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Use of Blanket Projects to Manage Core Work

trends, productivities, problem areas, and opportunities to improve. It also helps ensure the proper accounting treatment for the costs of the materials and labor.

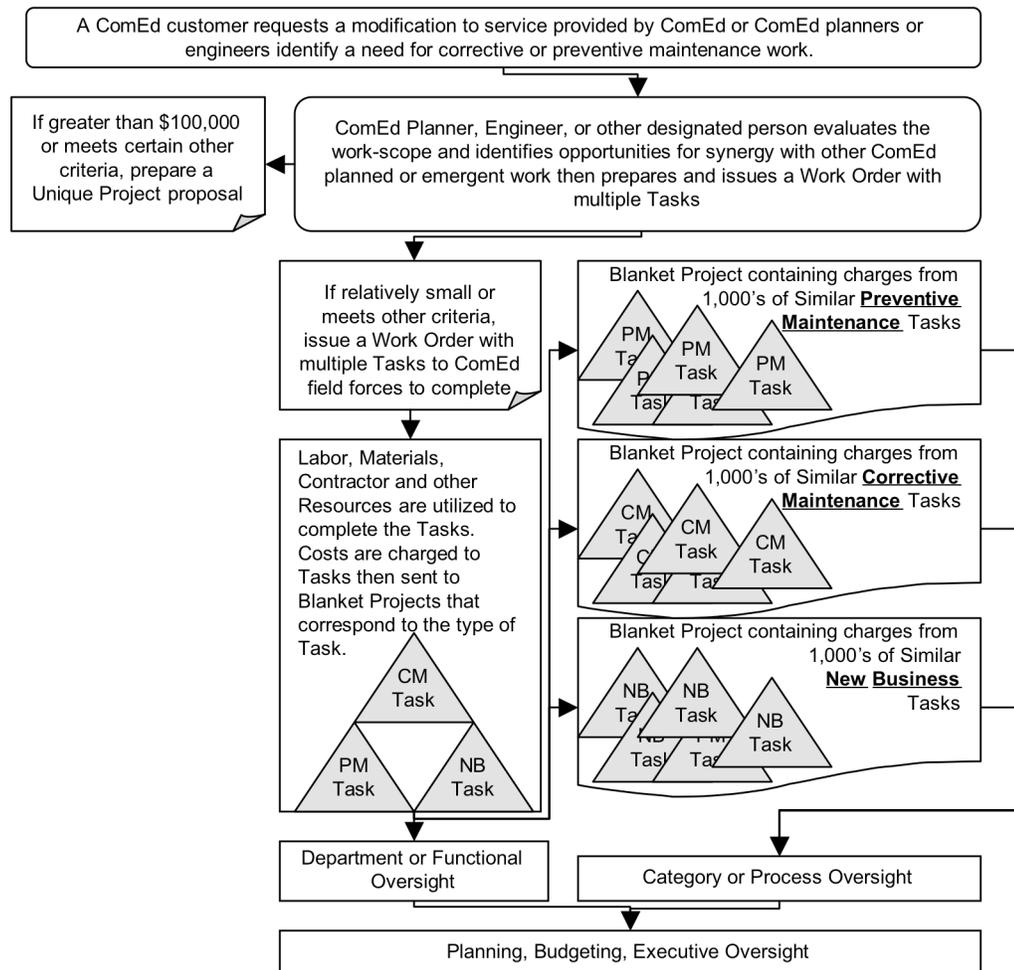


Figure 2: Illustrative diagram showing how Work Orders are comprised of Tasks, Blanket Projects contain charges from 1,000's of Tasks, and ComEd oversight utilizes multiple views of its costs in planning and budgeting activities.

Cost Management

Multiple Views

ComEd views its cost structure from many different perspectives to ensure early detection of problems and opportunities.

