ComEd Ex. 39.0

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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on Behalf of Commonwealth Edison Company

List of Issues & Major Conclusions

- The arguments introduced by IIEC's witness Mr. Gorman, CUB's witness Mr. Thomas, and Staff witnesses Mr. McNally and Dr. Brightwell do not adequately address the combination of risk and revenue erosion factors that are the basis for the 40-basis-point adder to the return on equity that the Company has proposed to address these impacts that result from aggressive adoption of energy efficiency in the Company's service territory. Additionally, the vast majority of companies in the three groups of comparable companies used in cost-of-capital analyses by the Company's witnesses Mr. Hadaway and Mr. Seligson and Staff Witness Mr. McNally do not reflect the combination of aggressive energy efficiency targets and absence of ratemaking mechanisms that face the Company, and therefore this combination of risk and revenue erosion described in Dr. Tierney's prefiled direct testimony is not reflected in their analyses of those companies. Dr. Tierney encourages the Commission to reject the arguments of Mr. Gorman, Mr. Thomas, Mr. McNally, and Dr. Brightwell, and approve the Company's proposal.

- Additionally, Staff witness Ms. Pearce's recommendation that the Commission reject cost recovery of the Company's 2009 pension contribution for reasons of imprudency are inconsistent with long-standing regulatory policy of supporting legitimate cost to provide service. Dr. Tierney encourages the Commission to reject her position and review the Company's 2009 pension contribution based on a reasonableness standard.

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1. Introduction and Qualifications

a. Identification of Witness

Q. **What is your name?**

A. My name is Susan Tierney.

Q. **Are you the same Susan Tierney who testified previously in this proceeding?**

A. Yes, I am. My prefiled direct testimony is ComEd Exhibit 13.0.

b. Purpose of Rebuttal Testimony

Q. **What is the purpose of your Rebuttal Testimony?**

A. I respond to several points made in the Testimonies of several intervenor witnesses: Mr. Michael P. Gorman, who testified on behalf of the Illinois Industrial Energy Consumers (IIEC Exhibit 1.0); Mr. Christopher C. Thomas, who testified on behalf of the Citizens Utility Board and the Illinois Attorney General (AG/CUB Exhibit 4.0); and three witnesses who testified on behalf of the staff of the Illinois Commerce Commission ("Staff"): Mr. Michael McNally (ICC Staff Exhibit 5.0); Dr. David Brightwell (ICC Staff Exhibit 8.0); and Ms. Bonita A. Pearce (ICC Staff Exhibit 3.0).

Q. **On what issues do you respond to these witnesses in your rebuttal testimony?**

A. I respond to Mr. Gorman, Mr. McNally, Dr. Brightwell, and Mr. Thomas on issues related to the reasonableness and necessity of the proposed 40-basis-point adjustment to the return on equity of Commonwealth Edison Company ("ComEd") in order to mitigate lost revenues and risks associated with the implementation of energy efficiency actions in ComEd's service territory. I respond to Ms. Pearce's testimony on ratemaking policy issues related to the reasonableness of ComEd's 2009 pension contribution from a ratemaking point of view.

Q. **What is your overall reaction to the testimony on the 40-basis-point adder?**

A. Because Mr. Gorman, Mr. McNally, Dr. Brightwell, and Mr. Thomas do not address the combined effects of risk and revenue erosion attributable to impacts of energy efficiency programs in ComEd's service territory, I am not persuaded to change my opinion as to the reasonableness of the proposed 40-basis-point adder on return on equity. In addition to my rebuttal testimony below, I offer three exhibits (ComEd Ex. 39.1, ComEd Ex. 39.2, and ComEd Ex. 39.3) in support of my conclusions.

Q. **What is your overall response to Ms. Pearce's position that ComEd's 2009 pension fund contribution should not be reflected in rates?**

A. In light of the value associated with inclusion of reasonable employment pension costs in rates, I offer an alternative standard that is more consistent with long-standing cost-of-service ratemaking policy than the one offered by Ms. Pearce.

2. Testimony on the 40-Basis-Point Adder to ComEd's Return on Equity

a. Response to Mr. Gorman

Q. **How do you respond to Mr. Gorman's testimony with regard to the proposed adder to ComEd's return on equity?**

A. I disagree with several aspects of Mr. Gorman's testimony on the proposed 40-basis-point adder to ComEd's return on equity. First, he mischaracterizes my testimony when he states on pages 53-54 of IIEC Ex. 1.0 that "Ms. Tierney acknowledges that ComEd has the regulatory mechanisms that provide a high level of assurance of full cost recovery of demand response and energy efficiency programs (ComEd Ex. 13.0 at 15)." Although I do recognize that ComEd is permitted under Illinois law "to recover reasonable and prudently incurred expenses associated with the operation of its energy efficiency programs," I also said that that "law is silent on these energy efficiency programs' implications for other ratemaking issues (such as assurance of adequate revenue recovery, or compensation for lost sales or increased risk associated with uncertainty about the effects of energy efficiency programs on sales and revenue generation). Reasonable ratemaking practices suggest that these issues be addressed and remedied in this rate case." (ComEd Ex. 13.0, page 2.) Additionally, I pointed out that the potential to recover direct program costs is not "the only way that implementation of energy efficiency and demand response programs can affect a utility's revenues and financial condition." I state that "even if a utility company that administers energy efficiency programs recoups its direct costs associated with those programs, the utility will have reduced potential to generate revenues and earn its allowed return." (ComEd Ex. 13.0, page 15.)

Q. **What is your next concern with Mr. Gorman's testimony on the proposed adder to ComEd's return on equity?**

A. Mr. Gorman makes a number of statements which have no basis. He provides no support for his conclusion that my recommendation would erode "the efficiency of the ratemaking process" and detract from "achieving an optimal utility." More importantly, he does not even explain what he means by this or how my recommendations could lead to those outcomes. His colorful but nonetheless gratuitous comment that the proposed adder would simply "add a layer of fat" (IIEC Ex. 1.0, page 54) fails to address the financial risks and revenue impacts on ComEd that I delineate in my testimony (see especially Section V of ComEd Ex. 13.0). Moreover, his comment suggests that the proposed 40-basis-point adder would offset energy efficiency gains and economic benefits created on customer's behalf by demand response and energy efficiency programs. This claim is without any support whatsoever, especially in light of several elements presented in my testimony and in that of Mr. Val R. Jensen (ComEd Ex. 17.0). Mr. Jensen states that the lifetime net benefit of the programs implemented through ComEd's 2008-2010 Energy Efficiency and Demand Response Plan alone (whose third year commenced on June 1, 2010) is $155 million – meaning that electricity costs would be $155 million lower than they would otherwise be in the absence of these programs, after taking into account program expenditures. (ComEd Ex.17.0, page 5.) There are additional positive but not quantified bill-impact benefits to customers of other energy efficiency programs, such as other programs supported by the American Recovery and Reinvestment Act ("ARRA"), and other efficiency actions that I described in my testimony (ComEd Ex. 13.0, Sections III-V). These benefits contrast with the estimated annual 40-basis-point adder of approximate $30.8 million proposed in this rate case (ComEd Ex. 13.0, page 27), which is designed to compensate for more than the lost revenues from ComEd's energy efficiency programs.

