STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY	)	
	)	
Petition for General Increase in Delivery Service Rates	)	Docket No. 10-0467
	)	

REBUTTAL TESTIMONY OF MICHAEL L. BROSCH

ON BEHALF OF

PEOPLE OF THE STATE OF ILLINOIS AND

THE CITIZENS UTILITY BOARD

DATED DECEMBER 23, 2010

DIRECT TESTIMONY OF MICHAEL L. BROSCH

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I. INTRODUCTION / SUMMARY

Q. Please state your name and business address.

A. My name is Michael L. Brosch. My business address is PO Box 481934, Kansas City, Missouri 64148-1934.

Q. Are you the same Michael L. Brosch who previously submitted Direct Testimony that was identified as AG/CUB Exhibit 1.0 in this Docket?

A. Yes. My qualifications and a listing of my previous testimonies was provided in AG/CUB Exhibits 1.1 and 1.2, respectively. This Rebuttal Testimony is provided on behalf of the People of the State of Illinois, represented by the Attorney General ("Attorney General" or "AG"), and the Citizens Utility Board ("CUB").

Q. What is the purpose of your Rebuttal Testimony in this docket?

A. My Rebuttal Testimony is for two purposes. First, I provide an update to AG/CUB Exhibit 1.3 that I sponsored in Direct Testimony. In AG/CUB Exhibit 7.1, I have combined and summarized the AG/CUB ratemaking adjustments starting with the Company's Rebuttal revenue requirement that is set forth in ComEd Exhibit 29.1. The updated AG/CUB Exhibit 7.1 reflects the changes to adjustments that are described in the Rebuttal Testimonies of Messrs. Effron (AG/CUB Exhibit 8.0), Smith (AG/CUB Exhibit 9.0) and Thomas (AG/CUB Exhibit 10.0) and calculates the resulting revenue requirement.

In addition to compiling the AG/CUB updated revenue requirement calculations, I will also provide responsive testimony to ComEd Rebuttal Witnesses Mr. Subbakrishna, Ms. Houtsma, Mr. Marquez and Mr. Fruehe.

Q. Please summarize the recommendations that are set forth in your Rebuttal Testimony and in AG/CUB Exhibit 7.1.

A. Based upon the combined work and Rebuttal Testimony of AG/CUB witnesses Messrs. Effron, Smith and Thomas as well as my own proposed revisions, I now recommend that the Commission authorize an overall revenue <u>decrease</u> for ComEd of at least $40.4 million. Schedule A in AG/CUB Exhibit 7.1 supports this recommendation, by combining the AG/CUB recommended rate base on Schedule B, adjusted test year Operating Income on Schedule C and the cost of capital recommendation set forth on Schedule D.

Q. Why do you characterize the recommended revenue decrease as an amount that should be "at least" the results of AG/CUB calculations?

A. As noted in my Direct Testimony, the AG/CUB witnesses did not attempt to address every issue in this proceeding. Therefore the Commission is urged to utilize the recommendations set forth in AG/CUB Exhibit 7.1 cumulatively with any needed ratemaking adjustments that may be sponsored by Staff witnesses or by other parties.

Q. How are the AG/CUB revenue requirement accounting schedules within AG/CUB Exhibit 7.1 organized?

A. The organization of AG/CUB Exhibit 7.1 is the same as the earlier version of these calculations that are contained in our direct testimony and shown on AG/CUB Exhibit 1.3, except the starting point for AG/CUB Exhibit 7.1 is the Company's Rebuttal revenue requirement filing that is documented in ComEd Ex. 29.1 (November 22, 2010 REVISED). As with our Direct Testimony, AG/CUB Exhibit 7.1 contains the overall revenue requirements calculations for ComEd's 2009 Test

Year, and each AG/CUB witness' revision to ratemaking adjustments is captured in this updated exhibit. The specific witness who is responsible for the proposed adjustments set forth on separate pages within AG/CUB Exhibit 7.1 is identified on the schedule. Throughout my testimony, I will refer to individual AG/CUB adjustments that I sponsor by indicating the AG/CUB "Accounting Schedule" or the "AG/CUB Adjustment Schedule" that corresponds to the testimony discussion.

An index appears as the first page of AG/CUB Exhibit 7.1 which lists each Accounting Schedule, providing a brief description of the adjustments or other calculations contained in the Schedule. The AG/CUB Accounting Schedules in Exhibit 7.1 are organized into sections, within the following overall framework:

- Schedule/Section A Summary of Revenue Requirement
- Schedule/Section B Rate Base and Rate Base Adjustments
- Schedule/Section C Operating Income and Adjustments
- Schedule/Section D Cost of Capital Summary
- Schedule E Reconciliation of AG/CUB and ComEd's filings

Within Sections B and C, individual AG/CUB accounting adjustments are set forth on separate Accounting Schedules in sequential order, such that Schedule B-1, Schedule B-2, etc. represent proposed rate base adjustments and Schedule C-1, Schedule C-2, etc. represent proposed income statement adjustments. The Schedule B and Schedule C summaries of rate base and operating income start with the Company's pre-filed rate base and operating income positions, respectively, and then reflect the total adjustments proposed by AG/CUB witnesses in their Rebuttal Testimony to derive the proposed rate base and operating income recommendations.

II. TEST YEAR MATCHING

Q. In your Direct Testimony, at pages 5 through 16, you explain the importance of maintaining test year matching and described why the Commission should reject ComEd's proposed one-sided projected Plant additional pro forma adjustments. Has ComEd offered anything new in its Rebuttal to support Commission approval of its proposed adjustment to update Plant investment without also updating the depreciation reserve?

A. No. The Company offers no new substantive arguments that refute the clear need to maintain a balanced updating approach for all components of rate base. Several new arguments are suggested by ComEd's witnesses who continue to favor ComEd's distortive test year approach that seeks to project pro forma Plant additions, while ignoring the persistent growth in accumulated depreciation and accumulated deferred income tax accounts that offset required new investment capital.

Q. At lines 60-68 of his Rebuttal, Mr. Guerra (ComEd Ex. 29.0), characterizes the adjustments made by Staff and AG/CUB witnesses to properly match the elements of rate base as "…simply tactics to reduce the revenue requirement below real spending." He continues with the argument, "Staff's proposal to limit ComEd's pro forma additions to plant in-service as of September 30, 2010, would, with the stroke of a pen, decrease rate base by about half a billion dollars. It can only be supported by standing the 'known and measurable' standard on its head and pretending that ComEd will invest <u>not a dime</u> in its system through next June." Does the AG/CUB test year approach, with

matched and synchronized updating of Plant and Accumulated Depreciation and Accumulated Deferred Income Taxes do these things?

