0
364	Poles, Towers, and Fixtures		919,553	74,288	5,958		177	988,060
365	Overhead Conductors and Devices		1,413,561	41,806	3,329		(920)	1,451,119
366	Underground Conduit		634,903	34,861	142		0	669,623
367	Underground Conductors and Devices		2,552,559	206,742	4,457		934	2,755,778
368	Line Transformers		858,598	47,188	21,021		(243)	884,521
369	Services		637,755	71,274	14,870		0	694,160
370	Meters		301,263	20,844	5,128		0	316,979
371	Installations on Customer Premises		33,575	(5,286)	20		0	28,269
372	Leased Property on Customer Premises		15	41	0		0	56
373	Street Lighting		83,703	11,575	502		0	94,776
	Total Distribution Plant		9,597,741	620,115	63,457		2,456	10,156,855
301	Organization		80	0	0		0	80
302	Franchises and Consents		0	0	0		0	0
303	Misc. Intangible Plant (all Software)		235,617	22,245	0		826	258,688
	Total Intangible Plant		235,697	22,245	0		826	258,768
389	Land and Land Rights		8,668	11	0		(47)	8,632
390	Structures and Improvements		241,544	15,355	3,029		(7,659)	246,210
391	Office Furniture and Equipment		130,045	7,886	20,029		803	118,705
392	Transportation Equipment		165,829	809	16,568		0	150,070
393	Stores Equipment		5,838	2,100	122		0	7,816
394	Tools Shop and Garage Equipment		92,447	2,664	394		0	94,717
395	Laboratory Equipment		12,506	0	527		0	11,980
396	Power Operated Equipment		6,543	1,150	22		0	7,671
397	Communication Equipment		442,274	74,996	456		(20)	516,794
398	Miscellaneous Equipment		1,669	945	11		0	2,602
399	Other		656	35	91		376	976
	Total General Plant		1,108,018	105,951	41,249		(6,547)	1,166,173
	Total Delivery System Plant		10,941,456	748,311	104,706	0	(3,265)	11,581,796

Source: FERC Form 1 for year indicated, Intangible Plant pages 204-205; Distribution and General Plant pages 207-207.

Introduction

This checklist was developed to document ACG's review of capital project work orders and individual transactions selected for testing in the detailed cost audit. In addition to documenting ACG's audit work, the checklists provide information regarding the specific projects and other transactions.

Tests Relating to Work Orders Selected for Review

Project Engineering and Authorization

Project Number:	T40FDR	No	Blanket:	Unique: X	Year Added: 2003
Project Description: TSS40 Install new feeder at Diversey Substation					
• Capital Project Evaluation Report	Estimated Amounts				Actual Amounts
	Original Estimate	Change Orders	Final Estimate		
• Additions	21,000,000				10,900,249
• Retirements	None				
• Cost of Removal					
• Corrective Maintenance					
• Preventive Maintenance					
• Other					
Total					
Project Start	Dates		Comments		
• Estimated					
• Actual	10/25/99				
Approvals in Accordance with ComEd Requirements					
• Work Authorization					
• Changes					
Distribution of Project Costs					
FERC Account Names	FERC No.	Amount	Comments		
• Intangible Plant	301 – 303				
• Land and Land Rights	360				
• Structures and Improve.	361				
• Station Equipment	362				
• Poles, Towers, and Fixtures	364	15,836			
• Overhead Conductors and Devices	365	11,234			
• Underground Conduit	366	7,792,575			
• Underground Conductors & Devices	367	3,080,604			
• Line Transformers	368				
• Services	369				
• Meters	370				
• Installations on Customer Premises	371				
• Leased Property on Cust. Premises	372				
• Street Lighting	373				
• General Plant	389 – 398				
• Transmission	350 - 359				
• Other					
Total		10,900,249			

Project: T40FDR**Cost Verification and Account Distribution**

Cost Summary		Relationship		
Account Name/Description	Amount (\$000)	%	Relates To:	Comments:
• Regular Labor	337			
• Overtime Labor	275	81.7%	Labor	No PIA to explain high OT
• Employee Benefits:	-			
• Fringes	142	42.1%	Labor	41.9% estimate
• Pensions & Post-Retirement	(13)	(3.8)%	Labor	Pension credit in 2000
• Paid-Time Off	61	18.1%	Labor	22.6% estimate
• Materials	1,217	11.3%	Total	
• Tools	-	0.0%	Total	
• Contracting	8,306	77.2%	Total	
• Supervision & G&A:	-			
• Department Overhead	244	72.5%	Labor	In range of ACG test
• General & Administrative	88	26.1%	Labor	
• Corporate & Other Support	-	0.0%	Labor	
• Service Department Costs	11	3.2%	Labor	
• Facilities/Real Estate				
• Employee Benefits (prior to 4/03)	-		Labor	
• Other Clearing Accounts	-			
• Fleet	8	2.3%	Labor	
• Stores Handling	191	15.7%	Material	12.6% estimate
• AFUDC Equity	16	0.1%	Total	
• Capitalized Interest/AFUDC	18	0.2%	Total	
• Contributions in Aid of Constr	(0)	0.0%	Total	
Total (ties to page 1)	10,900			
Testing Results (see separate Excel schedule)				
Discrepancies Found in:	Number of Exceptions	Comments		
• Amount	1	all documentation missing for 1 item		
• Adequate support	9	4 time sheets missing, 3 invoices missing, missing JE detail/support, & 1 item missing all docs		
• Proper approvals	6	4 time sheets missing, no JE support and 1 item missing all doc		
• Proper distribution	1	1 item missing all docs		
• Appropriate charge to this Res Type or Sub Account	1	1 item missing all docs		

Project: T40FDR**Project Management** (complete for selected projects and contracts)

Project Planning and Set Up	Yes or No	Comments
• Clearly stated scope and purpose	Yes	
• Proper budget support	No	
• Proper schedule support	No	
• Properly completed set up report	Yes	
• Pre-defined cost allocations	Yes	100% installation
• Proper capital / expense distribution	NA	
• Proper capital / expense support	NA	
• Capital Project Evaluation Report	No	
• Memo to Senior Mgt. Requesting Project Approval	see project file	T&D project review board presentation (no approvals evident). Other data provided, but not formal package and approvals not evident for package in total
• Business Case Review Committee Approval	Yes	
• Exelon Capital Approval Process (ECAP) project approval	NA	Not req'd
• Exelon BOD Resolution approving contract	NA	Not req'd
• Project Charter	Yes	see project file
• Proper approvals	Yes	See project file
Vendor Selection	Yes or No	Comments
• Competitively Bid	Yes and No	80% - Single Source Recommendation; 20% -Competitive bid
• Vendor on Approved List	Don't know	ComEd did not provide data
• Lowest Evaluated Cost	Don't know	ComEd did not provide data
• Contract properly approved	Yes	Purchase Req was properly approved
Project Closing	Insert Dates	Comments
• Estimated In-service date	8/1/2002	All dates are from project set up
• Actual In-service date	6/27/2000	report
• G/L Closing Date	12/31/2001	
• Unitization Date	6/27/2003	
	Yes / No	Amount:
• AFUDC adj. at end of project?	Yes	
• Depr adj. to G/L date?	Don't know	
• PIA Report?	No	
• Adequate investigation of project variances	Don't know.	\$11 million difference. Cost under estimate. ComEd did not provide data.
• Proper authorizations	Don't know	
Retirements	Yes / No	Comments
• Should there be a related retirement?	No	
• Was retirement recorded?	NA	

Appendix V-2

Project Information Number: T40FDR										
Line No.	Res Type/Sub Account	Description	Journal Date	Amount	Line Item Costs Selected for Testing			Exceptions and Comments	ComEd WP Ref. RLR40:	Dis-position
					Adequate Support	Proper Approval	Proper Charge to Project			
1	100	Salaried Labor	5/1/01	597.04	N	N	Y	time sheet missing	T40FDR_07-A_CBMS	E
2	101	Hourly Labor	6/23/00	1,055.20	N	N	Y	time sheet missing	T40FDR_06-A_CBMS	E
3	102	Hourly Labor Overtime	8/17/00	1,543.20	N	N	Y	time sheet missing	T40FDR_08-A_CBMS	E
4	103	Craft Contracting	11/3/00	569,510.55	Y	Y	Y	Project ID is not referenced but description of work matches project set-up sheet	T40FDR_04-A-D_CBMS	OK
5	103	Craft Contracting	5/18/00	137,574.13	N	Y	Y	no invoice, Proj ID says ERROR on invoice screen due to system transition	T40FDR_2A-C_CBMS	E
6	104	Materials - ComEd Storerooms	5/2/00	13,644.54	N	N	N	Supporting documentation cannot be found	I02303_08-A_CBMS revised	E
7	104	Materials - ComEd Storerooms	8/3/00	7,732.60	N	N	Y	PassPort Legacy System listing (query) only. No additional detail is available	T40FDR_3A-C_CBMS	E
8	113	Other	1/11/01	1,693.44	N	Y	Y	no invoice, project ID on invoice screen says ERROR due to system transition	T40FDR_05-A_CBMS	E
9	115	Salaried Labor Overtime	3/31/00	563.54	N	N	Y	time sheet missing	T40FDR_1A-A_CBMS	Q E
10	116	Prof Staff & Engr Augmentation	6/5/00	9,325.46	N	Y	Y	Invoice missing, signed Purch. Req (proj) ID says ERROR on screen due to system transition	T40FDR_1A-C_CBMS	E
11	238	OH Paid Time Off - Salary	8/17/00	169.55	OH	OH	OH	Overheads tested elsewhere		OH
total				743,409.25						

tick mark Y: Yes
 legend N: No
 ? : Undeterminable
 OH: Overheads
 E: Exception noted in whole or in part on previous page, page 3
 Q: Question for ComEd and noted on first page of this package
 na: not applicable

