STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY	:	
	:	No. 10-0467
Proposed general increase in electric rates	:	

Rebuttal Testimony of

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Operations

Commonwealth Edison Company

List of Issues & Major Conclusions

Pro Forma Plant Additions

- ComEd knows with reasonable certainty that investments reflected in the *pro forma* adjustment will be made as scheduled. They should be included in rate base without adjustment or disallowance.
- ComEd's *pro forma* additions are not based on budgets or "checkbook" processes, as Ms. Ebrey claims, but on engineering evaluations of specific investments.
- Where changes are made to project plans, they occur because specific changes affecting ComEd's system have altered the investment priorities and ComEd has responded by investing in the higher priority work. In many cases this is driven by our customers and/or government entities. The fact that we adapt as we should is not indicative of any flaw in our work scheduling process, or of any uncertainty in the overall work schedule.
- Voluminous data, including status reports, designs, workplans, contracts, work orders, and the actual plant itself supports ComEd's proposed *pro forma* additions. My testimony includes much of that data. More was made available in ComEd's data room.

Incentive Compensation

- Incentive metrics tied to cost savings benefit customers, as the Commission has repeatedly recognized. Efforts to disallow such compensation in this case is contrary to prior decisions and unfairly prevents ComEd from relying on longstanding Commission decisions.
- The Focused Initiatives directly improved reliability and service to customers. The operational targets reflected those benefits.

Other Rate Base Disallowances

- The underground cable included in rate base is used and useful and was acquired and placed in service reasonably.

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I. Introduction

A. Identification of Witness

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

A. My name is Terence R. Donnelly. My business address is 2 Lincoln Centre, 10th Floor, Oakbrook Terrace, Illinois 60181.

Q. **Are you the same Terence R. Donnelly who has previously submitted testimony on behalf of Commonwealth Edison Company ("ComEd") in this Docket?**

A. Yes, my direct testimony is ComEd Exhibit ("Ex.") 8.0 and my supplemental direct testimony is ComEd Ex. 20.0.

B. Purposes of Testimony and Summary of Conclusions

Q. **What are the principal purposes of your rebuttal testimony?**

A. My testimony addresses three topics: ComEd's *pro forma* capital additions, incentive compensation metrics directly tied to operational performance and cost savings that directly benefit customers, and the propriety of underground cable assets included in rate base.

1. *Pro Forma* Capital Additions

Q. **To what testimony concerning *pro forma* capital additions do you respond?**

A. I respond to the testimonies of Staff witness Ebrey (Ebrey Dir., Staff Ex. 1.0) and AG/CUB witnesses Effron (Effron Dir., AG/CUB Ex. 2.0) and Brosch (Brosch Dir., AG/CUB Ex. 1.0) about ComEd's *pro forma* adjustment for plant to be placed in service by June 30, 2011. Ms. Ebrey claims that ComEd should not be allowed to include 9 months of *pro forma* capital additions in rate base – every dollar ComEd will invest in

iron in the ground, intangible plant, and general plant between October 1, 2010[1] and June 30, 2011.[2] Mr. Effron advises the Commission to deny recovery for all investment between April 1 and June 30, 2011.[3] He also advises the Commission to reduce the *pro forma* investment amount by $56.9 million for jurisdictional General Plant and $30.0 million for jurisdictional Intangible Plant, until actual amounts as of March 31, 2011 are known.[4]

Contrary to claims made by these witnesses, ComEd knows with reasonable certainty that investments reflected in the *pro forma* adjustment will be made. ComEd's scheduled *pro forma* plant additions are based, not on budgets, but on engineering evaluations of investments that should be made and the priorities associated with them. Unique projects are evaluated and their workplans are developed individually, while blanket programs represent the baseline routine investment activities that ComEd must – with certainty – complete in order for ComEd to continue to provide basic service. Where changes are made to projects, they occur because specific changes affecting ComEd's system have altered the investment priorities and ComEd has responded by investing in the higher priority work. This is expected because ComEd is dealing with a dynamic system and evolving needs. And, it is not, as Ms. Ebrey believes, "budget-based" management. Every project and every revision remains individually justified on an engineering and operational basis, and reviewed by management at a level appropriate

[1] Ms. Ebrey will presumably update her proposed disallowance to reflect ComEd's updated *pro forma* showing capital additions that have been placed in service as of October 31, 2010.

[2] Ebrey Dir., Staff Ex. 1.0, 6:105-08.

[3] Effron Dir., AG/CUB Ex. 2.0, 4:89-90.

[4] *Id.*, 8:169-74.

to its size and nature. No one at ComEd simply spends up to a budget or has an open "checkbook" from which investments can be made.

Q. **Based on the latest and best data available, what plant will ComEd place in service by June 30, 2011?**

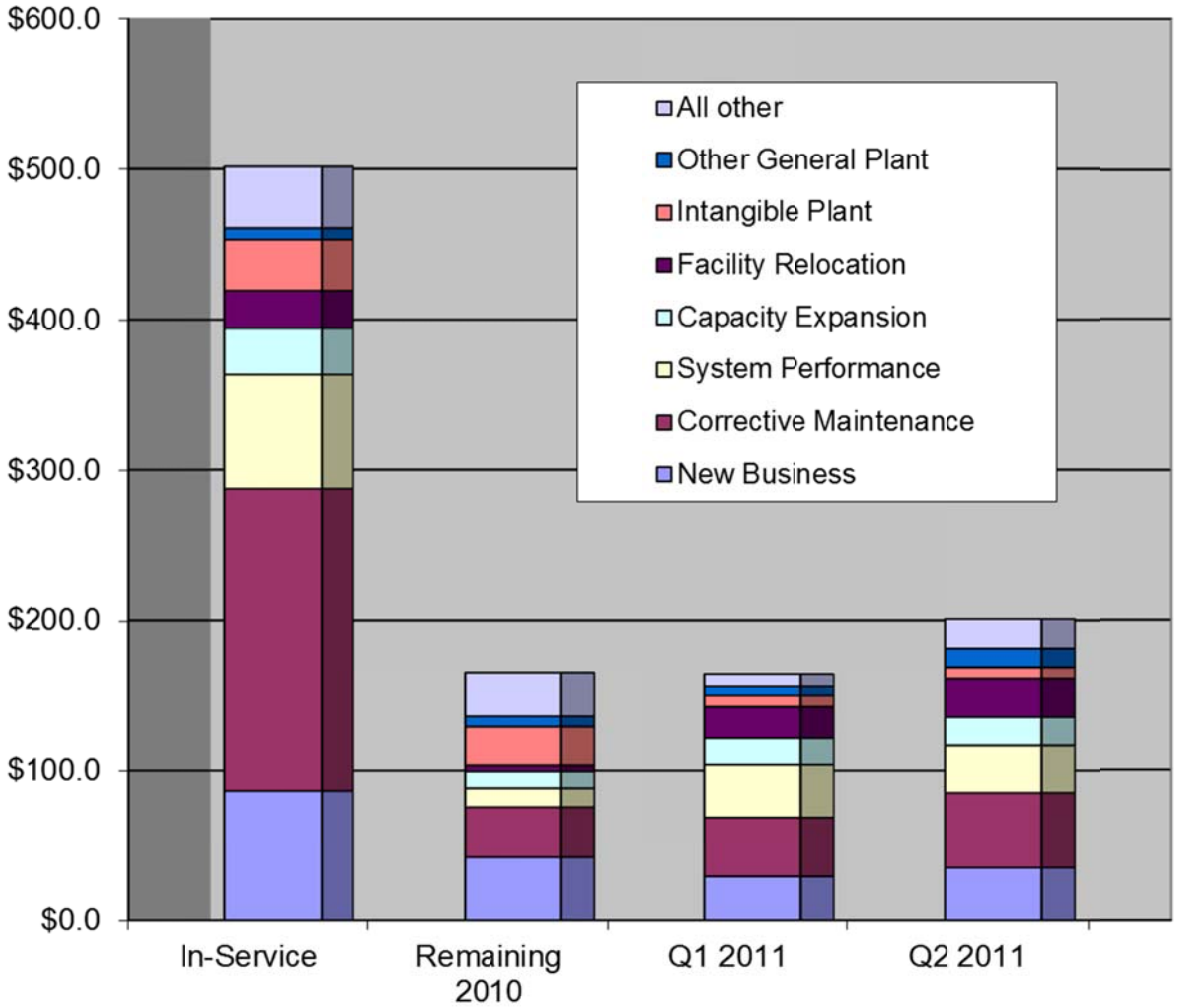
A. ComEd made $501.6 million in plant[5] additions between January 1, 2010 and October 31, 2010, as shown on ComEd Ex. 32.1. That plant is already in service. It is used and useful now and serving customers. There is no question about it being known and measurable. This plant should be reflected fully in rate base.

ComEd also has work scheduled and in the pipeline. We are reasonably certain to place an additional $529.0 million of total jurisdictional plant – iron in the ground, intangible plant, and general plant – in service between November 1, 2010 and June 30, 2011. These are real assets, most of which are in the process of being built. For example, the picture at right of the conduit installation associated with the Dearborn 12kV Feeder Tie Project is an example of work that is underway and will be

[5] By "plant," I mean plant used for the distribution function, unless I clearly say otherwise. "Rate base" and "revenue requirement" also refer to distribution-related values, unless I clearly say otherwise.

placed in service by the end of the *pro forma* period, but which Staff and the AG would characterize as an investment that is not "known and measurable." The value of ComEd's *pro forma* investment is derived from our detailed knowledge of the specific work and the processes for approving and managing it. It is also consistent with our actual monthly rate of placing plant in service of over $50 million; and our confidence in our workplans is supported by our history of accurate work scheduling. These investments are also shown on ComEd Ex. 32.1.

All of these plant additions are shown graphically on the chart below:



***Pro forma* Plant Investment January 1, 2010 – June 30, 2011**

Q. **How does the certainty and reality of ComEd's *pro forma* additions compare to the disallowances proposed by others?**

A. ComEd's *pro forma* additions are based on engineering, construction, and operations data, and on extensive experience with billions of dollars of system investments. The workplans are realistic and based on actual data. We know what work is scheduled to be completed. We know why that work is necessary. Also, based on decades of experience, we know under what limited conditions specific work items will be postponed to accommodate more important, specific types of emergent work. There is nothing unrealistic, unknown, or hypothetical about our investments.

By contrast, the proposals made by Ms. Ebrey and Messrs. Effron and Brosch (none of whom have any engineering or operating experience) are not just unrealistic but are directly contradicted by both history and what we know with absolute certainty about utility operations. The notion that ComEd will place no plant in service in one or more quarters is simply impossible to reconcile with reality. Such a hypothesis cannot be squared with data made available to parties, nor with the indisputable fact that investments are being made every day to serve our customers at the rate of tens of millions of dollars each month. This view is also inconsistent with the reasonableness and accuracy of ComEd's past and current *pro forma* forecasts, as confirmed by the testimony of Mr. Robert ("Bill") Donohue (ComEd Ex. 34.0) of Power Delivery Research & Consulting Corp. ("PDR&C").

Q. **How is your discussion of ComEd's *pro forma* additions to rate base organized?**

A. This section of my testimony is arranged into three parts. First, in **Section II.A** of my testimony, I explain why we know with a high degree of certainty that ComEd will make the scheduled investments and why the disallowances proposed by Ms. Ebrey, Mr. Effron, and Mr. Brosch are unsupported and inconsistent with past experience. Second, in **Section II.B**, I explain why ComEd's method of scheduling and managing its plant additions means that those additions are known and measurable beyond a "reasonable" certainty. Finally, in **Section II.C**, I delve into the detailed engineering and work management data for the *pro forma* projects, focusing on the investments not already in service. This data not only substantiates my conclusions, including that our *pro forma* additions are known and measureable, but it also disproves the notion that our workplans are based on "budgets."

2. <u>Incentive Compensation Benefitting Customers</u>

Q. **To what testimony concerning incentive compensation do you respond?**

A. I respond to claims by Staff witness Ms. Bonita Pearce (Pearce Dir., Staff Ex. 2.0) and AG-CUB witness Mr. Ralph Smith (Smith Dir., AG-CUB Ex. 3.0) that incentive compensation metrics that reward cost savings do not benefit customers. Incentives to reduce ComEd's Operations and Maintenance ("O&M") costs, to reduce the costs of its capital investments, and to achieve excellent operational performance directly benefit customers. Their proposed disallowances are directly contrary to the Commission's repeated pronouncements of the appropriate metrics that allow for recovery of incentive compensation costs. In particular, Ms. Pearce's effort to disallow incentives aimed at reducing ComEd's costs of service are contrary to Commission rulings in the last three ComEd rate cases and to the Commission's express statement that "we see no reason to

waver." Ms. Pearce's position defies repeated Commission decisions and directly conflicts with the Commission's factual findings concerning the recovery of these very same costs. ComEd, in good faith, relied upon these prior Commission directions to modify its incentive programs accordingly, and should not be denied recovery of these costs.

3. Underground Cable Serving Customers

Q. **To what testimony concerning underground cable assets do you respond?**

A. Ms. Ebrey and Mr. Effron propose to exclude $18.7 million in underground cable assets that are being used to serve customers from ComEd's rate base. The only reason they point to for this disallowance is that the Commission excluded those assets from rate base in ComEd's 2007 Rate Case[6] because it found that ComEd had not provided an adequate explanation of its cost -- which is not a reason to exclude it indefinitely. In this case, Ms. Houtsma provides additional facts focused on the concerns the Commission had. I verify that ComEd's rate base contains only underground cable assets that are prudently deployed and are used and useful in serving customers. Together, with Ms. Houtsma's data, this warrants restoring these assets to rate base.

* * * * *

Q. **Are there any other subjects addressed in your direct testimony that are now being addressed by other witnesses on rebuttal?**

A. Yes. My direct and supplemental direct testimonies authenticated ComEd's distribution loss study. More detailed questions have been posed about that study. Those questions

[6] *Commonwealth Edison Co.*, ICC Docket No. 07-0566 (Order, Sept. 10, 2008). I refer to this decision as the "2007 Rate Case".

are addressed by the testimony (Born Reb., ComEd Ex. 34.0) of one of our senior engineers, Mr. Michael Born, who is expert in this area. In addition, several other witnesses, including Drs. O'Connor and Hemphill, Ms. Houtsma, and Messrs. Guerra, McMahan, Donohue, and Trpik also address aspects of the topics on which I testify.

C. <u>List of Exhibits</u>

Q. **What exhibits are submitted with your rebuttal testimony?**

A. ComEd Ex. 32.1 is a chart showing the plant investments that ComEd has made from the end of the 2009 test year through October 31, 2010, by Investment Tracking Number (or "ITN"). ComEd Ex. 32.1 also shows the investments included in the last 8 months of ComEd's *pro forma* adjustment.