A. No. Updating Accumulated Depreciation and Accumulated Deferred Taxes to the same point in time as Plant in Service is updated is essential to properly account for the <u>overall</u> change in ComEd's net investment to serve its customers. Such updating directly accounts for **<u>every dime</u>** of new investment while at the same time recognizing that:

- ComEd continuously recovers its existing Plant in Service investment through the collection of depreciation expense through existing utility rates, and,
- ComEd is able to employ deferred income taxes arising from liberalized depreciation and other book/tax timing differences to finance a significant portion of its new investment with incremental income tax savings, which represent zero-cost capital.

The Company's histrionics aside, the AG/CUB position is that rate base updating should be accepted by the Commission <u>only</u> when quantified in a balanced manner that does not selectively add new plant investments while ignoring offsetting changes in accumulated depreciation and accumulated deferred income taxes.

Q. Ms. Houtsma (ComEd Ex. 29.0), at lines 160-165, states, "As shown on ComEd Ex. 29.3, in each of the last three years ComEd's actual earned return on equity has significantly lagged the ROE authorized by the ICC in rate proceedings, despite the fact that the rate orders in effect for those years included *pro forma* additions without a roll forward of depreciation on

embedded plant. This fact refutes any contention that a failure to update the depreciation reserve would result in overstated rates." Do you agree with Ms. Houtsma that past levels of ComEd income and rates of return justify distortion of test year matching in the pending rate case?

A. No. ComEd's actual recorded Operating Income and ROE levels achieved in prior years do not indicate anything definitive about revenue requirements today. ComEd has not shown that its historical earnings will, in any meaningful way, predict future financial results or that such historical earnings have anything to do with how we elect to update rate base. Whether ComEd achieved the ROE approved by the Commission historically is not the question – of more interest is the Company's revenue requirement being established today, that will provide a reasonable opportunity to earn a fair return prospectively.

Ms. Houtsma does not explain how the historical ROE values on ComEd Ex. 29.3 were calculated, so it is difficult to know if any of the input amounts reflect a ratemaking basis of accounting. If not adjusted to a ratemaking basis of accounting, every expense recorded by ComEd may be used to reduce reported Operating Net Income and ROE, even though ComEd has indicated its acceptance of the ratemaking removal of millions of dollars of expense associated with executive compensation, general advertising, energy efficiency program costs, corporate aircraft costs, and lease expenses that are shown as adjustments on ComEd Ex. 29.2, Workpaper WPC-1a. My Direct Testimony explained how an important benefit of traditional test year regulation is the intensive focus upon utility operations and costs within a formal proceeding, which allows the Commission Staff and other interested parties to carefully examine or audit the components making up the revenue requirement.[1] No such examination or audit has been undertaken for the values in ComEd Ex. 29.3.

Even with these problems, the ComEd reported Operating Income and asserted ROE achievement in the years 2005 through 2009 in ComEd's Ex. 29.3 indicate persistently positive income throughout the recent economic downturn, with the highest return in the most recent year shown (2009). If these historical adjusted income and ROE data were restated to an appropriate ratemaking adjusted ROE and compared to the authorized ROE level recommended by AG/CUB witness Christopher Thomas, the 2009 information and achieved ROE of 8.5 percent appears to support a conclusion that little or no change in overall revenues is needed by the Company at this time.

Q. In the 2009 column of ComEd Ex. 29.3, "Operating Net Income" is shown as $356 million. After ComEd's 2009 Operating Income is adjusted for ratemaking purposes, as proposed by the AG/CUB witnesses, how much Operating Income and Operating Net Income was earned by the Company?

A. The "Net Operating Income Available" for debt and equity return is shown at Schedule A of AG/CUB Exhibit 7.1 to be $531 million. After subtracting synchronized interest of $231 million at Schedule C-15, about $300 million is available for equity return. The common equity supporting AG/CUB rate base is approximately $3.1 billion,[2] suggesting ComEd earned an ROE at present rate levels in 2009 of about 9.6 percent.

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[1] AG/CUB Ex. 1.0, lines 145-149.

[2] Calculated as equity ratio on Schedule D of 47.3% times Rate Base of $6.5 billion.

Q. According to Ms. Houtsma's Rebuttal (ComEd Ex. 29.0) at line 148, "However, a future test year calculation using 2011 data (see ComEd Ex. 6.3 attached to my direct testimony) supports a revenue requirement quite similar to the request in this proceeding." Has the Company proven its asserted revenue requirement to be reasonable by submission of a fully developed future test year?

A. No. Ms. Houtsma's ComEd Ex. 29.1 at Schedule A-1 contains a Summary of Standard Information Requirements and at Page 3, the entire SUBPART J – FUTURE TEST YEAR listing says each of the provisions at Section 285.7705 through 285.7075 are "Not Applicable – The Company is not selecting a future test year." The Company should not be allowed to assert any revenue requirement conclusions based upon its forecasted 2011 financial data calling it a "future test year calculation" and then decline to support such data in discovery and in its filing. The amounts set forth in ComEd Ex. 6.3 represent unsupported financial projections that have not been audited or adjusted to a ratemaking basis of accounting and should be disregarded by the Commission.

Q. Has the Company responded to AG data requests that were directed to the ComEd Ex. 6.3 financial projections?

A. Not in any meaningful detail. The Company has resisted and objected to the AG data requests seeking support for these financial projections. In ComEd's response to data request AG 9.01(a) the Company stated, "ComEd objects to providing 'complete and detailed workpapers for each element' of the $1,204 million [of budgeted Operating and Maintenance Expenses in its budget] on grounds of undue burden in light of the limited relevance of the $1,204 million." When asked in AG

9.01 (e) for "complete copies of all budget support documentation that ComEd would be required to provide with its rate case filing to support the $1,204 million amount if the Company elected to utilize a projected test year pursuant to the Commission's rules", ComEd responded, "Budget support documentation that ComEd would be required to file in support of the $1,204 million in a projected test year filing does not exist." Support for the Company's so-called "future test year" calculations in ComEd Ex. 6.3 were requested again, along with an explanation of the relevance of these calculations in data request AG 14.01 and no substantive responsive materials were provided. I have included a copy of ComEd's objections and responses to data request AG 14.01 as AG/CUB Exhibit 7.2.

Q. At line 195 of her Rebuttal, Ms. Houtsma says, "Mr. Brosch's conclusions are the result of his own errors and misunderstanding…Mr. Brosch misrepresents my direct testimony at line 302 where he claims I imply that net invested capital will be increasing by $700 to $800 million in utility facilities." Are there any errors or misunderstandings in your testimony?

A. No. ComEd was asked to provide pinpoint citations to each of the alleged errors in my testimony in data request AG 14.03. Instead of doing so, the Company responded, "The errors and misunderstandings referred to on lines 195-198 are described on lines 196-210 of ComEd Ex. 29.0."