Overhead Loading and Clearing Account Analysis

Explanation of the Analysis

This analysis pertains to ComEd's accounting for overheads. There are separate sections relating to Employee Benefits, Supervision and General & Administrative costs, Corporate & Other Support, Fleet Clearing, and Stores Clearing. The Company includes both General & Administrative (G&A) costs and the Departmental Overhead allocation in the Supervision and General & Administrative costs category and sometimes refers to Corporate and Other Support as Administrative & General (A&G) or Admin. and Legal. For each cost category, ACG provides a brief description of the nature of the accounts and an explanation of the basis for clearing or allocation of costs to capital projects and expense. For many of the accounts, this explanation is followed by an analysis of annual costs and the allocation of costs to various capital and expense accounts.

Employee Benefits

Employee Benefits consists of four categories of cost with slightly different allocation methodologies:

- Fringe benefits
- Pensions
- Payroll taxes
- Paid-time off

The annual costs for fringe benefits, pensions, and payroll taxes fluctuate from year to year based on increases or decreases in medical premiums, pension costs, tax rates and labor costs. Each year these accounts are analyzed to establish allocation rates. As required, the rates are adjusted during the year to keep the balance as near zero as possible, with balances zeroed out at the end of the year. For paid-time-off, an average of the previous year is used, as these costs tend to be relatively consistent from year to year. ComEd says that there is subjectivity involved in setting the rates as discussed below:

Judgment is used in setting the clearing rates. Monthly meetings are held in General Accounting to discuss the most appropriate rate to use for that month in order to minimize the monthly rate variability and to ensure that the clearing account balance will be zero at year end.⁴⁶⁴

Prior to the conversion to the Exelon Performance Solutions (EPS) financial system in April 2003, fringe benefits, pensions and payroll taxes were allocated through the capitalized overheads allocation. A separate allocation was created in April 2003. All of these costs are allocated to capital and expense accounts based upon the regular (straight) time direct labor charges to these categories of accounts.

The base for loading paid time off is regular time labor charges for variable or MLA (Margin Level Allocations) departments only. Regular time labor is non-overtime labor and excludes vacation, holiday, sick leave, and other paid-absent time charges.⁴⁶⁵ Variable and MLA departments are those with the direct labor employees who perform work on the distribution

system and charge their time directly to applicable projects. MLA is a term from CBMS whereas the term Variable Department is used in EPS.⁴⁶⁶

During the period from 1994 through 2004, ComEd had a number of early retirement programs, and other force reductions for which there were related severance and benefits costs. There were also severance and benefits costs associated with the divestiture of the fossil generating stations in the 1997 through 1999 time period and in connection with the merger in 2000 and 2001. In the audit, ACG determined that none of these extraordinary costs were charged to the distribution system plant accounts. Instead, they were either directly expensed or included in the transactions costs related to the generating station sales, and ultimately included in goodwill in connection with the merger.⁴⁶⁷

Tables such as the following included in this Appendix V-3 are used in the analysis of detail charges to the various accounts and to develop average overhead loading rates for use in testing overhead charges in the detailed cost audit.

Appendix V-3/1
Fringe Benefits, Pensions and Payroll Tax Clearings Analysis
Nine Months 2003 and 2004
(Dollars in Thousands)

Description	Fringe Benefits		Pensions		Payroll Taxes	
	9 Mos. 2003	2004	9 Mos. 2003	2004	9 Mos. 2003	2004
Incurred	106,533	122,093	61,567	99,939	28,295	37,249
Dist. to Capital	(37,558)	(46,988)	(21,444)	(38,369)	(9,882)	(14,248)
Dist. to O&M	(61,510)	(68,916)	(35,879)	(56,910)	(16,456)	(21,076)
Dist. to Stores	(2,239)	2,429	(1,284)	(1,986)	(592)	(743)
Dist. to Fleet	(3,093)	(3,465)	(1,777)	(2,830)	(823)	(1,054)
Dist. to Other Accts.	(827)	(893)	(373)	(781)	(158)	(302)
Adjustments	(1,306)	598	(809)	937	(384)	174
Total Allocated	(106,533)	(122,093)	(61,567)	(99,939)	(28,295)	(37,249)
Labor Base for Alloc.	264,105	314,086	264,105	314,086	264,105	314,086
Calculated Loading Rate	41.9	38.9	24.2	31.8	11.1	11.9
Percent Alloc. to Cap.	35.3	38.5	34.8	38.4	34.9	38.3

Source: DR ACG-18, OCA 0018494 through 0018496, DR MDF-22, OCA 0045596, and ACG analysis.

Appendix V-3/2
Paid Time Off Analysis
2001 through 2004
(Dollars in Thousands)

	2001	2002	2003	2004
Incurred	33,928	32,890	34,716	33,044
Dist. to Capital	(14,972)	(15,543)	(17,620)	(18,107)
Dist. to O&M	(18,446)	(16,917)	(16,212)	(14,856)
Dist. to Fleet	(482)	0	0	0
Dist. to Other Accts.	(216)	(385)	(263)	(263)
Adjustments	188	(45)	(621)	182
Total Allocated	(33,928)	(32,890)	(34,716)	(33,044)
Labor Base for Allocation	158,544	148,270	153,432	140,697
Calculated Loading Rate	21.4	22.2	22.6	23.5
Percent Allocated to Capital	44.1	47.3	50.8	54.8

Note: The 2001 adjustments amount includes a small ending balance in 2001 carried forward to the adjustments amount in 2002.

Source: DR ACG-18, OCA 0018497, DR MDF-22, OCA 0045597 and 0045598 and ACG analysis.

Supervision and G&A Costs

ComEd uses the caption Supervision and G&A Costs for two separate categories of overheads, namely the Departmental Overhead Allocation and General & Administrative. ACG performed individual analysis of these accounts as described here for G&A and in the section below relating to the Departmental Overhead Allocation.

As shown in **Appendix V-3/3** below, ComEd records G&A costs in two Project Accounts, one for capital and one for O&M expense. ACG reviewed charges to each of these project accounts by res-type or sub account for each of the years shown in the analysis. During the 2001 and 2002 CBMS era, costs are predominately labor, labor related overheads and outside services, with labor costs charged to both the capital and maintenance projects about doubling between the two years. When asked to explain this variance, ComEd said that the labor costs associated with certain employees were re-directed from the Departmental Overhead Allocation cost category to the G&A cost category to better align costs with the work being performed.⁴⁶⁸ ACG's analysis of labor cost changes in the Departmental Overhead accounts shows a corresponding decrease.⁴⁶⁹

In the 2003 through 2004 EPS era, additional changes were made, increasing charges to both the capital and O&M project accounts. Costs in the capital projects account include \$11.8 million and \$14.7 million in 2003 and 2004 respectively of Other IT Costs, whereas the O&M Project has only nominal amounts of such costs. ComEd explained the increase in Other IT Costs charged to the capital project as being attributable to the reclassification of costs relating to phones, pagers and e-mail servers and support services from the Corporate A&G allocation to the G&A capital project account. There is no corresponding increase in the O&M project account because these charges are initially recorded in expense accounts and transferred to the capital project account for allocation to various capital projects.⁴⁷⁰ Again, ACG's analysis of the Corporate A&G cost pool shows a decrease in Other IT expense in the 2003 – 2004 time period.⁴⁷¹

Another increase in charges to both the capital and O&M project accounts in 2004 is explained as being attributable to the transfer of a significant number of employees from ComEd and PECO to Energy Delivery Shared Services (EDSS), a unit within BSC. This transfer accounted for increases in costs of \$22.8 million in the Capital Project and \$13.5 million in the O&M Project billed by EDSS for activities related to ComEd operations, including the costs of transferred personnel who had historically not been included in the ComEd G&A allocation.⁴⁷²