Q. **What is your response to Mr. Gorman's position that "there are several regulatory mechanisms that can permit ComEd to set rates in an efficient manner...Most obviously, ComEd can choose to set rates using a forecasted test year, which can reflect sales levels impacted by energy efficiency and demand response programs...." (IIEC Ex. 1.0, page 54.)**

A. I understand that Illinois allows electric distribution companies to file rate cases based on a future test year. And I agree that the use of a future test year might deal with one of the issues that I address in my testimony – that is, use of forecasted billing determinants to set new rates could account for the effect of energy efficiency and demand-response programs. Thus, a future test year could address the anticipated lost sales (and in turn, lost revenues) in the first year that rates would go into effect. The reality is, however, that a future test year was not selected for this case (see ComEd Ex. 6.0, page 12). And I am aware that the use of a future test year would not fundamentally address the risk elements (*i.e.*, prudency risk, load-side risk, other intangible risks) I raised in Section V of my testimony. Nor would it address lost revenues from lower sales in the years after the first year new rates were to go into effect.

b. Response to Mr. Thomas

Q. **Do you have a different response to Mr. Thomas' similar position that the effects of energy efficiency and demand-response programs "are more accurately reflected in the rate-making process through appropriate billing units or the use of a future test year." (AG/CUB Ex. 4.0, page 36.)**

A. No. While some of the issues might have been addressed in a rate case filing using a future test year, not all of them would be. Moreover, Mr. Thomas' focus on a future test year misses an important point: my discussion of risks that are addressed by the adder to cost of equity is made in the context of a rate case filing by ComEd that incorporates a historic test year, as allowed under Illinois ratemaking policy. Within this context, focus upon the use of a future test year seems to miss the point.

c. Response to Mr. McNally

Q. **How do you respond to Mr. McNally's testimony regarding his calculations to adjust downward ComEd's risk to reflect the effect of ComEd's proposed rate design, and his use of a similar calculation to further adjust the risk of companies in his Comparable Sample?**

A. Mr. McNally's calculation of an adjustment to the cost of common equity to reflect the effects of revenue decoupling on ComEd's (and other companies') risk is based on several problematic premises. First, in describing how he attempted to develop an adjustment to ComEd's cost of capital to reflect the effect of ComEd's proposed rate design recapture lost revenues, he states that his calculation is built upon his belief that my testimony states that ComEd's 40-basis-point adder equates to the potential revenue loss resulting from energy efficiency and conservation measures. (Staff Ex. 5.0, page 38.) This interpretation is inconsistent with the statements in my testimony that the proposed 40-basis-point adjustment reflects the combined effects of increased risks given ComEd's particular circumstances (*i.e.*, prudency risk, load-side risk, performance-penalty risk, credit-quality risk, and regulatory risk) *as well as* the effect of lost revenues associated with energy efficiency targets mandated without compensating ratemaking adjustments for lost revenues.

I stated in my testimony that the 40-basis-points would equal approximately $30.8 million, assuming a rate base of approximately $7.7 billion, and I evaluated that amount's reasonableness by considering estimates of annual lost revenues (e.g., $15.8 million in 2011 and $28.6 million in 2012 for energy efficiency and demand response programs implemented by ComEd, and another $23.8 million in lost revenues resulting from

ARRA programs in ComEd's service territory). (See ComEd Ex. 13.0, pages 26-27; ComEd Ex. 13.8; ComEd Ex. 13.9.) The proposed use of 40 basis points to adjust ComEd's return on equity is part of a rate case in which ComEd is also proposing to restructure its rates over a three-year period to move toward a 80/20 fixed/variable rate design; the proposed adjustment would likely have been higher than 40 basis points had the rate case filing not incorporated this rate design proposal. To use ComEd's proposed 40-basis-point adder as a specific proxy for lost revenues as Mr. McNally has suggested would be inaccurate and inappropriate since it would misrepresent the size of lost revenue impacts.

Second, the overall logic of his downward adjustment to ComEd's risk (which is set at 40 basis points) and the effect of revenue decoupling on his sample of companies is hard to follow and perhaps not even sensible. He seems to suggest that if the Commission were to approve ComEd's rate design proposal, ComEd's revenues would be less uncertain and, all else equal, that effect would be worth 40 basis points. He attempts to make a parallel adjustment on the risk of the companies in his sample group, depending upon the status of introducing revenue decoupling as part of those companies' rates. He provides no analysis of the other types of risk (e.g., energy efficiency program targets, prudency risk, performance targets) that I discussed in my analysis in addition to the issue of lost revenues. He somehow assumes that 40 basis points would make ComEd whole for lost revenues from energy efficiency, on the one hand, and that companies with revenue decoupling get a benefit worth 40 basis points on their return on equity. But his analysis misses the point that there are categorical differences between the asymmetric risks faced by ComEd (e.g., energy efficiency program targets, prudency risk, performance targets) for which the proposed 40 basis point adjustment would provide some compensation, on the one hand, and the potential financial benefits from revenue stability provided by ComEd's ratemaking adjustments. Mr. McNally has provided no assessment of the impact of ComEd's ratemaking adjustment on the financial risks the Company faces, and his adjustment associated with unrelated financial risks does not offer an appropriate substitute.

When he adjusts the risk profile of the companies in his proxy group, he further amplifies the effect of his having only focused on lost revenues rather than other risks as well. He continues to use 40 basis points as a proxy for the effect of rate design on ComEd's risk, and then casts it as a "baseline for calculating the effect revenue decoupling has had on the Comparable Sample." (Staff Ex. 5, page 38.) But he does not examine whether companies in his Comparable Sample also face the types of other risks as a result of energy efficiency targets and performance. For the reasons described above, it would not be appropriate to calculate the impact of revenue decoupling and other energy-efficiency-related factors on Comparable Companies' risk in this way.

Q. **Please comment on Mr. McNally's discussion of ComEd's proposed 40-basis-point adder relative to the risk in Mr. Sam Hadaway's and Mr. Carl Seligson's samples of comparable companies.**

A. Mr. McNally asserts that adding a risk premium to the cost of common equity estimates for those samples would not be warranted if the companies in Mr. Hadaway's and Mr. Seligson's samples already reflected the risks I describe in my testimony. While I agree with Mr. McNally that I did not include in my testimony an analysis of the degree to which Dr. Hadaway's and Mr. Seligson's samples are also exposed to those risks, I neither stated nor suggested that such risks are "unique to ComEd," as Mr. McNally asserts. (AG/CUB Ex. 4, page 55.) Rather, I said that the combined effects of prudency risks, load-related risk, risk of performance penalties and lost revenues are roughly equivalent to and reasonably represented by the dollar amounts represented by the 40-basis-point adjustment to ROE. I note that Mr. McNally did not examine whether these types of risks are faced by the companies in the Hadaway/Seligson proxy groups, and what other mechanisms are used in those other states that address lost revenues/revenue decoupling. And he asserts without basis or support that these prudency risks are already reflected in the cost of equity in the sample companies.

Q. **Have you performed a study of the extent to which the companies in Mr. Hadaway's sample bear the same types of risks associated with energy efficiency program targets and/or enjoy the benefit of ratemaking mechanisms that address some of the risks you identify in your testimony?**

A. Yes. First, I looked at the 35 companies – 14 electric-only utilities, 4 gas-only distribution companies, and 17 diversified utilities – in the group of comparable companies in Mr. Hadaway's analysis (ComEd Ex. 11.1). Since Mr. Seligson uses a slightly different set of companies in his analysis (ComEd Ex. 12.1), I also examined his group of 33 companies (which is composed of 11 electric-only utilities and 22 diversified companies).

ComEd Ex. 39.1 shows the list of companies in Mr. Hadaway's group and includes information for each of the individual utility subsidiary companies in his set of 35 companies (thus making a total list of 63 companies in the review). ComEd Ex. 39.1 also shows information about each of those companies' energy efficiency program targets and associated ratemaking adjustments (including revenue decoupling, lost revenues, or shareholder incentives). Of this list of 63 companies (held in 35 separate corporate entities), ComEd is comparable to only three other companies[1] ~~(including ComEd)~~ that have both relatively aggressive energy efficiency targets (1.0 percent or more) and no ratemaking adjustments for revenue decoupling, lost revenues, or shareholder incentives.

ComEd Ex. 39.2 shows parallel information about the companies in Mr. Seligson's list (which details information on 78 individual companies included in his overall set of 33 corporate entities). This analysis indicates that only five other companies[2] of the 78 individual companies are similar to ComEd, in having a target of energy efficiency at least as high as 1.0 percent and with no ratemaking adjustment for revenue decoupling, lost revenues, or shareholder incentives.

This gives me confidence that the cost of capital for the vast majority of companies in Mr. Hadaway's and Mr. Seligson's comparable groups does not already reflect the incremental risk faced by a utility in ComEd's circumstances, with multiple risks arising from energy efficiency programmatic requirements without any associated ratemaking mechanism to account for these risks and/or lost revenues. The 40-basis-point adjustment to that return on equity is designed to reflect the increased combined risks that ComEd faces as a result of no revenue decoupling (but with a partial phase-in of the proposed rate design), no adjustment for lost revenues, no shareholder incentives,

[1] As shown by the asterisk on the applicable companies in column titled "Operating Company" on ComEd Ex. 39.1, the other three companies are: Alliant Energy Company's Interstate Power & Light; NICOR, Inc.; and Northeast Utilities' Yankee Gas.