Any misunderstandings are the Company's rather than mine. I would note that, in her Rebuttal, Ms. Houtsma is <u>now</u> distinguishing between <u>gross</u> capital expenditures and the much lower net invested capital amounts that are includable in rate base when accumulated depreciation and deferred tax growth is properly recognized. My Direct Testimony (AG/CUB Ex. 1.0 at line 287) stated, "What is not mentioned in Ms. Houtsma's testimony, is that the majority of estimated future gross construction expenditures through 2015 will not require any new invested capital, because ComEd will instead use internally generated funds from its operations to fund such investments. These funds are mostly the result of ongoing collection of depreciation and amortization of existing Plant in Service." There should be no further dispute regarding the important distinction between ComEd's annual gross capital expenditures and the much smaller changes in net invested capital that are entitled to earn a return when a balanced updating of the rate base is undertaken.

Q. At line 170 of her Rebuttal, Ms. Houtsma challenges your testimony comparing rate base to ComEd's actual capitalization stating, "There is no reason to expect that total capitalization will equal total rate base. Mr. Brosch's analysis is overly simplistic and does not consider, among other things, the impact of historical transactions such as the accounting for the merger and corporate restructuring (which occurred in the years 2000 and 2001, respectively) that significantly altered the relationship between the capital structure and rate base." Are there any flaws in the rate base versus capitalization comparisons you presented in your Direct Testimony?

A. No. In Data Request No. AG 14.02 ComEd was asked to provide a "detailed statement of each alleged flaw in Mr. Brosch's analysis that causes it to be 'overly simplistic' indicating each omitted consideration and how it should be corrected." The Company objected and provided no detailed statement of flaws or suggested corrections. I have included a copy of ComEd's objections and responses to data request AG 14.02 as AG/CUB Exhibit 7.3.

Q. Where did you determine the rate base and capital structure values that you compared at lines 235 to 247 of your Direct Testimony?

A. The amounts I used in my Direct Testimony were entirely ComEd-calculated amounts. I added the ComEd asserted delivery service rate base from ComEd Ex. 6.1, Schedule B-1 of $7.7 billion with the Company's asserted transmission rate base from its 2010 FERC Filing in Docket No. ER09-1145-000 of $1.9 billion and observed that the combination of these two amounts exceeded ComEd's calculated overall capitalization of $9.1 billion on ComEd Ex. 6.1 at Schedule D-1. I characterized this as only a "….high level comparison, that recognizes the right and left sides of ComEd's balance sheet are expected to balance." I have no interest in re-litigating the Commission's prior exclusion of goodwill and other valuation adjustments that are made in such filings,[3] but would suggest that the large inconsistences between the size of ComEd's total regulatory capitalization and its overall ICC and FERC asserted rate base tends to indicate the serious overstatement of rate base, which arises from the proposed updating of plant additions without a matched updating of accumulated depreciation and deferred taxes.

III. CASH WORKING CAPITAL

Q. In your Direct Testimony, at pages 23 to 36, you explained the reason why the Lead/Lag study of Cash Working Capital ("CWC") prepared by ComEd's witness is based upon unproven assumptions and flawed methodologies that

[3] In its response to AG Data Request 14.02(e), ComEd observed that in Docket No. 05-0597 the ICC determined that, for ratemaking purposes, the common equity balance should be reduced by the amount of goodwill recorded on ComEd's balance sheet. ComEd should not be allowed to apply distortive updating of Plant additions in determining rate base, so as to overcome the

render the results useless, concluding that, "The Company has not presented any reliable estimate of CWC that should be included in rate base."[4] Has ComEd's witness corrected the deficiencies you identified such that the Company's CWC recommendation is now reasonable?

A. No. The fundamental flaws in the revenue collection lag quantification proposed by Mr. Subbakrishna have not been corrected. Instead of acknowledging the problems arising from the imprecise methods and flawed assumptions within his accounts receivables aging methodology, Mr. Subbakrishna asserts repeatedly that he is using, "the same method that has been accepted by the Commission in the rate proceedings of The Peoples Gas Light and Coke Company, North Shore Gas Company, the Ameren Illinois Utilities, and Nicor Gas Company"[5] and therefore his approach must be sound. Mr. Subbkrishna offers no empirical evidence that the multiple bald assumptions that are employed in his approach are reasonable or accurate in determining ComEd's actual lag days associated with collecting revenues from customers. Even if the general method used by ComEd to quantify the revenue collection lag has been accepted by the Commission previously, the specific calculation used in each rate case must be based on reasonable inputs and assumptions for that specific utility and specific test year.

Q. Has the Company's Rebuttal Testimony on Cash Working Capital caused you to revise your recommendation on this topic?

A. No. I continue to recommend that ComEd's CWC allowance remain at the same zero level that was included in the Commission's Order in Docket No. 07-0566,

Commission's intended non-recovery of a return on goodwill amounts that are recorded within common equity.

4 AG/CUB Exhibit 1.0, lines 512-516.

because there is no credible evidence of a positive CWC investment that should be included in the Company's rate base in this Docket.

Q. Has ComEd changed the revenue collection component of the overall revenue lag from the 39.16 day value that was recommended in Mr. Subbakrishna's Direct Testimony?

A. No. Even though his result was rejected by both the Commission Staff and AG/CUB as unreasonable in this docket, Mr. Subbakrishna has not changed his revenue collection lag to correct for the problems noted by Staff and in my Direct Testimony. Instead, Mr. Subbakrisha states at line 102 of his Rebuttal, "Staff witness Pearce proposes that the collections lag for ComEd be established at 29.54 days compared with the 39.16 days as filed in its direct case and that I continue to recommend."

Q. At page 8 of his Rebuttal, Mr. Subbakrishna mentions your "concern regarding the use of broad ranges and their mid-points when calculating the collections lag." Does he offer any substantive evidence that his mid-point assumptions applied to receivables falling into broad aged ranges of 0-30 days, 31-60 days- 61-90 days, 91-120 days and 121-365 days will produce reasonably accurate results?

A. No. He recites his belief that other "[u]tilities in Illinois" have used such unsupported assumptions and those studies "…have either been accepted or accepted with modifications by the ICC." He then asserts that, "ComEd is no different in terms of the environment within which it operates and the types of customers it serves." There is no substance to a rebuttal that acknowledges the

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[5] ComEd Ex. 31.0, lines 30-34, lines 54-58 and lines 171-175.

criticism levied by Staff and AG/CUB, but then suggests that if other utilities in Illinois have avoided controversy, his method must be reasonable for use by ComEd.

Q. If "ComEd is no different in terms of the environment within which it operates and the types of customers that is serves," as suggested by Mr. Subbakrishna, shouldn't we expect ComEd's asserted collection lag to be comparable to the other utilities in Illinois?