G&A overheads are allocated using a clearing rate methodology. The G&A rate is calculated by taking an estimate of G&A capital and expense overheads individually and dividing by an estimate of the capital and expense allocation base, consisting of productive labor and contractor labor, beginning in 2003. The allocation rate is applied against productive labor and contractor labor charged to O&M and capital projects within Variable or MLA Departments. As noted above, these are the departments to which direct labor employees who perform work on the distribution system are assigned, and who charge their time directly to various capital and maintenance projects.⁴⁷³

Also as shown in Appendix V-3/3, there are balances of approximately \$7.7 and \$10.0 million remaining in the O&M project accounts at the end of the years 2003 and 2004, respectively. ComEd explained that these balances relate to the conversion to EPS. In EPS, fringe benefits, pensions, and payroll taxes are allocated to labor expense, including O&M project labor. ComEd also explained that these balances are included in a FERC expense account classification and are not in deferred charges or other balance sheet accounts, so further clearing to expense is not required.⁴⁷⁴

**Appendix V-3/3
General & Administrative Costs
2001 through 2004
(Dollars in Thousands)**

	2001	2002	2003	2004
Capital Project				
Beginning Balance	0	1,161	1,161	(4)
Incurred	27,809	54,569	64,394	73,747
Dist. to Capital	(26,648)	(54,569)	(65,559)	(74,743)
Ending Balance	1,161	1,161	(4)	(1)
O&M Project				
Beginning Balance	None	None	None	None
Incurred	20,476	36,460	34,599	39,894
Dist. to O&M	(19,973)	(36,446)	(26,904)	(29,898)
Ending Balance	503	14	7,695	9,996
Base for Capital Allocation	94,643	91,676	150,015	194,287
Calculated Loading Rate	28.2	59.5	43.7	38.5
Percent Dist. to Capital	57.2	60.0	70.9	71.4

Source: DR ACG-18, Bates OCA 0018500, DR JDH-174, Bates OCA 0114364, DR MDF-21, Attachment 1, Bates OCA 0045600 and 0045601 and ACG analysis.

As shown in Appendix V-3/3, the portion of the combined project costs allocated to capital increased from 57.2 percent in 2001 to 71.4 percent in 2004. Although ComEd says that this increase is primarily due to the inclusion of IT costs beginning in May 2003,⁴⁷⁵ ACG believes that nearly all of this change is attributable to a \$12.7 million increase in the apportionment of costs to capital due to the inclusion of contractor labor costs in the base for loading beginning in April 2003. However, as the O&M and capital split is predetermined based on annual studies, the distribution of these costs over contractor labor would not impact the amounts capitalized, rather just the distribution between capital projects.⁴⁷⁶

Appendix V-3/4
Apportionment of G&A Overheads
To Capital and Maintenance 2001 through 2004
(Dollars in Thousands)

Cost Category	Amount		Percent	
	Capital	Maintenance	Capital	Maintenance
Labor	123,161	88,039	58	42
Employee Benefits	25,267	19,449	57	43
Supervision & G&A	4,264	1,184	78	22
General & Administrative	223	145	61	39
Contracting	7,359	1,530	83	17
Affiliate Services	430	274	61	39
Materials	1,046	2,033	34	66
Vehicle Fleet	1,086	658	62	38
Corporate & Other Support	56,462	17,405	76	24
Other	1,221	713	63	37
Total	220,519	131,430	63	37

Source: DR MDF-21, Attachment 1, Bates OCA 0039278 through 0039280, and ACG analysis.

Departmental Overhead Allocation

Each Variable or MLA Department has a Departmental Overhead Project account (DOV). As noted above, these are the departments to which direct labor employees who perform work on the distribution system are assigned, and who charge their time directly to various capital and maintenance projects. Costs that cannot be identified with specific activities are charged to these overhead projects and distributed monthly to capital and expense based on the ratio of straight time and overtime labor charges and, beginning in 2003, contractor labor in the department.⁴⁷⁷ Activity in the combined DOV accounts during the four years ended December 31, 2004 is shown in **Appendix V-3/5** below.

Appendix V-3/5
Departmental Overhead Allocation Analysis
Four Years ended December 31, 2004
(Dollars in Thousands)

	2001	2002	3 Mos. 2003	9 Mos. 2003	Total 2003	2004
Incurring	115,645	83,914	33,453	101,903	135,356	134,934
Dist. to Capital	(49,805)	(38,282)	(16,824)	(56,298)	(73,122)	(79,014)
Dist. to O&M	(60,324)	(45,366)	(16,527)	(44,695)	(61,222)	(55,464)
Dist. to Fleet	(4,862)	0	0	0	0	0
Dist. to Other Accts.	(598)	(290)	(65)	(893)	(958)	(443)
Adjustments	(55)	24	(37)	(17)	(54)	(13)
Total Allocated	(115,645)	(83,914)	(33,453)	(101,903)	(135,356)	(134,934)
Base for Allocation	NA	NA	NA	NA	NA	NA
Calculated Loading Rate	NA	NA	NA	NA	NA	NA
Percent Alloc. to Capital	43.1	45.6	50.3	55.2	54.0	58.6

Notes:

1. The adjustments amounts include the effects of small beginning and/or ending balances carried from one year to the next in the analysis.
2. The base for allocation is not available. ComEd determines the base on a departmental basis and states that an overall departmental view would not be representative. See ACG analysis later in this section of the appendix.

Source: DR ACG-18, Bates OCA 0018494 through 0018496, DR MDF-22, Bates OCA 0045595, DR JDH-131, Bates OCA 0109412 and ACG analysis.

Costs charged to the DOV during the four years ended December 31, 2004 are shown in **Appendix V-3/6** below. The majority of the costs passing through the DOV are base payroll for managers and back office personnel, transportation and fleet costs and open working stock material. These costs represent more than 80 percent of the total DOV. Certain other costs incurred by a department, that cannot be identified with a specific project or maintenance activity are considered to be operating overhead and are also charged to the DOV project.⁴⁷⁸

Appendix V-3/6
Charges to Departmental Overheads
By Cost Category 2001 - 2004
(Dollars in Thousands)

Cost Category	2001	2002	2003	2004	Total
Labor	52,663	21,423	53,969	54,691	181,746
Employee Benefits	19	0	1,160	4,187	5,366
Supervision & G&A	0	0	1,876	1,636	3,512
General & Administrative	0	0	834	1,422	2,256
Contracting	3,636	3,027	865	76	7,604
Affiliate Services	246	440	7	0	693
Materials	13,350	15,160	14,551	8,961	52,022
Vehicle Fleet	40,080	37,748	53,392	56,613	187,833
Other	5,651	6,116	8,702	8,348	28,817
Total	115,645	83,914	135,356	134,934	469,849

Source: DR MDF-21, Attachment 1, Bates OCA 0039278 through 0039280, and ACG analysis.

ACG selected five departments for four months in the 2001-2004 audit period and for each res-type or sub account, compared total department costs with the costs charged to the DOV. For the four months selected, the sum of charges by the five departments to the DOV ranged from about 20 percent to 40 percent of total department costs. With a few items requiring explanation, all of the allocations within each of the departments between DOV and other accounts appear reasonable based on ACG's understanding of the overhead loading process. The following charges were investigated and are explained as indicated:

- Beginning with the analysis for June 2002, salaried labor in four of the five departments was excluded from the DOV and included in the other account category. This was not expected, because it was previously included in the DOV and represents supervisory labor in the department, which is an allocable element of overhead costs.

ComEd explained that this was an error that was corrected during the first quarter of 2003.⁴⁷⁹

- Although two of the departments selected for analysis were included in four and three of the months selected for testing, respectively, it appears that contracting is not a consistent element of departmental costs. A comparison of contracting costs across all departments during the four test months also indicates that contracting is not a consistent element of departmental costs.

ComEd explained that contractor costs are incurred on an as-needed basis to provide supplemental labor and perform other than ordinary and customary work.⁴⁸⁰

Also, because an overall view of the departmental overhead allocation does not provide an adequate picture of the allocation methodology, ACG selected one department in each of the four months analyzed above for detailed analysis of the monthly allocation. In the CBMS era, the allocation was made on a regional basis, so that the precise MLA allocation for the selected departments could not be followed. However, our review did not disclose any unusual items. For the two EPS months, two maintenance and construction departments were selected for testing and the departmental overhead rate for one was 22.6 percent, whereas the rate for the

other was 85.8 percent.⁴⁸¹ ACG asked ComEd to explain this wide variation in loading rates for two departments performing the same basic function and was advised that one of the departments was charged with issuances of open stock materials from the ComEd storeroom needed to complete emergent work.⁴⁸²

To complete the assessment of departmental overheads, ACG asked ComEd for a copy of the internal studies or analyses performed supporting the change in accounting for G&A and departmental overheads in April 2003 relating to the inclusion of contractor charges in the base for loading, and were advised as follows:

- The change was made in connection with the implementation of EPS.
- During the EPS design sessions, the EPS Implementation Team determined that it would be appropriate to include contractor costs in the base for loadings of overheads, as contractors were increasingly supplementing company labor that was included in the base for loadings of departmental overheads.
- Current ComEd personnel that were involved in this matter do not recall any studies or analysis performed relating to this change.⁴⁸³

ACG does not believe that this explanation provides adequate support for the change in accounting. Our review of DOV cost pools shows that they have little or no relationship to contractor labor costs and we believe that the change is not adequately supported or justified. Cost causation principles underlie the accounting for overheads, and are not present in this situation.

