STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY	)	
	)	
Tariffs and charges submitted pursuant to	)	Docket No. 11-0721
Section 16-108.5 of the Public Utilities Act	)	

DIRECT TESTIMONY OF MICHAEL L. BROSCH

ON BEHALF OF THE

PEOPLE OF THE STATE OF ILLINOIS AND AARP

PUBLIC AND REDACTED

DATED JANUARY 13, 2012

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. By whom are you employed and in what capacity?

A. I am a principal in the firm Utilitech, Inc., a consulting firm engaged primarily in utility rate and regulation work. The firm's business and my responsibilities are related to regulatory projects for utility regulation clients. These services include rate case reviews, cost of service analyses, jurisdictional and class cost allocations, financial studies, rate design analyses, utility reorganization analyses and focused investigations related to utility operations and ratemaking issues.

Q. On whose behalf are you appearing in this proceeding?

A. I am appearing on behalf of the People of the State of Illinois represented by the Attorney General, ("Attorney General" or "AG") and AARP (formerly the American Association of Retired Persons).

Q. Will you summarize your educational background and professional experience in the field of utility regulation?

A. Yes. AG/AARP Exhibit No. 1.1 is a summary of my education and professional qualifications. I have testified before utility regulatory agencies in Arizona, Arkansas, California, Florida, Hawaii, Illinois, Indiana, Iowa, Kansas, Michigan, Missouri, New Mexico, Ohio, Oklahoma, Texas, Utah, Washington, and Wisconsin in regulatory proceedings involving electric, gas, telephone, water, sewer, transit, and steam utilities. A listing of my previous testimonies in utility regulatory proceedings is set forth in AG/AARP Exhibit No. 1.2. In Illinois, I have testified in several major proceedings before the Illinois Commerce Commission ("the Commission" or "the ICC"). These include Peoples Gas rate cases in Docket Nos. 90-0007 and 07-0242, North Shore Gas Company Docket No. 07-0241, Illinois Bell Telephone Company in Docket Nos. 92-0448 and 92-0239, ComEd rate case Docket Nos. 07-0566 and 10-0467 and Ameren Illinois Utilities Docket Nos. 07-0585 through 07-0590. I also testified in ComEd Docket No. 09-0263 involving the Advanced Metering Infrastructure Pilot Program and Associated Tariffs and in response to ComEd's alternative regulation proposal that was filed in Docket No. 10-0527.

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

A. My testimony is responsive to the formula rate regulatory proposals of Commonwealth Edison Company ("ComEd" or "Company"), in this Docket that are captioned as "Tariffs and charges submitted pursuant to Section 16-108.5 of the Public Utilities Act." I will describe my understanding of formula rate regulation, as specified in new Section 16-108.5 of the Public Utility Act ("PUA" or "the Act"), and then will discuss why certain of ComEd's specific proposals for implementation of formula rate regulation in this Docket are <u>not</u> reasonable and should be modified by the Commission in its Order. My testimony addresses the ratemaking concepts and procedures that are being recommended by ComEd as well as specific rate case adjustments that are needed upon implementation of annual formula ratemaking.

Q. Please summarize the recommendations that are set forth in your testimony.

A. My testimony addresses several issues impacting the determination of ComEd's asserted revenue requirement under the proposed formula rate and the subsequent "true-up" of such revenue requirements within annual reconciliation procedures that are proposed in the testimony of Company witnesses Houtsma[1] and Fruehe.[2] I explain the test year approach employed to develop the annual rate changes pursuant to formula and why it is essential that an average test year be used in the reconciliation procedures for determination of ComEd's final revenue requirement in each future year. My testimony also addresses the interest rate that should be applied to over or under-recoveries of ComEd's revenue requirement when reconciliation calculations are performed. The balance of my testimony then focuses upon and recommends specific ratemaking adjustments to ensure that future formula-based rates are just and reasonable.

With regard to Cash Working Capital ("CWC"), I recommend the conduct of additional studies to improve the accuracy of the estimated revenue collection lag and sponsor immediate revisions under ComEd's flawed method now being used to estimate the revenue collection lag, so as to reduce the overstatement of CWC being proposed by the Company. I also propose elimination of ComEd's assignment of a revenue lag associated with Pension and OPEB expenses, where no corresponding expense payment lead has been measured for these costs. ComEd's proposed change in lead/lag calculations that now applies a revenue lag to pass-through tax collections is also discussed and revised in my testimony.