A. Yes. The problem is that when we compare ComEd's asserted revenue lag day values to other Illinois utilities, it is obvious that ComEd's collection lag of 39.16 days is substantially overstated. The following revenue collection lag values were asserted by other Illinois utilities in prior Illinois Rate Cases:

Utility	Docket No.	Utility Proposed Collection Lag Days
Peoples Gas Company	09-0166	32.72 days[6]
North Shore Gas	09-0167	23.24 days[7]
Ameren Illinois Utilities	09-0306/0311	28.13 days[8]
Northern Illinois Gas	08-0363	Not Comparable

The only Illinois utility mentioned by Mr. Subbakrishna in his Rebuttal Testimony with a higher asserted collection lag than ComEd's proposed value is Northern Illinois Gas at 45.35 days[9], and it has been excluded from my comparison in this

6 ComEd Ex. 31.0 WP-2 (Cont.). page 1 of 48.
7 ComEd Ex. 31.0 WP-2, page 1 of 27.
8 ComEd Ex. 31.0 WP-3, page 96 of 146.
9 ComEd Ex. 31.0 WP-1(3) at page 3.

table because this value is vastly distorted due to the inclusion of receivables "Over 331 days" old with an assumed cash payment midpoint of 365 days.[10] This is a result so absurd that even Mr. Subbakrishna has rejected inclusion of year-old receivables in ComEd's own calculations.

Q. At line 31 of his Rebuttal, Mr. Subbakrishna asserts that his accounts receivable aging approach with mid-point assumptions "is consistent with standard practice in Illinois over the past five years" and has been accepted…by the Commission in the rate proceedings mentioned in your previous answer. Are you aware of any such "standard practice" in Illinois?

A. No. I offered considerable testimony on what is standard practice in measuring revenue collection lag days in my Direct Testimony.[11] In AG Data Request No. 14.08, ComEd was asked to reference the support for his reference to "standard practice" and the cases he seems to suggest are of precedential value in support of his flawed methodology. A copy of ComEd's response to this Data Request is attached as AG/CUB Exhibit 7.4. Apparently, what Mr. Subbakrishna means by referencing "standard practice" is that in some prior instances a CWC study was submitted by an Illinois utility and was "accepted" without challenge. However, as the response to AG Data Request No. 14.08 and the table above reveals, the results of these prior studies were typically not as drastically skewed toward overstatement of the collection lag as ComEd's study in this docket.

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[10] See ComEd EX. 31.0 WP-1 at page 3 of 239.

[11] See AG/CUB Exhibit 1.0 at lines 565 to 579 and lines 700-717. See also AG/CUB Exhibit 1.5.

Q. Has the Commission, in any case you know of, affirmatively adopted Mr. Subbakrishna's accounts receivable aging / mid-point assumption methodology as the best method to quantify utility collection lag days?

A. No. Nor have I observed this methodology proposed or accepted in any other regulatory jurisdiction in my professional career.

Q. Are you aware of a recent instance where the accounts receivable aging approach used by Mr. Subbakrishna was rejected by the Illinois Commission in a rate case order?

A. Yes. In Ameren Illinois Utilities Docket Nos. 09-0306 through 09-0311 consolidated, the 28.13 day revenue collection lag mentioned by Mr. Subbakrishna and proposed by Ameren was based upon the accounts receivable aging methodology. In its Order dated April 29, 2010, at page 54, the Commission rejected this methodology, stating:

> The Commission has concerns about AIU's proposed method for calculating the CWC requirement. The Commission understands that IIEC's reason for proposing 21 lag days in that it is the maximum lawful period customers can delay payment. Section 285.2070 of Part 285 specifically contemplates the use of a lead/lag study. AIU presented a detailed lead/lag study using methods that have been adopted by the Commission in numerous previous proceedings, but AIU assumed, rather than proved, the collection lag periods used in its study. The absence of empirical evidence supporting the collection lag assumptions used in Ameren's lead/lag study weighs against the utility, which has the burden of proof in this proceeding. Under these circumstances, IIEC's proposal to use a 21 day collection lag in calculating the CWC requirement is hereby adopted.[12]

[12] This finding was later modified in the Commission's Order on Rehearing dated November 4, 2010, with the Commission stating, "The fact that AIU collects late fees suggests that some customers pay their bills after the dates specified in the Commission rules. If all customers paid their bills by the time specified in the Commission rules, it would not be possible for AIU to collect late fees."

Q. Has Mr. Subbakrishna assumed, rather than proved, the collection lag periods used in ComEd's study of the collection lag?

A. Yes. This is the fundamental flaw with the accounts receivable aging approach. Rather than measuring the delay in payment by customers, Mr. Subbakrishna's approach assumes all of these values. A summary of his unproven assumptions is set forth in the table at page 28, lines 618 to 620, of my Direct Testimony.

Q. Has Staff also challenged the unproven assumptions involved in Mr. Subbakrishna's approach to quantification of the collection lag?

A. Yes. Staff witness Ms. Bonita Pearce recalculated the collection lag using a different, but equally arbitrary assumption for the oldest aging category of accounts receivable. Ms. Pearce offers no support for this proposed revision beyond observing that it produces less overstatement of the collection lag than is proposed by ComEd.[13] In Rebuttal, Mr. Subbakrishna complains that Staff's modification should be rejected because they are "…driven by her selection of an unjustifiable "cut-off" point for older receivables. Thus, her result is skewed downward significantly compared with that filed by ComEd."[14]

Q. Are Mr. Subbakrishna's assumptions about receivables aging mid-points and cutoffs any less arbitrary than Staff's assumption to limit one of the aging categories?

A. No. Mr. Subbakrishna's entire approach is arbitrary and rife with unproven assumptions. This can be observed by studying the Company's explanations for its aging bracket assumptions within responses to data requests, including:

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13 Staff Exhibit 3.0, lines 990-1011.

14 ComEd Ex. 31, lines 48-51

- In general, the mid-point of the aging day categories is used to estimate the average collections lag, based upon an unproven assumption that, within a particular category, amounts are equally likely to age before and after the mid-point of that category.[15]
- ComEd has explicitly taken into account a grace period when computing the mid-point of the first interval for each of the customer categories thereby reducing the otherwise applicable collections lag time overall.[16]
- The average aging time by interval values are assumptions driven by the amount of time that customers have to pay their bills. For instance, small commercial and large commercial customers have 14 days to pay their bills. The midpoint of the first interval is 8 days. This is half of the 16 days remaining in the month after the 14 day grace period. 30 days in the month less the 14 day grace period is 16. The midpoint is 8 days that was used as the average aging time for commercial customers within the first interval.[17]
- For railroads, street-lighting and public authority customers, the mid-point of the 0-30 day and 31-60 day intervals are assumed to be zero since such customers have 60 days to pay their bills.[18]
- ComEd has elected to ignore receivables that are greater than 365 days old as well as those receivable amounts associated with inactive accounts.[19]

Complete copies of ComEd's responses to AG Data Requests 3.27 and 7.15 were attached to my Direct Testimony within AG/CUB Exhibit No. MLB-1.6. ComEd

15 ComEd Response to AG Data Request No. 7.15(a).
16 ComEd response to AG Data Request No. 3.27(c).
17 ComEd response to AG Data Request No. 3.27(a).
18 ComEd response to AG Data Request No. 7.15(d).
19 ComEd response to AG Data Request No. 3.27(c).

can and should have undertaken a study of its revenue collection lag using methods that are widely accepted and <u>not</u> dependent upon such subjective assumptions and questionable elections in interpreting data. When broad categories of aged receivables represent the only data made available for the study, the analyst is forced to adopt such crude assumptions, which will necessarily compromise the validity of the study results.