[2] As shown by the asterisk on the applicable companies in column titled "Operating Company" on ComEd Ex. 39.2, the other five companies are: Allegheny Energy's Allegheny Energy (Monongahela/Potomac/ West Penn); Alliant Energy Company's Interstate Power & Light; Ameren's Ameren Illinois Co.; Northeast Utilities' Yankee Gas; and PPL Corporation's PPL Electric Utilities.

and the other risks (performance risk, prudency risk, load-related risk, other risks) that I described in my testimony.

Q. Did you also look at the companies in Mr. McNally's proxy group, with regard to these same issues of energy efficiency program requirements and ratemaking mechanisms to address the effects of energy efficiency programs?

A. Yes. For these 12 companies (with a total of 25 individual companies within them), I found that there was no other company that resembled ComEd, in terms of the combination of energy efficiency targets (1.0 percent or greater) and the absence of a ratemaking mechanisms such as revenue decoupling, lost revenue adjustment or shareholder incentive mechanisms. ComEd Ex. 39.3 shows the results of my analysis. Again, as I showed in ComEd Exhibits 39.1 and 39.2, this information shows that ComEd differs from this group by virtue of the various requirements and impacts of energy efficiency programs and the absence of adjustment mechanisms that account not only for lost revenues but also for the other risks I described in my testimony.

Q. So, do you agree with Mr. McNally's points about the reasonableness of an adder to the return on equity as proposed in this proceeding?

A. No. While I agree with Mr. McNally that "many states" have energy efficiency programs, I would not agree with him that the companies in the Comparable Sample adopted by Mr. Hadaway and Mr. Seligson face similar regulatory requirements or that they face similar risks due to these requirements. For these reasons, I continue to support the proposed 40-basis-point adder to ComEd's return on equity, as I described in my testimony (ComEd Ex. 13.0).

Q. Please amplify your reasons why you disagree with Mr. McNally's conclusions regarding the risks that you identified in your analysis.

A. First, I disagree with Mr. McNally's assertion that "the companies in my Comparable Sample, have similar such energy efficiency programs," because the ratemaking mechanisms, such as decoupling, lost revenue adjustments, and shareholder incentives, nearly always accompany aggressive utility energy efficiency requirements (as shown in ComEd Exhibits 39.1 and 39.2). Because ComEd lacks any of these ratemaking tools, I cannot conclude, as he does, that "any prudency risk related to energy efficiency programs is already reflected in the cost of equity of the sample companies." (AG/CUB Ex. 4,0, page 55.) Mr. McNally's analysis seems to overlook (or undervalue) the complementarity provided by these ratemaking tools for utilities undertaking energy efficiency, and the role of the proposed 40-basis-point adder in complementing ComEd's pursuit of aggressive energy efficiency targets.

Further, he asserts, without any further support, that the particular "load related risk" that I describe in Section V of my testimony is a part of sales volume risk generally and is addressed in cost of common equity adjustments such as the one he makes to the risk he calculates from his proxy group of companies. As I discuss in detail, the type of risk introduced by significant demand-side measures is categorically different from those related to the economy, weather and price-elasticity of demand – which are the types of symmetrical risks (with upside and downside potential for both the utility company and its customers) typically seen in traditional ratemaking.

Regarding the risk of performance penalties, Mr. McNally seems to agree with me that these risks are relatively small, but that such risk does exist. In fact, companies in other states offer upside opportunity for shareholder returns – in some cases as a parallel to performance requirements and sometimes as a simple mechanism to align shareholders' financial interests with those of customers in promoting aggressive energy efficiency. In Illinois – without some kind of ratemaking mechanism such as the one proposed here in the form of an adder to return on equity – there would be a performance penalty risk without an upside opportunity for shareholder benefit.

Finally, I make that same point with regard to lost revenues associated with demand-side programs: that without some kind of ratemaking mechanism to provide a revenue stream to offset lost revenues, there would be a negative impact on ComEd financials without a commensurate opportunity to hold shareholders harmless for the adverse financial impacts associated with aggressive implementation of demand-side measures.

Mr. McNally asserts without factual support that the risk of lost revenues is already reflected in his sample of comparable companies, since most of those companies have "similar energy efficiency programs." (Staff Ex. 5.0, page 57.) But the extent to which his companies' risk related to energy efficiency programs is similar actually depends on a combination of the depth of program target, as well as the combination of ratemaking mechanisms that provide revenue streams to offset lost revenues (or provide in some way for upside shareholder returns). For these reasons, I disagree with the premises and conclusions of Mr. McNally's analysis.

d. Response to Dr. Brightwell

Q. **What is your reaction to Dr. Brightwell's testimony regarding some of the financial implications for ComEd revenues associated with energy efficiency programs?**

A. I disagree with Dr. Brightwell's arguments for several reasons. For example, while Dr. Brightwell agrees that energy efficiency programs and plans can cause a conflict between the interests of customers and shareholders (Staff Ex. 8.0, page 3), he seems content to ignore this ratemaking problem. In affirming that a conflict exists and in asserting that the proposed remedy does not mitigate the conflict, he fails to offer an alternative to address this problem. He seems content with the outcome that ComEd is not allowed to have a revenue stream to remedy or mitigate this tension. While there are other ways to address the conflict (as I stated in my testimony), ComEd's proposed adder is a reasonable way to send a positive signal to shareholders while also mitigating lost revenues from energy efficiency, especially in conjunction with Illinois' aggressive targets, its performance penalties and the ComEd's proposed rate design. Further, the fact of a 40-basis-point adder would send a signal to the investment community that the Commission recognizes the combined effect of state policy (and other regulatory decisions) on ComEd's finances and is taking steps to mitigate this impact.

Q. **What are the other problems that you see in Dr. Brightwell's analysis?**

A. There appears to be a fundamental disconnect in his position that because the proposed adder will make efficiency more costly (in his view), that it will result in customer bill increases and thus erode customer support for such programs. He overlooks clear evidence to the contrary when he asserts, without basis, that customers will not benefit from energy efficiency programs ("this means that customers will pay more for the services they already receive than they would if there was no energy efficiency program....[and will result] in increases in their bills" (Staff Ex. 8.0, page 4)). Mr. Jensen summarizes the lifetime savings that customers will experience from implementation of ComEd's energy efficiency programs.[3] Mr. Jensen's testimony demonstrates that customers will continue to reduce the overall size of their electricity bill (including delivery and commodity elements of service and net of program costs) through participation in efficiency and demand response programs or actions. Every unit of electricity not consumed will enable the customer to reduce the size of his/her bill, relative to the bill that would have occurred without the energy efficiency/demand-response action. There is thus no factual or logical basis for Dr. Brightwell's statement that "customers will pay more for the services they already receive than they would if there was no energy efficiency program." (Staff Ex. 8.0, page 4.)

Furthermore, I think he makes an unreasonable suggestion that a particular cost should be excluded from a utility's revenue requirement because it will diminish customer acceptance of services associated with this cost (in this case, energy efficiency) ("customers will be paying more for electric service because of energy efficiency than they would without the adder. I do not think charging customers even more for electric distribution as a result of energy efficiency promotes customer acceptance of energy efficiency." (Staff Ex. 8.0, page 7)). This argument could be applied to any legitimate cost item, but would render a revenue requirement entirely unjust and unreasonable because it would fail to reflect the real cost of providing service.

Finally, Dr. Brightwell's view that ComEd is not likely to incur involuntary "performance risk penalties" for failure to achieve efficiency goals misses a point of my testimony – that the proposed adder would reduce ComEd's incentive to subject itself to such penalties over the course of the years during which new rates would be in effect.

[3] Those savings do not include the reductions in customer bills that also will result from other energy efficiency programs, such as those supported through the ARRA and other programs.

III. Ms. Pearce's Testimony on ComEd's 2009 Pension Fund Contribution

Q. What part of Ms. Pearce's testimony are you addressing in your rebuttal testimony?

A. I rebut her position that the Commission should find that ComEd's 2009 contribution to fund its employee pension program was imprudent because of her view of the discretionary nature of that contribution. I also rebut her position that the appropriate test for whether the 2009 pension fund contribution was prudent is whether it provides net savings to customers. Her positions are inconsistent with sound ratemaking policy.