Attached to my testimony as ComEd Ex. 32.2 is a collection of ComEd's business records documenting the planning, design, construction, work management, and status of plant additions that ComEd will place in service by June 30, 2011. Because of their very large volume (approximately 2.3 gigabytes of material with over 52,000 pages in 10,423 files and 1,064 folders), this exhibit is provided in electronic format. While ComEd adequately supported its proposed *pro forma* plant additions adjustment in its initial filing, ComEd is submitting these materials to demonstrate the certainty and status of that work. This documentation also exceeds in both scope and detail the **spreadsheet evidence** of *pro forma* plant additions that Staff accepted and the Commission approved in the recent Ameren Illinois rate case.[7]

[7] *Central Illinois Light Company d/b/a AmerenCILCO, et al.*, Docket Nos. 09-0609 through 06-0611 (Cons.), p.12 (Order, April 29, 2010).

Attached to my testimony as ComEd Ex. 32.3 is a copy of the standards ComEd's planning engineers use to evaluate the need for capacity expansion.

Attached to my testimony as ComEd Ex. 32.4 is the November 7, 2010 Summer Critical Project Status Report.

Finally, I note that all of my conclusions are also summarized in bullet point form in the List of Issues & Major Conclusions that precedes the Table of Contents to this testimony.

II. ***Pro Forma* Additions to Rate Base**

Q. **What *pro forma* additions to plant should be included in rate base?**

A. $1,030.6 million of additions to plant have gone, or will by June 30, 2011, go into service. When these additions were first proposed, the majority of the 2010 plant additions were still in the future; almost half (49%) are now in service. From January 2010 through October 2010, ComEd has placed in service $501.6 million of distribution-related plant. The remaining scheduled plant additions are supported by detailed and reliable data. In many cases, work has already begun; in others, a completion date is inherent in the project itself. These scheduled additions are reasonably certain to occur in the amount projected.

A. ComEd's Scheduled *Pro Forma* Plant Additions Should be Included in Rate Base

Q. **What witnesses contest ComEd's proposed *pro forma* additions?**

A. Staff witness Theresa Ebrey (Staff Ex. 1.0) proposes to disallow 100% of ComEd's *pro forma* plant additions to be placed in service after September 30, 2010. Ms. Ebrey principally claims that because ComEd necessarily responds to system changes and

emergent needs that occur constantly, ComEd's aggregate *pro forma* additions cannot be "known and measurable."[8] Ms. Ebrey incorrectly believes that because ComEd may reprioritize some portion of this work in response to these changes, ComEd must plan and manage its work using a budget-driven or "checkbook" process.

AG/CUB witnesses Michael Brosch and David Effron express inconsistent views on the *pro forma* additions. Mr. Effron would disallow only the final three months of plant additions, *i.e.*, those occurring after March 31, 2011.[9] His claim is, without any reference to the detailed work plans and other information produced by ComEd, that "Any forecast of future expenses or capital spending must necessarily rely on judgment and estimates" and that the "further into the future the forecasts extend, the less reliable they are." However, he accepts plant additions through March 31, 2011 because [ComEd's] "forecasts [can] be trued up to actual additions to plant in service through that date."[10]

Mr. Brosch, by contrast, would include <u>no</u> *pro forma* additions, even those that have been serving customers for months. He says nothing about the actual plant investment or the multitude of documentation substantiating those assets, but bases his claim solely on an argument about the deprecation reserve. Right or wrong, this is not a reason to reject *pro forma* additions. The Commission should approve ComEd's proven

[8] Ebrey Dir., Staff Ex. 1.0, 7-8:151-169.

[9] Effron Dir., AG-CUB Ex. 2.0, pp. 4:89 - 5:92.

[10] Effron Dir., AG-CUB Ex. 2.0, p. 5:98-103.

pro forma plant additions and resolve questions concerning depreciation reserve appropriately under the law and facts.[11]

Q. **Is there any basis for not including in ComEd's rate base those plant additions that are placed in service before the close of this case?**

A. No. No Staff witness presented any argument against including *pro forma* plant investments that are completed and placed in service in rate base based on the known and measurable criteria.[12] While Ms. Ebrey's direct testimony proposed disallowing all *pro forma* plant additions after September 30, 2010 (Ebrey Dir., Staff Ex. 1.0, 6:105-08), she filed that testimony in early October. Her testimony identifies nothing special about the end of September. Moreover, the only rationale for her disallowance is that some future plant additions are unknown and immeasurable. Actual plant in service is clearly not. As more plant goes into service, the fraction of the total adjustment about which Ms. Ebrey can have any concern shrinks.

AG/CUB witness Effron would expressly allow *pro forma* plant additions already in service. Although he proposes to limit that to March 31, 2011, he does not explain why additions beyond that date cannot be verified. Finally, as I noted above, Mr. Brosch's argument is about the depreciation reserve and offers no grounds for disallowing any *pro forma* additions.

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[11] The question of depreciation reserve is addressed by other ComEd witnesses, such as Ms. Houtsma (ComEd Ex. 29.0).

[12] A separate prudence objection was raised by Staff witness Rockrohr (Rockrohr Dir, Staff Ex. 6.0) to the West Loop Cable Fault repair (ITN 37977) included in rate base as a *pro forma*, but Mr. Rochrohr did not raise any concerns regarding the known and measurable criteria. ComEd witness Mr. McMahan (McMahan Reb., ComEd Ex. 33.0) addresses Mr. Rockrohr's concerns.

Q. **Does any witness criticize ComEd's process of identifying and planning appropriate investments or ComEd's workplans for putting new plant into service?**

A. No, they did not. No witness offered any general planning, engineering, or operational criticism of ComEd's process for planning future distribution investments, or of the workplans or investment forecasts for any assets to be placed in service during the *pro forma* period. Indeed, none of the witnesses discussing ComEd's *pro forma* adjustments even discuss these processes.

Q. **What do these processes demonstrate?**

A. If ComEd is scheduled to place assets in service during the *pro forma* period, there is good reason for that investment. The planning process that Mr. McMahan and I described in our direct testimonies[13] correctly identifies distribution investments that should be made and assigns appropriate priorities to different investments. Ms. Ebrey, in particular, criticized no aspect of ComEd's planning, engineering, construction, or operations performance. It does not appear that she even considered those factors to be relevant. None of those factors are discussed in her testimony.

Q. **Did any witness criticize ComEd's ability to design, engineer, construct, and place assets into service?**

A. No. Staff witnesses Gregory Rockrohr (Rockrohr Dir., Staff Ex. 6.0) and Mona Elsaid (Elsaid Dir., Staff Ex. 7.0) reviewed engineering relating to at least 30 of the largest ComEd investment projects made since July 1, 2008. Additional data was also made available to Staff including relevant project reports, management reports, independent

[13] Donnelly Dir., ComEd Ex. 8.0, pp. 36-44; McMahan Dir., ComEd Ex. 9.0, pp. 7-11, 36-37.

consultants' reports, and other internal ComEd project documentation. But, neither Mr. Rockrohr nor Ms. Elsaid offers any general criticism of ComEd's planning, engineering, construction, or operations performance, nor any criticism of ComEd's process of identifying and making required system investments over the last 18 months that would cast any doubt on ComEd's ability to place its scheduled *pro forma* additions into service.[14]

Q. **Did any witness address the process by which ComEd monitors the progress or status of work related to placing *pro forma* plant additions in service?**

A. No, they did not.

Q. **Did any witness criticize the overall accuracy of ComEd's history of forecasting its total plant in service?**

A. No, they did not. In fact, ComEd's current *pro forma* forecast has been very stable. Taking into account the events that have occurred in the first 10 months of 2010, ComEd's update as of October 31, 2010 of its total *pro forma* additions for the entire 18 month period (with less than half of the period remaining) has varied by only 0.74%, well within anyone's definition of reasonable certainty and measurability.

Q. **Is ComEd's schedule of plant additions to be made based on budgets?**

A. No. It is not based on budgets, or on any similar type of spending commitments or caps. Rather, it is based on the determination that specific levels of work are required at the

[14] Mr. Rockrohr's only proposed project disallowance arises from a single line failure, while Ms. Elsaid only questions steps ComEd wisely took to reduce the potentially catastrophic consequences of a specific equipment outage in the Chicago Central Business District. Both concerns are addressed by Mr. McMahan's rebuttal testimony, ComEd Ex. 33.0.

time. The required work is then both defined and tracked under unique projects and, for routine work, under blanket programs, as I described in my direct testimony.

Q. **What facts concerning ComEd's projected plant additions are not disputed by any witness' testimony?**

A. No witness contests or presents evidence disputing:

- ✓ **The justification, cost, or prudence of any actual or scheduled plant addition;**
- ✓ **The planning, design, or engineering of any proposed plant addition;**
- ✓ **The need for any pending plant addition to be completed on schedule;**
- ✓ **ComEd's commitment of all resources required to complete these plant additions on schedule; or**
- ✓ **The workplan or construction schedule for any proposed plant addition.**

The evidence, in contrast, shows that ComEd identifies projects and their required in service dates correctly and uses accurate and reliable methods of forecasting the aggregate investment associated with the work required throughout the *pro forma* period.

Q. **Does the evidence continue to show that the level of *pro forma* plant additions placed into service is reasonably certain to be as projected?**

A. Yes. The evidence – including engineering and construction data, project approvals, and updated status reports – shows that ComEd will place into service $529.0 million of additional plant investments from November 1, 2010 through June 30, 2011. When combined with plant already placed into service through October 31, 2011, *pro forma* plant additions totaling $1,030.6 million are properly included in ComEd's rate base.

B. ComEd's Schedule of *Pro Forma* Plant Additions Is Rigorous, Accurate, and Reliable

Q. **You testified that the process by which ComEd projects its aggregate *pro forma* plant additions is reliable. How did ComEd develop this projection?**

A. ComEd based the projection of plant additions which supports its *pro forma* additions on a detailed bottom-up analysis of the work to be done. Both unique investment projects and work managed through "blankets" were analyzed for status, investment, and in service date(s). Engineering and operating needs were assessed, and the individual projects and blankets were analyzed to determine the required level of activity by the responsible managers and category owners and their teams.

Q. **How do you know that the process is reliable?**

A. My conclusion is based on my knowledge of the planning and execution of the work, and on my knowledge of the methodology used to quantify and monitor the progress of work included in the *pro forma* adjustment. In particular:

- ComEd's investment plans are based on a detailed and reliable methodology. The projection is built up from individual project- and task-specific workplans. ComEd forecasts its plant additions by evaluating every pending "unique" investment project and each "blanket" program through which routine core distribution work is performed.
- As a year progresses, adjustments to work plans are made to reflect changes. Those adjustments are, however, based on the same operational criteria as used for the original workplans. We know that if a project is deferred, it is replaced by work that needs to and will be done. We do not simply move projects around within budgets.

- My conclusions about the *pro forma* projects are supported by what is actually happening. Through October 31, 2010, $501.6 million of plant is complete and in service already and millions more are placed in service every month. The remaining eight months of projected investment is a relatively short time period from the perspective of a major construction project, and many of the remaining unique projects are already being built and readied for service. This includes a number of "Summer Critical" projects that ComEd will complete on time, before June 1, 2011. Likewise, the blanket programs cover core utility work that directly affects reliability. ComEd invests in assets related to those programs literally every day.
- That data has been subject to review not only by ComEd, but independent experts from PDR&C who have 75 years of combined experience in managing electric utilities and making the very types of investments ComEd included in ComEd's *pro forma* adjustment. Mr. Robert ("Bill") Donohue (ComEd Ex. 34.0) of PDR&C presents his conclusion concerning the planning, engineering, and project documentation substantiating our projected investments.

Q. **Has the Commission recognized ComEd's approach as reliable and appropriate in past ComEd cases?**

A. Yes. A virtually identical process was used in ComEd's 2007 Rate Case in which *pro forma* plant additions were approved. The Commission found no fault with ComEd's methodology. Indeed, the period during which allowable plant additions were accepted was shortened (by three months) only because the Commission accepted a joint proposal by Staff and ComEd under which ComEd conditionally withdrew its request for those three months.

Q. **Has ComEd provided underlying data to the Commission and parties?**

A. Yes. The data supporting our work and workplans has been available to parties for months. None of the three witnesses who propose disallowing *pro forma* adjustments dispute any of the data on which they are based, nor do they indicate that they have even reviewed the underlying data.

As in ComEd's 2007 rate case, I am providing the Commission, Staff, and parties with detailed documentation and backup data including thousands of pages of project records validating our forecast and workplans along with my testimony. This documentation and data is provided in electronic format as ComEd Ex. 32.2 and (in addition to documents and data previously made available as discussed above) includes further documentation reflecting the continuous implementation and completion of this work. That data goes far beyond "budgets" and substantiates the reasons why projects were approved, the reasons why they must be completed, and their status. ComEd Ex. 32.2, therefore, includes:[15]

- Approved project authorization documents for each unique *pro forma* project not already in service that exceeds $100,000 in value;
- Work orders and/or project engineering documentation for all unique projects that exceed $1 million in value that will be placed in service between now and June 30, 2011;

[15] In the 2007 Rate Case, ComEd made significant effort to not only compile but also enter into evidence all of this documentation. However, neither the Commission nor any party cited or appeared to use that detailed data. In this case, therefore, documents are collected but the evidentiary submission includes the larger projects along with a sample of other documents.

- Samples of additional documentation of the types maintained by ComEd for other projects.

Q. **Has the Commission recently recognized and approved *pro forma* plant additions based on less detailed evidence?**

A. Yes. *Pro forma* plant additions were approved for the Ameren Illinois utilities based on summary spreadsheet documentation, similar to that provided in ComEd Ex. 8.2 and ComEd Ex. 32.1. The documentation I provide on ComEd Ex. 32.2 exceeds that documentation in both scope and detail.

Q. **Have ComEd's schedules of future plant additions proven to be accurate?**

A. Yes. Since ComEd began using bottom-up forecasts of individual projects and blanket programs in 2006, our accuracy has been excellent. That fact is confirmed by the independent analysis of ComEd witness Mr. Donohue of PDR&C (Donohue Dir., ComEd Ex. 34.0).

Q. **Ms. Ebrey asserts that ComEd uses a budget or "checkbook" driven process (Ebrey Dir., Staff Ex. 1.0, 7-8:151-69). Is this correct?**

A. No, it is not. As is clear from the evidence I have provided, ComEd's forecast of *pro forma* additions is not based on "budgets." Nor is our process of deciding what investments to make going forward based on a top-down allocation of dollars to plant, or to particular categories of plant, with discretion vested to spend or invest those dollars from a budget or "checkbook." Senior executives at ComEd do not set aggregate spending targets for various functions whereby management then can freely choose on what and when to spend it.

Rather, every unique project and every blanket program must be evaluated and approved on its individual engineering and planning merits. ComEd does not allow transfers of funds subject to a budget, but only transfers funds when changed circumstances means that a new project – also evaluated on its own merits – has assumed a higher priority. The fact that routine granular work (*e.g.*, cable fault repair and replacement of small transformers) is conducted through blanket programs makes that work no less certain or determinable. While we may not be able to predict exactly which cable will fault a year in advance, we can know with reasonable certainty how many cable faults will occur over a given time period and how the importance of those repairs ranks with other investment needs.