Q. Are arbitrary mid-point, grace period and cutoff assumptions normally a part of lead lag studies of cash working capital that are relied upon by regulators to determine rate base?

A. Not in my experience. I recommend that the Commission not adopt this conglomeration of assumptions, or Staff's alternative assumptions, and the unreasonable collection lag day results that are the underpinning of ComEd's lead lag study. A genuine measurement of ComEd's revenue collection lag should be expected before a CWC allowance is included in rate base. This could be accomplished, using more broadly accepted accounts receivable turnover analyses or sampling of customer remittances as described in my Direct Testimony at lines 700-711.

Q. The Rebuttal testimony of Mr. Marquez at lines 684 to 704 attempts to rationalize Mr. Subbakrishna's election to include receivables balances in the 121-365 days aging interval. Do you dispute that in certain unusual instances that are mentioned by Mr. Marquez very old receivables may be on the Company's books?

A. The reasons mentioned by Mr. Marquez could explain why ComEd has some extremely old receivables on its books. However, what is unexplained by Mr.

Marquez is the substantial portion of such old receivables that will ultimately be written off as uncollectible because they relate to "disconnections for non-payment", long-term non-payment during the "Winter Moratorium", or accounts in the "legal collections process." There can be no dispute that receivables that are ultimately written off as bad debts should not contribute to a study of how long it takes the utility to actually collect its revenues. A study of revenue collection lag days should focus solely upon the timing of amounts <u>actually collected</u> in cash. However, under Mr. Subbakrishna's approach, these very old receivables are included and allowed to stretch the collection lag beyond credible boundaries.

Q. Was ComEd asked to provide the approximate percentage of its receivables more than 120 days that would ultimately be collected in cash, rather than being written off as bad debts, even though they arise from the unusual circumstances described in Mr. Marquez' Rebuttal at lines 694 to 704?

A. Yes. For each instance listed by Mr. Marquez to explain the existence of very old receivables, the Company's response to the AG's data request about ultimate collection rates was, "ComEd does not have data to provide an answer to this question."[20] This is an important question, because the lead/lag study is intended to measure the timing of cash flows and, if a receivable is ultimately determined to be uncollectible, there is no cash flow to be measured. ComEd's uncollectible expenses are separately included in the revenue requirement and in Rider UF because of the Company's inability to collect cash from certain customers. The

[20] ComEd responses to Data Request Nos. AG 14.17(b), AG 14.18(c), 14.19 (c). In response to AG 14.16, ComEd argued that the question could not be answered "because it misinterprets the referenced testimony" and no responsive information was provided.

uncollectible accounts are primarily those that fall into the upper aging brackets that are included in Mr. Subbakrishna's collection lag calculations.[21]

Q. Does ComEd expect that a significant percentage of its receivables that are in the 121-365 day aging block will prove to be uncollectible, causing the Company to accrue a reserve for uncollectibles against such receivables?

A. Yes. In its response to Data Request AG 3.22, the Company provided support for its uncollectible reserve accruals, and Attachment 2 shows that a significant fraction of the receivables in the 121-365 Days column are expected to ultimately be uncollectible, as shown in the "Extended Reserve Calculation" for that column in each month. For example, ComEd's analysis of its January 2009 accounts receivable balances showed $52.3 million of receivables (excluding late payment charges) in the "121-365 Days" aging category and its risk ranking procedures produced an "Extended Reserve Calculation" for these aged receivables of $23.0 million. Thus, ComEd's expectation is that about 44 percent of receivables this old associated with serving Residential and SCI customers will ultimately become uncollectible. I have included a copy of ComEd's response to data request AG 3.22 as Exhibit MLB-7.5.

Q. Would Mr. Marquez' comments regarding the reasons for very old receivables remaining on ComEd's books also apply to the over 365 day aging category?

A. Yes. However, for the over 365-day aged receivables, Mr. Subbakrishna has inexplicably and arbitrarily "elected to ignore receivables that are greater than 365 days old."

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[21] In its response to Data Request IIEC 2.13, ComEd stated that "Accounts are classified in final status due to either customer moves or when a location's service is suspended for non-payment.

Q. At lines 424-437 of his Rebuttal, Mr. Subbakrishna addresses your concern about ComEd's application of a revenue lag to pension and OPEB cost recoveries. Do you agree with his statement, "…because the timing difference between when these expenses are accrued and the cash is remitted to the respective trust funds is already reflected in rate base, no further recognition in CWC is appropriate, and would in effect be a double count"?

A. No. Footnote (5) in ComEd's lead lag study[22] properly indicates that pensions and OPEBs should be assigned a zero day expense lead because these are non-cash expenses in the test year and are separately included in the rate base. It is essential to also remove the Pension & OPEB amounts from the revenues in the study to avoid assigning a full revenue lag with an assumed zero expense lead.

I'm not sure Mr. Subbakrishna understands the problem. In the Company's lead/lag study, the Pension & OPEB expenses at line 10 are assigned a zero assumed expense lead (in column F) because ComEd has not studied the cash payment timing associated with pension and OPEB benefits. However, the cash recovery of these accrual-basis expenses are included at lines 2 and 7 where they are afforded a full revenue lag. In contrast, other accrual-basis expenses such as uncollectibles and depreciation expense are subtracted from the revenue lag calculations at lines 3 and 4 so as to properly recognize these items as non-cash expenses. The same treatment should be afforded accrual-basis pension and OPEB expenses – there should be a subtraction between lines 2 and 7 of the expense

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Finaled accounts are written-off 90 days after the final bill is issued. On day 90, the account's unpaid balance is sent to a charge-off agency and the unpaid balance is automatically

[22] ComEd Ex. 29.1, Schedule B-8, Page 2 of 3 (November 22, 21010 Revised). See also ComEd Exhibit 31.4 which summarizes CWC in the Company's Rebuttal filing.

amount on line 10, so as to not calculate positive cash working capital requirements for a cost that is separately accounted for in rate base.

Q. Did the AG provide ComEd an opportunity to explain the meaning of Mr. Subbakrishna's comment at line 436 of his Rebuttal that, "…because the timing difference between when these expenses are accrued and the cash is remitted to the respective trust funds is already reflected in rate base no further recognition in CWC is appropriate and would in effect be a double count"?