Q. First, what is the overall basic ratemaking principle that you say Ms. Pearce misconstrues?

A. In addressing whether ComEd's 2009 pension contribution was carried out by using ratepayer or shareholder funds, she states that

> internally generated funds would arise from the Company's operations as a regulated utility and the provision of electric service to ratepayers. As such, these internally generated funds would be provided by normal operating revenues collected from utility customers—in other words, funds supplied by ratepayers. Accordingly, since the pension asset is funded by normal operations (*i.e.*, revenue collected from ratepayers) rather than provided by shareholders, shareholders should not earn a return on it.

Pearce Dir., Staff Ex. 3.0, page 7. On making this statement, Ms. Pearce appears to misunderstand or at least misapply an important basic ratemaking process for utility service – that is, that the utility collects revenues by charging customers for the service provided to them according to rates approved by the regulator; once collected, revenues are not directly assigned to paying off one or another particular cost incurred by the utility, but rather serve as part of the resources the company has at its disposal to manage its business and render service to customers.

Once rates are set, the revenues from sales to customers generate cash, which the company uses, along with retained earnings (*i.e.*, equity) and the issuance of debt, to manage its business. With few exceptions, those funds (e.g., revenues collected in rates, proceeds from issuance of debt, cash on hand) are fungible from the point of view of providing resources for the company to use in fulfilling its service obligation.

Thus from a ratemaking point of view and, again, with some exceptions, once rates are set it is neither legitimate nor appropriate to assign a particular dollar generated from delivery service rates to funding a particular cost of providing service, just as it is typically not the case that a utility issues debt or securities (or retains earnings rather than paying dividends) and then track those dollars against a particular expense. Thus, Ms. Pearce's suggestion that specific revenues from rates are assigned to paying off a particular cost is entirely inconsistent with the premise of ratemaking that rates provide revenue to fund the cost of general utility operations (and capital spending) until new rates are set, without assigning a dollar collected through one element of a rate to a dollar spent on a particular cost element in the cost of service.

Q. **Second, what is your overall response to Mr. Pearce's position that ComEd's 2009 pension fund contribution should not be reflected in rates?**

A. There are two other problems with Ms. Pearce's position, from a ratemaking policy point of view. First, she inappropriately and unreasonably equates a discretionary action of utility management with imprudency. Second, she unreasonably suggests that the Commission apply a test of "net ratepayer savings" to the question of whether ComEd's discretionary 2009 pension fund contribution was justified and therefore prudent. Accepting these principles would be inconsistent with long-standing and sound ratemaking policy in which a utility must constantly exercise discretion to provide quality service to its customers, and in which the utility must oftentimes and reasonably incur costs to provide service without a compensatory net savings in another part of its business.

Q. **Before addressing the first issue (the discretionary nature of the 2009 pension fund contribution), please explain the latter point, regarding this "net ratepayer savings" standard that you say Ms. Pearce seeks to have the Commission apply in this case.**

A. Ms. Pearce says that because ComEd's cash contribution to fund its "pension results in a net increase in costs to ratepayers," ComEd has not met its burden to show that this is a reasonable expense. (Staff Ex. 3.0, page 10.) She concludes that "because the requested return to shareholders is higher than the offsetting reduction to pension expense." (Staff Ex. 3.0, page 10; see also, page 11.) She seeks to have the Commission disregard the contribution because of ComEd's estimate that, in her words, "over the long term, the Company and its customers could be economically neutral between making the 2009 contribution and making mandatory contributions when required" (Staff Ex. 3.0, page 11) rather than providing proof of net customer *savings* from the decision to contribute to the pension fund in 2009. Her application of this test rests on her view that the pension contribution was discretionary, and therefore imprudent if it did not produce net savings. (Staff Ex. 3.0, page 10.)[4]

Application of Ms. Pearce's proposed ratemaking standard (requiring a showing of net customer savings in order for the Commission to find that ComEd was prudent in making a pension fund contribution in 2009) could lead the Commission to find as imprudent countless legitimate and reasonable costs incurred by a utility to provide service to its customers, and could render the company financially impaired and unable to satisfy its obligations to both its customers and its shareholders. This is an unsustainable position. I encourage the Commission to reject her standard.

Q. **Do you interpret Ms. Pearce as suggesting that the discretionary contribution was inappropriate for other reasons?**

A. Yes. She asks the Commission to ignore Ms. Houtsma's testimony that "the extra contribution for 2009 was necessary due to the poor market conditions that resulted from the 2008 market decline" (Staff Ex. 3.0, page 14), and suggests even that the pension contribution double-counted the amount of dollars needed to fully fund the pension plan (since the Company's prior actions were purportedly for that purpose). In making these claims, she offers no analysis and seems to question a fact that is conventionally recognized – that an extraordinary economic collapse occurred in the last third of 2008, causing abrupt decreases in the value of U.S. securities markets (and global economies)

[4] In response to the following question about whether the "2009 pension contribution will reduce pension expense. Has that benefit been reflected in the revenue requirement?" Ms. Houtsma testified: "Yes. As described later in our testimony, the pension contribution will result in a lower pension expense in years 2010 and beyond than would otherwise be the case because of expected investment returns. ComEd is proposing to use the 2010 pension expense in this proceeding and the benefit of the contribution is considered in the actuarial determination of that pension expense. In Docket No. 05-0597 the Commission concluded that customers derived a benefit from the 2005 contribution and therefore ComEd should be allowed cost recovery of the contribution. The same logic should apply in this instance." ComEd Ex. 6.0, 30-31.

and leading to devaluation of assets held by countless companies. Figure SFT-R1, below, shows, for example, the change in the price of the Dow Jones Industrial Average during the period between the end of 2005 (when ComEd made a prior contribution to "fully fund" its employee pension fund) and the present – which includes the period in 2008 when the Company decided to contribute more to its pension fund.[5]

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[5] Ms. Houtsma described the Company's decision in this way (in ComEd Ex. 6.0):

572 Q. Why did ComEd make this contribution in 2009?
573 A. The Company made this contribution to improve the plan's then significantly
574 underfunded status.
575 Q. Wasn't the 2005 contribution intended to correct the underfunded status of the
576 plan?
577 A. Yes. However, although the pension contribution made in 2005 was intended to fully
578 fund the pension plan, and indeed did have that result at the time, the underfunded status
579 of the pension plan increased significantly in 2008 as a result of poor market conditions
580 that reduced the value of the assets in the pension funds by 26%. As a result, Exelon (the
581 sponsor of the pension plan in which ComEd participates) recognized a special liability
582 of $2.24 billion in light of the deterioration of the trust fund assets. By mid-2009 the
583 pension plan was approximately 40% underfunded. Accordingly, in 2009 ComEd made
584 an additional contribution of $152 million to the pension plan to improve the funded
585 status of the plan and to help to control future increases in pension expense.

Figure SFT-R1

Dow Jones Industrial Average
(January 2006 through October 2010)

Source: http://www.bloomberg.com/apps/quote?ticker=INDU:IND

Her comment that this "experience demonstrates … why it is not good ratemaking policy to burden ratepayers with additional costs…." seems either uninformed or disingenuous in light of the clear financial hit that affected the value of the entire stock market in late 2008. At the least, her testimony sets up a red herring – questioning whether it was possible for the pension fund to have been fully funded in 2005 but then requiring another injection of funds in 2009 to restore some of the value of the pension fund lost during that stock market crash. Her position on this point seems unsupported at best and untenable at worst.

Q. **What does Ms. Pearce say that causes you to conclude that her implicit standard of review in untenable?**

A. Ms. Pearce recommends that the pension asset representing ComEd's 2009 pension contribution be excluded from rates because, in her view, it was a discretionary cash contribution and that, as such, "the pension asset was neither ordinary nor necessary for the provision of utility service. The Company failed to demonstrate the cost is prudently incurred." Thus she equates discretion to imprudence.

