REDACTED

DIRECT TESTIMONY

of

BONITA A. PEARCE

Accounting Department
Financial Analysis Division
Illinois Commerce Commission

Proposed General Increase in Electric Rates

Commonwealth Edison Company

Docket No. 10-0467

October 26, 2010

Confidential Information Identified As
BEGIN CONF***XXX***END CONF

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SCHEDULES

WITNESS IDENTIFICATION

Q. Please state your name and business address.

A. My name is Bonita A. Pearce. My business address is 527 East Capitol Avenue, Springfield, Illinois 62701.

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

A. I am currently employed as an Accountant in the Accounting Department of the Financial Analysis Division of the Illinois Commerce Commission ("ICC" or "Commission").

Q. Please describe your background and professional affiliations.

A. I am a licensed Certified Public Accountant with a Bachelor of Science in Accountancy from Illinois State University. Prior to joining the Commission in March of 2001, I was engaged in the practice of public accounting for sixteen years. I returned to the practice of public accounting for a brief period in 2005, but returned to the Commission in 2006.

Q. Have you previously testified before a regulatory body?

A. Yes, I have testified on several occasions before the Commission.

Q. What are your responsibilities in this case?

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

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

A. The purpose of my testimony is to propose adjustments to the Company's operating statements and rate base with regard to the 2009 pension asset, deferred tax liability for Medicare Part D, 2010 salary and wage increase, incentive compensation, perquisites and awards, severance expenses, directors' fees and expenses, corporate aircraft costs, 2005 pension funding costs, 2010 pension and OPEB increase and cash working capital. Finally, I will address the impact of the instant proceeding on Rider UF, specifically the establishment of an updated Base Uncollectible Factor ("BUF") associated with delivery service, or Delivery Uncollectible Factor ("DUF"), as described in the Company's tariffs on 3rd Revised Sheet No. 267.

Q. Are you sponsoring any schedules as part of ICC Staff Exhibit 3.0?

A. Yes. I prepared the following schedules that reflect data as of, or for the test year ending, December 31, 2009:

Schedule 3.01 - Adjustment to Remove Pension Asset

Schedule 3.02 - Adjustment to Remove Pro Forma Deferred Tax Liability for Medicare Part D

Schedule 3.03 - Adjustment to Reverse Pro Forma 2010 Salary and Wage Increase

Schedule 3.04 - Adjustment to Reduce Incentive Compensation

Schedule 3.05 - Adjustment to Remove Perquisites and Awards

Schedule 3.06 - Adjustment to Reduce Severance Expenses

Schedule 3.07- Adjustment to Reduce Miscellaneous General Expenses - Directors' Fees and Expenses

Schedule 3.08- Adjustment to Reduce Administrative and General Expenses – Corporate Aircraft Costs

Schedule 3.09 - Adjustment to Remove 2005 Pension Contribution Funding Costs

Schedule 3.10 - Adjustment to Reverse Pro Forma 2010 Pension and OPEB Increase

Schedule 3.11 - Adjustment to Reduce Cash Working Capital

<u>ADJUSTMENTS</u>

<u>Adjustment to Remove Pension Asset</u>

Q. Please describe ICC Staff Exhibit 3.0, Schedule 3.01, Adjustment to Remove Pension Asset.

A. On ICC Staff Exhibit 3.0, Schedule 3.01, Adjustment to Remove Pension Asset, I propose removing from rate base the pension asset that ComEd added to rate base, net of accumulated deferred income taxes.

Q. Please describe the pension asset that your adjustment removes.

A. The pension asset is reflected with other deferred debits on the Company's Schedule B-10, page 1 of 6, line 6, column (J). This deferred debit represents the jurisdictional portion of a discretionary cash contribution by ComEd to the Exelon pension plan that includes ComEd employees. It is discretionary in that the amount of the contribution is in excess of the minimum contribution to the pension plan required by ERISA *(Employee Retirement Income Security Act of 1974)*.

Q. Please explain (1) how pension costs are recovered from ratepayers; and, (2) how that differs from the way pension plans are funded.

A. ComEd's ratemaking proposal confuses these two independent determinations. Pension costs are fully recovered from ratepayers on an accrual basis. Ratepayers pay the cost based on when service is provided by utility employees that results in a pension obligation. This ratemaking treatment should fully provide the funding for the pension costs so that the funds will be available when the obligation is due.

Pension plans are funded with the Company's cash contributions to its pension plans. Funding the pension plan does not occur simultaneously with the receipt of funds from ratepayers. Funding is determined according to rules as set forth under ERISA and the IRC *(Internal Revenue Code).* The recovery of pension costs from ratepayers and funding of the pension plans by the Company are independent from one another. As will be explained later, however, ComEd's ratemaking proposal for its pension asset incorrectly treats these two determinations as if the funding pattern established the regulatory treatment.

Ratepayers pay rates that will fully provide for pension costs based on when utility employees provide service, and as a result, the determination of rates should not be dependent on the discretionary funding decisions of ComEd to its pension plans.

It should be noted that in the instant proceeding, the Company is requesting cost recovery of four different components of pension cost: (1) the 2009 discretionary pension contribution (referred to by the Company as the pension asset); (2) a debt service return on its 2005 excess pension contribution; (3) the actuarially determined pension cost for 2009; and (4) a pro forma increase to reflect the most recent actuarial estimate for 2010. Items (1) and (2) are cash basis contributions that should not impact pension cost recovery for ratemaking. Item (3) is the actuarially determined accrual basis pension cost that should be reflected for utility ratemaking; and item (4) is a pro forma adjustment to reflect an increase in pension costs for 2010. As explained hereafter, I have removed the impact of item (1) in ICC Staff Exhibit 3.0, Schedule 3.01; I have removed item (2) in ICC Staff Exhibit 3.0, Schedule 3.09; and I have removed item (4) in ICC Staff Exhibit 3.0, Schedule 3.10.

Q. Please explain the rationale for removing the pension asset from rate base in the 2010 test year.

A. The pension asset should be excluded from rate base because:

1). It represents a discretionary cash contribution that was made with funds provided by ratepayers, not shareholders.

2). As a discretionary contribution, the pension asset was neither ordinary nor necessary for the provision of utility service. The Company failed to demonstrate the cost is prudently incurred.

3). Inclusion of the discretionary cash contribution as a pension asset would improperly impact the setting of utility rates by charging ratepayers a return on the cash basis contribution in addition to actuarially-determined accrual basis pension costs.

Q. Please explain why the pension asset represents a discretionary cash contribution that was made with funds provided by ratepayers, not shareholders.

A. Company witnesses Trpik and Houtsma assert that the 2009 pension contribution that is the basis for the pension asset, "was funded using a combination of debt and internally generated funds" (ComEd Ex. 4.0, page 23, line 431 and ComEd Ex. 6.0 Revised, page 30, lines 605 – 606).

I maintain the contribution was funded by ratepayers, not shareholders. Absent a showing that the contribution was funded with borrowings or an equity contribution, the source must be internally generated funds provided by ratepayers.

Q. Please explain.

A. The Company asserts that while some portion of the contribution was provided by internally generated funds, none of the $92 million contribution was provided by customers (ComEd Ex. 6.0 Revised, page 29, lines 586 – 588). This is counter-intuitive since internally generated funds would arise from the Company's operations as a regulated utility and the provision of electric service to ratepayers. As such, these internally generated funds would be provided by normal operating revenues collected from utility customers—in other words, funds supplied by ratepayers. Accordingly, since the pension asset is funded by normal operations (i.e., revenue collected from ratepayers) rather than provided by shareholders, shareholders should not earn a return on it.

Ms. Houtsma claims the pension contribution does not represent customer supplied funds because ComEd's rates have included recovery of pension expense based on annual accounting accruals determined by the Company's actuaries in accordance with generally accepted accounting principles. (ComEd Ex. 6.0 Revised, pp. 30-31, lines 589 – 594) She further claims:

> However, under extreme circumstances, such as those experienced in 2008 with the dramatic loss in market value of the trust fund investments, the amounts recovered from customers are insufficient to provide the funds needed to meet the actuarially-derived amounts. As discussed above, Exelon recognized a special liability of $2.24 billion in light of the deterioration of the trust fund assets. This cost is directly attributable to ComEd employees but was never part of the annual pension expense reflected in customer rates. ComEd's 2009 contribution was made to address this circumstance. (ComEd Ex. 6.0 Revised, page 30, lines 594 – 601).

In the preceding excerpt of her direct testimony, Ms. Houtsma admits the ratepayers have been paying the actuarially-determined amount of pension expense that has been reflected in utility rates all along. (It should also be noted that such an actuarially-determined amount for 2009 pension expense and a related pro forma increase, also actuarially-determined, for 2010 pension expense are reflected in the operating statement of the instant proceeding.) However, Ms. Houtsma's explanation confuses an accrual basis pension expense that is reflected in utility rates, with cash contributions that do not form the basis of pension costs for accrual accounting or utility rate-making.

Pension expense is fully recovered from ratepayers on an accrual basis, that is, pension expense associated with the service provided by utility employees in the test year is reflected in rates. This ratemaking treatment will fully fund pension costs as determined by the applicable actuarial studies so that the funds will be available when the pension obligation is due. Since present utility rates are based on actuarial assumptions and calculations of pension cost for periods prior to 2008, they do not reflect the impact of the 2008 market decline. However, updated current and future actuarial studies that form the basis of pension costs for future rates will reflect this market decline, as well as other changes that may arise due to dynamic economic conditions. Future actuarial studies would recognize the impact of the excess contribution that had been made by the Company in 2009, as well. Therefore, from a ratemaking standpoint it would be inappropriate and unnecessary to include this discretionary cash contribution (i.e., the pension asset) because it is not associated with the service provided by ComEd employees in the test year.

Q. Please explain why, as a discretionary contribution, this regulatory debit was neither ordinary nor necessary and why the Company failed to demonstrate the cost is prudently incurred and used and useful for providing utility service.

A. Regardless of the rationale behind the Company’s business decision, the fact remains that as a discretionary contribution, the Company was not required to spend this money. Hence, the cost was neither ordinary nor necessary for ratemaking purposes. Accordingly, the Company must bear the burden of proof in demonstrating that this cost was prudently incurred.

Q. Was this cost prudently incurred?

A. No, it was not. Inclusion of the discretionary cash contribution as a pension asset results in a net increase in costs to ratepayers because the requested return to shareholders is higher than the offsetting reduction to pension expense that results from such discretionary contribution.

Q. Please explain.

A. First, the Company was not required to make an excess contribution to the plan, as evidenced by the Company's response to ICC Staff Data Request BAP-1.04 wherein the Company identifies the additional contribution as "discretionary." (According to ERISA rules, the minimum jurisdictional ComEd contribution for 2009 was $8,928,264 and the maximum jurisdictional contribution was $1,774,544,145 (Company's response to ICC Staff Data Request BAP – 2.02, Attach 1, lines 3 and 6, respectively). According to the Company's response to AG Data Request AG-2.09, paragraph three:

> ComEd's 2009 pension contribution is shown on WPB-10, Page 2, Line 6, Column E. The $163.7 million includes the $152 million ***discretionary contribution*** (referenced in testimony) to ComEd's largest defined benefit pension plan and ***required contributions*** to the cash balance pension and supplemental management retirement plans covering ComEd employees. (emphasis added)

The Company, of its own volition, made a discretionary contribution of $152 million, the jurisdictional portion of which is reflected as a deferred debit of $92,591,000, an increase to rate base in the instant proceeding.