A. Yes. In AG Data Request No. 14.14, Mr. Subbakrishna was asked about his treatment of pension and OPEB expenses and whether he conducted any studies of the timing of cash payments made by ComEd in relation to its pension funding or OPEB liabilities. The response references how he was informed about these costs by ComEd witness Houtsma and then he claims to have "not directly" conducted any studies of the timing of these cash flows. Mr. Subbakrishna appear to either not understand why amortizations and other non-cash expenses must be excluded from the revenue lag computations in calculating CWC, or he is being intentionally opaque in his Rebuttal on this point.

Q. Does the same problem apply to severance costs that were deferred in prior rate cases and are being ratably amortized into expense in the test year?

A. Yes. According to Mr. Subbakrishna's Rebuttal Testimony at line 440, "For instance, severance costs were paid out to employees in 2004 and, pursuant to the Commission's Orders in ICC Docket Nos. 05-0597 and 07-0566, the costs that were paid out then are being amortized or recovered over time (7.5 years) from customers. Thus, severance costs have a Revenue Lag time ascribed to them with a zero Expense Lead time on Schedule B-8." This approach is not a balanced treatment of cash inflows and cash outflows in the lead/lag study. One cannot reasonably exclude by "ascribing a zero Expense Lead time" a selected expense component of the study, while at the same time then applying a full "Revenue Lag time" for the recovery of the expense without systematically overstating CWC. Non-cash amortization expenses for the test year should be consistently excluded from revenue lag applications, as the Company has recognized for depreciation expense at Line 4 of its Study, but then ignored for the amortizations at Lines 10 and 11.

Q. What is your recommendation regarding ComEd's lead/lag study and its asserted CWC allowance for rate base?

A. I continue to recommend that the Commission find ComEd's study of CWC inadequate and unreliable, for all the reasons described in my testimony, and include the same zero Cash Working Capital estimate in rate base that was proposed by ComEd and adopted in Docket No. 07-0566.

Q. In Staff Exhibit 3.0 and Schedule 3.11 attached to her testimony, Staff witness Ms. Pearce proposed limited revisions to the Company's lead/lag study, including truncation of the Company's collection lag calculations to modify the 121-365 aging category, assuming it has the same 30-day increment that is reflected in the other aging categories. Would this change remedy the problems with the imprecision and other arbitrary assumptions employed by Mr. Subbakrishna that are addressed in your testimony?

A. No. The Staff's proposed collection lag modification results in an overall revenue lag day value of 47.7 days[23] which is still exceptionally long compared to typical

[23] ICC Staff Ex. 3.0, Schedule 3.11, page 1, line 1, column (c).

revenue lags for other large electric utilities.[24] This change represents movement in the right direction, but is no less arbitrary and unreliable than the Company's collection lag calculations that remain otherwise unadjusted in Ms. Pearce's Schedule 3.11.

Q. Do you agree with Ms. Pearce regarding the restatement of lag days for payments to affiliates, substituting the lag days for ComEd's payments to non-affiliated vendors?

A. I agree with Ms. Pearce that the timing of payments made to affiliated business entities is within the Company's discretion,[25] but this does not mean that ComEd's vendor payment lag of 64.34 is the correct answer for such payments. A more precise accounting for CWC requirements arising from affiliate transactions would be to either conduct a lead/lag study for the affiliated entities, or to substitute a dollar-weighted blend of ComEd's labor, benefits, taxes and vendor payment lag days for the affiliate payments, so as to recognize that Exelon BSC and other affiliates incur a mix of these types of costs (and lag days) in providing services to ComEd.

Q. Have you examined the other changes to the ComEd lead lag study that are recommended by Ms. Pearce at pages 40-43 of her testimony, to modify the lag days for pass through taxes and for employee benefits funding other than pensions, OPEBs and severance?

A. No. I have not examined these proposed revisions in any detail because, even if such changes are warranted, the resulting cash working capital amount is

[24] See AG/CUB Exhibit 1.5 Attached to my Direct Testimony.
[25] ICC Staff Exhibit 3.0, line 933.

fundamentally inaccurate and unreliable because of the problems with collection lag quantification and the other issues addressed in my testimony that are not remedied by Staff's modifications.

IV. CONSTRUCTION WORK IN PROGRESS

Q. How does ComEd respond in its Rebuttal to the AG/CUB proposal to not include a CWIP allowance in rate base?

A. Ms. Houtsma recites Section 9-214 (e) of the Public Utilities Act ("PUA") that states that, "the Commission may include in the rate base of a public utility an amount for CWIP for a public utility's investment which is scheduled to be placed in service within 12 months of the date of the rate determination." She also notes that the Commission has previously allowed CWIP in rate base in ComEd's recent rate orders.[26] Ms. Houtsma disputes my testimony regarding vendor financing that is available for CWIP and suggests that capital structure "reductions to ComEd's long-term debt and equity balances" have already been made for CWIP that somehow make it, in her view, "…inappropriate and contradictive to accept Mr. Brosch's position that the CWIP should be considered to be financed by vendors."

Q. With respect to this question, can you explain why CWIP investment is not used and useful?

A. CWIP investment is, by definition, investment for work where construction is "in progress," where the assets are not completed and placed into service. When CWIP is ultimately completed and placed into service, the amount invested is transferred

[26] ComEd Ex. 29.0, lines 904-909.

into the Plant in Service account and depreciation accruals are commenced. If the Commission elects to include in rate base only assets that are used and useful and providing benefits to customers, then short-term CWIP cannot be included.

Q. According to Ms. Houtsma, your explanation that ComEd's vendors provide financing in the form of accounts payable to support short-term CWIP investment is unreasonable because, "The cash flow benefit from vendor payables simply represents a form of working capital, and although Mr. Brosch has dismissed the analysis performed by ComEd, the Company's rate base separately includes its comprehensive cash working capital position."[27] Is this accurate?

A. No. The Company's cash working capital study does not address the payment lags associated with construction activity. A review of ComEd Ex. 29.1, Schedule B-8, page 1, which is ComEd's cash working capital calculation, shows line item consideration is given to revenues (Lines 1-7), to expenses (Lines 8-31) and pass-through taxes (Lines 32-44). There is no consideration of working capital effects associated with any construction-related cash flows in any part of the ComEd lead/lag study. Ms. Houtsma is wrong in suggesting that any accounting has been made in the Company's lead/lag study for the availability of vendor financing to support ComEd's short-term CWIP investment.

Q. Do the adjustments to capitalization made by Staff witness Michael McNally require the Commission to include short-term CWIP in rate base,[28] as suggested by Ms. Houtsma?

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27 ComEd Ex. 29.0, lines 912-915.
28 Id. Lines 915-918.

