



An Exelon Company

Commonwealth Edison Company
Three Lincoln Centre
Oakbrook Terrace, IL 60181-4260

www.exeloncorp.com

VIA OVERNIGHT DELIVERY

November 24, 2008

Ms. Elizabeth Rolando
Chief Clerk
Illinois Commerce Commission
527 East Capitol Avenue
Springfield, Illinois 62701

Subject: Rider AAF and Rate BES-H Annual Reconciliation

Dear Ms. Rolando:

Commonwealth Edison Company ("ComEd") submits for filing, for informational purposes, the Internal Audit Report as provided for in Rider AAF – Accuracy Assurance Factor ("Rider AAF") and Rate BES-H – Basic Electric Service-Hourly Energy Pricing ("Rate BES-H"), as well as a Supplemental Report that provides additional information related to the upcoming proceeding required under Rider AAF and Rate BES-H. ComEd notes that the cover page of the Internal Audit Report includes language relating to confidentiality. ComEd is not requesting confidential treatment of this Report.

In addition to this original transmittal letter, two copies of this transmittal letter are provided. One of the copies is provided for your convenience in acknowledging receipt of this letter, and may be returned to ComEd in the self-addressed envelope provided. The other copy is for your files.

Sincerely,

A handwritten signature in cursive script that reads "Kevin J. Waden".

Kevin J. Waden, C.P.A.
Director, Accounting
ComEd
(630) 437-2337

cc: Ms. Mary Selvaggio
Ms. Joy Nicdao-Cuyugan
Ms. Bonnie Pearce
Mr. Steve Knepler



2008 ComEd Supply Cost Recovery Review

November 19, 2008

INTERNAL AUDIT SERVICES

Background

As of January 2007, ComEd began procuring electric supply from wholesale suppliers under the provisions of the Competitive Procurement Process (Rider CPP). Under those provisions and its successor tariffs, the recovery of costs for such electric supply occurs through the application of retail supply charges for ComEd retail customers for which ComEd procures such electric supply. Moreover, in order to ensure that the application of such retail supply charges does not result in over or under recovery of ComEd's costs to procure such electric supply due to changes in customer usage and demand patterns, Accuracy Assurance Factors (AAFs) are determined on a monthly basis and applied under the provisions of Rider CPP or Accuracy Assurance Factor (Rider AAF) and Basic Electric Service – Hourly Energy Pricing (Rate BES-H) to equalize the applicable revenues from retail customers for such electric supply and the expenses incurred by the Company to procure it. For the delivery period under review, ComEd determined and applied retail supply charges and AAFs under Rider CPP and/or Rider AAF and Rate BES-H for three separate customer segments: annual, hourly or blended.

Rider AAF requires ComEd to conduct an annual internal audit of its costs and recoveries of such costs pursuant to Rider CPP, Rider AAF and Rate BES-H. Specifically, Rider AAF states:

The Company must conduct an internal audit of its costs for the period from January 2, 2007, through May 2008 and recoveries of such costs pursuant to this rider and the previously effective Rider CPP. Such audit must examine (a) costs recovered pursuant to this rider and the previously effective Rider CPP to verify that such costs have been recovered only pursuant to this rider and the previously effective Rider CPP and to confirm that any such costs are not also being recovered inappropriately through charges under other tariffs, (b) adjustments and charges determined pursuant to this rider and the previously effective Rider CPP that were included in retail customers' bills for electric service to verify that such charges and adjustments were properly applied, and (c) revenues resulting from the application of this rider and the previously effective Rider CPP to verify that such revenues are correctly stated. The Company must prepare a report that summarizes the results of such audit.

The Company began including transmission and supply administration costs and revenues in the November 2007 Hourly Purchased Electricity Adjustment Factor (HPEA) calculation under the currently effective tariff Rate BES-H. This affects hourly customers for the period November 1, 2007 through May 31, 2008, and these transmission and supply administration costs and revenues are subject to review for this audit.

Objective and Scope

Internal Audit (IA) performed this review using the Company's General Ledger (GL) and documents provided by ComEd Revenue Accounting (RA). IA also used source system data from ComEd's wholesale procurement management system (Retail Office), the Company's payables system (PassPort) and ComEd's retail billing system, Customer Information and Marketing System (CIMS). These sources were used to validate the wholesale electric supply purchases (costs) and accrued retail electric supply revenue (recoveries) used in the AAF/HPEA calculation.