In short, the reasonable certainty that I have concerning the level of projected investment is not driven by the need to adhere to a budget, but from an analysis of the investments, workplans, and work management practices.

Q. **Ms. Ebrey points to the fact that, during a year, ComEd sometimes replaces specific work that was scheduled at the outset with different work and reflects that reprioritization financially by transferring funds between ITNs.[16] Is that evidence that ComEd uses a budget or checkbook process instead of work based management?**

A. No. Changes in work during a year are driven by changes in need. We adapt when the underlying circumstances change in such a way that a new or expanded project becomes a higher priority investment, or second, where circumstances change such that an investment is no longer warranted. But, again, those changes are evaluated on an

[16] Staff Ex. 1.0, 9:173-81.

engineering basis, or their own operational merits. Our management process recognizes that choosing the individual investments that ComEd makes is not and cannot be static. Events that are inputs into individual engineering decisions change. Weather events happen. Customers impose new and changing requirements. Municipalities and other units of local government demand relocation work. We adapt to these changes in a well-established, rigorous, and known way. Indeed, our work management processes are designed to ensure that available resources are utilized and to permit us to respond effectively to contingencies and emergent work.

The fact that ComEd does adapt is not evidence that projects are interchangeable, or that the only assurance that the Commission has that investments will be made is a budget. The assurance the Commission has is that the particular resources that ComEd has to support its approved investments will, with reasonable certainty, be deployed. And, even at the individual project level the Commission has the assurance that particular investments will be made, as scheduled, unless changes in the facts mean that there is now a still higher priority investment that must be made with those resources.

Q. **Does the fact that emergent work could replace particular investments in discretionary or lower-priority projects affect your level of confidence in ComEd's forecast plant additions?**

A. No. Emergent non-discretionary capital investments will not cause ComEd's projection to be overstated. In the event that ComEd is required to cancel or defer discretionary or lower priority capital investment because of emergent non-discretionary or higher-priority activity, it would result in either a transfer of investment to another category of

work or, in extreme cases, an absolute increase in the level of capital investment. It is certain not to decrease ComEd's overall projected capital investment.

Q. **Ms. Ebrey also observes that ComEd uses blanket programs and "bucket ITN's" from which certain types of resources are drawn as needed for routine work. Does this prevent you from reaching a conclusion that ComEd's *pro forma* adjustments are known and measurable?**

A. Not at all. As I testified, there are very good reasons for routine or baseline activities to be grouped, for management purposes, into blanket programs. Similarly, certain limited types of unique resources are for budgeting purposes combined into a single "investment tracking number." That is indicative of sensible management. It is not indicative of uncertainty as to the work that will be done with those resources, nor is it indicative of uncertainty as to whether the work will be done.

Indeed, blanket programs capture investments in routine core activities that ComEd must complete, and must complete when or shortly after the need arises. For emergent work, claiming that blankets cannot be reasonably certain to proceed at appropriate levels throughout the year is not credible. It amounts to claiming that ComEd cannot be certain that it will, for example, have to repair burned out transformers, replace fallen wire, or replace shorted-out underground cable. Likewise, for blankets where non-emergent work is accomplished on a schedule, it is equivalent to saying, for example, that ComEd will respond to a year's worth of requests for new service installations only in certain quarters or seasons. That is unrealistic, not how ComEd operates, and not how any utility should operate if it is to serve its customers. The nature of blanket work is that it is placed in service shortly after the investment is made.

Q. **Ms. Ebrey recommends complete disallowance of all plant not in service as of September 30, 2010. Would this recommendation be reasonable or justified, even if her criticisms of ComEd's *pro forma* additions were valid?**

A. No. Ms. Ebrey's proposal that the Commission should allow no plant additions beyond September 30, 2010[17] is neither consistent with the evidence nor reasonable. Although Ms. Ebrey recommends that no future plant additions be added to rate base, she does not and cannot claim that ComEd will stop or slash plant investments. Such a claim is inconsistent with reality. It would be inconsistent with our ability to operate as an electric utility and without precedent in Illinois and in the industry.

In fact, there can be no doubt that ComEd will make hundreds of millions of dollars of new plant investments by June 30, 2011, and there is zero probability that ComEd will make no additional investments by that date. Indeed, ComEd has already placed millions of dollars of new assets into service since Ms. Ebrey's cutoff date of September 30, 2010.

Moreover, even if Ms. Ebrey's conclusions about ComEd's forecasting process were correct (which they are not) and resulted in the disallowance of all specific work not anticipated in advance, the vast majority of the unique investments identified on ComEd Exs. 8.2 and 32.1 will be put into service as proposed without any change whatsoever. Moreover, the baseline blanket programs are, as I explained, necessarily managed on a collective basis and not based on precise work scopes at specific locations. Nothing Ms. Ebrey criticized has any bearing on any of those projects.

[17] Ebrey Dir., Staff Ex. 1.0, 6:105-08.

Q. **Does any other witness dispute that ComEd will continue to make significant plant investments between now and June 30, 2011?**

A. No. Indeed, Mr. Effron's testimony candidly acknowledges that ComEd will make significant plant additions throughout the period.

Q. **Mr. Effron proposes to eliminate only one quarter of ComEd's *pro forma* additions. He claims that eliminating pro forma additions for the second quarter of 2011 is "consistent" with ComEd's 2007 rate case. Effron Dir., AG-CUB Ex. 2.0, 5-6:96-118. Is he correct?**

A. No. As I testified more briefly above, ComEd agreed in the 2007 Rate Case to withdraw its request for the final quarter *pro forma* additions – even though the evidence fully supported them – on the condition that the Commission accept certain other evidence submitted by parties on other issues. That agreement was voluntary, conditional, and had nothing to do with whether those investments were known and measurable (which they were). It did not cast any doubt on the adequacy of the proof supporting ComEd's proposed additions.

Q. **CUB/AG witness Mr. Effron states that ComEd's *pro forma* rate base adjustment through June 2008 in its 2007 rate case was subject to a $41 million "true up" and is "a clear example of why the Company's forecast of plant additions cannot be considered known and measurable."[18] Do you agree with Mr. Effron's conclusion?**

A. No. First, ComEd agreed to voluntarily withdraw a portion of its *pro forma* request in the 2007 rate case if certain contingencies occurred. An adjustment calculated on the basis

[18] Effron Dir., CUB/AG Ex. 2.0, 5-6:107-18.

of that truncated *pro forma* period does not reflect the accuracy of the full projection as presented by ComEd at that time. Second, the "Global Credit Crisis" affected the level and timing of ComEd's New Business construction work beginning in 2008. While ComEd's forecasts still reflected a high degree of accuracy for the 2008 time period, the slightly lower than normal accuracy over this time period should not be extrapolated beyond the unique circumstances in 2008. The Global Credit Crisis was certainly an unusual event beyond ComEd's control.

Q. **CUB/AG witness Mr. Brosch appears to question ComEd's *pro forma* investments based on his assertion that ComEd's representations regarding its rate base in this proceeding are not consistent with statements made to the investment community regarding ComEd's 2010 and 2011 rate base.[19] How does ComEd respond?**

A. ComEd's primary response to this assertion is provided by ComEd witness Ms. Houtsma (ComEd Ex. 29.0), who explains that Mr. Brosch draws incorrect conclusions based on his consideration of data and information that is not comparable.[20] To the extent that Mr. Brosch is suggesting that ComEd will not make investments in rate base during 2010 and 2011 consistent with its projected *pro forma*, he is wrong.

C. ComEd's Method of Planning *Pro Forma* Plant Additions Is Rigorous, Accurate, and Reliable

Q. **Into what categories are ComEd's plant additions segregated for analysis?**

A. ComEd's projected distribution investment falls into six functional categories:

[19] Brosch Dir., AG/CUB Ex. 1.0, 14-15:301-22.

[20] Houtsma Dir., ComEd Ex. 29.0, 10-11:191-210.

- Capacity expansion – the addition of plant required to provide adequate delivery capability to service the customer load in each portion of ComEd's service territory;
- Corrective maintenance – plant additions made to correct conditions that render the system or components thereof incapable of performing their designed function, including actual or incipient failure or an unsafe condition;
- Facility relocation – constructing plant in a different location as required by public authorities;
- New business – the addition of plant required to serve new customers or customers moving to a new location or changing the type of service that they take;
- System performance – the addition of plant to improve the quality or reliability of service above the current level; and
- General and Intangible Plant – the addition of plant that supports the provision of distribution service that is recorded in these types of accounts.

As I have previously testified, particular plant additions in any of these work categories are managed either as a unique project or under a blanket program. Unique projects are investments in an individual or specialized asset that are not made repetitively. Typical examples of a unique project include construction of a new substation, addition of a new feeder, or relocation of a facility in response to a public improvement. Blanket programs are a superior means of managing groups of similar, high volume, recurring tasks such as installation of new services, replacement of underground facilities, installation of new meters and local distribution transformers, and

replacement of overhead facilities. These tasks are tracked and managed on an ongoing basis.

Q. **How did ComEd analyze each unique project and blanket?**

A. The analysis varied depending upon whether the investment was a unique project or a blanket and, in some cases, on the category of the investment. For each unique project, ComEd considered the need for the project (*e.g.*, overload relief, facility replacement, public improvement, new customer service), the required in-service date of the investment, the workplan for its implementation, the resources required to make the investment, and its cost. Based on this information, as well as reports on the status of the work, ComEd is able to forecast with reasonable certainty the in-service date of the project and to determine its cost when placed in service.

The vast majority of the baseline repetitive work managed through blanket programs is work that ComEd must complete in order to maintain safe and reliable operations and serve customers. Because of this, these types of investments lend themselves not only to being managed together, but also to being analyzed in the aggregate. For each blanket, ComEd has data concerning the nature of the work as well as both historical data and forward-looking data about the required level of activity. The best evidence of future blanket activity is the level of current activity and investment, trend data, and analyses of the underlying need(s) driving the work. Because blankets are, by their very nature, repetitive activities, this type of data is predictable. For example, ComEd cannot predict when a particular primary distribution transformer will fail, but knows such transformer failures will occur and makes reasonable forecasts of

that work. Reasonable certainty concerning both the timing and cost of blanket plant additions can be achieved based on such data.

Q. **How is the remainder of this section of your testimony organized?**

A. I will discuss each of the six categories of plant investment that ComEd requested in its proposed *pro forma* adjustment. For each, I will give a brief summary of the work in the category and overview of the projects and blanket involved.

1. Capacity Expansion

a. Nature and Importance of Capacity Expansion Investment

Q. **What types of activity are included in the Capacity Expansion category?**

A. Work in the Capacity Expansion category involves investments that increase ComEd's ability to serve additional load in a local area. These are not projects designed to serve a specific new customer, but to respond to general load growth in a particular area. This could be due to continued heavier use by existing customers, or to support new customers moving into an area of ComEd's service territory. In general, ComEd deems these projects "Summer Critical" meaning that we spend considerable effort to ensure that these projects are constructed and in service by June 1 each year prior to the hottest part of the summer when our system usually hits its peak.

This year, there are 86 projects on the 2011 Summer Critical list. As of the most recent report I have, dated November 7, 2010, 21 of these projects are electrically complete, construction has started on 13 projects, and 52 are awaiting the commencement of construction. We are on track to have all of this work finished by June 1, 2011. (I note that 4 of the summer critical projects involve only non-jurisdictional transmission lines or bulk power autotransformer upgrades, but we track all 86 projects together.)

Q. **What activities are included in the Capacity Expansion category?**

A. There are two blankets (ITN 29335, Capacity Expansion Baseline Work, and ITN 24142, Capacity Expansion Distribution Transformers) and 94 unique projects in this category of ComEd's updated *pro forma* submittal (ComEd Ex. 32.1).

Q. **How does ComEd decide what capacity expansion activities to pursue?**

A. Because ComEd is a summer-peaking utility, our main focus for capacity expansion is the summer peak. In our planning process, we insure that, even at peak loads expected to be experienced one summer out of ten, there will be sufficient capacity to meet all customers' needs. Specifically, that means that we avoid stressing or overloading our equipment past its normal ratings under system-normal conditions (all equipment in operation), or past its emergency rating under contingency conditions (typically with one piece of equipment out of operation).

Q. **Are these decision-making tools set forth in standards?**

A. Yes. Attached as ComEd Ex. 32.3 are the standards our planning engineers use to evaluate the need for capacity expansion. These standards have been provided to the Commission and its Staff on several previous occasions.

Q. **How does ComEd ensure that it has the capacity in place to meet the summer peak season?**

A. We designate projects needed before the summer peak season as "summer critical." Because the summer peak weather could happen as early as June, we target June 1 of each year as the date by which all summer critical projects should be completed.

Q. **What would be the effect of not meeting the June 1 target?**

A. If we did not have the projects in place by June 1, we would put customers at risk of an outage in case of hot weather.

Q. **Is it possible that ComEd will spend no dollars at all on Capacity Expansion, or put no new assets in service in this category, so that Ms. Ebrey's recommendation that no October 2010 through June 2011 plant be added to rate base would be correct?**

A. No, that is not possible.

Q. **Can you describe with more particularity the need for the more important projects on the summer critical list?**

A. Yes. The need for ComEd's proposed distribution projects is illustrated by the documentation provided in ComEd Ex. 32.2. For larger projects, that documentation shows what elements of ComEd's system could become overloaded if no action is taken. For the remaining projects, project documentation will include a description of the purpose, describing which system element (for example feeder or transformer) will be overloaded absent relief. This information is also shown on ComEd Ex. 32.4, which is the November 7, 2010 Summer Critical Project Status Report.

Q. **Does this data also show the scope of these projects?**

A. Yes. It also briefly describes what the capacity project entails. For the larger projects, the scope is typically a new substation transformer or a new feeder extension starting at a substation. Smaller projects might involve extending an existing feeder, building a new line to connect existing feeders, or physically transferring load to a different circuit to balance the load.

Q. **Are there any other large projects in this category?**

A. Yes, as shown in ComEd Ex. 32.1, there is a large project, ITN 23622, Dearborn 12kV Feeder Ties. Documentation regarding this project is included in ComEd Ex. 32.2. The project is a Reliability project that is funded by Capacity, and is part of the Long Range Capacity Plans. The project will allow restoration within 24 hours of customers in the Chicago Loop following catastrophic failure at Dearborn substation. Dearborn is one of ComEd's oldest and most vulnerable substations in the Loop. Restoration times without this project are estimated to be as long as one month for customers fed from Dearborn's feeders.

Q. **Do you have anything more specific as to the scope of these projects?**

A. Yes, ComEd Ex. 32.2 includes examples of one-line diagrams, which ComEd calls "project diagrams" or "PDs," for centrally managed projects. The project diagram, which is signed by the planning engineer and the planning manager, is the direction to those who carry out the plans as to what needs to be accomplished electrically. While the project diagrams are included in the appendix as a sample, there is a similar diagram for every capacity expansion project. The PD reference number, identifying that project diagram for each project, is shown on the Summer Critical List.