Q. Do you agree with Ms. Pearce that the 2009 pension fund contribution was discretionary?

A. Ms. Pearce appears to equate the word "discretionary" with "not required by law." By so doing, she seems to suggest that it would have been categorically imprudent or improper to have done anything more than was required by law; and it would have been imprudent for the Company to have made a contribution to more fully fund the employee pension when it did. I cannot agree with Ms. Pearce's use of "discretionary" in this way. This standard would raise countless challenges to recovery of costs tied to best practices and even normal practices in utility management that are important for safe, quality, reliable, environmentally sound, and/or efficient utility service. Specifically here, her position reflects a misunderstanding of the role of a pension fund as part of the legitimate cost of utility service and of what it means for a pension fund to be adequately funded. The effect of her position is to shield ComEd's retail customers from supporting reasonable costs incurred to provide them with electric service.

Q. What is the policy relevance of the relationship between pension issues, utility cost of service, and reasonable exercise of utility management that you think is relevant here?

A. I think there are at least three relevant policy considerations important for ratemaking on pension issues: (1) utility rates should reflect the cost of providing utility service, including labor-related costs; (2) cost-recovery policies should encourage utility management to attract and maintain a skilled workforce; and (3) cost-recovery policies should encourage utility management to make sound labor-related decisions that reflect the need to provide reliable and efficient electric service, consistent with the company's public service obligations.

Q. Please explain your first principle, that utility rates should reflect the cost of providing utility service.

A. The fundamental and well-known economic principle underlying cost-of-service ratemaking is that rates for utility services should reflect the cost of providing those services. This accomplishes several economic objectives, such as having consumers see and pay for the cost of producing a product, and suppliers compensated for the expenses and capital costs they incur in providing products and services to consumers. Among these costs are labor-related costs. These include both the direct and indirect costs to compensate the utility's workforce including salary expenses and any deferred compensation in the form of a pension. Without a pension plan, workers would be expected to demand higher compensation in the form of wages, salaries and/or other benefits. Consumers should support rates that reflect these direct and indirect costs, both to see properly-priced utility services and to align the incentives of the utility with consumers' need for reliable and efficient electric distribution service.

Q. **Please explain your second principle, that cost-recovery policies should create incentives for utility management to attract and maintain a skilled workforce.**

A. Provision of utility service requires competent labor, and rates for utility service should encourage the utility to attract and retain a stable and well-qualified workforce. Cost-recovery incentives, for example, motivate utility management to behave in a particular way – either positively, through a reward, or negatively, through a punishment or penalty if a particular action is taken. In the case of pension-related costs, this might mean providing ratemaking incentives for the utility to maintain a skilled and experienced labor force, thereby benefiting consumers. This underpins ComEd's ability to serve electric customers, including during emergency conditions where the workforce demonstrates a high sense of duty to the mission (e.g., getting the wires back in service). Pensions, or deferred wages, can be and often are used to induce employees to stay with the company, thus reducing training and recruiting costs and providing the benefit of retention of job-specific skills. Utility commissions typically recognize this through decisions to allow recovery of reasonable pension-related costs as just and reasonable.

Q. **Please explain your third principle, that utility cost-recovery policy should encourage utility management to make sound labor-related decisions that reflect the responsibilities of providing electric service.**

A. Cost-recovery policies should create incentives for efficient management of assets related to such labor-related obligations. These include encouraging the utility to "do the right thing" regarding pension costs – that is, making sure that the workforce does not experience undue risk associated with an inadequately funded pension plan, held in trust for them by the utility. Doing the right thing means that the employees' pension fund is supported financially and managed efficiently in order to provide value to the workforce who, in turn, provide value to customers. Doing the right thing means that the utility meets its fiduciary responsibility to provide sufficient funds to the pension trust to meet its compensation promises to the workforce under a range of financial circumstances that might affect the utility, as well as its legal responsibilities to make good on those compensation commitments. Rather than simply satisfying minimum requirements, "doing the right thing" means following best practices in meeting pension commitments, and a balancing of economic, financial, legal, accounting, workforce, and consumer interests.

Q. **Given the economic and policy principles that you articulated above, what types of pension-related costs should be reflected in ComEd's rates?**

A. Several aspects of pension-related costs need to be taken into consideration in the ratemaking process.

Q. **Please describe these regulatory policy issues affecting ratemaking treatment of ComEd's pension-related costs.**

A. The following represent key ratemaking considerations for these pension costs:

- Because pension costs are part of its workforce compensation, ComEd should be allowed to recover its reasonable and appropriate pension costs in rates.
- Where prudent management decisions have resulted in the establishment of a direct benefit pension plan, the utility, as the pension plan sponsor, has the fiduciary responsibility to efficiently manage it in order to meet its compensation promises to the workforce.

- If the utility assigns to a third party the responsibility for day-to-day management of the pension trust fund, this asset is nonetheless managed on behalf of the utility and for the benefit of its pension beneficiaries.
- At any point in time, the market value of the prepaid contributions in the pension fund may be over or under the pay-out obligations. This can result from a variety of factors such as interest rates or stock market returns that differ from the assumptions used to establish pay-in and pay-out schedules for the pension fund.
- When a utility acts prudently in using its funds for contributions to make prepayments into the pension trust, such payments should be included in the utility's revenue requirement (e.g., in ratebase, and/or in expense items, as appropriate). Such payments are appropriate costs associated with provision of utility service to consumers.
- At any point in time, the pension asset in a utility's ratebase may be either net positive or net negative, depending upon the extent to which it is larger or less than the accumulated contributions from customers in the rates they pay for their electric service.

Q. **How do these principles help to evaluate Ms. Pearce's testimony on the discretionary nature of ComEd's 2009 contribution?**

A. I have two concerns with Ms. Pearce's position. First, from an economic and regulatory policy point of view, her focus is far too narrow with respect to the discretion question. The promise to pay a pension is akin to (if not exactly like) a contract, with promises and commitments by the employer to include as part of compensation for today's labor services a deferred payment in the form of a pension. In practice, a company technically has some "discretion" as to how and when it funds its pension promises and commitments, just like a company has discretion in meeting its other binding financial or public service commitments. To say that a company has "discretion" in attracting and maintaining a high-quality, dedicated and loyal workforce, and in meeting its financial commitments to them in an efficient and responsible fashion, is to say that the utility has discretion in whether it sends out crews after hours and under difficult emergency conditions to get the wires and poles back in service after a snow storm. Encouraging a utility company to meet its commitments to the workforce seems good economic, regulatory and public policy – not only from a labor-relations and community-service point of view, but also from the point of view of creating incentives for a utility to meet its obligation to serve customers in a reliable fashion.

Second, perverse financial incentives would be created by adopting Ms. Pearce's recommendations. It would be bad policy to encourage a utility with a pension plan to meet only the minimum funding requirements and in fact deny it cost recovery when it prudently funds more than that level. Although I am not an expert on the Employee Retirement Income Security Act ("ERISA"), I understand that it does not require pension plan sponsors to fully fund their plans at all times. Technically, therefore, a sponsor has discretion about whether to fund the plan above the minimum requirements at any time. But exercising discretion so as to simply satisfy minimum requirements is not the behavior or outcome that ratemaking policy should encourage.[6] Not-too-distant history

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[6] As another example, in responding to the need to expand a network delivery system, it is often both operationally beneficial and the lowest cost in the long-run to implement a design that goes beyond the minimum expansion needed at just that time. Being forced to build continually to just the minimum would deny the utility needed flexibility, a measure of resiliency, and the ability to time and size new investments optimally.

has shown many examples where major corporations ran into trouble after funding their pension plans at minimum levels and then finding themselves, for whatever reason, in financial distress and unable to meet their pension commitments. There are some infamous examples from the airline, steel and automobile manufacturing industries in recent years, where companies had to freeze their defined benefit pension plans or even default on their pension commitments, with the Pension Benefit Guarantee Corporation having to pick up the pieces and with many retirees experiencing substantially reduced retirement benefits. These actions are costly to companies, to their workers, to the communities in which they reside, and to taxpayers. It would also be costly to the utility and its customers if it happened in this industry. There could be diminished service, and a higher cost of capital. The utility workforce would feel unfairly treated. The value of their deferred compensation to workers is tied to payment risk (e.g., is the pension fund fully funded? If not, what is the credit and/or financial risk of the company?). According to this perspective, prudent company actions to fully fund pension plans and maintain sound financial status reduce workers' concerns about payment risk and, all else equal, lower labor-related costs of providing electric service.

To avoid these costs, it is appropriate for just and reasonable rates to reflect cost recovery policies that provide incentives for efficient and responsible utility management behavior. This is where discretion should be supported by ratemaking policy, rather than penalized, as Ms. Pearce's suggestion would do.