The adjustment required is calculated in **Appendix V-3/7**, below.

Appendix V-3/7
Adjustment to Capitalized Department Overheads
To Remove Contractor Labor from the Base for Loading
(Dollars in Thousands)

Line Item Descriptions	ACG Calculation of Needed Adjustments		
	9 Mos 2003	2004	Total
Productive Labor	100,521	117,582	228,103
Contractor Labor	26,441	76,705	103,146
Total Base for Loading	126,962	194,287	331,249
Productive Labor Only	100,521	117,582	228,103
Ratio of Productive Labor to Base for Loading	79.2	60.5	68.9
Incurred Charges [Note 1]	56,298	79,014	135,312
Reduced Departmental Overheads [Note 2]	44,588	47,803	92,391
Proposed Adjustment	(11,710)	(31,211)	(42,921)

Note 1: Incurred charges equal to 9 Mos. 2003 plus 2004 of DOV charges distributed to capital from Appendix V-3/5 above.

Note 2: Ratio of Productive Labor to Base for Loading applied to incurred charges.

Note 3: ComEd states that the effect of the change in accounting must be determined on a departmental basis and provided an alternative calculation showing the need for a \$6 million adjustment.

Source: DR MDF-22, Supplement, Attachment 1, Bates OCA 0116092 through 0116096, ACG-18, Bates OCA 0018500, and ACG analysis.

Throughout the period of ACG's audit fieldwork, from the Orientation Meeting in September 2006, through the receipt of the response to DR JDH-170 on July 26, 2007, ACG was advised by ComEd that the departmental overhead allocation pertained to variable and MLA departments only. However, in DR JDH-170 we were advised that in the EPS time frame (April 2003 forward) non-variable departments also used the departmental overhead allocation to distribute costs over labor within these departments.⁴⁸⁴ Accordingly, we expanded our tests of the overhead allocation methodology to gain an understanding of the possible effects of this change.

ACG selected four non-variable departments for review of charges by sub-account to both the overhead account and other accounts for a total of seven months in the period from April 2003 through December 2004. ACG's analysis shows that about \$750,000 from a total of \$23.7 million was charged to the departmental overhead account, or about 3 percent of the total costs in these departments.⁴⁸⁵ A small portion of the overhead amount was capitalized.⁴⁸⁶

Corporate & Other Support (A&G)

Administrative and General (A&G) costs include service departments such as human resources, payroll, plant accounting, accounts payable and legal, and the facilities management and real estate functions. Prior to April 2003, employee benefits costs were also part of this overhead pool. A&G costs are initially charged entirely to expense, and later manually allocated to capital based on a monthly analysis of A&G costs applied to the ratio of regular time labor that is capitalized. The capitalized portion of A&G is allocated to specific capital projects using a clearing rate methodology. The A&G clearing rate is calculated by taking an estimate of the capitalized amount of A&G costs and dividing by an estimate of total capital expenditures.⁴⁸⁷

ACG reviewed charges to the A&G cost pool as explained in the main body of this chapter of the report. The account does not lend itself to an analysis of the type shown in the tables above for Paid Time Off, for example.

Vehicle Fleet

Costs in this category pertain to operation of the ComEd vehicle fleet and include fuel costs, labor, depreciation, lease costs, registration fees, accident repairs, administrative overhead, and parts and materials costs for routine maintenance. Fleet costs are distributed based on billings rather than allocations, and do not have an allocation basis. Each vehicle is assigned to a department. Costs are billed out based on a vehicle rate and any residual in the clearing account is distributed over those costs in order to true-up the billings. More specifically, fleet charges are first billed at a billing rate calculated by Fleet Management at the beginning of the year. This amount is calculated by estimating the total costs incurred for the year divided by the estimated number of vehicles in service for that year. A monthly chargeback rate by vehicle class is determined based on budgeted costs divided by the number of vehicles. The monthly charges are billed to the departments of record by vehicle. Any residual amount that does not get distributed via the chargeback rate in a given month is allocated ratably over the billings in the current month. Fleet costs are charged to each department's Department Overhead project. The Department Overhead allocation then allocates these costs between O&M and Capital Projects on the basis of productive labor (excluding PTO) and contractor labor within each department.⁴⁸⁸

ACG reviewed charges to the Fleet cost pool during the 2001 through 2004 audit period and noted no unusual items. The account does not lend itself to an analysis of the type shown in the tables above for Fringe Benefits, for example, because allocations are ultimately made through the Departmental Overhead allocation.

Stores Expense

Stores handling expense is the cost of operating and maintaining Company warehouses and storerooms. Some of the more significant costs include labor, facilities costs, outside services, and allocated fleet and IT charges. Stores expense is allocated using a clearing rate methodology. The stores handling rate is calculated based upon an estimate of stores expenses divided by an estimate of material issuances. The allocation rate is applied against material costs as the materials are issued to O&M and Capital projects. A limit of \$10,000 of material

handling is imposed on issuances to avoid over-allocation to high-cost items. During the year, the rate is adjusted as necessary to prevent the account from becoming significantly over or under-distributed.⁴⁸⁹

Appendix V-3/8 provides a summary of transactions in the Stores Clearing account during the 2001 – 2004 audit period.

**Appendix V-3/8
Analysis of Stores Expense
2001 through 2004
(Dollars in Thousands)**

	2001	2002	2003	2004
Beginning Balance	5,608	6,839	9,964	(60)
Incurred	19,353	17,451	21,445	19,105
Dist. to Capital	(15,453)	(11,899)	(25,989)	(15,860)
Dist. to O&M	(2,899)	(2,798)	(5,395)	(2,348)
Dist. to Other Accts.	256	(40)	(407)	(901)
Adjustments	(28)	411	322	64
Total Allocated	(18,124)	(14,325)	(31,469)	(19,045)
Ending Balance	6,839	9,964	(60)	0
Loading Rate	7.3	8.1	12.3	11.1
Percent Allocated to Capital	85.3	83.1	82.6	83.3

Source: DR ACG-18, OCA 0018503 and ACG analysis.

ACG reviewed charges to the Stores Expense cost pool during the 2001 through 2004 audit period and found the following items of interest.

- Prior to 2004, PECO and ComEd Energy Delivery employees provided strategic sourcing services the cost of which were allocated between ComEd and PECO based on the relative material purchases of the two companies. ComEd’s portion of such PECO costs was \$2.9 million in 2001, \$3.6 million in 2002, and \$2.3 million in 2003.⁴⁹⁰
- In 2004 the strategic sourcing services function was transferred to BSC. Costs were allocated to ComEd based on its percentage of materials purchased through the BSC supply departments, and totaled \$5.4 million in 2004.⁴⁹¹
- ComEd stated that “strategic sourcing services” provided by BSC include materials contract management services and associated programs,⁴⁹² but objected to responding to ACG questions regarding the budget for such services when the function was consolidated within BSC, or variance from budget which is needed to assist in the analysis of changes in the level of such costs included in the stores clearing account.⁴⁹³
- The only explanation ComEd would provide for the increase in the cost of strategic sourcing services from \$2.3 million in 2003 when performed by PECO to \$5.4 million in 2004 when performed by BSC, is that prior to the re-organization, the ComEd strategic sourcing function was embedded within ComEd Operations utilizing some services from PECO and that the ComEd charges were recorded in various sub-accounts within stores clearing.⁴⁹⁴

- ComEd uses the Stores Clearing account to record purchase price variances. Purchase price variances can result from differences between 1) the quantities actually received and the invoice quantity, 2) unit cost differences between the invoice and the purchase order, and 3) the invoice total compared to the Passport generated cost that is calculated by taking the unit cost per the invoice multiplied by the quantity received.⁴⁹⁵
- With the implementation of Passport in 2002, ComEd began accounting for freight and sales tax in the M&S inventory account rather than stores clearing. Analysis of transactions in the stores clearing account shows that \$4.5 million was transferred from the stores clearing account in November 2001.⁴⁹⁶ ComEd objected to providing an explanation for this change.⁴⁹⁷

As explained in the main body of this chapter of the report, in 2003, ComEd changed its method of accounting for stores expense. Previously the Company maintained a year-end balance in the account representing the costs related to items in inventory. At the end of 2003, and thereafter, the account balance was adjusted to zero at the end of the year.