Q. **What does ComEd do to ensure that the cost of each project is reasonable?**

A. The first thing we do is to apply our management challenge process to the projects. This means that the project must be presented to one or more committees, with higher cost projects needing additional levels of approval. The review committees suggest alternatives and press the presenters to justify the scope and budget of the project. A project may go through this process multiple times, as the project proceeds from the

conceptual stage, to engineering, and finally is approved for construction (which itself may be approved in stages).

The actual work on the projects is subject to the same cost controls as ComEd's other capital additions. Large or complex projects are centrally managed by a company-wide group of project managers. As I mentioned above, there are 86 summer critical distribution projects for summer 2011 that are centrally managed, and each receives its own unique funding item. The remaining, smaller projects are managed at the ComEd regional staff level, and are accounted for by one blanket Investment Tracking Number ("ITN") 29335 for projected feeder/circuit overloads over 105%, and Substation/Transformer overloads over 100%.

b. <u>Forecast Capacity Expansion Investment</u>

Q. **How much additional plant is ComEd reasonably certain to have placed in service by the end of second quarter of 2011?**

A. ComEd is reasonably certain that by June 30, 2011, it will have placed in service $78.1 million in new jurisdictional plant in the Capacity Expansion category. Between January 1 and October 31, 2010, ComEd has already placed $30.9 million in new plant in service in this work category.

c. <u>Certainty of Capacity Expansion Investment</u>

Q. **Does ComEd have a process to organize and track summer critical Capacity Expansion projects?**

A. Yes, and we track them very closely. Progress is summarized and compiled on a summer critical spreadsheet, which allows management to evaluate how we are doing. This spreadsheet is updated regularly.

Q. **What is the status for the projects on 2011's summer critical list?**

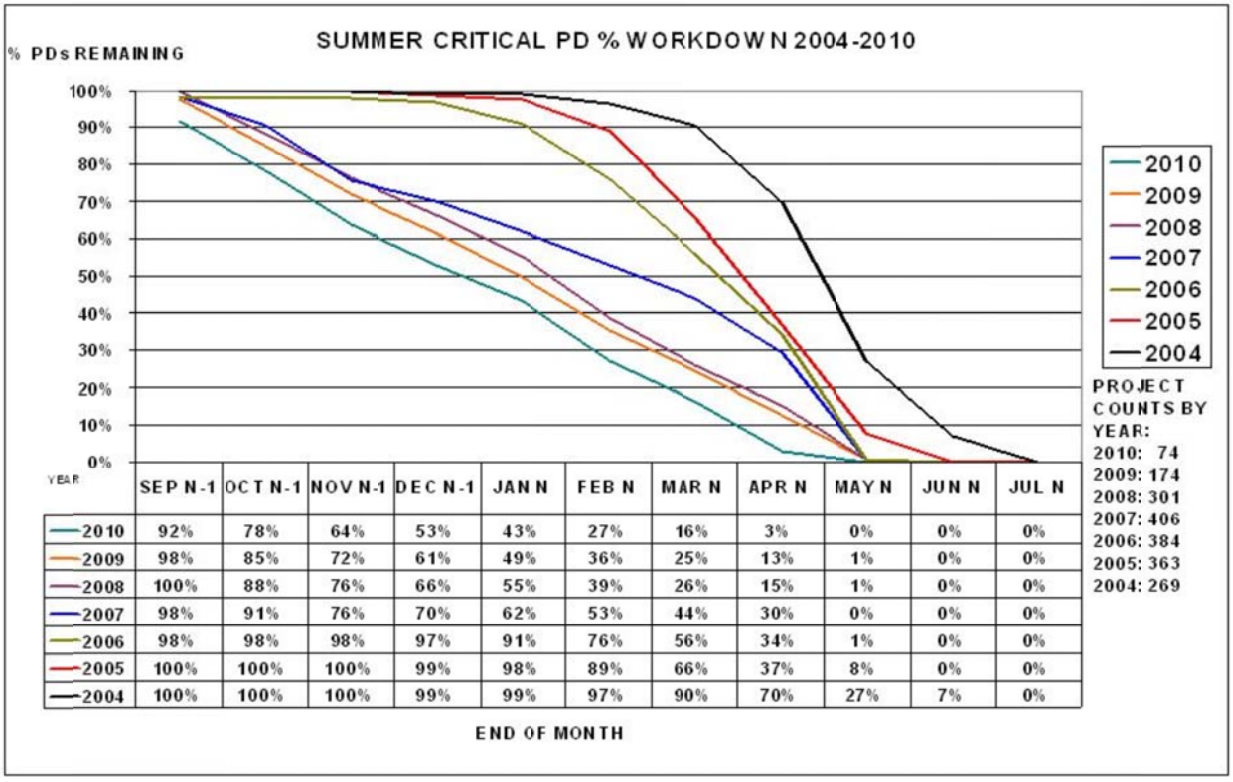
A. The status of each project is shown on ComEd Ex. 32.4, the 2011 Summer Critical List. There are 86 projects on this year's list, of which 82 have a distribution function; all of them will be in service and used and useful by the summer.

Q. **Has ComEd used this kind of "summer critical" list in prior years?**

A. Yes, we have.

Q. **What is ComEd's track record in completing the summer critical work on a timely basis?**

A. The following graph shows the summer critical workdown for 2004 through 2010. ComEd routinely and consistently finished all summer critical work by July, and typically before June.



YEAR	SEP N-1	OCT N-1	NOV N-1	DEC N-1	JAN N	FEB N	MAR N	APR N	MAY N	JUN N	JUL N
2010	92%	78%	64%	53%	43%	27%	16%	3%	0%	0%	0%
2009	98%	85%	72%	61%	49%	36%	25%	13%	1%	0%	0%
2008	100%	88%	76%	66%	55%	39%	26%	15%	1%	0%	0%
2007	98%	91%	76%	70%	62%	53%	44%	30%	0%	0%	0%
2006	98%	98%	98%	97%	91%	76%	56%	34%	1%	0%	0%
2005	100%	100%	100%	99%	98%	89%	66%	37%	8%	0%	0%
2004	100%	100%	100%	99%	99%	97%	90%	70%	27%	7%	0%

Q. **Does ComEd have schedules for this year's projects, showing their progress and expected completion dates?**

A. Yes. ComEd Ex. 32.2 includes sample project schedules and, in some cases, a photograph of the current status of the project work taken as recently as last week. Additional project schedule information, including our expected completion date, is also shown for each of these projects in ComEd Ex. 32.4.

Q. **What evidence is there that ComEd is expending money on these projects?**

A. For each of the centrally managed projects, there is a "detail sheet" showing the amount spent so far each month, and future cash flows, by item of work. These cash flows run through the completion of the project. These all show completions by June 30, 2011. Samples of these are found in ComEd Ex. 32.2.

Q. **What evidence is there that ComEd is mobilizing the resources necessary to complete the work, and that the work is actually under way?**

A. ComEd Ex. 32.2 contains a sample of work orders issued for centrally managed projects.

Q. **Is there anything to suggest that ComEd will scale back or defer these projects?**

A. No.

2. <u>Corrective Maintenance</u>

a. <u>Nature and Importance of Corrective Maintenance</u>

Q. **What types of activity are categorized as Corrective Maintenance?**

A. Corrective Maintenance involves both emergent and planned work performed in order to repair and replace materials and equipment to ensure the safety and reliability of the distribution system. This work occurs on a daily basis and is essential to ComEd's role

of keeping the lights on in Illinois. ComEd devoted over 1.5 million hours to corrective maintenance in 2009 and over 1.5 million hours in 2010 through the 31st of October, completing approximately sixty five thousand (65,000) and eighty thousand (80,000) corrective maintenance tasks, respectively.

Q. **Does ComEd plan to conduct corrective maintenance work during the last two months of 2010 and the first two quarters of 2011?**

A. Yes. ComEd has allocated over 920,000 labor hours of work to corrective maintenance during the last two months of 2010 and the first two quarters of 2011. For example, ComEd plans to complete 479,000 hours of work in the area of aerial corrective maintenance during the last two months of 2010 and the first two quarters of 2011 and 171,000 hours of work in the area of underground corrective maintenance during the last two months of 2010 and the first two quarters of 2011.

Q. **What activities are included in the Corrective Maintenance category?**

A. As a result of the routine nature of the work that is performed in this category of work, corrective maintenance generally consists of blanket projects as opposed to unique projects. There are 31 blankets and 83 unique projects in this category that are included in the plant projected to be in service by June 30, 2011. I discuss the following blanket projects further later in my testimony: Emergency Cable Fault Repair, Emergency Cable Fault Replacement and Overhead Distribution Defect Repairs.

b. <u>Forecast Corrective Maintenance Investment</u>

Q. **How much Corrective Maintenance activity does ComEd expect to occur from the beginning of 2010 through the second quarter of 2011?**

A. ComEd is reasonably certain that the approximately $324.1 million of new plant additions will be placed into service by the end of second quarter 2011 on account of Corrective Maintenance activity. Between January 1 and October 31, 2010, ComEd has already placed $200.9 million in new plant in service in this work category.

c. Certainty of Corrective Maintenance Investment

Q. **Will Corrective Maintenance activity continue throughout 2010 and the first two quarters of 2011?**

A. Yes. It must. Corrective Maintenance is central to ComEd's business. Consistent with previous years, ComEd's Work Plans indicate over 1 million hours of labor will be used during the last quarter of 2010 and the first two quarters of 2011 in order to complete planned and emergent work in this category.

Q. **Are there significant unique projects in Corrective Maintenance?**

A. There are unique projects under corrective maintenance for some types of work. However, because the work is heavily emergent, it is predominantly managed through blanket programs. In general, these include vault roof replacement and substation equipment replacement. But overall, unique projects are typically a small percentage of the corrective maintenance work.

Q. **Please describe emergency fault repair (ITN 10623) and emergency fault replacement (ITN 20543) blankets.**

A. Emergency fault repair or replacement becomes necessary when a fault occurs on a primary, secondary or other service line. A repair or replacement is completed to resolve

a safety concern or an interruption, or to restore the system configuration to normal. Emergency fault repair includes repair to cable as well as replacement of lengths of cable.

Q. **How much does ComEd reasonably expect to place in service due to Emergency Cable Fault replacement and repair during the last two months of 2010 and the first two quarters of 2011?**

A. Based upon ComEd's Corrective Maintenance work plans, ComEd anticipates that during this period it will place into service $35.0 million of assets relating to cable fault replacements (ITN 20543) and $8.3 million relating to cable fault repair projects (ITN 10623).

Q. **Please describe the work that is performed under the blanket Overhead Distribution Defect Repairs (ITN 10622).**

A. Generally, the blanket Overhead Distribution Defect Repairs is used for emergent work when replacing overhead property units which include anchors, crossarms, guy wire, poles, transformer racks, towers, arresters, switches including cutout/disconnect, pole tops and spans of overhead primary and secondary wire between property units.

Q. **How much new plant does ComEd reasonably expect to place in service during the remainder of 2010 and the first two quarters of 2011 for Overhead Distribution Defect Repairs?**

A. Based upon ComEd's Corrective Maintenance Work Plan, ComEd anticipates placing into service $20.3 million of plant relating to Overhead Distribution Defect Repairs during this period. Given the routine nature of this work and the analyses performed under my direction, ComEd has no reason to believe that it will not complete a significant

number of overhead distribution defect repairs in the remaining portion of 2010 and the first two quarters of 2011. In fact, through October 31, 2010, ComEd already completed 18,216 work order tasks for overhead distribution defect repairs.

Q. **Will completed plant additions in the Corrective Maintenance category be used and useful when installed?**

A. Yes. As previously mentioned, Corrective Maintenance is essential to safety, to minimize interruptions and to restore the system configuration to normal. When we restore a piece of equipment that had been serving customers and has failed, the new plant we add is used and useful, just as was the plant that it replaced or the system that it repaired.

3. Facility Relocation

a. Nature and Importance of Facility Relocation

Q. **Please describe the Facility Relocation category of plant additions.**

A. Facility Relocation, sometimes called Public Relocation, involves relocating distribution infrastructure when a governmental entity (municipality, county, or state agency) decides to undertake a public improvement project. For instance, if a unit of local government in ComEd's service territory wishes to widen a road, but the electric poles are too close to the edge of it, ComEd in general must move the poles to make room for the road. The Facility Relocation category consists of a high volume of work that must be done on a fairly short timeline. ComEd coordinates with more than 400 government agencies and, to give an idea of the volume of work in this category, received more than 1,400 separate facility relocation requests through October 2010, more than 1,900 in 2009, slightly less than 1,500 in 2008, and more than 1,500 in 2007.

Q. **How does ComEd determine whether to undertake a Facility Relocation job?**

A. A regional ComEd Project Engineer will receive a letter from a governmental entity in his or her region stating that it will be starting a public improvement project and formally requesting that ComEd move its facilities. ComEd then coordinates with the requesting agency, conducts an engineering review, and initiates a work order to begin the necessary project approvals. Some entities, such as the Illinois Department of Transportation, have long-range plans that drive their work and ComEd will begin coordinating with them well in advance. Other entities request that relocation occur on a very tight timeframe.

b. Forecast Facility Relocation

Q. **What activities are included in the Facility Relocation category?**

A. There are two blankets in this category constituting core work and multiple centrally managed unique projects in this category, which I will discuss below. There are also certain general blankets that I discuss further later in my testimony.

Q. **How are ComEd's Facility Relocation projects organized?**

A. Regionally managed projects greater than $100,000 are accounted for under blanket ITN 19742. All projects under this blanket are technically unique projects in ComEd's accounting system because they cost more than $100,000, but because of the routine and repetitive nature of this work it is not efficient to budget each of these numerous projects separately. These projects are regionally managed, or "non-centrally managed," because regional Facility Relocation Project Engineers manage them. We assign very large and complex projects with projected costs over $100,000 to a project manager from the Project Management Organization. These "centrally managed" projects have separate budgets and are not accounted for under ITN 19742. All projects greater than $500,000,

regardless of how they are managed, must go through the Project Review Committee budgeting approval process.

Projects less than $100,000 are "baseline" projects under blanket ITN 19262, and constitute numerous, frequently-occurring but relatively inexpensive relocation projects. The actual charges for baseline projects are compiled under ITNs by Agency Type: 5048 – State, 5049 – County, 5050 – Chicago, 5051 – Municipal outside Chicago, and 5052 – Township.

According to Ms. Ebrey's workpapers, ITNs 19742 and 19262 accounted for approximately $20.2 million of her proposed $42.2 million adjustment to ComEd's *pro forma* in the Facility Relocation category. Per ComEd's updated *pro forma* (ComEd Ex. 32.1), ComEd will place in service $20.6 million in additional plant during the remainder of 2010 and the first two quarters of 2011 for ITNs 19742 and 19262.

Q. **How much additional plant does ComEd project will be placed in service as a result of Facility Relocation during the remainder of 2010 and the first two quarters of 2011?**

A. ComEd projects $50.0 million in additional plant (including CWIP, and excluding removal) will be placed in service on account of Facility Relocation through June 2011.