The deferred debit of $92,591,000 (Schedule B-10, page 1 of 6, line 6, column (J)) multiplied by the Company's requested rate of return, 8.99% (Schedule A-2, line 4, column (C)) will cost ratepayers $8,324,000 in the instant proceeding. This additional cost is partially offset by a reduction to the pro forma increase for 2010 pension and OPEB expense (Schedule C-2.2) in the amount of $6,464,000, based on the Company's response to ICC Staff Data Request BAP-1.04, Attach 1, line 1, column (J). Accordingly, the net impact of the discretionary contribution is an additional cost of $1,860,000 ($8,324,000 - $6,464,000) in the instant proceeding.

Q. Will the discretionary contribution for 2009 produce additional benefits to ratepayers beyond the instant proceeding?

A. No, it will not. According to the Company's response to ICC Staff Data Request BAP-14.02 (a), an economic analysis performed in mid-2009 in connection with the 2009 pension contribution indicated that, over the long term, the Company and its customers could be economically neutral between making the 2009 contribution and making mandatory contributions when required. Moreover, the Company's response to ICC Staff Data Request BAP-14.02 (a) states:

> The Company did not explicitly estimate the benefits to customers over the longer term because quantification of those benefits is **speculative, with much of the estimate dependent on assumptions concerning the timing of future rate cases**. There are, however, benefits inuring to customers as a result of the 2009 contribution. (Emphasis added)

The above response indicates that the Company's forecast indicates no net benefit to ratepayers in the long-term and that such forecast is inherently speculative. In contrast, the inclusion of the proposed pension asset in the instant proceeding results in known and measurable costs to ratepayers as soon as the rates go into effect in June 2011.

Q. Please explain why inclusion of the discretionary cash contribution as a "pension asset" would improperly impact the setting of utility rates by charging ratepayers a return on the cash basis contribution in addition to actuarially-determined accrual basis pension costs.

A. As mentioned previously, the recovery of pension costs from ratepayers and the funding of the pension plans by the Company are independent from one another. ComEd's ratemaking proposal for its pension asset incorrectly treats these two functions as if the funding pattern established the regulatory treatment. In fact, pension expense is determined by accounting rules based on actuarial calculations that recognize an amount of pension cost for each period. Cash contributions to pay the pension obligation are based on ERISA and IRC regulations with monies provided through the collection of utility revenues from ratepayers. Because the pension expense that is reflected in utility rates is determined with a different set of rules than the cash contributions, the amount contributed for a certain period is usually not the same amount as the pension expense for that period. It is the pension expense that is reflected in utility rates. Over time, the amounts recovered in rates will be sufficient to meet the pension plan obligation, but it would be double counting to make ratepayers provide a return to shareholders on the amount of cash contributed in addition to the actuarially determined accrual basis pension cost that has been, and continues to be, reflected in rates.

Q. Has the Commission addressed the Pension Asset issue in a prior ComEd rate case?

A. Yes. In the second prior rate case filing, Docket No. 05-0597, the Company also included a pension contribution in rate base. The Commission addressed the treatment of pension assets as a result of Staff's position that excluded the pension asset. In Docket No. 05-0597, the Commission supported Staff's exclusion of the excess pension contribution from rate base. However, the Commission granted a debt return on the contribution, to be recovered through operating expenses, based on what ComEd's actual cost of long-term debt would have been had ComEd, instead of Exelon, issued long-term debt in June 2005 to finance the $803 million contribution. The Commission approved cost recovery of the debt return because the record showed that the contribution assisted in providing adequate funding for the retirement obligations to ComEd's workforce and that ComEd's customers saved $30.2 million as a result of the contribution. The Commission found that these savings more than outweighed the $25.3 million cost of the debt return; therefore, the Commission approved this limited form of cost recovery in rehearing. The Commission cautioned, however, that it does not sanction the prefunding of a utility pension plan as a mechanism to increase base rates (Docket No. 05-0597, Order on Rehearing, p. 28).

Q. Did the Company address the prior Commission Order in its testimony?

A. Yes, ComEd witness Ms. Kathryn M. Houtsma (ComEd Ex. 6.0 Revised, page 29, lines 577 - 578) mentioned that the pension contribution of 2005 was intended to fully fund the pension plan, and she asserts that it did produce that result at the time. She indicated, however, that the extra contribution for 2009 was necessary due to the poor market conditions that resulted from the 2008 market decline. She also asserted that the 2009 pension contribution differs from the 2005 contribution because the 2009 contribution was made with a combination of debt and internally generated funds, in contrast to the 2005 contribution that was funded through an equity contribution from Exelon. She further explained that in response to concerns raised by the Commission regarding the funding options available at the time, ComEd agreed to accept a debt-only return on the 2005 contribution (ComEd Ex. 6.0 Revised, page 30, lines 605 – 611).

Q. How do you respond to Ms. Houtsma's statements?

A. I would first note that in the period from 2004 to present, 2005 is the only other year for which a discretionary contribution was made, based on the Company's response to ICC Staff Data Request BAP-2.01, Attach 1. Interestingly, both 2005 and 2009 were historical test years on which the Company based its request for a rate increase. In both years the Company sought to obtain a return at the weighted average cost of capital, 8.01% in 2005 and 8.99% in 2009. Although the 2005 contribution was intended to fully fund the pension plan, Ms. Houtsma admitted that economic events of 2008 significantly increased the underfunded status of the plan. So again in 2009, the Company seeks full recovery of a discretionary contribution to improve the funded status of the plan and to help control future increases in pension expense (ComEd Ex. 6.0 Revised, page 29, lines 575 – 585). This experience demonstrates how changing economic conditions affect pension plans. It also demonstrates why it is not good ratemaking policy to burden ratepayers with additional costs that result from cash contribution funding practices in excess of actuarially determined accrual basis pension costs. The accrual basis pension costs are based on actuarial valuations performed annually. They reflect assumptions that may change over time to reflect current and expected future economic conditions.

<u>Adjustment to Remove 2005 Pension Contribution Funding Costs</u>

Q. Please describe ICC Staff Exhibit 3.0, Schedule 3.09, Adjustment to Remove 2005 Pension Contribution Funding Costs.

A. ICC Staff Exhibit 3.0, Schedule 3.09, Adjustment to Remove 2005 Pension Contribution Funding Costs, reflects my adjustment to remove the Company's pro forma adjustment to include the cost of debt service on the 2005 pension contribution, net of accumulated deferred income taxes, in the operating statement of the 2009 test year revenue requirement (Schedule C-2.3).

Q. Please provide the rationale for your adjustment.

A. The reasons for my adjustments are the following:

1). The Order on Rehearing in Docket No. 05-0597 did not authorize a recovery of the 2005 pension contribution funding costs beyond that proceeding (Docket No. 05-0597, Order on Rehearing, p. 28).

2). The Company has not demonstrated ongoing ratepayer benefits to support recovery of the $25M cost of the 2005 pension contribution in the instant proceeding (i.e., there is no demonstration of net benefit to ratepayers at present).

3). The Company's pension cost for ratemaking purposes has been, and should continue to be, based on the most recent actuarial analysis. Therefore, it would not be consistent or proper to burden ratepayers with the additional cost of debt service on the 2005 pension prepayment (i.e., the Company's decision to prepay its pension contribution in 2005 should not result in additional pension costs to ratepayers now and into the future).

Q. Has the Commission addressed the issue of pension asset treatment in other ratemaking proceedings?

A. Yes. In Docket No. 04-0779 and Docket No. 95-0219, Nicor sought to increase utility rate base for the amount of a prepaid pension asset. In both cases the Commission found that the pension asset was created by ratepayer-supplied funds, not by shareholder-supplied funds. The Commission concluded that ratepayers should not be denied the benefits associated with the previous overpayment for pension expense which they funded. Accordingly, the Commission concluded that the pension asset should be eliminated from rate base. (Docket No. 95-0219, Order, p. 9; Docket No. 04-0779, Order p. 21) The Commission maintained this position in Nicor Gas' most recent rate case (Docket No. 08-0363, Order, p. 18).

The Commission also addressed the issue for North Shore Gas and Peoples Gas, Light and Coke Company in Docket Nos. 07-0241/-0242 (Cons.) and again in Docket Nos. 09-0166/-0167 (Cons.). In their initial filing for Docket Nos. 07-0241/-0242 (Cons.), the Companies excluded all pension and OPEB related assets and liabilities from rate base. However, the Companies later sought to include the Peoples Gas pension asset and the North Shore pension liability in rate base in response to adjustments proposed by Staff and Interveners that reduced rate base for OPEB liabilities. The Commission agreed that rate base should be reduced for OPEB liabilities and also found that neither the pension asset nor contributions to the pension plan should be reflected in the utility's rate base (Docket No. 07-0241/-0242 (Cons.), Order February 5, 2008, p. 36).

In Docket Nos. 09-0166/-0167 (Cons.), Peoples Gas reflected in rate base an increase for the balance of the pension asset. North Shore Gas reflected a pension liability as a reduction to rate base. In response to arguments that the pension asset should be removed from rate base, the Commission found that the pension asset/liability should be removed from utility rate base and the OPEB liability should be reflected as a reduction to rate base (Docket Nos. 09-0166/-0167 (Cons.), Order, pp. 36 - 37).

Adjustment to Remove Pro Forma 2010 Pension and OPEB Increase

Q. Please describe ICC Staff Exhibit 3.0, Schedule 3.10, Adjustment to Remove Pro Forma 2010 Pension and OPEB Increase

A. ICC Staff Exhibit 3.0, Schedule 3.10, Adjustment to Remove Pro Forma 2010 Pension and OPEB Increase, removes the Company's pro forma adjustment to include the estimated increase in pension and OPEB costs for 2010 (Schedule C-2.2).

Q. Please explain.

A. The Company's pro forma adjustment for jurisdictional 2010 pension and OPEB increases is based on a preliminary estimate prepared by the actuary in March 2010. According to the transmittal letter that accompanied the actuarial calculations, these are preliminary results based on estimates. This report also reflected final results for 2009. Because the final 2010 actuarial valuation has not been completed, this adjustment is not known and measurable, as required by Section 287.40. Because it is not known and measureable, my adjustment removes it.

<u>Adjustment to Remove the Company's Pro Forma Deferred Tax Liability for Medicare Part D</u>

Q. Please describe ICC Staff Exhibit 3.0, Schedule 3.02, Adjustment to Remove Pro Forma Deferred Tax Liability for Medicare Part D.

A. ICC Staff Exhibit 3.0, Schedule 3.02, Adjustment to Remove Pro Forma Deferred Tax Liability for Medicare Part D, reflects my adjustment to remove the rate base and operating statement impacts of the Company's Medicare Part D pro forma adjustments (Schedule B-2.4 and Schedule C-2.18, respectively).