Appendix VII-1
Analysis of Depreciation Reserves
1995 through 2004
(Dollars in Thousands)

Functional Class	Year	Beginning Reserve	Depreciation Expense	Retirements	Cost of Removal	Salvage & Other Credits	Transfers & Adjustments	Ending Reserve
Distribution	1995	2,412,469	183,748	(46,069)	(17,518)	2,091	100	2,534,821
Distribution-HVD		0	0	0	0	0	0	0
General		201,882	24,288	(12,229)	(1,335)	12,898	0	225,504
Total		2,614,351	208,036	(58,298)	(18,853)	14,989	100	2,760,325
Distribution	1996	2,534,821	193,944	(18,607)	(17,493)	6,748	0	2,699,413
Distribution-HVD		0	0	0	0	0	0	0
General		225,504	27,525	(7,071)	(869)	12,098	0	257,187
Total		2,760,325	221,469	(25,678)	(18,362)	18,846	0	2,956,600
Distribution	1997	2,699,414	204,321	(14,924)	(19,512)	5,766	0	2,875,065
Distribution-HVD		0	0	0	0	0	0	0
General		257,187	32,107	(10,994)	(1,654)	14,249	(97)	290,798
Total		2,956,601	236,428	(25,918)	(21,166)	20,015	(97)	3,165,863
Distribution	1998	2,875,065	214,891	(20,866)	(20,988)	11,436	0	3,059,538
Distribution-HVD		0	0	0	0	0	0	0
General		290,799	36,676	(11,020)	(1,323)	458	0	315,590
Total		3,165,864	251,567	(31,886)	(22,311)	11,894	0	3,375,128
Distribution	1999	3,059,538	224,756	(47,923)	(19,345)	1,666	48	3,218,740
Distribution-HVD		0	905	0	0	0	395,940	396,845
General		315,590	38,861	(42,821)	(3,913)	23,701	(3,025)	328,393
Total		3,375,128	264,522	(90,744)	(23,258)	25,367	392,963	3,943,978
Distribution	2000	3,218,740	238,268	(3,174)	(39,595)	4,163	(2,705)	3,415,697
Distribution-HVD		396,845	25,518	(14,929)	(5,779)	0	8,130	409,785
General		328,393	41,498	(144,045)	427	16,683	31,261	274,217
Total [Note 2]		3,943,978	305,284	(162,148)	(44,947)	20,846	36,686	4,099,699

Appendix VII-1 (continued)

Functional Class	Year	Beginning Reserve	Depreciation Expense	Retirements	Cost of Removal	Salvage & Other Credits	Transfers & Adjustments	Ending Reserve
Distribution	2001	3,444,806	241,374	(20,053)	(21,036)	52	(600,991)	3,044,152
Distribution-HVD		406,473	29,158	(7,172)	(3,462)	0	7,828	432,825
Dist Meters & Transformers		0	5,075	(132,932)	0	0	614,289	486,432
General (Accts 390 & 397)		68,570	10,474	(2,159)	(599)	0	(2,450)	73,836
General (Oth Vintage Life Accts)		205,647	25,628	(19,989)	0	0	(28,294)	182,992
Total [Note 2]		4,125,496	311,709	(182,305)	(25,097)	52	(9,618)	4,220,237
Distribution	2002	3,044,152	183,083	(25,800)	(30,808)	6,635	263	3,177,525
Distribution-HVD		432,825	32,780	(4,260)	(2,963)	0	(308)	458,074
Dist Meters & Transformers		486,432	38,073	(19,154)	(70)	0	(1,077)	504,204
General (Accts 390 & 397)		73,836	16,213	(2,842)	(2,527)	0	(843)	83,837
General (Oth Vintage Life Accts)		182,992	26,592	(17,421)	37	12,881	1,742	206,823
Total		4,220,237	296,741	(69,477)	(36,331)	19,516	(223)	4,430,463
Distribution	2003	3,177,525	154,267	(11,844)	(31,091)	10,970	(205)	3,299,622
Distribution-HVD		458,074	33,522	(10,909)	(11,531)	0	753	469,909
Dist Meters & Transformers		504,204	38,504	(20,596)	(7,726)	3,155	99	517,640
General (Accts 390 & 397)		83,837	23,357	(1,500)	(621)	0	0	105,073
General (Oth Vintage Life Accts)		206,823	25,352	(54,189)	4	5,924	(26,178)	157,736
Total		4,430,463	275,002	(99,038)	(50,965)	20,049	(25,531)	4,549,980
Distribution	2004	3,299,622	165,056	(32,503)	(34,197)	555	(453)	3,398,080
Distribution-HVD		469,909	36,563	(4,805)	(6,358)	0	465	495,774
Dist Meters & Transformers		517,640	39,149	(26,149)	(2,921)	90	373	528,182
General (Accts 390 & 397)		105,073	29,297	(2,271)	(511)	0	24	131,612
General (Oth Vintage Life Accts)		157,736	24,178	(24,569)	0	4,100	(1,914)	159,531
Total		4,549,980	294,243	(90,297)	(43,987)	4,745	(1,505)	4,713,179

Source: DR JDH-82_Attach 1, Bates OCA 0086789; DR JDH-39, Attachments 5-8 Bates OCA 00457, DR OCA 03, FERC 2001, 2002, 2003 and 2004 Form 1, pages 219 and 336; DR JDH-84, Attachment 1 and DR JDH-82, Attachments 1 and 2.

Notes:

- An adjusting reserve entry is included in General Plant-Other for reconciliation with the total General Plant Reserve Balance on FERC Form 1 Reports, pg. 219.
- The 2001 Beginning Balances from PowerPlant are \$25.8 million higher than the prior year Ending Balances from the FERC 2000 Form 1 Report, page 219 because the PowerPlant report (DR JDH-82, Attachment 1, Bates OCA 0086789) does not contain cost of removal and salvage work in progress which are reflected in the FERC Form 1 balances.

Appendix VII-2
ComEd Depreciation Study Summary

Acct	Description	December 31, 1998 Study Data				December 31, 2001 Study Data			
		Average Service Life	Average Remaining Life	Percent Net Salvage	Depreciation Rate	Average Service Life	Average Remaining Life	Percent Net Salvage	Depreciation Rate
		Distribution Plant				Distribution Plant (Excluding HVD)			
360	Land Rights & Easements	NA	20	0	2.01	70	53.95	0	.43
361	Structures & Improvements	54	24	-10	2.05	50	31	-44	2.63
362	Station Equipment	38	22.3	-10	2.93	50	35.8	-44	2.27
364	Poles, Towers and Fixtures	32	20	-20	3.74	35	25.3	-44	3.77
365	Overhead Conductors and Devices	34	22	-50	4.47	60	49.3	-44	1.46
366	Underground Conduit	70	28.3	-30	1.87	70	47.6	-44	1.31
367	UG Conductors & Devices	33	19.7	-25	3.75	45	36.7	-44	2.34
369	Services	38	21.1	-50	3.92	40	24.1	-44	3.76
371	Installation on Cust Prem	15	9.2	-10	7.46	30	22.9	-44	4.38
373	Street Lights	21	11.2	-15	5.49	25	18.6	-44	5.81
		Total Distribution Plant				Total Distribution Plant (Excl. HVD, Transformers & Meters)			
		General Plant							
390	Structure & Improvement	62	35.4	-10	2.08	58	52	-10	1.38
397	Communication Equip	20	12	0	5.77	20	14.6	0	5.18
		Total General Plant							
						Distribution Plant High Voltage			
360	HV Land Rights & Easements					70	44.8	0	1.38
361	HV Structures & Improvements					60	44.5	-12	1.78
362	HV Station Equipment					50	40.2	-12	2.11
364	HV Poles, Towers and Fixtures					70	57.7	-12	1.28
365	HV Overhead Conductors and Devices					60	45.8	-12	1.73
366	HV Underground Conduit					70	53.3	-12	1.38
367	HV UG Conductors & Devices					50	36.4	-12	2.32
						Total High Voltage Distribution Plant			
						2.02			

Source: DR ACG-8, Bates Nos. OCA 0000034 & OCA 0000035.