Three key views of its cost structure are:

- Resource View – This includes categories of cost such as:
 - Salaries and Wages
 - Overtime
 - Contracting
 - Materials, and Supplies

- Department or Functional View – This includes categories of cost such as:
 - Construction and Maintenance

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- Dispatch and Field Operations

 - Engineering

 - Customer Contact Center

 - Category View – This includes categories of cost such as:
 - New Business Connections

 - Corrective Maintenance

 - Capacity Expansion

 - Preventive Maintenance

The Category View is enabled by ComEd's use of Work Orders that include specific Tasks that are charged to Blanket Project accounts. Only Distribution Tasks are charged to Blanket Project accounts. Neither Transmission nor Substation Tasks are charged to Blanket Project accounts.

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Tens of thousands of Distribution Tasks were charged to approximately 400 Blanket Project accounts during the period 2005 through 2006. Approximately \$770 million of capital costs were charged to those 400 Blanket Project accounts to complete tens of thousands of, low-cost, repetitive Tasks. Of that amount, approximately \$562 million of capital costs were charged to the twenty largest Blanket Project accounts.

Specifically, the \$562 million of capital costs charged to the twenty largest Blanket Project accounts may be categorized as charges for the following types of Tasks:

- \$286 million to modify or provide service to re-locating or new residential and commercial customers
- \$182 million to perform corrective maintenance on the underground and overhead distribution system
- \$86 million to purchase new electric meters and overhead distribution transformers
- \$8 million to meet relocation requirements of municipalities outside of Chicago in 2005

Additional details of those costs are provided later this report.

Functional and Process Accountability

ComEd's multiple views of its cost structure provide departmental or *functional*, as well as Category or *process*, control of its use of resources. It ensures that priorities are set within the context of the needs of the entire Company and not just within isolated departments. It further ensures that evolving trends, or problems and opportunities are widely shared across the Company, which improves coordination and the speed and durability of solutions and innovation.

- The *functional* control comes from ComEd's organization structure in which managers are responsible for the resources used by their individual departments, such as managers of construction and maintenance departments in various ComEd locations including Chicago, Joliet, Aurora, Glenbard, Libertyville, Oak Brook, University Park, and Rockford. These managers are accountable for prudent and efficient use of labor, material, and contract resources for work performed by their respective departments. The work they perform may be within one or several work categories such as New Business, Corrective Maintenance, Capacity Expansion, and Preventive Maintenance.
 - The *process* control comes from ComEd's use of Category Owners such as managers designated as Category Owners for; 1) New Business, 2) Corrective Maintenance, 3) Capacity Expansion, and 4) Preventive Maintenance and others. These managers are accountable across geographic and functional
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boundaries for the prudent and efficient use of labor, material, and contract resources for work performed within the Category of work for which they have been designated the Owner, regardless of which department or location is performing the work. Additionally, these categories of work are also budget categories through which Senior Management manages costs.

This multiple view of costs and use of both *functional* and *process* accountability compares favorably with industry practice.

Financial Policies and Controls

ComEd managers establish new Blanket Project accounts when they see a need to specifically and at a high-level, evaluate, plan, and manage the work separately from other work. ComEd managers and financial analysts who establish a Blanket Project account, first survey the type of work to be performed that will be charged to the Blanket Project account. They identify the split or percent of work that should be expensed, the percent that should be capitalized, and the percent that represents assets removed from service. As Tasks are charged into the Blanket Project account, the costs are then allocated in accordance with this survey, to expense, capital, or removal based on those percentage splits.

To ensure that capitalizing costs meets the requirements of the Illinois Commerce Commission and the Federal Energy Regulatory

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Commission, and various accounting conventions including Generally Accepted Accounting Practices, ComEd maintains a Property Unit Catalog to provide guidance for accounting for additions, replacements, removal, and repair of its electric infrastructure.

Category Owners submit their analyses of the percentage splits to ComEd financial managers who review and validate the accounting split. Category Owners are responsible for assuring that charges to the Blanket Project accounts within their category are reviewed and periodic corrections made if needed.

Further, Category Owners are responsible for initiating the process of revising the splits if work processes change such that the splits do not accurately reflect the nature of the work performed. The Category Owners also look to identify evolving trends and makes recommendation for programs and funding.

Additionally, ComEd's Financial Analysis Department has conducted formal, annual, account validations for all of the largest twenty Blanket Project accounts cited in this report.