Q. **Please summarize your conclusions on the pension contribution issue.**

A. As I discuss above, the bedrock economic principle underlying the pension-cost issue is that prices should reflect the costs of providing the service offered. The ratemaking principle that follows is that rates charged for providing tariffed service should reflect appropriate and prudent costs to provide that service. The regulatory policy principle is to use rate recovery policies to encourage efficient utility management decisions consistent with public service obligations. Under these principles, the rates that ComEd charges its consumers should reflect reasonable costs to support the deferred compensation plan offered to and expected by ComEd's workforce in exchange for helping to provide electric distribution service to customers.

Q. **Does that conclude your rebuttal testimony?**

A. Yes.

ComEd Ex. 39.1 (Docket 10-0467): Hadaway Group - Energy Efficiency Targets and Ratemaking Issues - 2-Page Exhibit

				[1]	[2]	[3]	[4]	[5]	[6]	[7]
No.	Comparable Company	Operating Company	Jurisdiction	Utility Type	Elec	Gas	State Energy Efficiency Target (as of 2009 / 2010)	Decoupling	LRAM	Shareholder Incentive Mechanism
	Exelon	ComEd	IL	Del	X		1.2% (avg.)	No	No	No
1	ALLETE	Minnesota Power	MN	VI	X		1.50%	Yes	No	Yes
2	Alliant Energy Co.	Interstate Power & Light	IA	VI	X	X	1.50%	No (but eligible)	No	No (but eligible)
		Wisconsin Power & Light	WI	VI	X	X	0.00%	No (but eligible)	No	Yes (gas)
3	American Elec. Pwr.	Columbus Southern, Ohio Power	OH	Del	X		1.3% (avg.)	No	Yes	Yes
		Public Svc. Co. of Oklahoma	OK	VI	X		0.00%	No	Yes	Yes
		AEP Texas Central, North	TX	Del	X		0.30%	No	No	Yes
		SWEPCO	TX	VI	X		0.30%	No	No	Yes
		Indiana Michigan Pwr Co.	IN	VI	X		0.90%	No	No (pending)	No (pending)
		Appalachian Pwr Co.	VA	VI	X		0.00%	No	No	No
4	Avista Corp.	Avista Utilities	WA	VI	X	X	~1%	Yes (gas)	No	No
5	Black Hills Corp.	Black Hills Power	SD,MT	VI	X		0.00%	No	No	Yes (SD)
		Cheyenne Light	WY	VI	X	X	0.00%	No	No	No
		Colorado Electric	CO	VI	X		1.00%	No	No	Yes
		Gas Utilities	KS,NE	Del		X	0.00%	No	No	No
6	Cleco Corporation	Cleco Power'	LA	VI	X		0.00%	No	No (but eligible)	No
7	Con. Edison Co.	Con. Ed., Orange & Rockland	NY	Del	X	X	1.90%	Yes (both)	No	Yes (electric)
8	DPL Inc	Dayton Power & Light	OH	Del	X		1.3% (avg.)	No	Yes	No
9	DTE Energy Co.	Detroit Edison	MI	VI	X	X	0.3%-1%	Yes (electric)	No	Yes
10	Duke Energy	Duke Energy Carolinas	NC	VI	X		0.75-5.0%	No	Yes	Yes
		Duke Energy Carolinas	SC	VI	X		0.00%	No	No (but eligible)	Yes
		Duke Energy Ohio	OH	Del	X	X	1.3% (avg.)	Yes (gas)	Yes	Yes (electric)
		Duke Energy Indiana	IN	VI	X	X	0.90%	No	No (pending)	No (pending)
11	Edison Internat.	Southern California Edison	CA	VI	X		0.90%	Yes (both)	No	Yes
12	Empire District	Empire District	MO	VI	X	X	0.00%	No	No	No (but eligible)
13	Entergy Corp.	Entergy Arkansas	AR	VI	X		0.00%	No	No	No (pending)
		Entergy Gulf States Louisiana	LA	VI	X	X	0.00%	No	Yes	No
		Entergy Texas	TX	VI	X		0.30%	No	No	Yes
		Entergy Louisiana	LA	VI	X		0.00%	No	Yes	No
		Entergy Mississippi	MS	VI	X		0.00%	No	No	No
		Entergy New Orleans	LA	VI	X	X	0.00%	No	Yes	No
14	FPL Group, Inc.	Florida Power & Light	FL	VI	X		0.00%	No	No	No (but eligible)
15	Hawaiian Electric	Hawaiian Electric	HI	VI	X		1.00%	Yes (electric)	No	Yes
16	IDACORP	Idaho Power Co.	ID	VI	X		0.00%	Yes (electric)	No	No
17	N.W. Natural Gas	N.W. Natural Gas	OR	Del		X	0.00%	Yes	Yes (commercial and industrial customers)	No
18	NICOR, Inc.	NICOR*	IL	Del		X	1.2% (avg.)	No	No	No
19	Northeast Utilities	Connecticut Light & Power	CT	Del	X		1.00%	No (but eligible)	No	Yes
		Western Mass. Electric Co.	MA	Del	X		2.40%	Yes	No	Yes
		Public Service Co. of NH	NH	VI	X		0.00%	No	No	Yes
		Yankee Gas*	CT	Del		X	1.00%	No	No	No (but eligible)
20	NSTAR	NSTAR	MA	Del	X	X	2.40%	Yes (both)	No	Yes (both)
21	PG&E Corp.	Pacific Gas & Electric	CA	VI	X	X	0.90%	Yes (both)	No	Yes (both)
22	Piedmont Nat'l Gas	Piedmont Nat'l Gas	NC	Del		X	0.75-5.0%	Yes	No (but eligible)	No
23	Pinnacle West	APS	AZ	VI	X		2.00%	No	Yes	Yes
24	Portland General	Portland General	OR	VI	X		0.00%	Yes (both)	Yes (commercial and industrial customers)	No
25	Progress Energy	Progress Energy Florida	FL	VI	X		0.00%	No	No	No (but eligible)
		Progress Energy Carolina	NC	VI	X		0.75-5.0%	Yes	Yes	No (pending)
		Progress Energy Carolina	SC	VI	X		0.00%	Yes	Yes	No
26	SCANA Corp.	South Carolina E&G	SC	VI	X	X	0.00%	No	No (but eligible)	No
27	Sempra Energy	San Diego Gas & Electric	CA	VI	X	X	0.90%	Yes (both)	No	Yes (both)

ComEd Ex. 39.1 (Docket 10-0467): Hadaway Group - Energy Efficiency Targets and Ratemaking Issues - 2-Page Exhibit

No.	Comparable Company	Operating Company	Jurisdiction	[1] Utility Type	[2] Elec	[3] Gas	[4] State Energy Efficiency Target (as of 2009 / 2010)	[5] Decoupling	[6] LRAM	[7] Shareholder Incentive Mechanism
28	Southern Co.	Alabama Power	AL	VI	X		0.00%	No	No	No
		Georgia Power, Sav Pwr	GA	VI	X		0.00%	No	Yes	Yes
		Gulf Power	FL	VI	X		0.00%	No	No	No (but eligible)
		Mississippi Power	MS	VI	X		0.00%	No	No	No
29	Southwest Gas	Southwest Gas	NV,AZ	Del		X	0.6% (NV)	No (but eligible)	No	Yes (NV)
30	TECO Energy, Inc.	Tampa Electric Co.	FL	VI	X	X	0.00%	No	No	No (but eligible)
31	UIL Holdings Co.	United Illuminating Co.	CT	Del	X		1.00%	Yes	No	Yes
32	Vectren Corp.	Southern Indiana G&E	IN	VI	X	X	0.90%	Yes (Gas)	No (pending)	No (pending)
33	Westar Energy	Westar Energy	KS	VI	X		0.00%	No	No	No
34	Wisconsin Energy	Wisconsin Electric	WI	VI	X	X	0.00%	No (but eligible)	No	No (but eligible)
35	Xcel Energy Inc.	NSP-Minnesota	MN	VI	X	X	1.50%	Yes (electric)	No	Yes (both)
		NSP-Wisconsin	WI	VI	X	X	0.00%	No (but eligible)	No	No (but eligible)
		PSC Colorado	CO	VI	X	X	1.00%	Yes (gas)	No	Yes (electric)
		Southwestern Public Service	TX	VI	X		0.30%	No	No	Yes

Notes:

[1] Jurisdiction identifies the jurisdiction(s) for which ratemaking information is provided, but does not necessarily reflect all jurisdictions in which the utility operates.