		December 31, 1998 Study Data				December 31, 2001 Study Data			
		Average Service Life	Average Remaining Life	Percent Net Salvage	Depreciation Rate	Average Service Life	Average Remaining Life	Percent Net Salvage	Depreciation Rate
		Distribution Plant				Distribution Plant High Voltage			
360	HV Land Rights & Easements					70	44.8	0	1.38
361	HV Structures & Improvements					60	44.5	-12	1.78
362	HV Station Equipment					50	40.2	-12	2.11
364	HV Poles, Towers and Fixtures					70	57.7	-12	1.28
365	HV Overhead Conductors and Devices					60	45.8	-12	1.73
366	HV Underground Conduit					70	53.3	-12	1.38
367	HV UG Conductors & Devices					50	36.4	-12	2.32
						Total High Voltage Distribution Plant			
						2.02			

Source: DR JDH-31, Attachment 1, Bates Nos. OCA 0039092 & OCA0039093.

**Appendix VII-3
Distribution Plant In Service (EOY)
(Dollars in Thousands)**

Act	Description	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
360	Land and Land Rights	7,385	7,374	7,377	7,347	7,351	7,320	7,295	7,342	7,338	7,546
361	Structures and Improvements	8,308	8,270	8,293	8,199	8,338	8,502	8,752	9,675	10,076	10,447
362	Station Equipment	311,034	318,182	343,197	354,546	385,321	413,566	435,711	452,807	460,251	467,785
364	Poles, Towers, and Fixtures	324,181	340,990	356,225	369,880	384,794	403,931	430,104	468,515	494,272	515,802
365	Overhead Conductors and Devices	474,862	501,870	523,237	543,360	569,536	605,341	653,498	723,226	775,277	815,691
366	Underground Conduit	266,183	276,490	283,410	297,948	315,379	340,777	371,066	403,709	423,798	453,165
367	Underground Conductors and Dev	496,284	537,362	581,151	630,964	700,424	802,271	918,942	1,035,667	1,113,879	1,192,721
368	Line Transformers	432,307	467,581	493,862	533,396	563,189	609,989	638,780	668,611	687,907	719,908
369	Services	286,973	308,795	331,515	353,263	375,727	396,966	419,826	444,295	467,123	495,702
370	Meters	143,160	153,246	164,442	178,292	190,443	198,363	207,953	214,092	232,294	237,272
371	Installations on Customer Premises	10,802	11,513	12,396	13,096	14,216	15,155	16,412	17,557	18,919	20,130
372	Leased Property on Customer Prem	18	18	12	21	21	21	21	21	21	21
373	Street Lighting and Signal Systems	21,363	22,381	23,197	24,441	26,231	28,653	32,388	38,174	42,217	46,938
	DISTRIBUTION PLANT	2,782,859	2,954,074	3,128,315	3,314,753	3,540,971	3,830,855	4,140,747	4,483,691	4,733,373	4,983,129
	Excluding non depreciable account balances in accounts 360 & 372 and account 363 which ComE'd does not use.	2,775,456	2,946,682	3,120,926	3,307,385	3,533,599	3,823,514	4,133,431	4,476,328	4,726,014	4,975,562
	Average (BOY+EOY)/2		2,861,069	3,033,804	3,214,156	3,420,492	3,678,557	3,978,473	4,304,880	4,601,171	4,850,788

Appendix VII-3
Distribution Plant In Service (EOY)
(Dollars in Thousands)
Page 2

Act	Description	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
360	Land and Land Rights	7,560	7,525	7,941	8,132	42,129	42,117	48,197	53,949	54,281	57,101
361	Structures and Improvements	10,663	11,025	11,766	11,766	104,931	134,074	140,851	147,628	244,499	333,080
362	Station Equipment	451,691	476,025	484,882	498,435	1,304,258	1,494,742	1,689,060	1,935,486	1,863,475	1,883,334
364	Poles, Towers, and Fixtures	536,632	571,861	601,639	636,790	718,239	765,368	816,198	857,192	919,553	988,060
365	Overhead Conductors and Devices	857,445	908,003	954,044	1,000,259	1,091,514	1,181,026	1,259,679	1,328,158	1,413,561	1,451,119
366	Underground Conduit	471,856	493,816	500,774	503,298	550,767	561,859	579,631	616,963	634,903	669,623
367	Underground Conductors and Dev	1,287,868	1,391,017	1,473,263	1,617,225	1,857,552	2,025,348	2,202,725	2,371,892	2,552,559	2,755,778
368	Line Transformers	764,424	801,095	844,738	886,756	899,880	934,506	854,598	874,210	858,598	884,521
369	Services	528,661	558,451	571,442	597,477	557,717	586,256	598,200	623,618	637,755	694,160
370	Meters	240,518	249,024	268,779	281,963	294,400	312,314	288,737	297,864	301,263	316,979
371	Installations on Customer Premises	21,575	22,828	24,260	25,359	25,250	24,029	27,372	29,373	33,575	28,269
372	Leased Property on Customer Prem	21	21	21	21	21	21	21	21	15	56
373	Street Lighting and Signal Systems	53,140	58,887	65,079	68,719	75,608	78,565	78,331	76,839	83,703	94,776
	TOTAL DISTRIBUTION PLANT	5,232,056	5,549,578	5,808,628	6,136,200	7,522,267	8,140,225	8,583,601	9,213,193	9,597,741	10,156,855
	Excluding non depreciable account balances in accounts 360 & 372 and account 363 which ComEd does not use.	5,224,475	5,542,032	5,800,666	6,128,047	7,480,117	8,098,087	8,535,383	9,159,223	9,543,445	10,099,698
	Average (BOY+EOY)/2	5,100,019	5,383,254	5,671,349	5,964,357	6,804,082	7,789,102	8,316,735	8,847,303	9,351,334	9,821,572

Source: DR ACG-03, FERC Form 1 Reports, pages 206

Endnotes

Endnotes

- 1 Contract for Services, Original Cost Audit of ComEd's Delivery System, ICC07EL0002, Paragraph 2.1.
- 2 DR ACG-2, 2004 Annual Reports to the Securities and Exchange Commission on Form 10-K, Bates OCA 0017045, 0017047, 0017177, 0017179, 0017289, and 0017218 updated as to the number of ComEd customers and segment information from the 2006 10-K obtained through web research.
- 3 ComEd 2002 10-K, page 6,
<http://www.sec.gov/Archives/edgar/data/22606/000104746903009677/a2105664z10-k.htm>
- 4 DR ACG 39 Attachment 11, Bates OCA 0023690 and 0023691.
- 5 DR EAL-35, Bates OCA 0092926 and Task Report Verification meeting, September 19, 2007.
- 6 DR ACG-3, FERC Form 1, Bates OCA 0007830
- 7 Outline on Agreement on Scope of Audit, November 9, 2006.
- 8 DR RLR-53, Bates OCA 0109743.
- 9 PUA, Section 8-102, obtained through web research.
- 10 Staff email correspondence, July 27, 2007.
- 11 RFP dated August 14, 2002 relating to an "Investigation of SBC/Ameritech Cost Allocations and Merger Related Costs and Savings", Attachment "a-2", paragraph 3.f.
- 12 DR ACG-12, Liberty Consulting Audit of Commonwealth Edison T&D Revenue Requirements, p. I-1, Bates OCA 0010441.
- 13 See for example DR RLR-51, Bates OCA 0109499 and DR RLR-54, Bates OCA 0109863.
- 14 OMB Circular No A-133 obtained from the OMB web site.
- 15 DR ACG-3, 1998 FERC Form 1 page 109, Bates OCA 0006498.
- 16 DR EAL-1, ICC Order 98-0894, Bates OCA 00023599.
- 17 DR ACG-3, 1999 FERC Form 1, Bates OCA 0007044.
- 18 DR ACG-3, 1999 FERC Form 1 Notes to Financial Statements Page 123.9, Bates OCA 0007010.
- 19 DR ACG-3, 1998 FERC Form 1 "Important Changes During the Year" page 109.7, Bates OCA 0006505.
- 20 DR JDH-18, Bates OCA 0026748.
- 21 DR JDH-18, Bates OCA 0026748 through 0026749.
- 22 DR ACG-11, Commission Order, Docket No. 93-1045, Bates OCA 0009116 and 0009117.
- 23 DR ACG-11, ComEd Petition to the ICC, 4/29/93, Bates OCA 0009083.
- 24 DR ACG-11, Commission Order, Docket No. 93-1045, Bates OCA 0009116.
- 25 DR ACG-11, Commission Order, Docket No. 93-1045, p. 5, Bates OCA 0009116.
- 26 DR ACG-11, Commission Order, Docket No. 93-1045, Bates OCA 0009112 and 0009113.
- 27 DR ACG-11, Testimony of K. Allen Griffy, Docket No. 93-1045, Bates OCA 0009108.
- 28 DR-ACG-1, Docket Nos. 87-0427 / 87-0169 / 88-0189 / 88-0219 / 88-0253 Consol. On Remand, Order on Remand, March 8, 1991, Bates OCA 0001205.
- 29 DR ACG-1, Order on Remand, January 6, 1993, p. 2, Bates OCA 0000983.
- 30 DR ACG-1, 87-0427 / 87-0169 / 88-0189 / 88-0219 / 88-0253 / 90-0169 Consol. On Remand, Order on Remand, 87-0427 / 87-0169 / 88-0189 / 88-0219 / 88-0253 Consol. On Remand, pp. 3-4, Bates OCA 0000984 and 0000985, p. 70, OCA 0001051.
- 31 DR ACG-1, Docket No. 99-0117, Final Order, August 26, 1999, Bates OCA 0000653.
- 32 DR ACG-1, Docket No. 99-0117, Amendatory Order, September 9, 1999, Bates OCA 0000652.
- 33 DR ACG-1, Docket No. 99-0117, Order on Remand, Bates OCA 0000607.
- 34 DR ACG-1, Docket No 01-0423, Final Order, March 23, 2003, Bates OCA 0000435.
- 35 DR ACG-3, FERC Form 1s, Distribution Plant & General Plant: Bates OCA 0003184, 0004160, 0004896, 0006112, 0007452, 0008786, Intangible Plant: OCA 0003182, 0004158, 0003463, 0003465, 0004393, 0004395, 0004894, 0006110, 0007450, 0008784, Accumulated Depreciation: OCA 0003199, 0004176, 0004879, 0006140, 0006469, 0008792.
- 36 DR EAL-17, ComEd Part 285 Filings, Bates OCA 0026966, 0026936, 0026924, 0026895, 0026956, 0026946.
- 37 DR ACG-1, Commission Rate Orders, Bates OCA 0002515, 0002516, 0002502, 0002315, 0002329, 0002320, 0002081, 0000625, 0000626, 0002045, 0000598-000603, 0001983, 0000426 and 0000427.
- 38 DR ACG-1, Docket No. 99-0117, Final Order, August 26, 1999, Bates OCA 0000626.
- 39 DR ACG-1, Docket No. 01-0423, Final Order, March 28, 2003, Bates OCA 0000602.
- 40 DR ACG-1, Docket No. 05-0597, Final Order, July 26, 2006, Bates OCA 0000427.