A. No. Mr. McNally's adjustments are to align the capital balances with the capital sourcing assumptions employed within the Allowance for Funds Used During Construction ("AFUDC") formula. Reductions to capital balances have been made by Staff to not double count the assignment of certain capital that is assumed to be supportive of long-term CWIP and that is allowed to accrue an AFUDC return. None of these adjustments are associated with short-term CWIP that does <u>not</u> earn AFUDC. In fact, it is the absence of AFUDC that is the basis for including any CWIP in rate base. On this point, Ms. Houtsma's arguments are again erroneous.

Q. According to Ms. Houtsma, "Recording AFUDC on the small projects would delay inclusion of the small projects in rate base but would also modestly increase the value of those projects when they do go into rate base. All else equal, customers should be economically indifferent. Are customers actually indifferent whether or not short-term CWIP is included in rate base?[29]

A. No. The inclusion of short-term CWIP in rate base, as proposed by ComEd, immediately increases the revenue requirement. If ComEd accrues AFUDC on such balances instead of including the costs in rate base, ratepayers will be better off because the Company's incremental cost of capital is generally lower than ratepayers' marginal cost of capital.[30] If the short-term CWIP balances are reduced for vendor-provided working capital (accounts payable), there may be no significant remaining balances that would accrue any AFUDC at all.

Q. Do you continue to recommend exclusion of all CWIP from rate base, for the reasons stated in your Direct Testimony?

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[29] Id. Lines 919-926

[30] CWIP is presumed to be financed first with available short-term debt. The cost of ComEd's short-term debt in Schedule D-1 (ComEd Ex. 30.1) is only 0.39%.

A. Yes.

V. CUSTOMER DEPOSITS

Q. In her Rebuttal, Ms. Houtsma refers to "non-jurisdictional customer deposits" and states that, "Mr. Brosch's proposal to expand the scope of the delivery services rate base to reflect non-jurisdictional amounts is inappropriate."[31] Are there any customer deposits held by ComEd that exist outside the Commission's jurisdiction?

A. No. ComEd's customer deposits are collected pursuant to Part 280.70 of Title 83 of the Illinois Administrative Code.[32] There are no rules promulgated by any other "jurisdiction" that are associated with the Customer Deposits on ComEd's books. According to ComEd's response to data request AG 14.05, "Ms. Houtsma is not taking a position that the ICC does not have regulatory jurisdiction over customer deposits." I have included as AG/CUB Exhibit 7.6 a complete copy of the Company's response to this data request. ComEd has presented no evidence to support its contention that any of the Company's Customer Deposits are non-jurisdictional.

Q. What is the "jurisdiction" to which Ms. Houtsma would attribute the Customer Deposits that she characterizes as "non-jurisdictional"?

A. An answer to this question cannot be found in Ms. Houtsma's Rebuttal. When asked whether "some of ComEd's customer deposits have been affirmatively found by the Commission to be attributed to some other jurisdiction such as the FERC",

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[31] ComEd Ex. 29.0, lines 800-806.

the Company's response to data request AG 14.05(b) states, "Ms. Houtsma's reference to non-jurisdictional customer deposits refers to deposits that are not associated with the provision of delivery services, rather than deposits that are subject to the jurisdiction of another regulator such as FERC."

Q. Does ComEd provide services in some third jurisdiction that is not ICC or FERC regulated and to which some Customer Deposits should be attributed?

A. I am not aware of any third jurisdiction. If the availability of Customer Deposits as a low-cost source of ratepayer-provided capital is not fully attributed to retail Delivery Services under ICC jurisdiction, ComEd/Exelon will retain the benefit of this low-cost capital for the benefit of its shareholders. I explained in my Direct Testimony that no Customer Deposits were used to reduce rate base in the Company's FERC transmission rate filing.[33] The Company has provided no justification for retaining the economic benefit of holding Customer Deposits for its shareholders.

Q. At line 803, Ms. Houtsma states, "The ICC's practice has consistently and appropriately been to reflect customer deposits in delivery services rate base based on jurisdiction amounts…" Is this correct?

A. No. Customer Deposits have not been a component of rate base in ComEd's most recent prior delivery services rate cases (Docket No. 05-0597 and 07-0566). The Company's response to data request AG 14-05(e) indicates that a correction to this ComEd testimony will be required.

[32] ComEd response to data rqquest No. AG 14.05(a).
[33] AG/CUB Ex. 1.0, line 836.

Q. Should Customer Deposits be reflected as a rate base reduction using year-end balances or the thirteen-month average that is proposed by Staff witness Tolsdorf (and is conditionally accepted by Ms. Houtsma)?[34]

A. I continue to recommend rate base inclusion of the year-end balance as of December 31, 2009, as set forth in AG/CUB Exhibit 7.1 at Schedule B-8, with inclusion of annual interest expense on this balance as shown in Schedule C-16. I do not agree with Ms. Houtsma's view that an average balance should be used "to recognize the seasonality associated with the deposit balances."[35] The actual monthly Customer Deposit balances set forth in Schedule B-13, for the years 2006 through 2009, show persistent year-over-year growth and a definite increasing trend that should not be diluted through averaging. The most representative value, in light of historical actual trends, is the December 31, 2009 balance used by AG/CUB.

Q. Why should annual interest expense be allowed ComEd when Customer Deposits are included in rate base?

A. Customer Deposits are not zero-cost capital—they are low-cost capital. If the balance of this source of funding is used to reduce rate base, effectively treating this source of funding as ratepayer supplied capital, the annual interest expense must be included in operating expenses for the company to be made whole. This is not an optional treatment, as suggested by Ms. Houtsma.[36]

VI. CHARITABLE CONTRIBUTIONS

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34 ComEd Ex. 29.0, lines 777-785.

35 Id. Lines 790-795.

36 ComEd Ex. 29.0, line 782.

Q. ComEd witness Mr. Fruehe characterizes your proposed 50% disallowance of charitable contributions as "purely arbitrary and should be rejected."[37] How do you respond?

A. I recognize that the Commission will exercise its judgment on this matter of regulatory policy and will not repeat the arguments for disallowance of such costs. I continue to recommend that charitable contributions be excluded from utility revenue requirement and offer the compromise sharing arrangement described in my Direct Testimony[38] for these discretionary costs that are clearly not required for ComEd to provide safe and adequate service to customers.

VII. LATE PAYMENT CHARGE REVENUES

Q. Does Mr. Fruehe also address your treatment of Late Payment Charge Revenues in his Rebuttal?

A. Yes. Mr. Fruehe recites some of my testimony addressing these revenues and then argues that including all Late Payment Fees on Electricity in setting DST rates, "…would dilute the benefit to customers who receive supply services from ComEd, the ones who actually pay this portion of the late payment charges. In other words, customers on RES supplied service would receive a benefit, in the form of a lower DST rate, due to the ComEd supplied customers paying late payments charges." According to Mr. Fruehe, "This is an inappropriate subsidization of one class of customers to the detriment of another."[39]

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[37] ComEd Ex. 30.0, Lines 187-196.
[38] AG/CUB Ex. 1.0, lines 1030-1047.
[39] ComEd Ex. 30.0, Lines 434-441.