Q. **Did ComEd place any Facility Relocation related investments in service between January 1 and October 31 of 2010?**

A. Yes, ComEd placed $25.1 million in additional plant in service during that time period on account of Facility Relocation related work. ComEd completed and placed in service about 53 discrete projects.

c. Certainty of Facility Relocation Investment

(1) Unique Projects

Q. **Please describe the centrally managed unique projects in this category which are or are expected to be in service by the second quarter of 2011.**

A. Four centrally managed unique projects are expected to be in service by the second quarter of 2011. The first is the Lower Wacker Project, which has CWIP in 2009 and 2010 as well as forecasted expenditures in 2011. The second is the Lake Cook Road Project which incurred small amounts of CWIP in 2007 and 2008 with the majority of CWIP in 2009 and 2010 and a small amount of forecasted expenditures in 2011. The third is the Lawrence Avenue Bridge over the Kennedy Expressway which incurred small amounts of CWIP in each year from 2007 to 2009 with the majority of CWIP in 2010. The fourth is the LaGrange Avenue (Rt. 45) Project which incurred CWIP in 2010 and has forecasted expenditures in 2011. The fifth is Route 47 Project in Huntley which had CWIP in 2008 through 2010. The sixth is Route 62 Project in Rolling Meadows which had CWIP in 2010 and has forecasted expenditures in 2011.

Q. **What is the Lower Wacker Project, ITN 5363?**

A. The Lower Wacker Project is an Illinois Department of Transportation (IDOT)/Chicago Department of Transportation (CDOT) project which involves the complete reconstruction of Lower Wacker from Harrison North to Randolph including the interchange with the Eisenhower Expressway. This project involved relocating approximately 2,800 feet of conduit and manhole system, relocating a network vault, various other conduit tie-ups, manhole teardown and replacement as well as pull in new 12kV underground cable and perform approximately 60 cutovers all in Chicago's highly

congested Central Business District. This project was accelerated by CDOT and required extensive effort by ComEd to meet CDOTs ambitious expectations. While this project has been in IDOT's Multi-Year Plan in years 2007 and earlier, it was removed for plan years 2008 and 2009 until reappearing unexpectedly in the 2010 Multi-Year Plan. ComEd anticipates that $16.1 million of distribution plant related to this Project will be placed in service during the remainder of 2010 and the first two quarters of 2011.

Q. **What is the Lake Cook Rd Project, ITN 22662?**

A. The Lake Cook Rd Project is a Cook County Department of Transportation project which involves widening Lake Cook Rd from West of Pfingsten to East of Waukegan Rd. This project required ComEd to relocate 41 double circuit 12kV overhead poles along with 3,700 feet of conduit, 6 manholes, 28,000 feet of 12kV underground cable and complete cutovers. ComEd anticipates that $60K of distribution plant related to this Project will be placed in service during the second quarter of 2011.

Q. **What is the Lawrence Ave Bridge Project, ITN 4983?**

A. The Lawrence Avenue Bridge Project is an IDOT that involves the replacement of the bridge deck across the Kennedy Expressway. This project required ComEd to relocate its conduit package leading up to the bridge, the suspended package under the bridge as well as replace 700 feet of 12kV underground cable and complete cutovers. $.6 million of distribution plant related to this Project was placed in service prior to October 31, 2010.

Q. **What is the LaGrange Road (Rt. 45) Project, ITN 42696?**

A. The LaGrange Road (Rt. 45) Project involves the Village of Orland Park's plans to widen the intersection of 143rd Street and LaGrange Road and the arterial pavements on

LaGrange Road North to the Metra Railway and South to 144th Street. Additionally, the Village of Orland Park has requested the relocated facilities as well as other facilities not in conflict with the public improvement to be placed underground. This project requires ComEd to install nearly 17,000 feet of polypipe, 3 manholes, over 14,000 feet of 34kV underground cable, approximately 2,500 feet of 12kV underground cable and remove 44 poles. ComEd anticipates that $1.6 million of distribution plant related to this Project will be placed in service during the first quarter of 2011.

Q. **What is the Route 47 Project in Huntley, ITN 38074?**

A. The Route 47 Project is an IDOT project which involves the widening of Route 47 from Reed to Kreutzer. This project requires ComEd to install 123 poles (approximately half are double circuit with 34kV) and 115,000 feet of overhead wire, 730 feet of polypipe, 310 feet of conduit, 1,500 feet of 12kV underground cable, 1,900 feet of 34kV underground cable, and remove 89 poles. ComEd anticipates that $2.8 million of distribution plant related to this Project will be placed in service by the end of 2010.

Q. **What is the Route 62 Project in Rolling Meadows, ITN 45111?**

A. The Route 62 Project is an IDOT project which involves the installation of roadway lighting enhancements utilizing IDOT standard lighting structures. This project requires ComEd to install 71 taller (mostly double circuit) poles and 50,400 feet of overhead wire and remove 89 poles. ComEd anticipates that $2.1 million of distribution plant related to this Project will be placed in service during the first quarter of 2011.

Q. **Is ComEd reasonably certain that these projects will be complete by the second quarter of 2011?**

A. Yes. Our schedule and workplan reflect that these projects are already complete or will be complete by the end of second quarter 2011.

(2) <u>Core Work Managed in Blankets</u>

Q. **Can you please describe the Facility Relocation core work managed in blankets?**

A. As I stated above, the two major blanket programs in this area are for regionally managed projects over $100,000, and for baseline work under $100,000. This constitutes the vast majority of the day-to-day work in the Facility Relocation category. Hundreds of discrete projects each year fall under these blanket programs. For most of the discrete projects under the blanket programs, we have only a relatively short lead time before ComEd must start the work. The small projects are completed fairly quickly if there are no scheduling changes by the requesting entity. Because of this and of the necessity of completing the projects when required by the governmental entity requesting the relocations, we can be reasonably certain of when the projects will be in service.

Q. **Does ComEd have a work plan for Facility Relocation core work that it expects to complete by the second quarter of 2011?**

A. Yes, we do. We are especially confident in our scheduled work into June because we try to requisition materials 10 to 12 weeks in advance. That being said, because so much of our work has a short lead time, we are constantly reprioritizing the projects on the work plan due to emergent requests and agency scheduling changes which are largely outside of our control. If work is delayed on one project, though, we redirect our focus on incoming or ongoing projects and the amount of dollars going into service remains relatively true to our budget over time.

Q. **What evidence is there, then, that ComEd will place in service by June 30, 2011 the Facility Relocation work it has projected?**

A. We are reasonably certain of our second quarter in service data based on our historic spending and in-service numbers, our 2010 and 2011 forecasts, and our work plan which shows jobs in our queue well into 2011 with estimated completion dates by June. Samples of our work plans, tracking spreadsheets, and some of the agency documents that we use to plan our work are included in ComEd Ex. 32.2.

Q. **Do you anticipate any unusual circumstances that will affect the Facility Relocation work planned through the second quarter of 2011?**

A. No, I do not. Spending on Facility Relocation is fairly consistent and our budget takes into account real anticipated work. Our actual spending has been extremely close to our forecast in the last few years. I do not currently see any circumstances that should affect our 2010 or 2011 budget. Also this work is non-discretionary. We are committed to upholding our duty to our agency partners to complete relocation work as quickly and efficiently as possible so that they can uphold their commitment to provide adequate public services to taxpayers.

4. New Business

a. Nature and Importance of New Business Investment

Q. **What is included in the New Business category of work and why is it important?**

A. New Business is the work that ComEd must perform to connect a customer to the system, whether it is a residential customer, a commercial customer, or an industrial customer. This work is at the very core of our obligation to serve and when customers call on us to

provide them with service, they expect us to deliver. We have no choice, we simply must accomplish this work, every year, year-in, year-out.

We receive thousands of these requests every year. Unlike the unique projects that I described earlier in my testimony that typically require more detailed studies, analysis, engineering, construction planning and lead time, most of this work is relatively routine, highly repetitive and high in volume.

b. <u>Forecast New Business Investment</u>

Q. **What is the dollar value of the plant ComEd expects to be in service by June 30, 2011 in this category of work?**

A. ComEd expects to place into service an additional $106.7 million of plant during the final two months of 2010 and the first two quarters of 2011 in the New Business category. ComEd has already placed $86.5 million of plant in service in this work category through October 31, 2010. New Business work is uniquely affected by changes in demands made by customers. However, our planning and work management processes are such that if a short-term dip occurs in New Business investment, the resources are used for plant investment in other categories of work.

c. <u>Certainty of New Business Investment</u>

Q. **How does ComEd track the progress of New Business work?**

A. ComEd has procedures in place that describe the methodology we follow in executing this work from the time that a customer makes a new service request to engineering design and through construction. A more detailed discussion of the nature of this work and the relevant management procedures is included in the PDR&C Report entitled "Install New Services" which was prepared prior to our filing of this proceeding, and

which has been available in the ComEd data rooms and produced in discovery in response to Staff Data Request PL 5.07.

Q. **How does ComEd manage New Business work?**

A. There are three primary blanket ITNs through which ComEd manages routine new business and, for the remaining months of 2010 and the first two quarters of 2011, 97 unique projects. In general, if a project is estimated to exceed $100,000, then we manage it as a "Unique Project" and a dedicated project manager and unique project number is assigned to that work. However, the vast majority of the new connections we provide for customers cost less than $100,000.

During the complete *pro forma* period, more than $118.1 million will be invested through thousands of relatively small and separate tasks and managed under one of two blanket projects which we categorize as either Inside the City of Chicago Baseline (ITN 5968) or Outside Chicago Baseline (ITN 5972). $56.3 million of investment under these two ITNs will be placed into service over the last two months of 2010 and the first two quarters of 2011. ComEd Ex. 32.2 includes examples of work packages for projects completed under the baseline blankets. As one can see, these projects typically begin with a customer request, require ComEd (or the customer) to obtain appropriate permits and approvals and ultimately engineer, schedule, and complete the work. While these projects do not individually involve large dollars, they still require engineering analysis, planning, work crew coordination and, in most cases, coordination with a customer's construction schedule.

Q. **How is other core new business work managed?**

A. We have one other blanket ITN for ComEd Distribution Transformers, ITN 24143. We expect to place into service during the current *pro forma* period approximately $8.4 million through this ITN. ComEd places thousands of distribution transformers into service each year. In order to obtain favorable pricing, ComEd typically acquires transformers in bulk through its supply function and then assigns transformers to the various functional areas so that it may appropriately track utilization.

Q. **How can the Commission be reasonably certain that ComEd will, in fact, place this plant in service by the end of the second quarter 2011?**

A. The Commission can be reasonably certain that this plant will be placed in service for at least three reasons:

First, ComEd has many years of experience performing this type of customer-driven work. We consider much, if not most, of this work "baseline" because it occurs regularly and at fairly predictable levels. This allows us to develop meaningful and informed projections of the labor and materials that will be needed to carry out the work in our numerous regions. We expect to place into service $106.7 million of plant relating to this core work category during the remainder of 2010 and the first two quarters of 2011.

Second, the volume of work that is currently in the queue for service by the end of the second quarter 2011 is significant. We have more than 3,500 pending requests for new services to be completed in the three quarters ending second quarter of 2011, and ComEd currently has more than 13,000 work orders open under the New Business category.

Finally, ComEd recognizes that economic conditions may influence New Business work activity. There is a strong correlation between economic metrics and New Business baseline activity. ComEd has developed models that translate future economic predictions (Moody's Economy and McGraw Hill Construction data) coupled with historical service completions into New Business baseline forecasted activity. Based upon these models, a forecast of the number of baseline services anticipated in 2010 and 2011 was determined. These projections have been utilized as an input in determining the spend required to perform this work scope.

Q. **What New Business work does ComEd expect to perform during the remainder of 2010 and the first two quarters of 2011 that is managed as unique projects?**

A. There are 97 unique projects currently underway that ComEd expects to place in service by the end of the second quarter, 2011. These projects include a major industrial steel processor, information data centers, nationally owned retail stores, several hospital and university expansions, and upgrades at a major airport. Within the residential sector projects include several luxury high rise developments and a public housing project. ComEd Ex. 32.2 includes samples of work packages that include the engineering and construction details of these projects. Many of these projects are far along in the construction process. Some of the sample documentation includes photographs of these projects, some taken as recently as last week.

Q. **Are you certain that each of the 97 unique projects will, in fact, be in service by June 30, 2011?**

A. Based upon our experience, it is likely that some projects will be pushed out into the third quarter or later or, in some cases, cancelled. However, our experience also suggests that as projects fall out of a particular quarter, others emerge. We plan for these deviations and do our best to match resources to the demands of our customers.

Q. **How can the Commission be assured that the facilities that ComEd plans to install through these projects are reasonably certain to occur during the remainder of 2010 and the first two quarters of 2011?**

A. Like virtually all of the unique projects that fall under the Capacity Expansion category of work, ComEd has developed detailed engineering drawings, work plans and construction schedules for the unique projects under the New Business category. Where necessary, we have entered into contracts with construction contractors. ComEd has approved the funding for these projects through our formal processes and we have assigned and dedicated the labor and materials necessary to complete the work. In many cases, we have already incurred substantial costs and much of our work is complete. Samples of most of that documentation is contained in ComEd Ex. 32.2.