Q. Please describe your understanding of the Company's pro forma adjustments related to Medicare Part D.

A. Based on the Company's response to AG's Data Request AG-3.04 (a), the Company seeks, in the instant proceeding, to create new regulatory assets for various items, one of which relates to the future impact of health care reform legislation that was enacted during March 2010. According to the Company's response to AG Data Request AG-1.34, the Company has estimated on Schedule C-2.18 an increase in the accumulated deferred income tax ("ADIT") liability as of December 31, 2012 and proposes to amortize this amount over a 36-month period, beginning with the instant proceeding. Accordingly, the 2009 test year operating statement reflects one-third of the projected increase in the ADIT liability on a jurisdictional basis, \$3.104M. The 2009 test year rate base reflects an "average" of the ADIT balance of \$4.657M, as reflected on Schedule B-2.4.

Q. Please explain.

A. According to Schedule C-2.18, note (1), the health care reform law that was enacted March 2010 reduces the federal tax deductibility of retiree health care costs to the extent the retiree health care plan receives federal subsidies that provide prescription drug benefits at least equal to Medicare Part D prescription drug benefits. The Company estimates the reduced deductibility of these Medicare Part D subsidies will increase the December 31, 2012 ADIT by \$9.313M for the period 2004 through 2012 on a jurisdictional basis. The Company further proposes to amortize this amount over a 36-month period, so that the pro forma adjustment on Schedule C-2.18 reflects $3.104M amortization of the requested regulatory asset.

Additionally, Schedule B-2.4 reflects a reduction to rate base for the “average balance” of the estimated increase in the December 31, 2012 ADIT liability during the proposed 36 month amortization period. The Company has estimated the “average” balance of the related ADIT for the period 2010 through 2012 by adding a zero balance at January 1, 2010 to the estimated December 31, 2012 balance of $9.313M and dividing the sum by 2. My adjustment removes both the operating statement and rate base impacts of the Company’s pro forma adjustments for the Medicare Part D subsidies.

Q. What is the purpose of the pro forma amortization (Schedule C-2.18) in the instant proceeding?

A. According to the Company’s response to Data Request AG-1.32, ComEd believes the Medicare Part D amortization is necessary to recover taxes payable on the federal subsidy accrued by ComEd for the years 2004 through 2009 that had been assumed to be non-taxable income. This adjustment is intended to recover the tax liability that results from the March 2010 legislation reducing the tax deductibility of these prior year subsidies.

Q. Why did the Company select a 36-month amortization period on Schedule C-2.18, line 10, column (C)?

A. According to the Company's response to Data Request AG-1.34:

> This net deferred tax liability represents increased taxes ComEd must pay on the Federal subsidies the Company receives for providing prescription drug coverage to its retirees. The deductibility of these subsidies was changed as a result of the health care legislation passed by Congress and signed by the president in 2010. While the terms of the legislation become effective on January 1, 2013, ComEd was required to recognize the accounting impact of the new law in the period in which it was enacted.
>
> In proposing a (3) year amortization period, ComEd considered the fact that such a period represents a reasonable estimate of the time duration between rate cases and is consistent with amortization periods used for other items, such as deferred rate case expenses. Moreover, the amortization of the liability over this period allows the company to recover a portion of the funds to pay this tax obligation by the January 1, 2013, effective date of the legislation.

Q. Please explain your rationale for removal of these pro forma adjustments.

A. The Company asserts that ComEd recorded a charge in March 2010 to recognize a tax liability associated with the subsidy that has previously been included in customer rates. According to ComEd, the cost was incurred in March 2010 upon passage of the health care reform act and as such, constitutes a known and measurable cost for which a pro forma adjustment is consistent with the provisions of Section 287.40 of 83 Illinois

Administrative Code (Company response to Data Request AG-3.04, part (b)).

I propose to remove the pro forma adjustments because the effective date of the legislation is beyond the time frame permitted by Section 287.40 for pro forma adjustments to an historical test year--that is, within 12 months after the filing date of the tariffs, June 30, 2010. Additionally, the pro forma adjustments are not based on known and measurable changes because the amount of the changes is not determinable, as further required by Section 287.40.

Q. Please explain why the effective date of the legislation, not the date the legislation was signed, should be used to determine the date of the change pursuant to Section 287.40.

A. The legislation may change prior to the effective date of January 1, 2013, which is 30 months subsequent to the filing date of the tariffs, June 30, 2010. Additionally, the Company's calculation includes the impact of cash subsidies for the period 2010 through 2012, which are based on estimates, not known and measurable amounts. If the Company plans to file a rate case in three years, as indicated in the previously quoted Company response to Data Request AG-1.34, the next rate case will approximate a filing date of June 30, 2013. By then the impact of this legislation should be known and measureable.

<u>Adjustment to Reverse Pro Forma 2010 Salary and Wage Increase</u>

Q. Please describe ICC Staff Exhibit 3.0, Schedule 3.03, Adjustment to Reverse Pro Forma 2010 Salary and Wage Increase.

A. ICC Staff Exhibit 3.0, Schedule 3.03 reflects my adjustment to reverse the Company's pro forma 2010 salary and wage increase because the amount of 2010 salaries and wages expense is not known and measurable. The Company's pro forma adjustment would improperly impact the 2009 test year revenue requirement by including an increase for salary and wage increases without considering potential offsetting decreases to salaries and wages that may occur in 2010.

Q. Please explain.

A. The Company reflected a pro forma adjustment for jurisdictional 2010 salary and wage increases based on 2009 base payroll. According to Schedule WPC-2.1, page 1, Note (1), these wage escalations are calculated based on 2010 corporate planning assumptions for management wage escalations at 3% and IBEW Local 15 wage escalations of 4%. Although the IBEW wage escalation of 4% is supported by a Memorandum of Agreement that reflects a 4.00% wage increase effective April 1, 2010, the remainder of this pro forma adjustment is based on corporate planning assumptions that are neither known nor measurable. Additionally, it would be improper to reflect estimated wage and salary increases for 2010 without also considering potential decreases that could occur. For example, the Company's response to Data Request AG-2.20 confirms that between late 2009 and the first seven months of 2010, a decrease in the number of employees was realized in two areas: Operations and Customer Operations. Although the response indicates that the reduced staffing levels are partially mitigated with increased overtime and some increase in the number of employees may occur, this scenario illustrates the fact that the 2010 salaries and wages expense is not known and measurable. Accordingly my adjustment reverses the one-sided impact of the Company's pro forma adjustment for 2010 salary and wage increases and the related tax impacts.

Adjustment to Reduce Incentive Compensation

Q. Please describe ICC Staff Exhibit 3.0, Schedule 3.04, Adjustment to Reduce Incentive Compensation.

A. ICC Staff Exhibit 3.0, Schedule 3.04, Adjustment to Reduce Incentive Compensation presents my proposed disallowance of incentive compensation costs reflected in the 2009 test year. This adjustment disallows costs related to shareholder-oriented goals within the following Plans: Annual Incentive Plan ("AIP") applicable to salaried and bargaining unit employees; AIP applicable to Senior Vice Presidents and higher level executives; Long-term Incentive Plan - Cash ("LTIP - Cash"); and Long-term Incentive Plan – Restricted Stock ("LTIP – Restricted Stock"). It also removes costs for which the Company did not establish clear ratepayer benefits. Finally, it reflects removal of capitalized costs that were disallowed in Docket No. 07-0566 and in Docket No. 05-0597 related to prior years' incentive compensation plans that are included in the 2009 test year, as described in the Company's responses to ICC Staff Data Request BAP- 15.02 (c) and BAP-15.01 (c), respectively.

Q. Please provide the rationale for disallowing costs related to goals within the AIP applicable for the 2009 test year.

A. My adjustment removes 100% of the costs related to the Operating Net Income goal that is applicable to the AIP for Senior Vice Presidents and higher level executives. It also removes 50% of the costs related to the Operating and Maintenance ("O & M") Expense and Capital Expenditures metrics within the AIP applicable to both salaried and bargaining unit employees, as well as Senior Vice Presidents and higher level executives, because these goals provide benefits to shareholders. Finally, it removes 100% of the cost related to the Focused Initiatives metric because these measures are based on achievement of internal budget amounts for which the Company has not established clear ratepayer benefits.

Q. Please describe the Key Performance Indicators ("KPIs") the AIP uses to measure performance and their impact on incentive compensation costs related to the 2009 AIP.

A. Based on the Company's response to ICC Staff Data Request BAP-2.03 (Corrected) – Attach 1 and 2, the 2009 Annual Incentive Program, ComEd uses three types of KPIs, financial, cost and operational, to measure its relative performance. These KPIs are called Funding KPIs because they fund the AIP and establish the potential AIP payout available. The Financial performance KPI is only applied to employees at the level of Senior Vice President and above. This KPI is measured using ComEd Net Income. Cost performance is measured through two KPIs: O & M Expense and Capital Expenditures. These KPIs apply to all ComEd employees covered by the AIP. Operation performance is measured through five equally weighted operational KPIs: ComEd CAIDI, which measures the average duration of customer outages; ComEd SAIFI, which measures the average frequency of customer outages; ComEd OSHA Recordable Rate, which measures ComEd employee safety; ComEd Customer Satisfaction index, which measures overall customer satisfaction; and Achievement of ComEd Focused Initiatives, a productivity measure that is new for 2009.

There are three levels of performance associated with each AIP Funding KPI: Threshold, Target and Distinguished. According to the Company's response to Data Request IIEC-2.09, the 2009 AIP was funded at the target level.

Q. How were the Total O & M Expense and Total Capital Expenditures KPIs used to measure performance for the 2009 test year?

A. According to the Company's response to Data Request AG-3.18 (a), 2009 Incentive Targets were to spend no more than $648.4M for O & M expenses and no more than $725.9M for capital expenditures. Since the Company actually spent $602.7 for O & M expenses and $714.4 for capital expenditures, the target level KPI for these metrics was achieved.

Q. How were the 2009 Incentive Targets for the Total O & M Expense and Total Capital Expenditures metrics established?

A. Based on the response to ICC Staff Data Request BAP-2.03, Attach 1, pp. 4 – 5, note (3):

> These performance goals are based on the revised budget and are subject to the AIP KPI appeal process and subsequent approval by the ComEd Board of Directors and the Exelon Compensation Committee.

Q. What is your rationale in recommending disallowance of 50% of the AIP amounts related to the O & M Expense and Capital Expenditures metrics?

A. These goals are aimed at reducing operating costs and capital expenditures during 2009. Although ratepayers will benefit from the lower costs reflected in the test year revenue requirement when the corresponding rates take effect in approximately June 2011, shareholders would also have received benefits because existing rates are based on recovery of costs prior to reaching these reductions. Accordingly, since shareholders receive all the benefits of these savings during the interim period, my adjustment divides the cost of this incentive equally between shareholders and ratepayers.