I propose several adjustments to test year operating expenses in my testimony, including re-instatement of the disallowance of certain types of expenses

[1] ComEd Ex. 2.0 through 2.1.

that have previously been excluded or normalized by prior Commission Order. The expense adjustments I sponsor include disallowance of certain management perquisites, elimination of costs of stock-based compensation and incentive compensation expenses incurred by affiliate companies based upon financial performance, elimination of legal fees associated with non-jurisdiction tax disputes, with provisions for future adjustments for charitable contributions and interest expense associated with the Customer Deposit balances that are reflected within rate base.

ComEd has also deviated from the established jurisdictional allocation methods that have been previously approved by the Commission. I explain why these changes should either be rejected by the Commission or, in the alternative, offsetting changes to the revenue crediting of Late Payment Charge revenues to the Federal Energy Regulatory Commission ("FERC") Transmission jurisdiction should be reflected in the Commission's Order.

Q. What information have you relied upon in formulating your recommendations?

A. I have relied upon ComEd's pre-filed testimony and exhibits in this Docket, as well as the Company's responses to data requests submitted by Staff, AG, AARP, CUB and other parties. I have also relied upon a copy of Public Act Numbers 97-0616 and 97-0646, adding 220 ILCS 5/16-108.5 to the Public Utilities Act, that was provided to me by AG counsel. I also rely upon my prior experience with regulation of public utilities over the past 31 years, including significant experience in Illinois and with alternative forms of regulation for telephone and energy utilities.

[2] ComEd Ex. 4.0 through 4.10.

Q. Have you prepared any accounting schedules to summarize the adjustments being proposed in your testimony and by Mr. Effron?

A. Yes. AG/AARP Exhibit 1.3 is a seven page summary of the revenue requirement revisions being proposed by Mr. Effron and me. The first page of the Exhibit sets forth the Company's asserted formula revenue requirement from ComEd Exhibit 4.3, which is premised upon the approved Trailer Bill version of formula ratemaking for participating utilities. Adjustments are then posted in columns to the right of ComEd's asserted values, with supporting calculations appearing on subsequent pages, as referenced in the headings for each column. The sum of Mr. Effron's proposed adjustments is inserted at column (j) on page 1. It should be noted that Mr. Effron and I have not, with available time and resources, been able to conduct a complete review of all aspects of the Company's filing. As a result, the limited adjustments we are proposing should be viewed as cumulative with the work and recommendations of Commission Staff and other parties' witnesses.

Q. ComEd has proposed spreadsheet template forms for calculation of future rates and an extensive and detailed new Rate DSPP for Commission review and approval in this Docket. Have you examined these documents in sufficient detail to propose all conforming adjustments that may be needed in connection with your ratemaking adjustments and proposals?

A. No. I have attempted to reference in my testimony the individual formula rate schedules where relevant calculations appear that would require modification upon Commission acceptance of my ratemaking proposals. However, I have not prepared a complete set of formula rate template revisions to address all of the issues that may be raised in these proceedings. I have also been unable with available time and resources to propose comprehensive edits to the 171 pages of proposed Rate DSPP. Under these circumstances, I recommend that the Commission include in its order in this docket a requirement that ComEd submit conforming changes to ComEd Ex. 2.0 (formula template) and ComEd Ex. 9.1 (Rate DSPP tariff) after the many issues raised in this proceeding have been resolved.

II. TEST YEAR PRINCIPLES.

Q. What is the purpose of a "test year" in the determination of public utility revenue requirements?

A. Energy utilities have traditionally been regulated based upon their cost to provide service, including an opportunity to earn a reasonable return on invested capital. The process used to evaluate and measure the cost of service and resulting revenue requirement is the rate case, in which a balanced review of jurisdictional expenses, rate base investment, the cost of capital and revenues at present rates can be undertaken at a common period in time, referred to as a "test year." The proper selection and consistent application of the test year is critically important, so that all of the components of the revenue requirement, including rate base, operating expenses, capital costs and sales or billing determinants are holistically analyzed and quantified in a balanced and internally consistent manner with appropriate "matching" of costs and revenues.

Q. Are there several commonly employed types of rate case test years?

A. Yes. The two broad categories of test years include "historical" test years that employ actual recorded financial information to develop the revenue requirement and "future" and "forecasted" test years that employ projections of expected future financial information to develop the revenue requirement. Within these two broad categories, the test year calculations can be based upon either an "average" set of rate base and income data throughout the 12 months of the year or, alternatively, an "end-of-period" or "annualized" approach that adjusts one or more elements of the revenue requirement calculation to cost and revenue levels extant at year-end.

Q. What type of test year has been proposed by ComEd in the determination of its asserted first year formula rate-based revenue requirement?