5. System Performance

a. Nature and Importance of System Performance Investment

Q. **What is the System Performance category of capital additions?**

A. System Performance refers to projects that increase the efficiency or reliability of the distribution system without necessarily increasing its capability to provide basic service to customers.

b. Forecast System Performance Investment

Q. **What is the dollar value of the plant ComEd expects to be in service by June 30, 2011 in this category of work?**

A. We forecast $154.8 million of plant investment (including CWIP) in system performance work will be placed in service between January 1, 2010 and the end of the second quarter of 2011. $75.8 million of this plant investment was already placed in service as of October 31, 2010.

c. Certainty of System Performance Investment

Q. **What projects are included in the System Performance category?**

A. There are 31 blankets and 78 unique projects in this category over the full *pro forma* period.

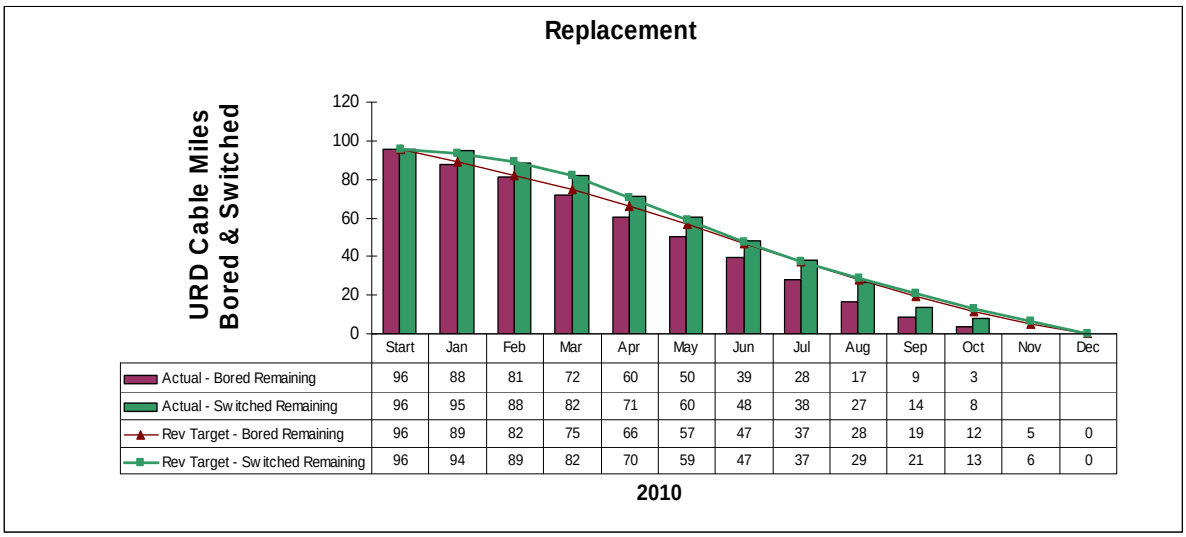
Q. **What is the first program with investment that will be placed in service during the remainder of 2010 and the first two quarters of 2011?**

A. The first program is "Replace Distribution Poor Performing Underground Residential Distribution Cable," ITN 4920. Under this program we first assess the cables to determine whether they can be treated by injecting fluid through them, which helps prevent failure and extends cable life. Sections that cannot be treated this way are candidates for replacement. We will spend $14.5 million on this program during the remainder of 2010 and the first two quarters of 2011. This program targets segments of concentric cable rated at 15 kV and below, that have experienced three or more faults in a 24 month period. The problems cluster around bare concentric neutral cable installed in the 1966 to 1985 timeframe, which amounts to 8,700 miles of cable in all. The cables

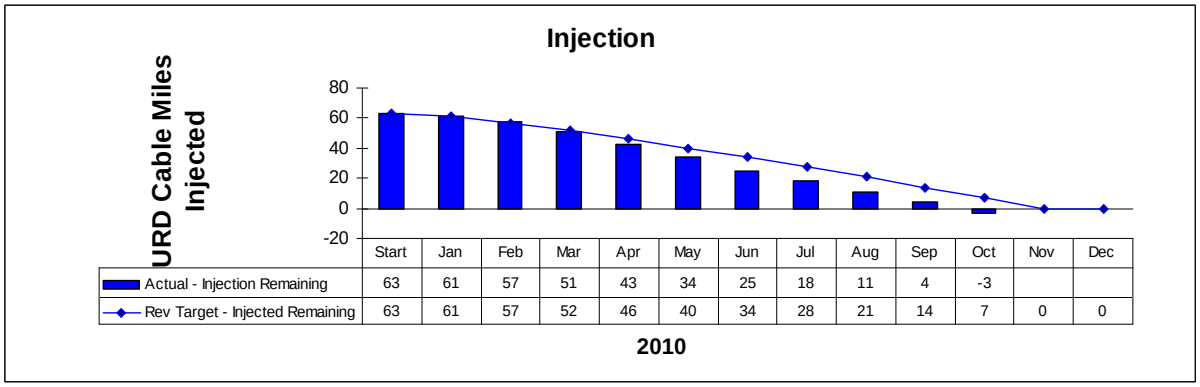
predominantly serve residential subdivisions, have poor reliability, and are a source of customer dissatisfaction. Information on this program is included in ComEd Ex. 32.2.

Q. **How much of this work will be done in the remainder of 2010 and the first two quarters of 2011?**

A. We track our performance based on workdown curves. The workdown curve for 2011 has not received final approval (final approvals normally occurs at the end of the prior year); however, the current plans call for treatment or replacement of 88 miles of cable, with 37 miles to be treated and 51 miles to be replaced. The workdown curves for 2010 for the underground residential cable programs are shown below:



	Start	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Actual - Bored Remaining	96	88	81	72	60	50	39	28	17	9	3		
Actual - Switched Remaining	96	95	88	82	71	60	48	38	27	14	8		
Rev Target - Bored Remaining	96	89	82	75	66	57	47	37	28	19	12	5	0
Rev Target - Switched Remaining	96	94	89	82	70	59	47	37	29	21	13	6	0



	Start	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Actual - Injection Remaining	63	61	57	51	43	34	25	18	11	4	-3		
Rev Target - Injected Remaining	63	61	57	52	46	40	34	28	21	14	7	0	0

Goal: 159 miles of cable will be replaced or treated (Replacement 96 miles)
ITN: 4920 - Cable Replacement Budget - $20.8M

Q. **Please describe ComEd's performance in this type of work so far this year.**

A. Performance through October is ahead of target with only three miles of replacement remaining versus a target of 12 miles and with injection exceeding the year-end target by 3 miles.

Q. **How much has ComEd invested so far this year under this program?**

A. So far through October 31, 2010, ComEd has invested $20.1million.

Q. **What is the next program with investment to be placed in service remainder of 2010 and the first two quarters of 2011?**

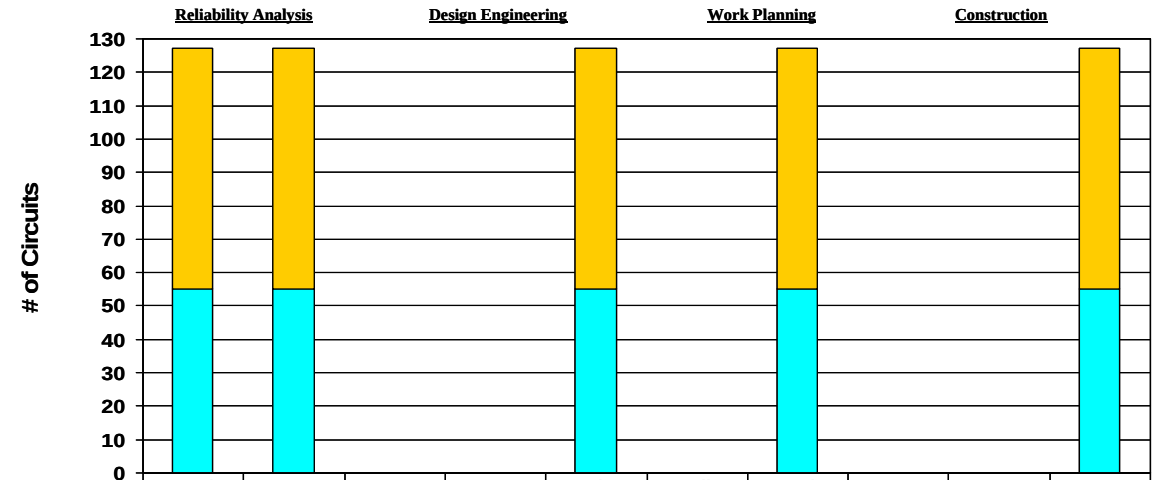
A. The next program is the 1% Worst Performing Circuit Program, ITN 11161, on which we will invest $4.1 million during the first two quarters of 2011. We make these investments pursuant to Section 411.120 of the Commission's Rules to improve the performance of the worst 1% of our circuits of 15 kV or less in each operating area. Information on this blanket is included in ComEd Ex. 32.2.

Q. **What does ComEd do under this program?**

A. ComEd reliability engineers perform an analysis of the circuit to determine the root cause(s) of the interruptions and design improvements to address the cause(s). Some of the solutions to improve circuit performance are: fusing, vegetation trimming, application of reclosers, application of arrestors, and remediation of pole conditions. As necessary, new capital investments are made to improve reliability.

Q. **What is the status of this program for the remainder of 2010 and 2011?**

A. For 2010, Reliability has analyzed 72 Frequency (SAIFI/CAIFI) circuits and 55 Duration (CAIDI) circuits. All work has been completed on the 127 circuits. The chart for 2011 has not been finalized; however, the current plans call for 125 circuits. The chart for 2010 for the 1% worst performing circuit program is shown below.



	Total Circuits Identified	Circuits Analyzed	Design Not Started	Design Started	Design Package Issued	Pending Work Packages	Work Package Issued	Not Started	Started	Finished
Total Circuits	127	127	0	0	127	0	127	0	0	127
Frequency	72	72	0	0	72	0	72	0	0	72
Duration	55	55	0	0	55	0	55	0	0	55

Goal: Complete 127 circuits (72 SAIFI/CAIFI & 55 CAIDI)) by 12/31/2010
ITN: 11161 - 1% Worst Performing Circuit Program Budget - $4.9M

Q. **What is the next program?**

A. The next program is Spare Transformers greater than 10 MVA, ITN 29259. We will spend $8.3 million under this program during the remainder of 2010 and the first two quarters of 2011.

Q. **What is the scope of this program?**

A. We use this program to fund the procurement of spare transformers to replace transformers that fail in service (138-12 kV, 138-34 kV, and 69-12 kV). It is important to have spares on hand to ensure reliability by minimizing the time necessary to replace a failed unit for our standard classes of large transformers.

Q. **How many transformers will ComEd acquire during the remainder of 2010 and the first two quarters of 2011?**

A. We have already ordered six transformers covered by this program, and delivery is scheduled to be complete by May 1, 2011. One transformer is scheduled for delivery each month from December 2010 through May 2011. Copies of purchase orders are included in ComEd Ex. 32.1.

Q. **What is the next program under the System Performance category?**

A. The next program is installation of distribution sectionalizing devices, ITN 4928 (34kV circuits) and ITN 40100 (12kV circuits). This program identifies locations where the installation of a distribution automation device (reclosing/sectionalizing), coupled with SCADA equipment, would provide reliability benefits. This is generally known as distribution automation, or the isolation of a fault and reconfiguration without manual switching. We will spend $13 million on these activities in the remainder of 2010 and the first two quarters of 2011.

Q. **What is the 2010 and 2011 work plan?**

A. We will install 17 devices on 34kV circuits and 370 devices on 12kV circuits through the end of the year. The 2011 program will target 23 devices on 34kV circuits and 230 devices on 12kV circuits.

Q. **What is the status of this program?**

A. Currently, 17 devices on the 34kV circuits (ITN 4928) have been construction completed with 14 of those placed into service. ComEd is reasonably certain the remaining 3 devices will be placed into service on the 34kV circuits during the remainder of 2010. ComEd is also reasonably certain to place into service the $2.4 million of devices on 34kV circuits planned for the first two quarters of 2011.

Currently, 305 devices on 12kV circuits (ITN 40100) have been construction completed with 260 of those placed into service. ComEd is reasonably certain to construction complete the remaining 65 devices and place into service the remaining 110 devices on the 12kV circuits during the remainder of 2010, well within the *pro forma* period. ComEd is also reasonably certain to place into service the $8.6 million of devices on 12kV circuits planned for the first two quarters of 2011.

Q. **What is the next program?**

A. The next program is a circuit improvements program that includes upgrades for lightning protection, ITN 6053 - Defined Circuit Improvements. Lightning is the leading cause of weather related outages. The 2010 work is complete. We will spend $3.2 million on this program during the first two quarters of 2011. Information on this program is included in ComEd Ex. 32.2.

Q. **How does ComEd decide where to invest?**

A. We target circuits with high customer interruptions due to lightning.

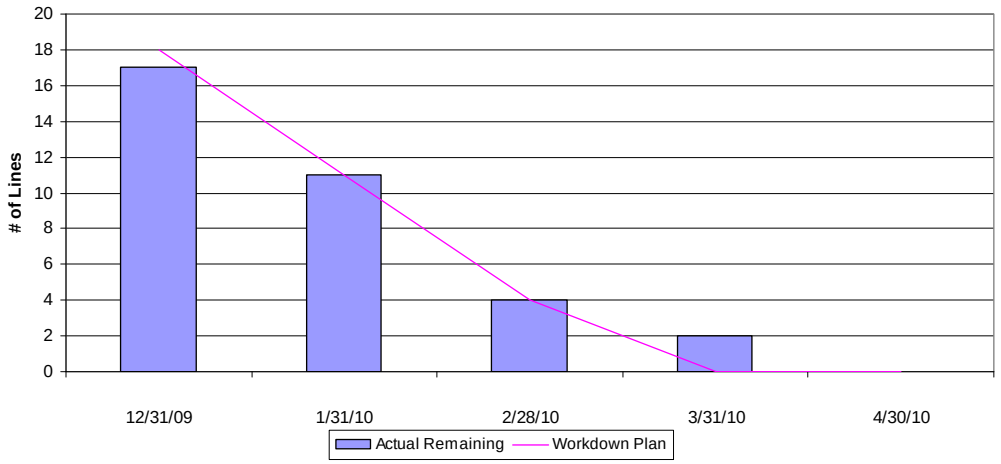
Q. **Which circuits will get treatment?**

A. ComEd identified 17 circuits for the 2010 program and all were completed prior to April 30, 2010. The 2011 program will target 20 circuits to be completed prior to June 30, 2011.

Q. **How does ComEd plan to complete this work in 2010 and 2011?**

A. We use an annual plan, reflected on a workdown curve. The workdown curve for 2011 has not received final approval (final approvals normally occur at the end of the prior

year); however, the current plans call for 20 circuits. The workdown curve for 2010 is shown below.



Goal: Install surge protection (approximately 2000 lightning arresters) in accordance with ComEd standards by 04/30/2010
ITN: 6053 – Defined Circuit Improvements Program Budget - $2.1M

Q. **What is the next program under the System Performance category?**

A. The next program is replacement of distribution mainline cable, ITN 42256. We will spend $3.7 million on this program during the remainder of 2010 and the first two quarters of 2011.

Q. **What is the scope of this program?**

A. This program focuses on circuits that have experienced two or more failures caused by underground cable or cable accessory failures in a 36-month period.

Q. **What work will ComEd accomplish the remainder of this year and next year on this blanket?**

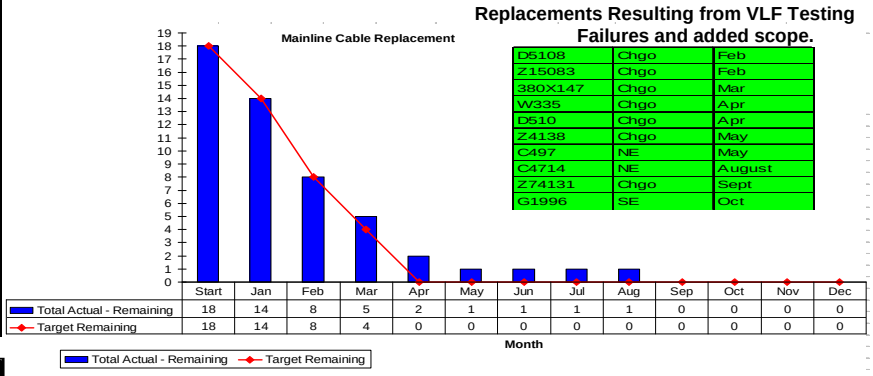
A. There are 53 mainline cable segments identified in the 2010 program. The program contained 43 sections resulting from failures or leaking joints and an additional 10

sections resulting from testing. The 2011 program scope will be approved by the end of the year.