Q. Is this a reasonable argument?

A. No. This argument would only be true if charges to customers for supply services from ComEd under Rate PE were reduced by the late payment revenues received by ComEd that relate to supply services. However, my review of Rate PE does not reveal any provision for such revenue crediting of late payment charges. Rate PE provides an opportunity for ComEd to fully recover its costs incurred for energy supply services.

Q. At lines 442-448 of his Rebuttal, Mr. Fruehe disputes your statement that no Late Payment Fees have been attributed by ComEd to the FERC jurisdiction. What was the basis of your understanding on this matter?

A. At ComEd Ex. 30.2, Workpaper WPC-23, Page 2 of 9 (November 22, 2010 REVISED) and in the originally filed version of this ComEd workpaper, none of the $25.1 million of Total Company Late Payment Fees on Electricity were included in the Transmission column of the workpaper. These Late Payment Fees were split into only a "Jurisdictional – distribution & customer" and an "Other" category that was described in footnote 2 as "Non-jurisdictional late payment fees have not been characterized by function." There was no indication of any FERC revenue crediting of such fees in the Company's prefiled workpapers.[40]

Q. Have you reviewed and confirmed Mr. Fruehe's claim that "ComEd's 2010 Transmission formula rate filing includes $2M of jurisdictional late payment charges applied to the transmission revenue requirement"?

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[40] ComEd Ex. 6.2, WPC-23, page 2 of 9 shows zero Late Payment Fees for Electricity in the "Transmission" column (G) of the workpaper.

A. Yes. In Attachment 7 of the Company's FERC filing, the Transmission function is credited with $2,009,000 of Late Payment Revenues. The same $9,115,000 amount is attributed to the ICC jurisdiction, leaving a $13,987,000 amount in an "Other" column, again with the statement, "Non-jurisdictional late payment fees have not been characterized by function." From this information, I can confirm that ComEd has attributed $2,009,000 in Late Payment Charges to the FERC jurisdiction.

Q. Have you revised the AG/CUB adjustment at Schedule C-14 to recognize the FERC revenue credited amount of Late Payment Fees?

A. Yes. At Line 2 in column D of Schedule C-14, I have revised the AG/CUB adjustment to treat the $2 million of FERC revenue credits of Late Payment Fees as non-jurisdictional

Q. Subject to this revision, do you continue to recommend that all Late Payment Fees on Electricity be recognized in setting rates in either the ICC Delivery Service or in FERC Transmission rate cases?

A. Yes. These revenues are collected from ComEd customers pursuant to tariffs and should be treated as jurisdictional revenues in determining the Company's net DST revenue requirement.

Q. Has ComEd provided any indication that it incurs unrecovered supply service costs that serve to justify attributing any Late Payment Fees to a supply function?

A. No.

Q. Do you dispute Mr. Fruehe's argument that your proposed recognition of all non-FERC Late Payment Charges represents an "inappropriate subsidization of one class of customers to the detriment of another"?

A. Yes. An inappropriate subsidy will result only if the AG/CUB adjustment at Schedule C-14 is not adopted, creating a subsidy to ComEd shareholders who will retain more than half of the Late Payment Fee revenues with no showing of any associated cost to justify such revenue retention.

VIII. INTEREST SYNCHRONIZATION

Q. Have you revised the interest synchronization calculations at Schedule C-15 of AG/CUB Exhibit 7.1?

A. Yes. The revised ComEd capital ratios and debt cost rates set forth at ComEd Ex. 30.1 in Schedule D-1 were used to revise AG/CUB Exhibit 7.1 at Schedule D, as well as in the interest synchronization calculations at Schedule C-15.

Q. Should the interest synchronization adjustment be updated in the Commission's Order, when the determination of rate base and the weighted cost of debt have been finalized?

A. Yes. This procedure to calculate synchronized interest is not at issue, but the inputs to the calculation should be updated in the Commission's final rate order to coordinate income tax expense with the other findings therein.

IX. CORPORATE AIRCRAFT CHARGES

Q. Has ComEd responded to your proposed partial elimination of corporate aircraft expenses?

A. Yes. At line 128, Mr. Fruehe adopts the proposed AG/CUB adjustment, "in order to limit the issues in dispute in this proceeding."

Q. **What change is reflected in AG/CUB Exhibit 7.1 to reflect ComEd's acceptance of your adjustment?**

A. The adjustment is proposed at AG/CUB Exhibit 7.1, Schedule C-18 has been set to zero at Line 6, to reflect ComEd's reduction of such expenses in formulating its Rebuttal Revenue Requirement. Because AG/CUB Exhibit 7.1 starts from the ComEd Rebuttal positions set forth in ComEd Exhibits 29.1 and 30.1, it is necessary to remove this AG/CUB adjustment.

X. ILLINOIS ELECTRIC DISTRIBUTION TAXES

Q. **Mr. Fruehe disputes your calculation of the Illinois Electric Distribution Taxes at pages 11-12 of his Rebuttal, stating, "In his example, Mr. Brosch assumes that ComEd pays IEDT amounts in a given year and receives its corresponding IEDT credit in the same year. This is simply not the case."[41] How do you respond?**

A. The Company's estimation of a weather normalized IEDT produces a large upward adjustment amount that fails to account for the fact that total receipts under this tax are capped on a statewide basis pursuant to the Public Utilities Revenue Act (35 ILSCS 620/). The adjustment proposed at AG/CUB Schedule C-19 is based upon the Company's own analysis of how the IEDT tax upon each Illinois utility will interact with the statutory revenue cap to produce refunds to each utility.[42]

Q. **If the Company's proposed weather normalization of sales is used as the basis to calculate a much larger tax than ComEd actually paid in 2009, as suggested**

[41] ComEd Ex. 30.0, line 242.

by Mr. Fruehe, why should the Commission adopt your calculation of the net IEDT tax, rather than the Company's calculation?

A. ComEd's calculation at Schedule C-2.17 employs weather normalization to estimate the gross tax, but a six-year average of historical IEDT credits to estimate the offsetting tax credit under the statutory revenue cap. No analysis was conducted by ComEd to determine which of the six historical years that were averaged had abnormally mild or severe weather and correspondingly large or small taxes subject to the revenue cap. The adjustment proposed by AG/CUB is the only approach that explicitly accounts for the statutory revenue cap in a way that properly synchronizes statewide taxable revenues, gross taxes and credits.

Q. Have you made any revisions to the IEDT net tax calculation and ratemaking adjustment set forth at Schedule C-19 of AG/CUB Exhibit 7.1?

A. No.

Q. Does this conclude your testimony at this time?

A. Yes.

[42] A copy of ComEd's response to data request AG 9.02 is included at AG/CUB Exhibit 1.8.