[2] A utility is considered "eligible" for a specific ratemaking tool if the Commission has explicitly indicated that it would consider such ratemaking (or the legislature has required such consideration), if the Commission has granted such ratemaking to another utility within the state, of if other similar circumstances are present.

Sources.

[1] VI=Vertically Integrated; Del=Delivery. See Hadaway Exhibit 11.1. Source: Company 10-K's; select information for AEP, Black Hills, and Hawaiian Electric provided by Regulatory Research Associates (RRA); SNL; EIA-861 Database.

[2] Data compiled from Hadaway Exhibit 11.1 and SNL Financial.

[3] Data compiled from Hadaway Exhibit 11.1 and SNL Financial.

[4] Exhibit 13.4, Tierney Direct Testimony.

[5] AGA, Map of Decoupling, January 2010; Exhibit 13.4, Tierney Direct Testimony. Reflects all utilities currently operating under decoupling or required to submit decoupling proposals to state commissions.

[6] Data compiled from Exhibit 13.4, Tierney direct testimony and the ACEEE, State Energy Profiles, accessed on November 18, 2010, available at http://www.aceee.org/sector/state-policy.

[7] Data compiled from Exhibit 13.4, Tierney direct testimony, the AGA, "Regulatory Approaches to Promoting Energy Efficiency," accessed on November 18, 2010, available at http://www.aga.org/our-issues/energyefficiency/Pages/Regulatoryapproachestopromotingenergyefficiency.aspx, and the ACEEE (2010).

ComEd Ex. 39.2 (Docket 10-0467): Seligson Group - Energy Efficiency Targets and Ratemaking Issues - 2-Page Exhibit

				[1]	[2]	[3]	[4]	[5]	[6]	[7]
No.	Comparable Company	Operating Company	Jurisdiction	Utility Type	Elec	Gas	State Energy Efficiency Target (as of 2009 / 2010)	Decoupling	LRAM	Shareholder Incentive Mechanism
	Exelon	ComEd	IL	Del	X		1.2% (avg.)	No	No	No
1	Allegheny Energy	Allegheny Energy (Monongahela, Potomac, West Penn)*	PA	VI	X		1.00%	No	No	No
2	Alliant Energy Co.	Interstate Power & Light	IA	VI	X	X	1.50%	No (but eligible)	No	No (but eligbile)
		Wisconsin Power & Light	WI	VI	X	X	0.00%	No (but eligible)	No	Yes (gas)
3	Ameren	Ameren Missouri	MO	VI	X	X	0.00%	No	No	No (but eligible)
		Ameren Illinois Co.*	IL	Del	X	X	1.2% (avg.)	No	No	No
4	American Elec. Pwr.	Columbus Southern, Ohio Power	OH	Del	X		1.3% (avg.)	No	Yes	Yes
		Public Svc. Co. of Oklahoma	OK	VI	X		0.00%	No	Yes	Yes
		AEP Texas Central, North	TX	Del	X		0.30%	No	No	Yes
		SWEPCO	TX	VI	X		0.30%	No	No	Yes
		Indiana Michigan Pwr Co.	IN	VI	X		0.90%	No	No (pending)	No (pending)
		Appalachian Pwr Co.	VA	VI	X		0.00%	No	No	No
5	CenterPoint Energy	CenterPoint Energy	TX	Del	X	X	0.30%	No	No	Yes
		CenterPoint Energy MN	MN	Del		X	1.50%	Yes	No	Yes
		CenterPoint Energy AR	AR	Del		X	0.00%	Yes	No	No (pending)
		CenterPoint Energy LA	LA	Del		X	0.00%	No	No (but eligible)	No
		CenterPoint Energy MS	MS	Del		X	0.00%	No	No	No
		CenterPoint Energy OK	OK	Del		X	0.00%	No	No	No
6	CMS Energy	CMS Energy	MI	VI	X	X	0.3%-1%	Yes (gas)	No	No (but eligible)
7	Con. Edison Co.	Con. Ed., Orange & Rockland	NY	Del	X	X	1.90%	Yes (both)	No	Yes (electric)
8	Constellation Energy	Baltimore Gas & Electric	MD	Del	X	X	1.5-1.8%	Yes (both)	No	No
9	Dominion Resources	Virginia Electric and Power	VA	VI	X		0.00%	No	No	No
		East Ohio Gas Company	OH	Del		X	1.3% (avg.)	No	Yes	No
		Hope Gas	WV	Del		X	0.00%	No	No	No
10	DPL Inc.	Dayton Power & Light	OH	Del	X		1.3% (avg.)	No	Yes	No
11	DTE Energy Co.	Detroit Edison	MI	VI	X	X	0.3%-1%	Yes (electric)	No	Yes
12	Duke Energy	Duke Energy Carolinas	NC	VI	X		0.75-5.0%	No	Yes	Yes
		Duke Energy Carolinas	SC	VI	X		0.00%	No	No (but eligible)	No
		Duke Energy Ohio	OH	Del	X	X	1.3% (avg.)	Yes (gas)	Yes	Yes (electric)
		Duke Energy Indiana	IN	VI	X	X	0.90%	No	No (pending)	No (pending)
13	Edison Internat.	Southern California Edison	CA	VI	X		0.90%	Yes (both)	No	Yes
14	Entergy Corp.	Entergy Arkansas	AR	VI	X		0.00%	No	No	No (pending)
		Entergy Gulf States Louisiana	LA	VI	X	X	0.00%	No	Yes	No
		Entergy Texas	TX	VI	X		0.30%	No	No	Yes
		Entergy Louisiana	LA	VI	X		0.00%	No	Yes	No
		Entergy Mississippi	MS	VI	X		0.00%	No	No	No
		Entergy New Orleans	LA	VI	X	X	0.00%	No	Yes	No
15	FirstEnergy	Ohio Edison	OH	Del	X		1.3% (avg.)	No	Yes	Yes
		Cleveland Electric	OH	Del	X		1.3% (avg.)	No	Yes	Yes
		Pennsylvania Electric	OH	Del	X		1.3% (avg.)	No	Yes	Yes
		Jersey Central Power & Light	OH	Del	X		1.3% (avg.)	No	Yes	Yes
16	FPL Group, Inc.	Florida Power & Light	FL	VI	X		0.00%	No	No	No (but eligible)
17	NiSource	Columbia Energy Group	IN	Del		X	0.90%	Yes	No	No
		Columbia Gas of Kentucky	KY	Del		X	0.00%	No	No	No
		Columbia Gas of Pennsylvania	PA	Del		X	0.00%	No	No	No
		Columbia Gas of Virginia	VA	Del		X	0.00%	No	No	No
		Columbia Gas of Ohio	OH	Del		X	1.3% (avg.)	Yes	Yes	No
		Northern Indiana Publice Service Co.	IN	VI	X	X	0.90%	Yes (gas)	No (pending)	No (pending)
		Columbia Gas of Massachusetts	MA	Del		X	2.40%	Yes	No	Yes
18	Northeast Utilities	Connecticut Light & Power	CT	Del	X		1.00%	No (but eligible)	No	Yes
		Western Mass. Electric Co.	MA	Del	X		2.40%	Yes	No	Yes
		Public Service Co. of NH	NH	VI	X		0.00%	No	No	Yes

ComEd Ex. 39.2 (Docket 10-0467): Seligson Group - Energy Efficiency Targets and Ratemaking Issues - 2-Page Exhibit