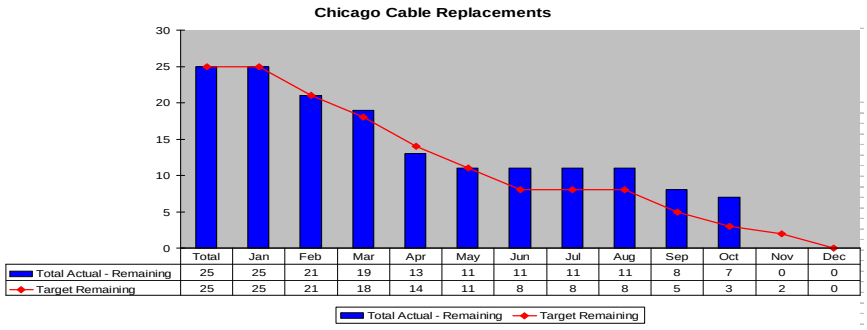
Q. **What is the status of this program?**

A. We track our performance based on workdown curves. The 2010 program has completed 46 section replacements. The work scope for 2011 will receive final approval by the end of the year. The workdown curves for 2010 for the mainline cable replacement programs are shown below.

Line	Region	Target Comp	Act/Schd Comp date
C042X	NE	Jan-10	Jan-10
D3422	CHGO	Jan-10	Jan-10
D785	CHGO	Jan-10	Jan-10
D631	CHGO	Jan-10	Jan-10
R8483	NW	Feb-10	Feb-10
D3423	CHGO	Feb-10	Feb-10
J4085	SW	Feb-10	Feb-10
C053	NE	Feb-10	Feb-10
C224	NE	Feb-10	Mar-10
A345	NE	Feb-10	Apr-10
E6024	NW	Mar-10	Feb-10
J7482	SW	Mar-10	Mar-10
C721	NE	Mar-10	Apr-10
C82	NE	Mar-10	May-10
W3622X	SW	Apr-10	Sep-10
C553	NE	Apr-10	Feb-10
A3414X	NE	Apr-10	Apr-10
318X142	CHGO	Apr-10	Mar-10



Line	Target Comp Date	Act/Schd Comp Date
Y84050	Feb-10	Feb-10
380X147	Feb-10	Feb-10
Y1931	Feb-10	Feb-10
Z4138	Feb-10	Feb-10
Z15084	Mar-10	Mar-10
Y2567	Mar-10	Apr-10
X3937	Mar-10	Mar-10
750Y45	Apr-10	Apr-10
HYPK47	Apr-10	
X1447	Apr-10	Apr-10
X4063	Apr-10	Apr-10
Y1933	May-10	May-10
Y3860	May-10	Apr-10
674X42	May-10	Apr-10
Z17475	Sep-10	May-10
Z15061	Sep-10	Sep-10
Z15058	Sep-10	Sep-10
X5469	Nov-10	
X3938	Nov-10	
Z6339	Nov-10	
Z6335	Nov-10	
Z6336	Nov-10	
Z10432	Nov-10	Sep-10
Z15090	Dec-10	
Z4133	Dec-10	Oct-10



Goal: Mainline cable replacements – 18 circuits (phase 1) & scope determined after completion of diagnostic testing (phase 2) and Chicago cable replacement - 25 Circuits associated with Leakers

ITN: 42256 – Replace Distribution Mainline Direct Bury & Conduit Program Budget - $7.2M

Q. **What is the next program?**

A. The next program is the replacement of 138 kV high voltage distribution HPFF joint casings, ITN 33538. We will invest $1.3 million under this blanket during the remainder

of 2010 and the first two quarters of 2011. Information on this blanket is included in ComEd Ex. 32.2.

Q. **What is the scope of this program?**

A. This is a multiyear program to replace the splice casings on high pressure fluid filled ("HPFF") underground lines in the City of Chicago.

Q. **Why is this program necessary?**

A. In 2005, we had a splice break on an HPFF near our connection with the Fisk generating plant in the City of Chicago. Because the conduits are pressurized with fluid, the consequences of such a break are serious. The potential for similar casing failures, including the loss of customer load for extended periods, led ComEd to begin this multiyear project.

Q. **What has ComEd determined to do?**

A. Following a survey of best practices at six other utilities that have HPFF lines, we decided to replace existing fillet welded casings protecting splices with full penetration groove-welded casings. This is the design used successfully by Consolidated Edison in New York City.

Q. **What is the plan for 2010 and the first half of 2011?**

A. The plan for 2010 is to replace 8 casings on L-15312 and 3 casings on L-15303. The plan for the first half of 2011 is to replace 8 casings on L-19711.

Q. **What is the next program?**

A. The next program is the enhancement of fire suppression systems under ITN 43678 - CO2 Upgrade TDC 745 IC Air Rights, ITN 43679 - Water Suppression Upgrade TSS114 NW, and ITN 43680 - Water Suppression Upgrade TSS82 Crosby. We will invest $1.0 million under these ITNs during the remainder of 2010. Documentation and data on these programs are included in ComEd Ex. 32.2.

Q. **What is the scope of these programs?**

A. The CO_2 Conversion program is to enhance fire suppression systems inside ComEd substations. ComEd plans to enhance one existing CO_2 fire suppression system by the end of 2010. The Water Conversion program upgrades the existing manual deluge systems in the cable space to automatic water suppression systems, thus providing quick response to a fire and minimizing damage to the station and outage time. ComEd plans to convert two existing manual water suppression systems by the end of 2010.

Q. **How does this compare with previous years?**

A. The CO_2 Conversion program is a new program to enhance the effectiveness of existing fire suppression systems and to ensure safety of working personnel at the substations. The Water Conversion program is also a new program to upgrade several existing manual deluge systems to automated systems.

Q. **What is the status of these programs so far this year?**

A. As of the end of October, one CO_2 Conversion and two Water Conversions are undergoing construction targeted for completion at the end of 2010.

Q. **What is the next program?**

A. The next one is Regional Reliability Improvements. These improvements comprise four similar ITNs, one each for the four regions: Chicago, ITN 30752; North, ITN 30753; South, ITN 30754, and West, ITN 29238. We will spend $2.7 million ($1.2 million under the Chicago blanket, and a total of $1.5 million on the other three regions combined) during the remainder of 2010 and the first two quarters of 2011.

Q. **What are the regional reliability improvements?**

A. These programs identify improvements that will help both SAIFI and non-SAIFI customer satisfaction. In connection with municipal authorities, we develop and track municipal improvement plans on a ward-by-ward basis for Chicago. Overall, the focus is on repeat device outages.

Q. **What is the next program?**

A. The next one is System Performance Relay Upgrades: ITN 33872 - Distribution Transformer Relay Upgrade, ITN 33875 - 34kV Line Upgrades, ITN 41276 - 69KV Pilot Wire Replacement, ITN 41277 - Current Injection Removal (Volt. Collapse), and ITN 41279 - Arc Flash Relay Upgrades. We have invested $6.2 million under these ITNs through October 31, 2010, will invest $1.4 million during the first two quarters of 2011. Information on these ITNs is included in ComEd Ex. 32.2.

Q. **What work is performed under this program?**

A. We replace obsolete protection and control equipment on the distribution system. This includes protective relays, SCADA equipment, and communication equipment. Because the funds for this program are relatively limited, ComEd targets only equipment with

identified problems, or obsolete equipment that cannot function with other, more modern equipment.

Q. **What is the status of the work?**

A. The 2010 work is complete. The following chart shows the identified 2011work for the first two quarters, and the status of these items.

Site	Number	Title	Description	T/D	Work Order	Project	Project Status	Total	Completion Date
Damen	TDC 814	012kV Arc Flash Initiative	Upgrade the following feeders from CO6 to CO9 to provide faster tripping: 1411 & 1414 ADD IT TO 1414	D	7064340	10SPS117	Proposed Completion Date 2/28/11	$ 5,900.00	
Quarry	TDC 840	012kV Arc Flash Initiative	Upgrade the following feeders from CO6 to CO9 to provide faster tripping: ~~,~~ 84050, 84062	D	7064338	10SPS116	Proposed Completion Date 2/28/11	$ 16,400.00	
Hayford	TSS 33	012kV Arc Flash Initiative	Upgrade the following feeders from CO6 to CO9 to provide faster tripping: 3335 (need plate), 3341, & 3351 (Need Plate)	D	7064336	10SPS121	Proposed Completion Date 2/28/11	$ 8,800.00	
Hegewisch	TSS 55	012kV Arc Flash Initiative	Upgrade the following feeders from CO6 to CO9 to provide faster tripping: 5535 & 5544	D	7064330	10SPS118	Proposed Completion Date 1/31/11	$ 16,400.00	
Wallace	TSS 118	012kV Arc Flash Initiative	Upgrade the following feeders from CO6 to CO9 to provide faster tripping: 11864 & ~~11868~~	D	07064329	10SPS123	Proposed Completion Date 2/28/11	$ 5,900.00	
Hanson Park	TSS 32	012kV Arc Flash Initiative	Upgrade the following feeders from CO relays to the std microprocessor feeder relay package per GDD 1110 (wire fail alm to existing SCADA only). Admiral Line Group (Magid Glove ESS) was broken up per PD 1P091421. Note that PD was funded by customer to c	D	7064305	10SPS130	Proposed Completion Date 5/31/11	$ 66,000.00	
Hawthorne	TSS 52	012kV Arc Flash Initiative	Upgrade the following feeders from CR-I to the std microprocessor feeder relay package per GDD 1110 (wire fail alm to existing SCADA only):	D	07064315 07064313	10SPS120 10SPS129	Proposed Completion Date 5/31/11	$ 348,000.00	
Hayford	TSS 33	012kV Arc Flash Initiative	Upgrade the following feeders from CO to the std microprocessor feeder relay package per GDD 1110 (wire fail alm to existing SCADA only):	D	7064323	10SPS124	Proposed Completion Date 3/31/11	$ 18,800.00	
Pontiac	SS 471	Add modern SCADA along with modern relays being added at SS 471 Pontiac	SCADA equipment will be mounted in a new rack mount cabinet and will include: Cisco router to bring IP connection to the substation, Subnet HMI PC for local alarm display, Telvent 3030 for substation data concentrator, 2 more SEL-2032s for SCADA, RuggedCo	D	TBD	10SPD059	Proposed Completion Date 4/15/11	$ 99,400.00	

Q. **What is the next project in the System Performance category?**

A. The next project is for system improvements near Midway Airport which is separated into ITNs 45167 and 45170 (Midway System Improvements) to align with the phasing of the work. There are twelve circuits from five substations that serve Midway Airport. The circuits have both overhead and underground exposure from the substation to the airport. Information on this project is included in ComEd Ex. 32.2.

Q. **What is the scope of that project?**

A. Installation of additional sources to feed the airport and local area load. The project also includes the installation of additional sectionalizing capabilities to enhance operational performance.

Q. **What capital investments are scheduled under these ITNs?**

A. $6.6 of the improvements under these ITNs will be completed by the end of June 2011.

Q. **What is the next project under the System Performance category?**

A. The next project is the replacement of 34 cable and switching devices that service Wrigley Field, ITN 45785. This project involves the replacement of underground cable, replacement of a sectionalizing device on site, and the installation of a new distribution automation sectionalizing device. The project began in 2010 and will complete by the end of second quarter 2011. The project is forecasted at $876 thousand.

6. Non-Operations and Other Plant Addition Categories

Q. **Please describe the non-operations plant additions that ComEd will make during November and December of 2010 and the first two quarters of 2011.**

A. ComEd will make plant additions in three general non-operations areas: Customer Service, Information Technology, and Real Estate.

a. Customer Service Activities

Q. **What plant is placed in service as a result of Customer Service activities?**

A. The Customer Service investments primarily include the purchase, installation, and removal of new meters. ComEd purchases meters in order to satisfy needs for new services, regulatory requirements, exchanges, and replacements. ComEd assigns all work

relating to meter installation to a blanket program because it involves highly repetitive, relatively inexpensive work on a per-work order basis.

Q. **How much plant does ComEd expect that it will place into service as a result of the purchase and installation of meters during the remainder of 2010 and the first two quarters of 2011?**

A. ComEd expects to place into service $9.3 million of plant during the period November 1, 2010 through June 30, 2011.

Q. **How much has ComEd spent on this blanket program from January 1, 2010 through October 31, 2010?**

A. ComEd has spent $8.6 million during 2010 through October 31st.

Q. **Is it reasonably certain that ComEd will place in service the $9.3 million of plant for the period November 1, 2010 through June 30, 2011?**

A. Yes. While the exact number of meters may fluctuate from month to month, this is a routine, core part of the work that we do every month. The forecast and work plan also includes non-discretionary work requirements, such as meter exchanges for commercial customers, so that work is reasonably certain to be completed on schedule.

b. <u>Information Technology Activities</u>

Q. **What plant is placed in service as a result of Information Technology ("IT") activities?**

A. IT activities constitute several unique projects and Lifecycle programs that have been developed to update ComEd's IT systems so as to provide enhanced services to the ComEd business unit and our customers.

Q. **What are some of the unique projects in the IT area?**

A. Unique projects in the IT area include Advanced Metering Infrastructure ("AMI"), Mobile Dispatch, and restructuring the ComEd website.

Q. **What are the programs which ComEd expects to result in plant additions during the remainder of 2010 and the first two quarters of 2011?**

A. At the Exelon Business Services Company (EBSC) there are no blanket programs which directly charge ComEd capital projects. All capital charged to ComEd by EBSC are billed to discrete projects during the year and budgeted at the project level. There are, however, Lifecycle hardware refresh programs that are budgeted directly at the ComEd level to fund the replacement of computers, servers, and various infrastructure related hardware.

c. <u>Real Estate Activities</u>

Q. **What plant is placed in service as a result of Real Estate activities?**

A. Real Estate activities relate to expenditures on real property owned or leased by ComEd, such as parking and storage area repaving, roof replacements, fire/life safety system replacements, acquisition of distribution and leasehold improvements, and electrical and lighting system replacements and updates.

Q. **How much does ComEd expect real estate activities to increase its plant in service by the end of the second quarter of 2011?**

A. ComEd expects to invest approximately $15.1 million in Real Estate activities that will add to plant in service by the end of the second quarter of 2011.