Endnotes (Continued)

- 41 DR ACG-1, Docket No. 99-0117, Final Order, August 26, 1999, Bates OCA 0000663.
- 42 DR ACG-1, Docket No. 01-0423, Final Order, March 28, 2003, pp. 34 and 41, Bates OCA 0000467 and 0000474.
- 43 DR ACG-1, Docket No. 01-0423, Final Order, March 28, 2003, p. 34 and 41, Bates OCA 0000467.
- 44 DR ACG-1, Docket No. 05-0597, Final Order, July 26, 2006, p. 27, Bates OCA 0000131.
- 45 DR ACG-1, Docket No. 05-0597, Final Order, July 26, 2006, pp. 25-26, Bates OCA 0000129 and 0000130.
- 46 Docket No. 05-0597, Motion of Entry of Interim Order Directing Performance of Original Cost Audit, March 22, 2006, pp. 2-3.
- 47 Docket No. 05-0597, Interim Order, April 5, 2006.
- 48 Docket No. 05-0597, Motion of Entry of Interim Order Directing Performance of Original Cost Audit, March 22, 2006, pp. 2-3.
- 49 Docket No. 05-0597, Direct Testimony of Thomas L. Griffin, ICC Staff Exhibit 3.0, pp.7-11.
- 50 Docket No. 05-0597, Rebuttal Testimony of Thomas L. Griffin, ICC Staff Exhibit 14.0, p. 10.
- 51 Docket No. 05-0597, Rebuttal Testimony of Thomas L. Griffin, ICC Staff Exhibit 14.0, p. 10.
- 52 DR ACG-12, Comprehensive Management Audit of Commonwealth Edison Company, Richard Metzler & Associates, January 1992, pp. 1-5, Bates OCA 0009183 through 0009186.
- 53 DR ACG-12, Comprehensive Management Audit of Commonwealth Edison Company, Richard Metzler & Associates, January 1992, Exhibit II-1 Bates OCA 0009229 through 0009242.
- 54 DR ACG-12, Comprehensive Management Audit of Commonwealth Edison Company, Richard Metzler & Associates, January 1992, Bates OCA 0009447 through 0009505.
- 55 DR ACG-12, Liberty Consulting Audit of Commonwealth Edison T&D Revenue Requirements, p. I-1, Bates OCA 0010441.
- 56 DR ACG-32, Bates Number OCA 0020098.
- 57 DR ACG-12_Attachment 5, Liberty Consulting Audit of Commonwealth Edison T&D Revenue Requirements, p. I-1, Bates OCA 0010441.
- 58 DR ACG-12_Attachment 5, Liberty Consulting Audit of Commonwealth Edison T&D Revenue Requirements, p. III-4, Bates OCA 0010566.
- 59 DR ACG-12_Attachment 5, Liberty Consulting Audit of Commonwealth Edison T&D Revenue Requirements, p. I-10, Bates OCA 0010450.
- 60 DR ACG-12_Attachment 5, Liberty Consulting Audit of Commonwealth Edison T&D Revenue Requirements, p. I-10, Bates OCA 0010450.
- 61 DR ACG-12_Attachment 5, Liberty Consulting Audit of Commonwealth Edison T&D Revenue Requirements, p. I-11, Bates OCA 0010451.
- 62 DR ACG-12, Bates OCA 0010451.
- 63 DR ACG-1, Docket No. 01-0423, Final Order, March 28, 2003, p. 66.
- 64 DR ACG-1, Docket No. 01-0423, Final Order, March 28, 2003, p. 69.
- 65 DR ACG-10, FERC Audit Reports, Bates OCA 00009032 - 00009071.
- 66 Interview EAL-5.
- 67 DR ACG-10, FERC Audit Reports, Bates OCA 00009032 through 00009071.
- 68 DR ACG-43, FPC Order 356, Bates OCA 0019651.
- 69 DR ACG-20, Bates OCA 0000093
- 70 DR ACG-21, Bates OCA 0000095.
- 71 DR ACG-21, Bates OCA 0000095.
- 72 DR ACG-21, Bates OCA 0000096
- 73 DR ACG 20, Bates OCA 0000093.
- 74 DR ACG-33, Bates OCA 0018984.
- 75 DR ACG-36, Bates OCA 0018992 and 0018993.
- 76 Interview EAL-2, 3 and RLR-1.
- 77 DR JDH-132, Bates OCA 0106271.
- 78 DR JDH-45_Attachment 1-reference 3 and 4, 2004 PwC work papers, Bates OCA 0046589-90 and DR JDH-52, Item 5, 1990 Andersen work papers Bates OCA 0046119, 0046189, 0046121, 0046192, 0046220, 0046223, 0046226, 0046126, 0046130
- 79 Interview JDH-3, EED VP Finance, March 1, 2007.
- 80 Interview JDH-3, EED VP Finance, March 1, 2007 and JDH-4, Director Human Resources, March 6, 2007.

Endnotes (Continued)