Q. **How is the new Achievement of ComEd Focused Initiatives KPI used to measure performance?**

A. Based on the Company's response to ICC Staff Data Request BAP-2.03, Attach 1, pp. 4 – 5, note (4):

> Performance is based on productivity level achieved, generally calculated as the percentage of actual work completed and dollars spent versus 100% of the work planned and dollars budgeted. At a minimum, 90% of each planned initiative work scope must be achieved for any incentive to be paid for this metric. The 9 ComEd focused initiatives are 2009 Summer Critical Program, Top Priority Circuit Program, Underground (URD) Cable Program, Distribution Automation Program, Substation Transformer Maintenance Template Program; Vegetation Management for Distribution, Vegetation Management for Transmission, Customer Operations Metering Improvements, and Customer Service Technology Improvements.

Q. Please provide the rationale for your disallowance of 100% of these costs in the 2009 test year.

A. My adjustment removed 100% of the Focused Initiatives KPI because the Company has not demonstrated incremental ratepayer benefits associated with these initiatives. The productivity levels are based on budgeted dollars that are within the Company's control to establish and achieve.

Q. Please explain.

A. The nine focused initiatives relate to operational activities that are necessary for the provision of safe and reliable utility service. Because these initiatives are based on achievement of an internal benchmark like budgeted amounts (Company response to Data Request AG-3.17), the Company has created an artificial "incentive" that forces ratepayers to pay a premium for operational services that are ordinary and necessary for delivery service. In other words, the budgeted amounts are set by the Company—they are not established independently, like a benchmark that is tied to customer responses or a reduction in the number of accidents. Accordingly, the "benefits" to customers are largely a creation of the Company's budget process, not much else

Q. Please provide the rationale for disallowing costs related to the Long-term Incentive Plan - Cash ("LTIP - Cash") for the 2009 Plan year.

A. My adjustment removes two-thirds of the costs related to the LTIP – Cash Plan in the 2009 test year. Based on the Company's response to ICC Staff Data Request BAP-2.03 (Corrected) – Attach 3, page 1, Program Measures, the 2009 ComEd LTIP - Cash included three categories of goals: financial, operational and regulatory/legislative. The financial goals related to ComEd operating Return on Equity ("ROE") and capital structure; the operational goals related to SAIFI and CAIDI, and the regulatory/legislative goals relate to rate-making, preservation of the power procurement process and avoidance of harmful legislation. These three categories are weighted equally at one-third each. My adjustment is based on disallowance of two such categories—financial and regulatory/legislative incentives. Accordingly, it reflects disallowance of two-thirds of the cost of the LTIP-Cash reflected in the 2009 test year.

Q. Please provide the rationale for disallowance of these two incentive categories.

A. The first category, financial incentives, is based on ComEd's operating Return on Equity ("ROE") and capital structure. The 2009 target for this goal is:

> By year-end 2009, ComEd's 2010 budget should reflect financial stability as evidenced in financial measures such as an industry median, operating, non-GAAP, ROE (currently projected to be at about 9% with a capital structure that is about 50-60% debt). (response to BAP-2.03 (Corrected) – Attach 3, page 1, Program Measures)

Because these financial goals enhance shareholder value, not ratepayer benefit, the cost of this incentive should be removed from the 2009 test year revenue requirement.

The second category, regulatory/legislative incentive, is based on the following performance targets:

> 1). By year-end 2009, ComEd should have in place a rate making process that minimizes regulatory lag while providing for recovery of prudently incurred costs;
>
> 2). By year-end 2009, power procurement should be a fairly routine process that provides for the pass through of power costs to customers; and
>
> 3). By year-end 2009, continue to avoid legislation that could adversely impact the effective operation of the business through intelligence gathering, alignment of lobbying and communication strategies and development of contingency plans.
>
> (Company response to ICC Staff Data Request BAP-2.03 (Corrected) – Attach 3, page 1, Program Measures)

The first of these goals, a rate-making process that minimizes regulatory lag, would seem to describe a plan for more frequent rate increases. The prospect of more frequent rate increases would not be a ratepayer benefit, and therefore, should not be a cost included in delivery service rates. The second of these goals, achieving a routine power procurement cost pass through process, is outside the scope of delivery services and therefore, should not be a factor in setting rates for delivery service. The third goal, avoidance of legislation adverse to the Company's business interests, is clearly a lobbying function, the cost of which is prohibited from rate recovery under the provisions of Section 9-224 of the Public Utilities Act ("Act"), which states:

> The Commission shall not consider as a expense of any public utility company, for the purpose of determining any ret or charge, any amount expended for political activity or lobbying ad defined in the "Lobbyist Registration Act." (220 ILCS 5/9-224)

Q. Please provide the rationale for disallowing costs related to the Long-term Incentive Plan – Restricted Stock ("LTIP – Restricted Stock") for the 2009 Plan year.

A. My adjustment removes 100% of the cost of the Exelon 2009 Key Manager Restricted Stock Award for the following reasons:

1) It is available to individuals who play key roles in supporting Exelon's financial and operational success and whose retention is critical to long-term succession; and

2). It provides recipients with restricted stock units ("Restricted Stock").

Q. Please explain.

A. The objective of this plan is to further the financial and operational success of Exelon, not ComEd. Arguably, the financial success of Exelon is favorably impacted by ComEd rate increases. Additionally, the Company has made no showing that Exelon's financial and operational success directly benefits ComEd ratepayers. Because the Company has not demonstrated that this incentive program provides any direct benefit to ComEd ratepayers, these costs should be removed from the 2009 test year revenue requirement. Finally, these key managers are rewarded with restricted stock, which aligns the interests of the recipients with shareholders, not ratepayers.

Q. Has the Commission accepted similar adjustments for incentive compensation in prior Orders?

A. Yes. In Docket No. 07-0566 (Order, p. 61), the Company's 2007 rate case, the Commission reiterated the standard that was applied in the previous ComEd 2005 rate case, Docket No. 05-0597 (Order, pp. 95-96) as follows: the utility can recover its expenses when it can prove that the expenses are reasonable, related to utility services, and of benefit to ratepayers or utility service. The issue of disagreement in Docket No. 07-0566 was whether ComEd's incentive compensation plan provided benefits to ratepayers. In that case, one contested issue focused on ComEd's AIP Net Income Metric, for which the Commission agreed with Staff's proposed adjustment to disallow 100% of AIP costs related to the financial net income goal which primarily benefits shareholders. Regarding the AIP Total Costs goals, the Commission allowed recovery of these costs. The final contested area concerned ComEd's LTIP, in which Staff proposed to disallow one-third of these costs because they were based on financial goals and another one-third based upon legislative and regulatory goals, neither of which benefited ratepayers, according to Staff. The Commission supported the disallowance of these costs (Docket No. 07-0566, Order, p. 61).

<u>Adjustment to Remove Perquisites and Awards</u>

Q. Please describe ICC Staff Exhibit 3.0, Schedule 3.05, Adjustment to Remove Perquisites and Awards.

A. Schedule 3.05 presents my adjustment to remove the cost of perquisites and awards from the 2009 test year. These consist of retention awards, performance based awards in addition to incentive compensation, other performance, signing bonus and stock awards. These costs are not necessary for the provision of utility service, nor did the Company demonstrate that they provide direct ratepayer benefits; therefore, my adjustment removes them.

<u>Adjustment to Reduce Severance Expenses</u>

Q. Please describe ICC Staff Exhibit 3.0, Schedule 3.06, Adjustment to Reduce Severance Expenses.

A. Schedule 3.06 presents my adjustment to remove the jurisdictional portion of severance costs related to cash and stock incentive compensation plans. These costs would not be recoverable under normal ratemaking conditions for the reasons indicated in the previous discussion of incentive compensation costs. Accordingly, they should not be recovered as severance costs in the 2009 revenue requirement. My adjustment reflects the Company's proposed three-year amortization of severance costs.

Adjustment to Reduce Miscellaneous General Expenses - Directors' Fees and Expenses

Q. Please describe ICC Staff Exhibit 3.0, Schedule 3.07, Adjustment to Reduce Directors' Fees and Expenses.

A. ICC Staff Exhibit 3.0, Schedule 3.07 presents my adjustment to reduce Miscellaneous General Expenses – Directors' Fees and Expenses by 50% for the 2009 test year. My adjustment removes 50% of these costs because of the shared benefit between ratepayers and shareholders. Because members of the Board of Directors primarily represent the interests of shareholders in their activities and decision-making, shareholders should share this cost with ratepayers.

Adjustment to Reduce Administrative and General Expenses - Corporate Aircraft Costs

Q. Please describe ICC Staff Exhibit 3.0, Schedule 3.08, Adjustment to Reduce Administrative and General Expenses – Corporate Aircraft Costs.

A. ICC Staff Exhibit 3.0, Schedule 3.08 presents my adjustment to remove the cost of corporate aircraft from the 2009 test year revenue requirement.

Based on the Company's response to Data Request AG-6.07, including Attach 1, these aircraft charges are largely allocated from ComEd's parent, Exelon, and include meetings and activities related to affiliate and investor business activities which should not be charged to ratepayers.

Q. Please explain.

A. A sample of charges, reflected on the Company's response to Data Request AG-6.07, Attach 1, page 1, includes aircraft costs allocated to ComEd, the purpose of which is described as: attend Sunoco meeting in Philadelphia and FERC meeting in DC, Exelon board meeting and PAC event, BMO capital markets meeting, Executive Committee meeting, Risk meetings, and Lyric Opera Opening Night. These activities do not represent ordinary and necessary costs for ComEd delivery service, nor do they provide direct benefits to ratepayers. Accordingly, my adjustment removes them from the 2009 test year revenue requirement.

Adjustment to Reduce Cash Working Capital

Q. Please describe ICC Staff Exhibit 3.0, Schedule 3.09, Adjustment to Reduce Cash Working Capital.

A. Schedule 3.09 presents my adjustment to reduce the Cash Working Capital ("CWC") component of rate base after giving effect to my adjustments to the lead lag study and reflecting the impact of Staff's adjustments to the 2009 test year revenue requirement. The final balance of Cash Working Capital will be established using the revenue requirement and methodology that is ultimately approved by the Commission in this proceeding.

Q. Please describe the primary differences between your calculation of CWC and the Company's calculation of CWC, as detailed on Schedule B-8.

A. The primary differences between my calculation and the Company's calculation are the following:

1). My calculation reflects expense lead days for intercompany expenses consistent with the number of expense lead days for other O & M expenses;

2). My calculation reflects zero revenue lag days and negative 35.21 expense lead days for the Energy Assistance Charges/Renewable Energy pass through tax;

3). My calculation reflects zero revenue lag days and negative 44.21 expense lead days for the Gross Receipts/Municipal Utility Tax pass through tax;

4). My calculation reflects a reduction in the revenue collection lag days for utility service, which also impacts the collection of the Illinois Excise Tax and the City of Chicago Infrastructure Maintenance Fee pass-through taxes; and,

5) My calculation reflects the same number of expense lead days for employee benefits and FICA tax as the Company reflected for base payroll and withholdings.

The remaining differences between my calculation and the Company's calculation result from Staff's adjustments to the revenue requirement.