The specific audit objectives of this review were:

- To validate wholesale electric supply purchase charges, transmission expenses and supply administration costs and accrued retail electric supply, transmission and supply administrative charge revenue data from source systems to determine the recovery/refund amount;
- To validate source system data to the GL to determine the completeness of RA's AAF and HPEA calculations;
- To validate adjustments in the AAF or HPEA calculations;
- To understand, analyze, and evaluate system interfaces in the process; and,
- To understand, analyze, and evaluate the data sources and logic of system queries used in the process.

The scope of the audit is to review the cost recovery process performed by ComEd RA for the period of January 2, 2007 through May 31, 2008.

Results

In our opinion, based on testing performed for the 17-month period of January 2, 2007 through May 31, 2008, the cost recovery process performed by RA, including the supporting GL reconciliations used to calculate the AAF/HPEA activity, is in compliance with Rider AAF and Rate BES-H.

To obtain further assurance of the RA process and overall accuracy of the AAF/HPEA calculations, IA validated revenue and purchase amounts used by RA to source systems, including CIMS, Retail Office, and PassPort. IA noted immaterial differences between the AAF/HPEA calculations performed using source data and the regulatory asset or liability reported in the GL.

Included in the Annual and Blended differences are free service and Company use line loss adjustments identified by RA during the third quarter of 2008. The Company identified that, in the calculations for energy, it was only reflecting the billed volumes for free service and Company use without grossing these costs up for line losses. These volumes should be grossed up to reflect line losses as the line losses are incorporated

in the recovery methods discussed above. This resulted in an overstatement of the regulatory asset for Rider AAF by \$3.4 million as of May 31, 2008. There is no impact on the Hourly segment since there was no free service and Company use during the period under review. These adjustments are included in IA's AAF analysis and will be reflected beginning with the November 2008 filing with the ICC.

For a summary of IA's procedures performed, please see Appendix A.

We appreciate the assistance of Revenue Accounting, Information Technology and Energy Acquisition in the completion of this review.

Joe Kobulsky, Manager
Internal Audit Services

Report Distribution

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Kevin Waden

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Appendix A – Summary of Procedures Performed

Wholesale Electric Supply, Transmission and Supply Administration Costs

To validate the monthly wholesale electric supply cost amounts from RA's AAF/HPEA calculations for the period under review, IA obtained the Supplier Forward Contract invoices to extract purchase amounts for the Annual and Blended segments and the PJM reconciliation document for the Hourly segment. Each file in the PJM reconciliation document contains charges for supply directly procured from PJM for hourly customers, as well as charges for transmission expenses used in the analysis.

In addition to transmission costs, supply administration charges are included in the HPEA calculations as required by Rate BES-H for the Hourly segment beginning in November 2007. To determine the supply administration charge amounts, IA obtained the supply administration and related costs schedule from RA, which is used for the monthly HPEA filings. IA noted that the supply administration charges were immaterial and no further testing was deemed necessary.

Retail Electric Supply, Transmission and Supply Administration Revenue

To validate the monthly retail electric supply revenue amounts from RA's AAF/HPEA calculations for the period under review, IA reviewed CIMS reports and totaled all tariffs for the appropriate retail electric supply rates for each of the three segments.

Partial free service for retail electric supply charges is included in the CIMS reports for the Annual and Blended segments. Since the free service amounts do not get recorded in revenue, IA subtracted them from the revenue amounts. To determine the partial free service amounts related to retail electric supply charges, IA obtained Revenue Net Fuel (RNF) free service queries that showed the partial free service amounts by customer accounts. These queries were tested for completeness and accuracy.

Under Rate BES-H for the Hourly segment, transmission and supply administration revenues are included in the HPEA calculations beginning in November 2007. To determine the transmission and supply administration revenue amounts, IA reviewed the CIMS reports and totaled all tariffs for the appropriate transmission and supply administration rates. IA noted that the supply administration revenues were immaterial and no further testing was deemed necessary.



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COMPANY OFFICER VERIFICATION

The undersigned officer certifies that:

I have examined the 2008 ComEd Supply Cost Recovery Review report, dated November 19, 2008, from Exelon Corporation Internal Audit Services, and to the best of my knowledge, information, and belief all statements of fact contained in the report are correct statements.

A handwritten signature in black ink, appearing to read "Matthew R. Galvanoni".

A handwritten date "11-20-08" in black ink.

Matthew R. Galvanoni
Vice President and Controller
ComEd

Date