Additional Detail of the Top 20 Blanket Project Accounts

Tens of thousands of Tasks were charged to approximately 400 Blanket Project accounts during the period 2005 through 2006. Approximately \$770 million of capital costs were charged to those 400 Blanket Project accounts to complete tens of thousands of, low-cost, repetitive Tasks. Of that amount, approximately \$562 million were charged to the twenty largest Blanket Project accounts. Specifically, the \$562 million capital charges were as follows:

- \$286 million to modify or provide service to re-locating or new residential and commercial customers:
 - \$182 million to modify or provide service to re-locating or new residential customers. This work included the following Blanket Project accounts:
 - \$117 million for residential underground services outside of Chicago (Project ID: EORNEWUS)
 - \$34 million for residential overhead services outside of Chicago (Project ID: EORNEWAS)

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- \$21 million for residential overhead services inside Chicago (Project ID: ECRNEWAS)

 - \$10 million for residential underground services inside of Chicago (Project ID: ECRNEWUS)

 - \$104 million to modify or provide service to re-locating or new commercial customers. This work included the following Blanket Project accounts:
 - \$41 million for new commercial underground service outside of Chicago (Project ID: EOCNEWUS)

 - \$29 million for new commercial overhead service outside of Chicago (Project ID: EOCNEWAS)

 - \$22 million for new commercial underground service inside of Chicago (Project ID: ECCNEWUS)

 - \$12 million for new commercial overhead service inside Chicago (Project ID: ECCNEWAS)
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- \$182 million to perform corrective maintenance on the distribution system as follows:
 - \$126 million for emergency replacement of underground distribution cable and equipment that required immediate replacement for reasons such as safety, restoring service to customers, or returning the system to a normal operating configuration. This work included the following Blanket Project accounts:
 - \$57 million for emergency underground repairs of faulted cable (Project ID: MCCBLF)
 - \$27 million for emergency underground cable replacement inside Chicago (Project ID: BCMD003C)
 - \$23 million for emergency replacement of underground equipment outside of Chicago (Project ID: RPLUGOC)
 - \$19 million for emergency cable replacement outside of Chicago. Please note that this figure includes two separate Blanket Project accounts. One account has replaced the other to provide
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consistent nomenclature. (Project ID: EB1020 has been replaced by BCMD003S)

- \$56 million generally used for emergency replacement of overhead distribution components that required immediate replacement for reasons such as safety, restoring service to customers, or returning the system to a normal operating configuration. This work included the following Blanket Project accounts:
 - \$26 million for emergency replacement of overhead equipment outside of Chicago (Project ID: RPLOHOC)
 - \$11 million for emergency property unit replacement outside of Chicago (Project ID: BCMD004S)
 - \$10 million for corrective maintenance of distribution circuits outside of Chicago (Project ID: MCOH4K)
 - \$9 million for emergency replacement of overhead equipment inside Chicago (Project ID: RPLOHIC)
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- \$86 million to purchase new electric meters and overhead distribution transformers. This work included the following Blanket Project accounts:
 - \$67 million to purchase new overhead distribution transformers (Project ID: OVHTR9)
 - \$19 million to purchase new electric meters (Project ID: CSFM99)

 - \$8 million to relocate electric distribution facilities. This work included the following Blanket Project accounts:
 - \$8 million to meet relocation requirements of municipalities outside of Chicago in 2005 (Project ID: BFRMNO5S)
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Conclusions

PDR&C reviewed ComEd's use of "Blanket Project" accounts in terms of the role of those accounts in the management of core work and concluded the following:

- ComEd's use of Blanket Project accounts is consistent with utility industry practices to ensure high visibility to management of relatively low cost, repetitive work that is consistently performed year after year.
 - ComEd ensures consistent application of capitalization policies, with respect to Blanket Project accounts, through systematic and regular reviews and oversight.
 - Blanket projects are appropriate for use by ComEd field forces to account for work that they perform every day to modify, replace, and extend its distribution system.
 - ComEd's use of Blanket Projects provides higher management visibility, improves planning, budgeting and financial controls that helps to maximize the efficiency and management of core work.
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