A. The Company's proposed test year is a hybrid, employing both historical and forecasted information and both average and year-end information, as more fully explained in the Direct Testimony of Mr. Martin Fruehe.[3] The Company's proposed rate base is measured as of December 31, 2010, and then is increased for projected plant additions and for projected growth in Accumulated Depreciation through December 31, 2011.[4] The Company has generally quantified the individual elements of rate base as of test year-end, except for CWC which is quantified by lead/lag study and the Materials & Supplies and Customer Deposits balances, which are quantified as a 13-month average.[5] Thus, for Rate Base, ComEd proposes use of both historical and projected data and both average and year-end quantification of specific Rate Base elements.

ComEd's test year Operating Income for ratemaking purposes is based generally upon historical, average amounts as recorded in calendar 2010. Operating expenses and Depreciation/Amortization expenses start at recorded calendar year

[3] ComEd Ex. 4.0, pp. 11-19.
[4] Id., p. 12.

levels, with certain adjustments to account for cost recoveries through other tariff mechanisms or to exclude costs not allowable for ratemaking purposes.[6] Exceptions to this historical, average approach include projections of depreciation expense associated with ComEd's projected Plant in Service additions and for Income Tax expenses that are calculated applying statutory tax rates to a calculation of ratemaking taxable income.[7] Rather than calculating revenues at present rates for comparison to the asserted revenue requirement, ComEd is proposing that its overall test year revenue requirement be divided through annual billing determinants, so as to set revised tariff prices and the billing determinants that are based upon average 2010 customer bill counts and calendar 2010 weather normalized sales volumes.[8]

Q. Will the revenue requirement and new rates resulting from ComEd's initial installment of annual formula rate changes later be subjected to reconciliation and "true-up" provisions under Section 16-108.5?

A. Yes. Each May 1, ComEd proposes to file its calculation of prospective changes to the formula rate revenue requirement using inputs from the prior year's FERC Form 1 and other data sources. As part of this filing, ComEd would then also calculate a reconciliation to "true-up" the previously approved revenue requirement, which had incorporated projections of changes in Plant investment, accumulated depreciation and depreciation expense, to determine a revised revenue requirement for the same

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5 Id., pp. 15-18. See also ComEd Ex. 4.1, Schedule FR B-1 and referenced sources therein and ComEd Ex. 2.0, pp. 13-18.

6 ComEd Ex. 2.0, pp. 18-22; ComEd Ex. 2.1, Sch. FR C-1 and FR C-4; ComEd Ex. 4.0, pp. 19-29.

7 ComEd Ex. 4.0, pp 28-29.

8 ComEd Ex. 9.0, pp.5-8.

period using then available actual recorded data.[9] According to ComEd witness Mr. Hemphill, "Importantly, the annual reconciliation proceedings ensure that ComEd recovers no more than its actual costs of service."[10]

Q. Has ComEd proposed any particular test year approach for calculation of the reconciliation revenue requirement?

A. There is no discussion of reconciliation test year concepts in the Company's prepared testimony, but the references appearing in ComEd Ex. 2.1 and ComEd Exhibit 4.1 at Schedule FR A-1-REC[11] indicate the Company's intent to again use a year-end rate base to calculate the reconciliation revenue requirement so as to "true-up" previously approved revenue levels.[12]

Q. Is it appropriate to employ a year-end rate base in calculating the reconciliation revenue requirement that would "true-up" costs using actual information?

A. No. The reconciliation calculation should employ an average rate base to properly quantify the return on investment elements of the revenue requirement. The proper level of return for investors should reasonably compensate the actual level of capital invested in the Delivery Service business throughout the true-up period. Adoption of ComEd's proposed reconciliation approach, which would apply the allowed rate of return to year-end rate base, would systematically overstate the true-up rate base

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[9] ComEd Ex. 1.2, pp. 4-6, "Annual Updates to and Reconciliations under Rate DSPP."

[10] ComEd Ex. 1.0, p. 19:372-373.

[11] ComEd Ex. 4.1 and 4.3 both represent calculations of revenue requirements populating the template set forth as ComEd Ex. 2.1 primarily with calendar year 2010 input data, with and without application of what ComEd calls the "Trailer Bill". The balance of this testimony will reference the ComEd Ex. 4.1 calculations that do not recognize the "Trailer Bill." This is necessary because ComEd Ex. 4.3 does not include all of the Schedules needed to fully explain the revenue requirement issues discussed herein.

and resulting reconciliation revenue requirement. ComEd's investment in assets serving Delivery Service customers is generally higher at year-end than throughout the reconciliation year.

Q. Does ComEd's "election" to be a "Participating Utility" under Section 16-108.5, as stated in Mr. Hemphill's testimony,[13] cause the decision regarding use of an average versus year-end rate base in the reconciliation to be an important issue?