Q. Please provide the rationale for your first change to the Company's calculation, an increase in the number of lead days for intercompany expenses.

A. I changed the number of expense lead days on inter-company expense payments to be consistent with the expense lead days calculated by the Company for other O & M expenses, 64.34 days. The Company used 30.35 average expense lead days in its calculation, as explained in the direct testimony of Mr. Subbakrishna (ComEd Ex. 7.0, page 21, lines 433 – 437):

> This Lead time was derived from the billing and settlement procedures contained in an annex to ComEd's General Service Agreement ("GSA"), i.e., payments due on or around the 15th of the month following the provision of service.

Because the timing of payments to affiliated interests is within the Company's discretion, it would not be proper to charge ratepayers a higher CWC requirement in order to pay ComEd's affiliates earlier than non-affiliated vendors are paid. To do so would be a form of cross-subsidization. Essentially, ratepayers would be penalized through higher costs (in the form of higher CWC) for services provided by ComEd affiliates. Such arrangements are prohibited in affiliated interest agreements in general, and that concept should be reflected in the calculation of CWC for intercompany expenses.

Q. Please provide the rationale for your second change to reflect zero revenue lag days and negative 35.21 expense lead days for the Energy Assistance Charges/Renewable Energy pass through tax.

A. The statute governing the Energy Assistance Charge (305 ILCS 20/13) provides that a public utility engaged in the delivery of electricity shall assess each of its customer accounts a monthly charge. The utility shall remit all moneys received as payment to the Illinois Department of Revenue by the 20th day of the month following the month of collection. Based on this provision, the Company has the use of these moneys for a full 20 days plus the midpoint of the month in which the receipts were collected, 15.21 days by the Company’s calculation (ComEd Ex. 7.0, page 14, lines 281 – 282). The sum of these two amounts (20 + 15.21) equals my negative expense lead of 35.21 days. There is no revenue lag because the Company did not provide any service in connection with this pass through tax. The lead/lag impact consists of the length of time between the date receipts are collected from customers and the date such receipts are remitted to the taxing authority.

Q. Please provide the rationale for your third change to reflect zero revenue lag days and negative 44.21 expense lead days for the Gross Receipts/Municipal Utility pass through tax.

A. Each municipality has its own ordinance to enact municipal utility/gross receipts taxes. Based on the Company's response to ICC Staff Data Request BAP-4.01(c), ComEd remits these taxes to about 235 municipalities outside the City of Chicago, as well as the City itself. Accordingly, my change is based on the municipal ordinance for the City of Chicago because this single ordinance affects the largest number of customers. The City of Chicago's Municipal Electric Use Tax is imposed on the use or consumption of purchased electricity, according to the number of kilowatt hours consumed in a month. The tax is recoverable from customers in the same manner as the original charge for delivering the electricity. ComEd must file a monthly tax return to accompany the remittance of such taxes, due by the last day of the month following the month during which such tax is collected. (Company response to ICC Staff Data Request BAP-4.01- Attach 1, Journal—City Council—Chicago, page 71746, Section 3-53-040, Tax Remittance and Return).

Based on this provision, the Company has the use of these moneys for a full 29 days plus the midpoint of the month in which the receipts were collected, 15.21 days by the Company's calculation (ComEd Ex. 7.0, page 14, lines 281 – 282). The sum of these two amounts (29 + 15.21) equals my negative expense lead of 44.21 days. There is no revenue lag because the Company did not provide any service in connection with this pass through tax. The lead/lag impact consists of the length of time between the date receipts are collected from customers and the date such receipts are remitted to the taxing authority.

Q. Please describe your fourth change to reflect a reduction in the revenue collection lag days for utility service.

A. BEGIN CONF***XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXX ***END CONF

Q. Please provide the rationale for this change.

A. BEGIN CONF***XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX

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Q. Please describe your fifth change to reflect the same number of expense lead days for employee benefits and FICA tax as the Company reflected for base payroll and withholdings.

A. The Company’s CWC calculation reflects an expense lead time of zero days for employee benefits. According to the testimony of Mr. Subbakrishna, the major benefits provided by ComEd to its employees are life insurance, health and dental coverage, vision coverage, long term disability assistance, COBRA coverage, and a 401-K match. Vendors of such programs are paid from trusts that are funded by ComEd. ComEd funds such trusts on payday (both the employee contribution and ComEd’s match are transmitted at the same time). (ComEd Ex. 7.0, page 20, lines 401 – 407). Accordingly, I reflected the same number of expense lead days for employee benefits as the Company used for base payroll and withholdings, 14.64 days.

<u>Rider UF – Uncollectible Factors</u>

Q. Have you reviewed the Company's proposed changes to Rider UF – Uncollectible Factors, as reflected on the 3rd Revised Sheet No. 267, in connection with the instant proceeding?

A. Yes, a redline version of the proposed changes is reflected on 3rd Revised Sheet No. 267 attached to the testimony of ComEd witness Mr. Larry Alongi (ComEd Ex. 16.22 Revised). The proposed changes update the base uncollectible factors ("BUFs").

Q. Why is it necessary to update the BUFs?

A. I understand that the BUF for delivery services, the delivery uncollectible factor ("DUF"), will be re-set based on the final revenue requirement approved by the Commission in this proceeding. According to 1st Revised Sheet No. 267.7 of Rider UF, the base distribution uncollectible costs ("BDU") is equal to the annual bad debt expense amount approved by the ICC in base rate charges for ICC-jurisdictional delivery service provided to retail customers, divided by annual distribution base rate revenue ("ADBRR") approved by the ICC in base rate charges for delivery service. The new DUF is a function of the final uncollectibles expense as a percentage of the final revenues. This percentage will be added to 1.0 to establish a new factor, the DUF, as described in the applicable tariff, Rider UF (3rd Revised Sheet No. 267). For example, if the Company were to accept the Company's proposed revenue requirement, the resulting overall DUF would be 1.0148 calculated by dividing the uncollectible expense of $36,070,000 [$29,857,000 (Sch. C-16, p. 1 of 6, line 3, col. (D)) + $6,213,000 (Sch. C-1, p. 1 of 2, line 9, col. (F))] by the resulting pro forma operating revenues of $2,433,735,000 (Sch. C-1, line 3, col. (G)).

Thus, I recommend that the Commission's Final Order state:

> The Company shall revise its tariffs to reflect a Delivery Uncollectible Factor (DUF) for each retail customer designation (residential, nonresidential, and all other) based on the final revenue requirement established in this order. Effective with the compliance tariffs filed as a result of this proceeding, the DUF will be as follows:

Residential	1.XXXX
Nonresidential	1.XXXX
All Other	1.XXXX

The above values for the revised DUF are provided for illustrative purposes only. Actual amounts will be based upon the final revenue requirement as approved by the Commission.

Q. Is testimony provided by the Company consistent with the methodology reflected in the tariff?

A. No, it is not. ComEd witness Ms. Kathryn Houtsma (ComEd Ex. 6.0, page 38, lines 777 – 780) states:

> Upon approval of new rates in this proceeding the Annual Distribution Base Rate Revenue (ADBRR) in Rider UF will be increased to $36,070,000 and the incremental amounts charged or credited under Rider UF will be the difference between that amount and the actual costs for the relevant period.

This does not comport with the method established by the tariff, which clearly states that the BDU is a function of the DUF factor applied to distribution base rate revenues (“DBRR”) to derive delivery uncollectible revenue (“DUR (3rd Revised Sheet No. 267.6). DUR is the basis for determining the incremental amounts charged or credited. The $36,070,000 mentioned by Ms. Houtsma is the uncollectibles expense reflected in the Company’s initial filing on Schedule C-1. The final amount of uncollectible expense expressed as a percentage of final revenues will be the basis for determining the amount of uncollectible expense recovered in base rates, not a flat dollar amount.

Q. Does the instant proceeding have any additional impact on Rider UF?

A. The instant proceeding could potentially impact the calculation of BUFs in Rider UF if the Commission switched from using the actual uncollectible amount set forth in Account 904 to using net write-offs in such tariff, but only if net write-offs are also used to determine the utility’s uncollectible amount in rates during the instant proceeding.

Q. Please explain.

A. Based on my review of Section 16-111.8 (a) of the Act, Automatic adjustment clause tariff; uncollectibles, states:

> The Commission may, in a proceeding to review a general rate case filed subsequent to the effective date of the tariff established under this Section, prospectively switch from using the actual uncollectible amount set forth in Account 904 to using net write-offs

> in such tariff, but only if net write-offs are also used to determine the utility's uncollectible amount in rates. In the event the Commission requires such a change, it shall be made effective at the beginning of the first full calendar year after the new rates approved in such proceeding are first placed in effect and an adjustment shall be made, if necessary, to ensure the change does not result in double-recovery or unrecovered uncollectible amounts for any year.

Hence, I have calculated the percentage of uncollectible expense for this proceeding, using net write-offs, as 1.51%[1]

Q. Has the Company proposed a switch from using the uncollectible amount set forth in Account 904 to using net write-offs in the instant proceeding?

A. Not to my knowledge.

Q. Do you recommend the Commission require the Company to change its method from using Account 904 to using the net write-off method?

A. Yes. The balance of Account 904, uncollectibles expense, fluctuates with changes to the allowance for doubtful accounts. The allowance for doubtful accounts is based on estimates of uncollectible accounts. A switch to the net write-off method would ensure that the calculation of incremental uncollectible expenses recoverable through Rider UF is

[1] Calculated as follows: 2009 write-offs minus 2009 recoveries, the net amount divided by total operating revenues for 2009 [($122,226 – $34,720)/$5,785,432 = 1.5125%]. Write-offs and recoveries were obtained from the Company's Schedule C-16, page 3, line 4, columns (D) and (E), respectively. The total operating revenues were obtained from the Company's 2009 FERC Form 1, page 300, line 27.

based on actual accounts written-off and recovered, instead of estimated amounts. Actual information is preferable to estimates since it is more accurate, and should be used whenever available. Thus, I recommend the Commission find that:

> According to the provisions of 220 ILCS 5/16-111.8, Commonwealth Edison Company is hereby directed to switch from using the actual uncollectible amount set forth in Account 904 to using net write-offs in such tariff, and such net write-offs are also to be used to determine the utility's uncollectible amount in rates. This change shall be effective at the beginning of the first full calendar year after the new rates approved in this proceeding are first placed in effect and an adjustment shall be made, if necessary to ensure the change does not result in double-recovery or unrecovered uncollectible amount for any year.