Q. **Can you provide some examples of some of the larger unique Real Estate projects?**

A. Yes. Major facilities' investment programs planned to be in service by the end of second quarter 2011 include: 1) the replacement of end-of-life window systems at several facilities. These window replacements will improve insulating factors and reduce utility costs for the facilities; 2) addition of reinforced security fencing and digital security camera systems at locations supplying equipment and materials. These security enhancements will aid in the reduction of outside thefts and break-ins to our facilities and further enable the apprehension of perpetrators; 3) HVAC and building automation system replacements at locations experiencing end-of-life failures of these systems. These building system replacements will improve energy efficiency of the facilities and reduce going-forward utility expenses of the facilities; and 4) continuation of annual paving program to replace end-of-life paving surfaces at facilities

Q. **Are there any blanket programs in the Real Estate *pro forma* adjustment?**

A. No, there are not.

Q. **How do you know that the Real Estate projects are reasonably certain to be in service by the second quarter of 2011?**

A. All Real Estate work is scheduled in advance to make sure that there is a proper allocation of budget and labor. While the exact list of the projects may change as we reprioritize our work throughout the year, the Real Estate work plan and budget provide reasonable certainty that the Real Estate projects in the *pro forma* request will be in service by the end of second quarter 2011.

d. <u>Financial Blankets</u>

Q. **Are there other categories ComEd uses to track its investments?**

A. Yes. We use financial budgeting blankets that apply to various categories of investment.

Q. **Please explain the group of blankets that track distribution transformers.**

A. ComEd has tens of thousands of local distribution transformers. When one of these pieces of equipment fails, it needs to be replaced immediately. It would be bad utility practice to wait until a transformer is needed before it was ordered. Also, a major event such as a severe thunderstorm or a heat wave may cause us to replace a lot of transformers in a short period of time. We therefore maintain a reasonable inventory of these transformers at various locations in our service territory, so they are readily available, which is tracked under the applicable distribution transformer blanket project(s).

Q. **Why are these transformers funded through blankets?**

A. It would be very time consuming, difficult, and inefficient for us to try to budget the number of transformers needed for every project and every blanket. There are just too many for this to make sense. Accordingly, we budget the transformers at a higher level, targeting the number for each of the five categories (capacity expansion, facility relocation, corrective maintenance, new business and system performance).

Q. **How, then, do the engineers plan for distribution transformers they expect to use during the course of a project, or for a blanket during the course of a year?**

A. In the blankets and unique projects themselves, distribution transformers are budgeted at zero dollars. This avoids any potential double counting in the categories.

Q. **What are the blankets called "Direct Support"?**

A. Direct Support refers to the ComEd engineers who bill time to individual projects. For many of the engineers, it would be difficult and time consuming to actually budget particular hours of engineering support. We therefore budget this support by category, as opposed to budgeting it for each unique project or blanket. Rather than try to develop a bottom-up budget for this engineering time, sometimes done in small increments of 20 minutes here or there, it works better to take a broader view, based on historical data and trends, to estimate this total support for the category.

Q. **What happens then as the work progresses?**

A. The engineers bill their time to the projects on which they actually work.

Q. **What are the levels of Direct Support for the five categories during the *pro forma* period?**

A. Direct Support related to each of the five categories (in millions) is as follows:

Direct Support	
11606: Direct Support: Cap Exp: ComEd: Electric	$ 1.13
11607: Direct Support: Cor Maint: ComEd: Electric	$ 1.22
29425: Direct Support: Cor Maint: ComEd: Distrib	$ 0.33
11610: Direct Support: Fac Reloc: ComEd: Electric	$ 2.77
11611: Direct Support: New Bus: ComEd Electric	$ 0.36
11609: Direct Support: Sys Perf: ComEd: Electric	$ 2.75
31412: Direct Support Syst Perf - Relay & Protect	$ 1.10
31413: Direct Support Syst Perf - T&S Subs Engr	$ 0.47
Total	$ 10.11

Q. **What are the blankets for AFUDC?**

A. We begin to accrue AFUDC, which is basically capitalized interest, for projects that are open for over 60 days. It is next to impossible to build this into the budgets for all the various projects in a category, because it is so hard for us to tell exactly which projects will be open for over 60 days. So, like the budget blankets described above, we use our

experience in past years to determine an appropriate level of AFUDC that we will experience, category by category.

Q. **What are the levels of AFUDC that will accrue during the *pro forma* period?**

A. AFUDC will accrue in each of the five categories is as follows (in millions):

AFUDC		
45343: AFUDC Forecast - BO - OSVP Admin	$	1.27
11613: AFUDC: ComED: Cap Exp: Electric	$	0.12
11618: AFUDC: ComEd: Fac Reloc: Electric	$	0.17
11612: AFUDC: ComEd: New Bus: Electric	$	0.85
11617: AFUDC: ComEd: Sys Perf: Electric	$	0.13
Total	$	2.53

III. Incentive Compensation

Q. **Staff witness Bonita Pearce (Staff Ex. 3.0, pp. 26-35) discusses a number of proposed disallowances to ComEd's incentive compensation costs. Which of these proposed disallowances will you address?**

A. I will address two.

- **First**, Ms. Pearce proposes to disallow half of the costs of incentivizing employees to manage and reduce the costs of ComEd's capital investments and to manage and reduce its O&M costs. In addition to any financial flaws from which this proposal may suffer, it is premised on an inaccurate view of who benefitted from efforts to reduce costs. When costs go down, customers benefit, in several different ways. Moreover, Ms. Pearce's premise that shareholders and customers benefitted equally is both unsupported and, particularly in this test year, wholly incorrect.

- **Second**, Ms. Pearce proposes to disallow all of the costs related to successful achievement of ComEd's Focused Initiatives. Her rationale is that these "measures are based on achievement of internal budget amounts for which the Company has not established clear ratepayer benefits." Once again, she is simply wrong. These are prudent costs of providing reliable service. Moreover, achievement of these initiatives benefits customers and, therefore, ComEd is entitled to recover the cost of these incentives even under Mr. Pearce's standard.

These two disallowances would remove from rates roughly $7.8 million of ComEd's actual cost to provide efficient, reliable, cost-effective service to customers.

Q. **Does Ms. Pearce raise any challenge to your direct testimony that the use of incentive compensation is an effective means of motivating employees and managers to achieve performance goals?**

A. No, she does not.

Q. **Does Ms. Pearce take any issue with your testimony that it is important for the Commission to consistently apply rules relating to incentive compensation so that utilities can rely on them in developing their compensation programs?**

A. No, they do not. Although Ms. Pearce has posed and answers a question specifically on the subject of past Commission decisions, she does not attempt to justify her departures from them.

A. <u>O&M Expense and Capital Expenditures Metrics</u>

Q. **What does ComEd's O&M Expense and Capital Expenditures Metrics achieve?**

A. These metrics effectively encourage ComEd employees and managers to keep both capital and O&M costs down, increasing efficiency and saving money.

Q. **What is Ms. Pearce's rationale for disallowing half of this metric?**

A. She acknowledges that customers receive the full benefit of the cost and expenditure reductions that these metrics incentivize once rates go into effect, but reasons that because the test year precedes the date on which the rates go into effect by "an interim period," shareholders benefit and half of the costs of these metrics should be disallowed.

Q. **Is she correct?**

A. No. Her conclusion is wrong for at least two reasons. Is it inconsistent with past Commission directions to ComEd. And even if it were otherwise valid, a 50% disallowance would be inappropriately disproportionate.

Q. **What is the first reason Ms. Pearce's disallowance is unfounded?**

A. During the interim period, ComEd's savings efforts enabled it to avoid filing a delivery rate case sooner. As I previously testified:[21]

> Many utilities in Illinois sought rate increases from the Commission last year or in late 2008. Because of ComEd's aggressive efforts at cost control, we were able to moderate and partially offset the pressure on ComEd's costs and defer the need to seek an increase in rates.

Even during what Ms. Pearce descried as the "interim period," 2010 and a portion of 2011, customers saved because ComEd did not have to file an earlier rate case to recover those costs. Were it not for the type of cost saving efforts incentivized by these metrics

[21] Donnelly Dir., ComEd Ex. 8.0, p. 24:478-81.

(which ComEd has had in effect for years), new and higher rates would have been sought during those very periods.

Q. **What is the second reason Ms. Pearce's disallowance is unfounded?**

A. During the "interim period", ComEd was not earning its Commission-allowed just and reasonable return. Any savings did not represent additional "bonus" monies flowing to shareholders, but were part of a level of net operating revenues that the Commission itself already determined to be justly and reasonably retained by ComEd to cover its costs of service and costs of capital.

Q. **Is Ms. Pearce's disallowance consistent with the Commission's decision with respect to these metrics in ComEd's prior rate cases?**

A. No, it is not. In ComEd's prior two rate cases, ICC Docket Nos. 07-0566 and 05-0597, the Commission approved recovery of incentive compensation costs related to this metric.[22] In ComEd's '05 case, the Commission made clear how it wanted to address these metrics, stating (at page 95 of its Order):

> In ComEd's previous rate case, Docket 01-0423, we stated that [incentive compensation] expenses should be recovered if the incentive compensation plan has "reduced expenses and created greater efficiencies in operations" and thus, it "can reasonably be expected to provide net benefits to ratepayers."

Indeed, in ComEd's 2007 rate case, the Commission reiterated its conclusion with respect to these cost savings metrics and stated that "we see no reason to waver." I explained in my direct testimony why it was so important for utilities to have clear guidance in this

[22] *Commonwealth Edison Co.*, ICC Docket No. 07-0566 (Order, Sept. 10, 2008) at 61; *Commonwealth Edison Co.*, ICC Docket No. 05-0597 (Order, July 26, 2006) at 95-97.

area.[23] Yet, although Ms. Pearce does not take issue with this testimony, she simply ignores all these past Commission's decisions.

Q. **Finally, you state that her proposed disallowance would be inappropriately disproportionate, even if it were otherwise valid. Why is that?**

A. Even if we ignored the fact that customers benefitted from the savings immediately and assume that they only benefit when rates go into effect, and even if we assumed that during the interim period ComEd was not entitled to retain the cost savings as part of their Commission-approved costs, justifying a 50% reduction is mathematically impossible. The cost savings here are not limited to a year or two. ComEd's rate base will never be as high as it would have been absent the capital savings and the O&M efficiencies will continue to pay dividends essentially in perpetuity. Customers will continue to benefit year after year after year, while the most Ms. Pearce can argue is that shareholders benefitted for some 18 months. Whether compared on a simple or net present value method, customers would reap almost all of the total benefits of any capital or O&M savings even were Ms. Pearce's basic position not flawed.

B. <u>Focused Initiative Metrics</u>

Q. **What are the Focused Initiatives?**

A. These are programs that directly contribute to the reliability, efficiency, and adequacy of the distribution system and thereby directly benefit customers. I specifically identified all

[23] Donnelly Dir., ComEd Ex. 8.0, p. 31:632-38.

of the 2009 programs in my direct testimony and Ms. Pearce's direct testimony[24] lists the programs applicable to the distribution function:

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
Customer Service Technology Improvements.

Q. **Does Ms. Pearce offer any reason to doubt that these programs benefit customers?**

A. No, she does not. Indeed, she candidly acknowledges, as she must, that "the nine focused initiatives relate to operational activities that are necessary for the provision of safe and reliable utility service."[25]

Q. **So, then why does she propose to disallow the costs related to this metric?**

A. She theorizes that the metric is simply rewarding ComEd employees for doing their job and therefore claims that ComEd "has created an artificial "incentive" that forces ratepayers to pay a premium for operational services that are ordinary and necessary for delivery service."

Q. **Is Ms. Pearce correct?**

A. No. She is wrong for several reasons. Principal among them is her unwarranted assumption that achieving a level of performance that justifies a payout on these metrics is simply a function of doing one's job adequately. That is untrue. In order to even be

[24] Staff Ex. 3.0, 29:687-94.

[25] Pearce Dir., Staff Ex. 3.0, 30:705-06.

eligible for a possible award under this metric, both the work completed and the cost of that work must exceed expectations. In other words, no one is being paid a "premium" for "ordinary and necessary" work done satisfactorily. Rather, employees are being rewarded for performing core delivery work that directly benefits customers exceptionally well. That is exactly what ComEd wants and, based on its statements in past orders approving incentive compensation awards, what I believe the Commission wants as well.

Q. **Does Ms. Pearce make any other arguments concerning this metric?**

A. Yes. She notes that ComEd establishes the benchmark for excellence under this metric, but then assumes that this somehow invalidates it. She is wrong. The "budgets" on which the metric is based are the same types of workplans and forecast on which ComEd bases all of its capital program evaluation and operating management. She has no evidence – and identifies no basis for surmising – that these budgets are unrealistic or somehow calculated so that employees can receive rewards for distinguished work when actually they are just "doing their job." Indeed, ComEd itself has no incentive whatsoever to do this: Why would ComEd want to develop lax targets and overstated budgets for the purpose of paying its employees *more* for an average job? That would only hurt ComEd.

Therefore, Ms. Pearce's comment that the "benefits to customers are largely a creation of the Company's budget process, not much else"[26] is both misinformed and inaccurate. The budgets are a function of the engineering and operating work to be

[26] Staff Ex. 3.0, p. 30:714-15.

performed for customers and the benefits reflect excellence in the performance of that work.

Q. **Are there any other facts you want the Commission to be aware of concerning this metric?**

A. Yes. It is particularly unfounded of Ms. Pearce to refer to the award to employees under this program as "premium." Even if an employee receives an award on this metric, they will not be paid a premium. ComEd's incentive compensation costs are subsumed in its market-based pay package. No one is getting a "premium," *i.e.*, payments beyond a reasonable market-based wage or salary, even when they perform flawlessly.

IV. <u>Underground Cable in Rate Base</u>

Q. **Are there any underground cable assets in ComEd's proposed rate base that are not being used to serve customers appropriately?**

A. No. All of the underground distribution cable in our rate base is being used to serve customers and is performing a useful function. I have also reviewed Mr. Rockrohr's definition of used and useful (Staff Ex. 6.0, p. 6) and while I prefer my formulation for the evaluation of delivery assets, our underground cable also meets the definition of "used and useful" as he describes it.

Q. **Was any underground cable asset in ComEd's proposed rate base acquired or placed into service imprudently?**

A. No. As I explained in my direct testimony, there are no imprudently acquired or installed assets in our rate base.

Q. **Then why does Staff witness Ebrey propose to disallow $18.7 million in underground cable costs?**

A. The sole reason identified for this disallowance is Ms. Ebrey's belief that these assets were previously disallowed by the Commission in a manner that would somehow automatically exclude them from the current rate base. I conclude this because she identifies no other reason for the disallowance.

In this assumption, however, Ms. Ebrey is mistaken. The Commission excluded these underground cable assets from ComEd's rate base based on what the Commission found to be a lack of evidence available in that case. The Commission made no finding that any underground cable assets were imprudently acquired and no finding that would permanently bar those assets from being included in rate base. The fact that the Commission found that ComEd did not adequately support inclusion of an asset in rate base in 2007 does not mean that the asset was imprudently acquired let alone that it is not used and useful and prudently deployed now and during the 2009 test year.

Indeed, the Commission in its Order in the 2007 ComEd Rate Case specifically directed ComEd to work with Staff to expand the types of information available about such assets.[27] We have done this. Specific additional information that addresses the concerns raised in the prior docket is presented by Ms. Houtsma (ComEd Ex. 29.0). That evidence, as well as my testimony, supports including these assets in rate base. The fact is they are serving customers appropriately and continuing to exclude them from rate base because of an issue with what data was available in 2007 would be arbitrary and unreasonable.

[27] *Commonwealth Edison Co.*, ICC Docket No. 07-0566 (Order, Sept. 10, 2008), p. 46.

V. Conclusion

Q. **Does this complete your rebuttal testimony?**

A. Yes, it does.