- 81 DR JDH-58, Bates OCA0045675 and 0045676.
82 DR ACG-5, Bates OCA0000001.
83 DR ACG-12, Metzler Audit, January 1992, Bates OCA 0009426.
84 DR ACG-5, Bates OCA0000001.
85 Interview JDH-4, Director Human Resources, March 6, 2007, and DR JDH-143, Bates OCA 0109492.
86 DR JDH-20, Bates OCA 0091226 through 0091236 and Bates OCA 0045626 through 0045629.
87 Interview JDH-4, Director Human Resources, March 6, 2007
88 DR JDH-1, Bates OCA 0020074
89 Task Report Verification Comments, April 24, 2007.
90 DR JDH-1_Attachment, Bates OCA 0020075 and 0020076.
91 DR JDH-1_Attachment, Bates OCA 0020075 and 0020076.
92 DR JDH-3, Bates OCA 0020078.
93 DR JDH-7, Bates OCA 0026731.
94 DR JDH-7_Attachment 1, Bates OCA 0026733.
95 DR JDH-7_Attachment 1, Bates OCA 0026735.
96 DR JDH-7_Attachment 1, Bates OCA 0026737 through 0026747.
97 DR JDH-4, Bates OCA 0020080 through 0020091.
98 DR JDH-4_Attachment 2, Bates OCA 0020092 through 0020097.
99 DR JDH-23, Bates OCA 0039888.
100 DR JDH-23, Bates OCA 0039889.
101 DR ACG-10, Bates OCA 0009031.
102 DR ACG-10, Bates OCA 0009047, 0009049, and 0009037.
103 DR ACG-10, Bates OCA 0009049 through 0009060.
104 DR ACG-10, Bates OCA 0009040 through 0009046
105 DR ACG-10, Bates OCA 0009032 through 0009036.
106 Interview JDH-3, EED VP Finance, March 1, 2007.
107 DR JDH-98, Bates OCA 0045675.
108 DR JDH-44 – 49, Bates OCA 0046464 through 0047205.
109 DR JDH-44 – 49, Bates OCA 0046464 through 0047205.
110 DR JDH-44 – 49, Bates OCA 0046464 through 0047205.
111 DR ACG-15, Bates OCA 0000058.
112 DR JDH-48 2003 PwC work paper review, 2605 audit comfort cycle, 2320 utility plant cycle, obtained in response to DR JDH-19, Bates OCA 0046751 through 46758.
113 DR JDH-113, Bates OCA 0093467, and review of Audit Committee Minutes and supporting documentation of presentations.
114 DR JDH-78, Bates OCA 0086753.
115 DR ACG-6, Code of Business Conduct, Bates OCA 0009119 through 0009158.
116 DR JDH-21, Bates OCA 0039237.
117 DR JDH-21, Bates OCA 0039237 through 0039239.
118 DR JDH-22_Attachment 3, Bates OCA 0045622.
119 DR JDH-52, Bates OCA 0046119 through 0046133 and JDH-45, Bates OCA 0046590 and 0046591.
120 DR ACG-3, 2004 FERC Form 1, Bates OCA 0008786 and 0008792, and ACG analysis.
121 DR ACG-3, FERC Form 1
122 ACG analysis.
123 ACG analysis.
124 DR RLR-15, Bates OCA 0047266 through 0047268, DR ACG-3, Bates OCA 0002553, FERC Form 1, Bates OCA 0007828,0007830, 0008161, 0008163, 0008464, 0008786, and ACG analysis.
125 DR RLR-8 and RLR-15
126 ACG analysis.
127 DR RLR-13, RLR-14, RLR-16, RLR-40, RLR-51, RLR-52, RLR-53, RLR-54, and RLR-56, Bates OCA 0047209, 0086736, 0088458 through 0088460, 0093738, 0100743 through 0100745, 0106277, 0109743 and 0109744, 0109863, 0115419 and 0115420.
128 DR RLR-57, Bates OCA 0110089 and 0110090, and ACG analysis.
129 DR RLR-57, Bates OCA 0110089 and 0110090, and DR JDH-41, Bates OCA 0-086041.
130 DR JDH-156, Supplemental Response, Bates OCA 0110109 and 0110110.

Endnotes (Continued)

- ¹³¹ DR JDH-156, Supplemental Response, Bates OCA 0116111, and ACG analysis.
- ¹³² DR JDH-156, Supplemental Response, Bates OCA 0116110.
- ¹³³ DR RLR-51, RLR-52, and RLR-53, Bates OCA 0109499, 0106277 and 0109744.
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- ⁴³⁸ DR JDH-51_Attachment 2, page 7, Internal Auditors' Plant Progress Review, Bates OCA 0045727.
- ⁴³⁹ IR JDH-6, Plant Accounting Personnel interview, March 28, 2007.
- ⁴⁴⁰ DR EAL-11_Attachment 19, Bates OCA 0026212.
- ⁴⁴¹ DR EAL-11_Attachment 19, Bates OCA 0026212.
- ⁴⁴² DR JDH-17_Attachment 1, Bates OCA 0028497, and ACG analysis.
- ⁴⁴³ DR JDH-17_Attachment 1, Bates OCA 0028497, IR JDH-6, Plant Accounting Personnel interview, March 28, 2007, and Task Report Verification meeting May 11, 2007.
- ⁴⁴⁴ DR JDH-84, Bates OCA 0086561 and OCA 0086662, and IR JDH-6, Plant Accounting Personnel interview, March 28, 2007.
- ⁴⁴⁵ DR JDH-17_Attachment 1, Bates OCA 0028497.
- ⁴⁴⁶ DR JDH-49, 2002 PwC Audit Work Papers, Bates OCA 0046543, OCA 0046544 and OCA 0046545.
- ⁴⁴⁷ DR JDH-49, 2002 PwC Audit Work Papers, Bates OCA 0046544, and Task Report Verification meeting May 11, 2007.
- ⁴⁴⁸ DR JDH-90, Bates OCA 0088379, and IR JDH-6, Plant Accounting Personnel interview, March 28, 2007.
- ⁴⁴⁹ DR JDH-49, 2002 PwC Audit Work Papers, Bates OCA 0046543.
- ⁴⁵⁰ DR JDH-42_Attachment 1, Bates OCA 0045736, IR JDH-6, Plant Accounting Personnel interview, March 28, 2007.
- ⁴⁵¹ DR MDF-12, Bates OCA 0045399, and DR MDF-13, Bates OCA 0045609. Meters and Transformer retirements.
- ⁴⁵² DR MDF-15 and MDF-16, and Meters and Transformers Interview JDH-2, November 14, 2006, and Task Report Verification meeting May 11, 2007.
- ⁴⁵³ DR EAL-15, Filing with ICC, Bates OCA 0026829 through OCA 0026846.

Endnotes (Continued)

- 454 DR JDH-31_Attachment 1, 2002 Depreciation Study, Bates OCA 0039092, and OCA 0039093, and AGC Analysis.
- 455 DR JDH-17,OCA Bates OCA 0028496, and ACG analysis.
- 456 E-mail correspondence with Commission Staff, February 28, 2007.
- 457 FERC Citation: 80FERC61,113.
- 458 CFR 18, Part 116 in effect prior to its elimination in 1997, obtained from the FERC website.
- 459 DR JDH-100_Attachment 1, Bates OCA 0092934 through 0092948, and ACG analysis.
- 460 DR JDH-100, Bates OCA 0092929.
- 461 FERC 1991-1995 audit work papers, Section J-3.
- 462 DR JDH-145_Attachment 1, Excel Work Book and ACG analysis.
- 463 DR JDH-105, Bates OCA 0091219.
- 464 DR MDF-24 Support for Allocations OCA 0045406
- 465 DR JDH-128, Bates OCA 0106147.
- 466 DR JDH-129, Bates OCA 0106148.
- 467 Interview JDH-7, Regulatory Policy Office personnel, 3/20/07, and ACG analysis of MD&A and Notes to Financial Statements in 2000 and 2004 10-Ks. See for example, Bates OCA 0014473, 0017275 and 0016463.
- 468 DR JDH-175, Bates OCA 0114366.
- 469 DR MDF-21_Attachment 1, Bates OCA 0039280 and 0039281, and ACG analysis.
- 470 DR JDH-175, Bates OCA 0114366.
- 471 DR MDF-21_Attachment 1, Bates OCA 0039286 and 0039287, and ACG analysis.
- 472 DR JDH-175, Bates OCA 0114366.
- 473 DR MDF-23, Bates OCA 0040054.
- 474 DR JDH-174, Bates OCA 0114364.
- 475 DR JDH-175, Bates OCA 0114366.
- 476 DR JDH-133, Bates OCA 01142451 through 0114252.
- 477 DR ACG-17, Bates OCA 0018570, DR ACG-18, Bates OCA 0018563, and ACG analysis.
- 478 DR MDF-33_Attachment 1, Bates OCA 0086521.
- 479 DR JDH-193, Bates OCA 0116569.
- 480 DR JDH-194, Bates OCA 0116291.
- 481 DR JDH-172, Bates OCA 0114318 through 00114322, and ACG analysis.
- 482 DR JDH 195, Bates OCA 0116567.
- 483 DR JDH-196, Bates OCA 0116317.
- 484 DR JDH-170, Bates OCA 0114296.
- 485 DR JDH-197_Attachment 1 Bates OCA 0116554 through 0116563, and ACG analysis.
- 486 DR JDH-198_Attachment 1 Bates OCA 0116304 through 0116308 and ACG analysis.
- 487 DR ACG-17, Bates OCA 0018571, MDF-23, Bates OCA 0040054 and 00040055.
- 488 DR MDF-23, Bates OCA 0040054, DR MDF-22, Bates OCA 0045595.
- 489 DR MDF-23, Bates OCA 0040055, and DR MDF-23, Bates OCA 0045480, Supplemental Response DR MDF-21, Bates OCA 010132 through 0106135 and ACG analysis.
- 490 DR JDH-146, Bates OCA 0112148.
- 491 DR JDH-146, Bates OCA 0112148.
- 492 DR JDH-164, Bates OCA 0114253.
- 493 DR JDH-165, Bates OCA 0114341.
- 494 DR JDH-166, Bates OCA 0114250.
- 495 DR JDH-146_Attachment 1, Bates OCA 0112149 through 0112153 and ACG analysis.
- 496 DR JDH-146, Supplement_Attachment 1, Bates OCA 0116275, and ACG analysis.
- 497 DR JDH-167, Bates OCA 01143334.