<u>Conclusion</u>

Q. Does this conclude your prepared direct testimony?

A. Yes, it does.

Commonwealth Edison Company
Adjustment to Remove Pension Asset
For the Test Year Ending December 31, 2009
(In Thousands)

Line No. (a)	Description (b)	Total Amount (d) Dr/(Cr)	Source (e)
	Rate Base Adjustment:		
1	Deferred Debit for 2009 Pension Contribution Per Staff	$ -	
2	Deferred Debit for 2009 Pension Contribution Per Company	92,591	Schedule B-10, Page 1 of 6, line 6, column (J).
3	Staff Adjustment to Reduce Rate Base - Deferred Debits	$ (92,591)	Line 1 minus line 2
4	Accumulated Deferred Income Taxes Per Staff	$ -	
5	Accumulated Deferred Income Taxes Per Company	(23,841)	See line 10 below
6	Staff Adjustment to Reflect Associated Accumulated Deferred Income Taxes ("ADIT")	$ 23,841	Line 4 minus line 5
7	Combined Rate Base Reduction Per Staff - Removal of Pension Asset and ADIT	$ (68,750)	Line 3 plus line 6
*	Calculated as:		
8	Net Pension-Related ADIT Balance As of December 31, 2009	$ (207,317)	Response to AG 2.10, Att. 1, WPB-9, line 12, column (C)
9	Pension-Related Amount To Be Excluded From Test Year ADIT	(183,476)	Response to AG 2.10, Att. 1, WPB-9, line 14, column (C)
10	Difference--to line 5	$ (23,841)	Line 8 minus line 9

Commonwealth Edison Company
Adjustment To Remove Pro Forma Deferred Tax Liability For Medicare Part D
For the Test Year Ending December 31, 2009
(In Thousands)

Line No.	Description	Amount	Source
(a)	(b)	(c)	(d)
	Rate Base Adjustment:	Dr/(Cr)	
1	Pro Forma balance of deferred tax liability that should be reflected in rate base per Staff'	$ -	ICC Staff Exhibit 3.0
2	Pro Forma balance of deferred tax liability that should be reflected in rate base per Company	(4,657)	Schedule B-2.4, line 4, column (B)
3	Staff Adjustment to Increase Regulatory Assets	$ 4,657	Line 1 minus line 2.
	Operating Statement Adjustment:		
4	Pro Forma Amortization of Deferred Tax Liability for Medicare Part D, per Staff	$ -	ICC Staff Exhibit 3.0.
5	Pro Forma Amortization of Deferred Tax Liability for Medicare Part D, per Company	3,104	Schedule C-2.18, line 11, column (C).
6	Staff Adjustment to Reduce Regulatory Debits	($3,104)	Line 4 minus line 5.

Docket No. 10-0467
ICC Staff Exhibit 3.0
Schedule 3.03

Commonwealth Edison Company
Adjustment To Reverse Pro Forma 2010 Salary and Wage Increase
For the Test Year Ending December 31, 2009
(In Thousands)

Line No.	Description	Amount	Source
(a)	(b)	(c)	(d)
	Operating Statement Adjustment:		
1	Pro Forma 2010 Salary and Wage Increase per Staff	$ -	ICC Staff Exhibit 3.0
2	Pro Forma 2010 Salary and Wage Increase per Company	8,809	Schedule C-2.1, line 7, column (B).
3	Staff Adjustment to Reverse Pro Forma 2010 Salary and Wage Increase (See Note 1.)	$ (8,809)	Line 1 minus line 2

Note 1. Distribution of line 3, based on Schedule C-2.1, col. (B)	A/C Distribution
Distribution O & M	$ (4,228)
Customer Accounts	(2,990)
Customer Service & Informational	(103)
Administrative & General	(735)
Taxes Other Than Income	(753)
Total	$ (8,809)

Commonwealth Edison Company
Adjustment to Reduce Incentive Compensation
For the Test Year Ending December 31, 2009
(In Thousands)

Line No. (a)	Description (b)	Amount (c)	Source (d)
1	Total Distribution per Staff	$ 6,380	Sch. 3.04, pp. 2, 3, and 4, line 1
2	Total Distribution per Company	12,706	Sch. 3.04, pp. 2, 3, and 4, line 2
3	Total Staff Proposed Adjustment to Distribution Expense	$ (6,326)	Line 1 minus line 2
4	Total Customer Accounts per Staff	$ 5,136	Sch. 3.04, p. 2, line 4
5	Total Customer Accounts per Company	8,033	Sch. 3.04, p. 2, line 5
6	Total Staff Proposed Adjustment to Customer Accounts Expense	$ (2,897)	Line 4 minus line 5
7	Total Admin. & General per Staff	$ 3,053	Sch. 3.04, pp. 2 line 7; and pp. 3 and 4, line 4
8	Total Admin. & General per Company	5,215	Sch. 3.04, pp. 2 line 8; and pp. 3 and 4, line 5
9	Total Staff Proposed Adjustment to Admin. & General Expense	$ (2,162)	Line 7 minus line 8
10	Regulatory Debits per Staff	$ 1,029	Sch. 3.04, p. 2, line 10
11	Regulatory Debits per Company	1,609	Sch. 3.04, p. 2, line 11
12	Total Staff Proposed Adjustment to Regulatory Debits Expense	$ (580)	Line 10 minus line 11
13	Total Capitalized amount per Staff	$ 9,148	Sch. 3.04, p. 2 line 13; and pp. 3 and 4, line 7; pp. 5 and 6, line 1.
14	Total Capitalized amount per Company	22,968	Sch. 3.04, p. 2 line 14; and pp. 3 and 4, line 8; pp. 5 and 6, line 2.
15	Total Staff Proposed Adjustment to Rate Base	$ (13,820)	Line 13 minus line 14
16	Total Payroll Taxes Per Staff	$ -	Sch. 3.04, p. 2
17	Total Payroll Taxes Per Company	1,053	Sch. 3.04, p. 2, line 18
18	Total Staff Proposed Adjustment to Taxes Other Than Income	$ (1,053)	Line 16 minus line 17
19	Accumulated Depreciation per Staff	$ -	Sch. 3.04, p. 2, line 19; pp. 3 and 4, line13; pp. 5 and 6, line 4.
20	Accumulated Depreciation per Company	(1,023)	Sch. 3.04, p. 2, line 20; pp. 3 and 4, line14; pp. 5 and 6, line 5.
21	Staff Proposed Adjustment to Accumulated Depreciation	$ 1,023	Line 19 minus line 20
22	Accumulated Deferred Income Taxes per Staff	$ -	Sch. 3.04, pp. 5 and 6, line 7.
23	Accumulated Deferred Income Taxes per Company	(468)	Sch. 3.04, pp. 5 and 6, line 8.
24	Staff Proposed Adjustment to Accum. Def. Income Taxes	$ 468	Line 22 minus line 23
25	Depreciation Expense per Staff	$ -	Sch. 3.04, p. 2, line 22; pp. 3 and 4, line 16; pp. 5 and 6, line 10.
26	Depreciation Expense per Company	374	Sch. 3.04, p. 2, line 23; pp. 3 and 4, line 17; pp. 5 and 6, line 11.
27	Staff Proposed Adjustment to Depreciation Expense	$ (374)	Line 25 minus line 26

Line No.	Description			Amount	Source
(a)	(b)	(c)	(d)	(e)	(f)
	Historical 2009 Costs: Annual Incentive Plan ("AIP")				
1	Distribution per Staff			$ 5,723	
2	Distribution per Company			8,951	See Note 1.
3	Staff Proposed Adjustment to Distribution Expense			$ (3,228)	Line 1 minus line 2
4	Customer Accounts per Staff			$ 5,136	
5	Customer Accounts per Company			8,033	See Note 1.
6	Staff Proposed Adjustment to Customer Accounts Expense			$ (2,897)	Line 4 minus line 5
7	Admin. & General per Staff			$ 2,998	
8	Admin. & General per Company			4,689	See Note 1.
9	Staff Proposed Adjustment to Admin. & General Expense			$ (1,691)	Line 7 minus line 8
10	Regulatory Debits per Staff			$ 1,029	
11	Regulatory Debits per Company			1,609	See Note 1.
12	Staff Proposed Adjustment to Regulatory Debits Expense			$ (580)	Line 10 minus line 11
13	Capitalized amount per Staff			$ 9,036	
14	Capitalized amount per Company			14,405	See Note 1.
15	Staff Proposed Adjustment to Rate Base			$ (5,369)	Line 13 minus line 14
16	Total Disallowance			$ (13,766)	Sum of Lines 3, 6, 9, and 12
17	Calculated Payroll Taxes			(1,053)	Line 16 x 7.65%
18	Staff Proposed Adjustment to Taxes Other Than Income			$ (1,053)	Line 17
19	Accumulated Depreciation per Staff			$ -	
20	Accumulated Depreciation per Company			(162)	See Note 5.
21	Staff Proposed Adjustment to Accumulated Depreciation			$ 162	Line 19 minus line 20
22	Depreciation Expense per Staff			$ -	
23	Depreciation Expense per Company			162	See Note 5.
24	Staff Proposed Adjustment to Depreciation Expense			$ (162)	Line 22 minus line 23

Notes:

1 Source: Company Response to Staff Data Request BAP-2.03, Attach 5, page 1 of 3.

2 Summary of 2009 AIP Costs:

	Expense	Capital	Total	
		(in thousands)		
Percentage of AIP expensed/capitalized in 2009	61%	39%	100%	BAP-2.03 (Corrected) - Att 6
Jurisdictional AIP for 2009	$ 24,152	$ 14,405	$ 38,557	BAP-2.03 (Corr) - Att 5, p. 1 of 3
less: AIP applicable to Senior VPs and above	679	-	$ 679	AG-1.25 - Att. 1 and as calculated
less: AIP of ComEd Presidents and CEO from A & G	871	-	871	BAP-2.03 (Corr) - Att 5, p. 1 of 3
AIP applicable to Salaried and Bargaining Unit Employees	$ 22,602	$ 14,405	$ 37,007	

3 Calculation of Disallowed 2009 AIP Costs:

	Expense	Capital	Total	
AIP of Salaried and Bargaining Unit Employees -				
Half of cost related to O & M Metric	$ 3,159	$ 2,019	$ 5,178	AG-1.25 - Att. 1 and as calculated
Half of cost related to Cap. Exp. Metric	2,409	1,540	3,948	AG-1.25 - Att. 1 and as calculated
All of cost related to Focused Initiatives Metric	2,527	1,616	4,143	AG-1.25 - Att. 1 and as calculated
Subtotal	$ 8,094	$ 5,175	$ 13,269	
AIP of Senior VPs and above -				
All of cost related to Net Income Metric	$ 144	$ 92	$ 236	AG-1.25 - Att. 1 and BAP-9.02
Half of cost related to O & M Metric	47	30	77	AG-1.25 - Att. 1 and as calculated
Half of cost related to Cap. Exp. Metric	36	23	59	AG-1.25 - Att. 1 and as calculated
All of cost related to Focused Initiatives Metric	76	49	125	AG-1.25 - Att. 1 and as calculated
Subtotal	$ 303	$ 194	$ 497	
Disallowance of 2009 AIP	$ 8,397	$ 5,369	$ 13,766	

4 Distribution of Staff Disallowed 2009 AIP Expenses:

	Amount	Source
Regulatory Debits	$ 580	BAP-2.03 (Corr) - Att 5, p. 1 of 3 and as calculated.
Distribution	3,228	BAP-2.03 (Corr) - Att 5, p. 1 of 3 and as calculated.
Customer	2,897	BAP-2.03 (Corr) - Att 5, p. 1 of 3 and as calculated.
Administrative and General	1,691	BAP-2.03 (Corr) - Att 5, p. 1 of 3 and as calculated.
Total	$ 8,397	