				[1]	[2]	[3]	[4]	[5]	[6]	[7]
No.	Comparable Company	Operating Company	Jurisdiction	Utility Type	Elec	Gas	State Energy Efficiency Target (as of 2009 / 2010)	Decoupling	LRAM	Shareholder Incentive Mechanism
		Yankee Gas*	CT	Del		X	1.00%	No (but eligible)	No	No (but eligible)
19	NSTAR	NSTAR	MA	Del	X	X	2.40%	Yes (both)	No	Yes (both)
20	OGE Energy	Oklahoma Gas & Electric	OK	VI	X		0.00%	No	Yes	No (but eligible)
21	Pepco Holdings	Potomac Electric Power	DC	Del	X		0.00%	Yes	No	Yes
		Atlantic City Electric	DE	Del	X		2.50%	Yes	No	No
		Delmarva Power & Light	DE, MD	Del	X	X	2.50% (DE), 1.5-1.8% (MD)	Yes (MD)	No	No
22	PG&E Corp.	Pacific Gas & Electric	CA	VI	X	X	0.90%	Yes (both)	No	Yes (both)
23	Pinnacle West	APS	AZ	VI	X		2.00%	No	Yes	Yes
24	PPL Corp	PPL Electric Utilities*	PA	Del	X		1.00%	No	No	No
		Louisville Gas & Electric	KY	VI	X	X	0.00%	Yes (gas)	Yes	No (but eligible)
25	Progress Energy	Progress Energy Florida	FL	VI	X		0.00%	No	No	No (but eligible)
		Progress Energy Carolina	NC	VI	X		0.75-5.0%	Yes	Yes	No (pending)
		Progress Energy Carolina	SC	VI	X		0.00%	Yes	Yes	No
26	Public Services Enterprise	PSEG	NJ	VI	X	X	0.00%	No	No	Yes (gas)
27	SCANA Corp.	South Carolina E&G	SC	VI	X	X	0.00%	No	No (but eligible)	No
28	Sempra Energy	San Diego Gas & Electric	CA	VI	X	X	0.90%	Yes (Both)	No	Yes (both)
29	Southern Co.	Alabama Power	AL	VI	X		0.00%	No	No	No
		Georgia Power, Sav Pwr	GA	VI	X		0.00%	No	Yes	Yes
		Gulf Power	FL	VI	X		0.00%	No	No	No (but eligible)
		Mississippi Power	MS	VI	X		0.00%	No	No	No
30	TECO Energy, Inc.	Tampa Electric Co.	FL	VI	X	X	0.00%	No	No	No (but eligible)
31	Westar Energy	Westar Energy	KS	VI	X		0.00%	No	No	No
32	Wisconsin Energy	Wisconsin Electric	WI	VI	X	X	0.00%	No (but eligible)	No	No (but eligible)
33	Xcel Energy Inc.	NSP-Minnesota	MN	VI	X	X	1.50%	Yes (electric)	No	Yes (both)
		NSP-Wisconsin	WI	VI	X	X	0.00%	No (but eligible)	No	No (but eligible)
		PSC Colorado	CO	VI	X	X	1.00%	Yes (gas)	No	Yes (electric)
		Southwestern Public Service	TX	VI	X		0.30%	No	No	Yes

Notes:

[1] Jurisdiction identifies the jurisdiction(s) for which ratemaking information is provided, but does not necessarily reflect all jurisdictions in which the utility operates.

[2] A utility is considered "eligible" for a specific ratemaking tool if the Commission has explicitly indicated that it would consider such ratemaking (or the legislature has required such consideration), if the Commission has granted such ratemaking to another utility within the state, of if other similar circumstances are present.

[3] Delmarva has a modified fixed variable rate design that partially decouples revenues from sales.

Sources:

[1] VI=Vertically Integrated; Del=Delivery. See Hadaway Exhibit 11.1. Source: Company 10-K's; select information for AEP, Black Hills, and Hawaiian Electric provided by Regulatory Research Associates (RRA); SNL; EIA-861 Database.

[2] Data compiled from Hadaway Exhibit 11.1 and SNL Financial.

[3] Data compiled from Hadaway Exhibit 11.1 and SNL Financial.

[4] Exhibit 13.4, Tierney Direct Testimony.

[5] AGA, Map of Decoupling, January 2010; Exhibit 13.4, Tierney Direct Testimony. Reflects all utilities currently operating under decoupling or required to submit decoupling proposals to state commissions.

[6] Data compiled from Exhibit 13.4, Tierney direct testimony and the ACEEE, State Energy Profiles, accessed on November 18, 2010, available at http://www.aceee.org/sector/state-policy.

[7] Data compiled from Exhibit 13.4, Tierney direct testimony, the AGA, "Regulatory Approaches to Promoting Energy Efficiency," accessed on November 18, 2010, available at http://www.aga.org/our-issues/energyefficiency/Pages/Regulatoryapproachestopromotingenergyefficiency.aspx, and the ACEEE (2010).

ComEd Ex. 39.3 (Docket 10-0467): McNally Group - Energy Efficiency Targets and Ratemaking Issues

No.	Comparable Company	Operating Company	Jurisdiction	[1] Utility Type	[2] Elec	[3] Gas	[4] State Energy Efficiency Target (as of 2009 / 2010)	[5] Decoupling	[6] LRAM	[7] Shareholder Incentive Mechanism
	Exelon	ComEd	IL	Del	X		1.2% (avg.)	No	No	No
1	AGL Resources	Atlanta Gas Light Co.	GA	Del		X	0.00%	Yes	No	No
		Chattanooga Gas Company	TN	Del		X	0.00%	No	No	No
		Virginia Natural Gas	VA	Del		X	0.00%	Yes	No	No
2	CenterPoint Energy	CenterPoint Energy	TX	Del	X	X	0.30%	No	No	Yes
		CenterPoint Energy MN	MN	Del		X	1.50%	Yes	No	Yes
		CenterPoint Energy AR	AR	Del		X	0.00%	Yes	No	No
		CenterPoint Energy LA	LA	Del		X	0.00%	No	No (but eligible)	No
		CenterPoint Energy MS	MS	Del		X	0.00%	No	No	No
		CenterPoint Energy OK	OK	Del		X	0.00%	No	No	No
3	Con. Edison Co.	Con. Ed., Orange & Rockland	NY	Del	X	X	1.90%	Both	No	Yes (electric)
4	DTE Energy Co.	Detroit Edison	MI	VI	X	X	0.3%-1%	Yes (electric)	No	Yes
5	Edison Internat.	Southern California Edison	CA	VI	X		0.90%	Yes (both)	No	Yes
6	Entergy Corp.	Entergy Arkansas	AR	VI	X		0.00%	No	No	No (pending)
		Entergy Gulf States Louisiana	LA	VI	X	X	0.00%	No	Yes	No
		Entergy Texas	TX	VI	X		0.30%	No	No	Yes
		Entergy Louisiana	LA	VI	X		0.00%	No	Yes	No
		Entergy Mississippi	MS	VI	X		0.00%	No	No	No
		Entergy New Orleans	LA	VI	X	X	0.00%	No	Yes	No
7	New Jersey Resources	New Jersey Natural Gas	NJ	Del		X	0.00%	Yes	No	No
8	NextEra Energy	Florida Power & Light	FL	VI	X		0.00%	No	No	No (but eligible)
9	PG&E Corp.	Pacific Gas & Electric	CA	VI	X	X	0.90%	Yes (both)	No	Yes (both)
10	South Jersey Industries	South Jersey Gas	NJ	Del		X	0.00%	Yes	No	No
11	Southern Union	New England Gas Company	MA	Del		X	2.40%	Yes	No	Yes
		Missouri Gas Energy	MO	Del		X	0.00%	Yes	No	No
12	TECO Energy, Inc.	Tampa Electric Co.	FL	VI	X	X	0.00%	No	No	No (but eligible)

Notes:

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Sources:

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STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

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

VERIFICATION OF SUSAN F. TIERNEY, PH.D.

I, Susan F. Tierney, Ph.D., being first duly sworn, declare under oath as follows:

1. I am Managing Principal of Analysis Group, Inc. .

2. I submitted Rebuttal Testimony, identified as ComEd Exs. 39.0, 39.1, 39.2 and 39.3, on behalf of Commonwealth Edison Company ("ComEd") in this proceeding. This testimony was filed on e-Docket on November 22, 2010. Those pieces of testimony were prepared by me or under my direction and control. I have personal knowledge of the facts contained therein or the facts therein are based on business records of ComEd.

Under penalties as provided by law pursuant to Section 1-109 of the Code of Civil Procedure, the undersigned certifies that the statements set forth in this instrument are true and correct, except as to matters therein stated to be on information and belief and as to such matters the undersigned certifies as aforesaid that she verily believes the same to be true.

Susan F. Tierney