5 Line 15 multipled by estimated depreciation rate of 3.01% from FERC Form 1 page 337.

Commonwealth Edison Company
Adjustment to Reduce Incentive Compensation
For the Test Year Ending December 31, 2009
(In Thousands)

Line No.	Description	Amount		Source
(a)	(b)	(c)		(d)
	Historical 2009 Costs: Long-Term Incentive Plan ("LTIP") - Cash			
1	Distribution Expense Per Staff	$	657	See Note 1.
2	Distribution Expense Per Company		1,991	See Note 2.
3	Staff Proposed Adjustment to Distribution Expense	$	(1,334)	Line 1 minus line 2.
4	General and Administrative Expense Per Staff	$	55	See Note 1.
5	General and Administrative Expense Per Company		167	See Note 2.
6	Staff Proposed Adjustment to General and Administrative Expense	$	(112)	Line 4 minus line 5.
7	Capitalized amount per Staff	$	111	See Note 1.
8	Capitalized amount per Company		337	See Note 2.
9	Staff Proposed Adjustment to Rate Base	$	(226)	Line 7 minus line 8.
10	Total Disallowance	$	(1,672)	Sum of Lines 3, 6 and 9
11	Calculated Payroll Taxes	$	(128)	Line 10 x 7.65%
12	Staff Proposed Adjustment to Taxes Other Than Income	$	(128)	Line 11.
13	Accumulated Depreciation per Staff	$	-	ICC Staff Exhibit 3.0
14	Accumulated Depreciation per Company		(7)	See Note 3.
15	Staff Proposed Adjustment to Accumulated Depreciation	$	7	Line 13 minus line 14.
16	Depreciation Expense per Staff	$	-	ICC Staff Exhibit 3.0
17	Depreciation Expense per Company		7	See Note 3.
18	Staff Proposed Adjustment to Depreciation Expense	$	(7)	Line 16 minus line 17.

Notes:

1 Per BAP-2.03, Attach 5, p. 2 of 3, reflects removal of Financial Goal - 100% and Regulatory/Legislative Goal 100%. These two goals comprise two-thirds of the total.

2 Source: Company Response to Staff Data Request BAP-2.03 Attach 5, page 2 of 3.

3 Line 9 multiplied by estimated depreciation rate of 3.01% from FERC Form 1, page 337.

Commonwealth Edison Company
Adjustment to Reduce Incentive Compensation
For the Test Year Ending December 31, 2009
(In Thousands)

Line No.	Description	Amount	Source
(a)	(b)	(c)	(d)
	Long-term Incentive Plan - Restricted Stock		
1	Distribution per Staff	$ -	ICC Staff Exhibit 3.0
2	Distribution per Company	1,764	See Note 1.
3	Staff Proposed Adjustment to Distribution Expense	$ (1,764)	
4	Admin. & General per Staff	$ -	ICC Staff Exhibit 3.0
5	Admin. & General per Company	359	See Note 1.
6	Staff Proposed Adjustment to Admin. & General Expense	$ (359)	
7	Capitalized amount per Staff	$ -	ICC Staff Exhibit 3.0
8	Capitalized amount per Company	896	See Note 1.
9	Staff Proposed Adjustment to Rate Base	$ (896)	
13	Accumulated Depreciation per Staff	$ -	
14	Accumulated Depreciation per Company	(27)	See Note 2.
15	Staff Proposed Adjustment to Accumulated Depreciation	$ 27	
16	Depreciation Expense per Staff	$ -	
17	Depreciation Expense per Company	27	See Note 2.
18	Staff Proposed Adjustment to Depreciation Expense	$ (27)	

Notes:

1 Per BAP-2.03, Attach 5, p. 3 of 3, LTIP - Restricted Stock Award Disallowance - 100%

2 Line 9 multipled by estimated depreciation rate of 3.01% from FERC Form 1 page 337

Commonwealth Edison Company
Adjustment to Reduce Incentive Compensation
For the Test Year Ending December 31, 2009
(In Thousands)

Line No.	Description	Amount	Source
(a)	(b)	(c)	(d)
	Capitalized Costs Disallowed in Docket No. 07-0566:		
1	Plant in Service per Staff	$ -	
2	Plant in Service per Company	1,355	See Note 1.
3	Staff Proposed Adjustment to Plant in Service	$ (1,355)	
4	Accumulated Depreciation per Staff	$ -	
5	Accumulated Depreciation per Company	(99)	See Note 1.
6	Staff Proposed Adjustment to Accumulated Depreciation	$ 99	
7	Accumulated Deferred Income Taxes per Staff	$ -	
8	Accumulated Deferred Income Taxes per Company	(56)	See Note 1.
9	Staff Proposed Adjustment to Accum. Def. Income Taxes	$ 56	
10	Depreciation Expense per Staff	$ -	
11	Depreciation Expense per Company	33	See Note 1.
12	Staff Proposed Adjustment to Depreciation Expense	$ (33)	

Notes:

1. Source: Company Response to Staff Data Request BAP-15.02 (c).

Commonwealth Edison Company
Adjustment to Reduce Incentive Compensation
For the Test Year Ending December 31, 2009
(In Thousands)

Line No.	Description	Amount		Source
(a)	(b)	(c)		(d)
	Capitalized Costs Disallowed in Docket No. 05-0597:			
1	Plant in Service per Staff	$	-	
2	Plant in Service per Company		5,975	See Note 1.
3	Staff Proposed Adjustment to Plant in Service	$	(5,975)	
4	Accumulated Depreciation per Staff	$	-	
5	Accumulated Depreciation per Company		(729)	See Note 1.
6	Staff Proposed Adjustment to Accumulated Depreciation	$	729	
7	Accumulated Deferred Income Taxes per Staff	$	-	
8	Accumulated Deferred Income Taxes per Company		(412)	See Note 1.
9	Staff Proposed Adjustment to Accum. Def. Income Taxes	$	412	
10	Depreciation Expense per Staff	$	-	
11	Depreciation Expense per Company		146	See Note 1.
12	Staff Proposed Adjustment to Depreciation Expense	$	(146)	

Notes:

1. Source: Company Response to Staff Data Request BAP-15.01 (c).

Commonwealth Edison Company
Adjustment To Remove Perquisites and Awards
For the Test Year Ending December 31, 2009
(In Thousands)

Line No.	Description		Amount	Source
(a)	(b)		(c)	(d)
	Operating Statement Adjustment:		Dr/(Cr)	
1	Perquisites and Awards Expense Per Staff		$ -	ICC Staff Exhibit 3.0
2	Perquisites and Awards Expense Per Company		3,495	Response to BAP-7.06, Attach 1
3	Staff Adjustment to Reduce Operating Expense (See distribution in Note 1.)		$ (3,495)	Line 1 minus line 2
	Rate Base Adjustment:			
4	Capitalized Portion Per Staff		$ -	ICC Staff Exhibit 3.0
5	Capitalized Portion Per Company		160	Response to BAP-7.06, Attach 1
6	Staff Adjustment to Reduce Rate Base		$ (160)	Line 4 minus line 5
Note 1.	Distribution of Operating Statement Adjustment:			
	Distribution Expense	$ (125)		
	Customer Accounts Expense	(85)		
	Customer Service Expense	(910)		
	Administrative and General Expense	(2,375)		
	Total	$ (3,495)		

Docket No. 10-0467
ICC Staff Exhibit 3.0
Schedule 3.06

Commonwealth Edison Company
Adjustment To Reduce Severance Expenses
For the Test Year Ending December 31, 2009
(In Thousands)

Line No.	Description			Source
(a)	(b)		(c)	(d)
	Operating Statement Adjustment:		Dr/(Cr)	
1	Remove cost of Cash Incentive Compensation Benefits	$	(841)	Response to BAP-16.01, Attach 1
2	Remove cost of Stock Compensation Benefits		(119)	Response to BAP-16.01, Attach 1
3	Staff adjustment to reduce total severance costs	$	(960)	Line 1 plus line 2
4	Period of amortization for severance costs (in years)		3	Per Schedule C-2.5, line 5
5	Staff reduction of annual severance costs (See Note 1.)	$	(320)	Line 3 divided by line 4.

Note 1.	Distribution of Operating Statement Adjustment:			
	Account 920	$	(320)	Response to AG 1.22, Attach 1
	Account 926		0	Response to AG 1.22, Attach 1
	Total	$	(320)	

Commonwealth Edison Company
Adjustment To Reduce Miscellaneous General Expenses - Directors' Fees and Expenses
For the Test Year Ending December 31, 2009
(In Thousands)

Line No.	Description	Amount		Source
(a)	(b)	(c)		(d)
	Operating Statement Adjustment:			
1	Directors' Fees and Expenses per Staff	$	312	Line 9
2	Directors' Fees and Expenses per Company		625	Line 6
3	Staff Adjustment to Reduce Administrative and General Expense	$	(312)	Line 1 minus line 2
Calculations:				
4	Directors' Fees and Expenses	$	705	Per Schedule C-21, page 1 of 2, line 10, col. (D)
5	Jurisdictional percent		88.60%	Per Schedule C-21, page 1 of 2, Note (2)
6	Jurisdictional amount reflected on Schedule C-21, line 15, col. (E)	$	625	Line 4 multiplied by line 5
7	Staff proposed percentage reduction to jurisdictional amount in Note 1		50.00%	ICC Staff Ex. 3.0
8	Staff reduction to jurisdictional amount on line 6	$	312	Line 6 multiplied by line 7
9	Staff proposed jurisdictional amount of Directors' Fees and Expenses	$	312	Line 6 minus line 8

Commonwealth Edison Company
Adjustment To Reduce Administrative and General Expenses - Corporate Aircraft Costs
For the Test Year Ending December 31, 2009
(In Thousands)

Line No.	Description	Amount	Source
(a)	(b)	(c)	(d)
	Operating Statement Adjustment:		
1	Corporate Aircraft Costs per Staff	$ -	ICC Staff Exhibit 3.0
2	Corporate Aircraft Costs per Company	874	Line 7, below
3	Staff Adjustment to Reduce Administrative and General Expense	$ (874)	Line 1 minus line 2

Calculations:

4	Corporate aircraft costs directly charged to ComEd in 2009	$ 8	Response to AG-6.07
5	Corporate aircraft costs allocated to ComEd in 2009	918	Response to AG-6.07
6	Less: portion excluded in executive salaries	(52)	Response to AG-6.07
7	Total corporate aircraft costs charged to ComEd in 2009	$ 874	Sum of lines 4 through 6

Docket No. 10-0467
ICC Staff Exhibit 3.0
Schedule 3.09

Commonwealth Edison Company
Adjustment To Remove 2005 Pension Contribution Funding Costs
For the Test Year Ending December 31, 2009
(In Thousands)

Line No.	Description	Amount	Source
(a)	(b)	(c)	(d)
	Operating Statement Adjustment:		
1	Regulatory Debit - 2005 Pension Contribution Funding Costs per Staff	$ -	ICC Staff Exhibit 3.0
2	Regulatory Debit - 2005 Pension Contribution Funding Costs per Company	25,078	Schedule C-2.3, line 7, column (D)
3	Staff Adjustment to Reduce Regulatory Debits	$ (25,078)	Line 1 minus line 2

Commonwealth Edison Company
Adjustment To Remove Pro Forma 2010 Pension and OPEB Increase
For the Test Year Ending December 31, 2009
(In Thousands)

Line No. (a)	Description (b)	Amount (c)	Source (d)
	Rate Base Adjustment:	Dr/(Cr)	
1	Accumulated Deferred Income Taxes Per Staff	$ -	ICC Staff Exhibit 3.0
2	Accumulated Deferred Income Taxes Per Company	3,952	Schedule B-2, Page 1, line 11, column (D).
3	Staff Adjustment to Remove Associated Accumulated Deferred Income Taxes ("ADIT")	$ (3,952)	Line 1 minus line 2
	Operating Statement Adjustment:		
4	Pro Forma Adjustment to reflect 2010 Pension and OPEB Increase, per Staff	$ -	ICC Staff Exhibit 3.0.
5	Pro Forma Adjustment to reflect 2010 Pension and OPEB Increase, per Company	9,943	Schedule C-2.2, line 5, column (H).
6	Staff Adjustment to Reduce Administrative and General Expenses	($9,943)	Line 4 minus line 5.
7	Accumulated Deferred Income Taxes Per Staff	$ -	ICC Staff Exhibit 3.0.
8	Accumulated Deferred Income Taxes Per Company	(3,952)	Schedule C-2.2, line 9, column (H).
9	Staff Adjustment to Reflect Associated Accumulated Deferred Income Taxes ("ADIT")	$ 3,952	Line 4 minus line 5
10	Combined Operating Expense Reduction Per Staff - Removal of 2010 Pension and OPEB Increase	$ (5,991)	Line 3 plus line 6

Commonwealth Edison Company
Adjustment to Cash Working Capital
For the Test Year Ending December 31, 2009
(In Thousands)

Line	Item (a)	Amount (b)	Lag (Lead) (c)	CWC Factor (d) (c/365)	CWC Requirement (e) (b*d)	Column C Source (f)
1	Revenues	$ 1,378,503	47.700	0.13068	$ 180,150	Schedule 3.11, Page 2, column b, line 7
	Collections of Pass-through Taxes:					
2	Energy Assistance/Renewable Energy	40,584	0.00000	0.00000	-	Company Schedule B-8, Page 1, Column E, Line 34
3	Gross Receipts/Muni Utility Tax	209,867	0.00000	0.00000	-	Company Schedule C-18, Page 1, Column B, Line 17
4	Illinois Excise Tax	251,725	32.490	0.08901	22,407	Company Schedule C-18, Page 1, Column B, Line 18
5	City of Chicago Infrasatructure Maintenance Fee	87,942	32.490	0.08901	7,828	Company Schedule B-8, Page 1, Column E, Line 37
6	Total Receipts	$ 1,968,621			210,385	Lines 1 through 5
7	Base Payroll and Withholdings	261,467	(14.640)	(0.04011)	(10,487)	Schedule 3.11, Page 3, Column b, Line 5
8	Employee Benefits - Pension & OPEB	176,288	(14.640)	(0.04011)	(7,071)	Schedule 3.11, Page 3, Column b, Line 16
9	Employee Benefits - Amort. Of Sever.		0.000	0.00000	-	
10	Employee Benefits - Other		(5.120)	(0.01403)	-	
11	Inter-Company billings - Less Pass-throughs	99,668	(64.340)	(0.17627)	(17,569)	Schedule 3.11, Page 2, Column b, Line 12
12	Inter-Company billings - Pass-throughs	45,911	(64.340)	(0.17627)	(8,093)	Schedule 3.11, Page 2, Column b, Line 13
13	Property Leases	25,645	(7.820)	(0.02142)	(549)	Company Schedule B-8, Page 1, Column E, Line 15
14	Other Operations and Maintenance Expenses	179,218	(64.340)	(0.17627)	(31,591)	Schedule 3.11, Page 2, Column b, Line 19
15	Property/Real Estate Tax	12,124	(383.960)	(1.05195)	(12,754)	Company Schedule C-18, Page 1, Column C, Line 5
16	FICA Tax	17,283	(14.640)	(0.04011)	(693)	Schedule 3.11, Page 3, Column b, Line 12
17	Federal Unemployment Tax	172	(75.630)	(0.20721)	(36)	Company Schedule B-8, Page 1, Column E, Line 19
18	State Unemployment Tax	337	(75.630)	(0.20721)	(70)	Company Schedule B-8, Page 1, Column E, Line 20
19	Electricity Distribution Tax	101,745	(29.630)	(0.08118)	(8,259)	Company Schedule C-18, Page 1, Column C, Line 6
20	State Franchise Tax	1,728	(177.500)	(0.48630)	(840)	Company Schedule C-18, Page 1, Column C, Line 11
21	City of Chicago Dark Fiber Tax	83	(75.630)	(0.20721)	(17)	Company Schedule C-18, Page 1, Column C, Lines 12 + 14
22	State Public Utility Fund Tax	3,848	(6.520)	(0.01786)	(69)	Company Schedule C-18, Page 1, Column C, Line 7
23	Illinois Sales and Use Tax	385	(45.130)	(0.12364)	(48)	Company Schedule C-18, Page 1, Column C, Line 9
24	Chicago Sales and Use Tax	293	(30.290)	(0.08299)	(24)	Company Schedule C-18, Page 1, Column C, Line 10
25	Interest Expense	235,047	(91.020)	(0.24937)	(58,614)	Schedule 1.05, Column b, Line 3
26	State Income Tax	30,359	(37.880)	(0.10378)	(3,151)	Schedule 1.01, Column i, Line 19
27	Federal Income Tax	62,401	(37.880)	(0.10378)	(6,476)	Schedule 1.01, Column i, Line 20
	Payments of Pass-through Taxes					
28	Energy Assistance/Renewable Energy	40,584	(35.210)	(0.09647)	(3,915)	Company Schedule B-8, Page 1, Column E, Line 34
29	Gross Receipts/Municipal Utility Tax	209,867	(44.210)	(0.12112)	(25,420)	Company Schedule C-18, Page 1, Column B, Line 17
30	Illinois Excise Tax	251,725	13.300	0.03644	9,172	Company Schedule C-18, Page 1, Column B, Line 18
31	City of Chicago Infrastructure Mainenance Fee	87,942	(28.430)	(0.07789)	(6,850)	Company Schedule B-8, Page 1, Column E, Line 37
32	Total Outlays	$ 1,582,653			$ (193,424)	Sum of Lines 7 through 31
33	Cash Working Capital per Staff				$ 16,961	Line 6 plus line 32
34	Cash Working Capital per Company				95,736	ComEd Schedule B-8, Page 1, Column (H), Line 46
35	Difference -- Adjustment per Staff				$ (78,775)	Line 33 minus Line 34

Commonwealth Edison Company
Adjustment to Cash Working Capital
For the Test Year Ending December 31, 2009
(In Thousands)

Line	(a)	Amount (b)	Source (c)
1	Total Operating Revenues	$ 2,115,829	Schedule 1.01 , Column i, Line 5
2	Purchased Power	-	
3	Uncollectible Accounts	(31,037)	Schedule 1.01 , Column i, Line 6
4	Depreciation & Amortization	(386,848)	Schedule 1.01 , Column i, Line 12
5	Return on Equity	(313,882)	Line 10 below
6	Regulatory Debits	(5,559)	Line 19 below
7	Total Revenues for CWC calculation	$ 1,378,503	Sum of Lines 1 through 6
8	Total Rate Base	$ 6,663,284	Schedule 1.03, Column d, Line 23
9	Weighted Cost of Capital	4.71%	Schedule 4.1
10	Return on Equity	$ 313,882	Line 8 times Line 9
11	Operating Expense Before Income Taxes	$ 1,357,406	Schedule 1.01, Column i, Line 18
12	Intercompany billings - Less Pass-throughs	(99,668)	ComEd Schedule B-8, Page 1, Column (E), Line 13
13	Intercompany billings - Pass-throughs	(45,911)	ComEd Schedule B-8, Page 1, Column (E), Line 14
14	Employee Benefits Expense	(176,288)	Schedule 3.11, Page 3, Column b, Line 16
15	Payroll Expense	(261,467)	Schedule 3.11, Page 3, Column b, Line 5
16	Uncollectible Accounts	(31,037)	Schedule 1.01, Column i, Line 6
17	Depreciation & Amortization	(386,848)	Schedule 1.01 , Column i, Line 12
18	Property Leases	(25,645)	ComEd Schedule B-8, Page 1, Column (E), Line 15
19	Regulatory Debits	(5,559)	Schedule 1.01, Column i, Line 14
20	Taxes Other Than Income	(145,765)	Schedule 1.01 Column i, Line 13
21	Other Operations & Maintenance for CWC Calculation	$ 179,218	Sum of Lines 11 through 20

Commonwealth Edison Company
Adjustment to Cash Working Capital
For the Test Year Ending December 31, 2009
(In Thousands)

Line	Description (a)		Amount (b)	Source (c)
1	Direct O & M Payroll per Company	$	299,076	Schedule C-11.1, Page 1, line 8, column (B)
2	less: Power Production payroll		(1,090)	Schedule C-11.1, Page 1, line 2, column (B)
3	less:Transmission payroll		(28,463)	Schedule C-11.1, Page 1, line 8, column (B)
4	less: Pro forma 2010 salary and wage increase		(8,056)	Sched. 3.03, Note 1, column (C)
5	less: Incentive Compensation disallowed		(11,965)	Sched. 3.04, lines 3,6,9, and 12, col. (C)
6	less: Perquisites and Awards disallowed		(3,495)	Sched. 3.05, line 3, col. (C)
7	less: Severance expenses disallowed		(280)	Note 1., line 18
8	Direct Payroll per Staff	$	261,467	Sum of Lines 1 through 7
9	FICA Taxes	$	19,089	Schedule C-18, Page 1, Column (C), Line 8
10	less: Pro forma 2010 salary and wage increase		(753)	Sched. 3.03, Note 1, column (C)
11	less: Incentive Compensation disallowed		(1,053)	Sched. 3.04, Line 18, column (C)
12	FICA Tax	$	17,283	Sum of Lines 9 through 11
13	Employee Benefits per Company	$	186,231	Schedule C-11.3, line 10, column (D)
14	less: 2010 pension/OPEB increase		(9,943)	Sched. 3.10, Line 6, column (C)
15	Employee Benefits per Staff	$	176,288	Sum of Lines 13 through 14
Note 1. Cash portion of severance costs disallowed:				
16	Remove cost of Cash Incentive Compensation Benefits	$	(841)	Sched. 3.06, line 1, col. (C)
17	Period of amortization for severance costs (in years)		3	Sched. 3.06, line 1, col. (C)
18	Staff reduction of annual severance costs (cash portion)	$	(280)	Line 16 divided by line 17