A. Yes. The Company is committing to making incremental investments in electric system upgrades estimated at $1.3 billion over five years, plus another estimated $1.3 billion of incremental investment over ten years in Smart Grid system upgrades.[14] These "incremental" investments totaling $2.6 billion are above and beyond ComEd's normal pace of spending to accommodate replacement of aging plant, customer growth and other ongoing capital programs. If we assume ratable capital spending and the impact of only the incremental investment commitments in years one through five of the program, annual rate base growth caused by the new investments could eventually represent $390 million per year.[15] The "value" of reconciling the revenue requirement using year-end versus average rate base would be approximately one-half the ratable investment growth expected each year, since the mid-point of spending in a typical future year could be at the $195 million level

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12 Schedule FR A-1-REC at line 12 indicates an intended "Source" for the "Rate Base-Reconciliation" value would be Schedule FR B-1 at line 49, which amount is the sum of recorded year-end rate base balances, prior to projected Plant additions for the subsequent year.

13 ComEd Ex. 1.0, p. 4.

14 Id., p. 5:95-107.

15 Sum of $1.3 billion / 5 years plus $1.3 billion / 10 years. ComEd's Infrastructure Investment Plan filed 1/6/2012 in Attachment 2 indicates incremental investment planned in 2012 totaling $233 million. (See Table A.1)

of Plant additions while by year-end Plant additions could total $390 million.[16] Translating this typical rate base difference of $195 million into revenue requirement would produce additional annual revenues for ComEd after reconciliation of approximately $25 million per year.[17]

Q. Does ComEd, in fact, anticipate significant and continuous growth in its ratemaking capital structure in every year of the infrastructure investment plan for which it has prepared projections?

A. XXX. The Company's confidential response to Staff Data Request No. RMP 1.01 in Attachment 1 provided projections showing XXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXX, there is no doubt that using a year-end rate base in the reconciliation of annual revenue requirements will overstate charges to customers and inflate the Company's return on actual investment, relative to the actual cost of capital. I have included a copy of this confidential response as AG/AARP Exhibit 1.4 (Confidential).

Q. Can you provide an illustration of how the Company's proposed use of a year-end rate base will inflate the Company's return on actual investment?

A. Yes. To illustrate the problem, we can assume steady annual growth in future rate base and the corresponding amount of common equity capital in the utility, at a pace of five percent per year spread evenly throughout each year. The following table

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[16] This simplified example ignores changes in other elements of rate base, arising from ongoing capital spending on non-incremental programs, continued growth in Accumulated Depreciation, and changes in Accumulated Deferred Income Taxes and other elements of rate base which are assumed to be largely offsetting in this discussion.

shows the impact upon equity returns of targeting an assumed 8 percent ROR on such a growing rate base, but then calculating revenue requirements on year-end, rather than average invested capital:

Illustration of Average VS Year-end Rate Base ($ millions) - post tax return and ROE % difference

Year	Projected Rate Base			Return at 8% on Rate Base		Return[18]	Average	ROE
	Beg. Of Year	End of Year	Average	End of Year	Average	Difference	Equity @ 45%	Impact
1	7,000	7,350	7,175	588	574	14	3,229	0.43%
2	7,350	7,718	7,534	617	603	15	3,390	0.43%
3	7,718	8,103	7,910	648	633	15	3,560	0.43%
4	8,103	8,509	8,306	681	664	16	3,738	0.43%
5	8,509	8,934	8,721	715	698	17	3,925	0.43%

With these assumptions, the post-tax return available for return on equity ("ROE") capital exceeds the intended ROE by approximately 43 basis points each year, adding over $14 million, plus the related factor-up for income taxes, to the revenue requirement burden faced by ratepayers. If rate base grows more rapidly than five percent per year, the ROE variance relative to intended earnings levels would be even larger, and vice-versa.

Q. Why does the use of a year-end rate base force the achieved ROE to be higher than the intended ROE?

A. The utility's actual investment in new plant and the corresponding growth in newly invested equity and debt capital tend to grow gradually throughout the year. Therefore, the associated return requirement for such capital also grows gradually

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17 Based upon ComEd's asserted pretax overall return rate of 12.7%, derived from ComEd Ex. 4.1 as the sum of "Authorized Return" of $543,733 plus "Incremental Tax Gross-up" of $298,282 = $842,015, then divided by "Rate Base" of $6,647,180 = 12.66%.

18 These return differences are after income taxes. The equivalent revenue requirement impact of the return differences is approximately 1.66 times the amount shown. See ComEd Ex. 4.3, Sch C-4 at line 13 for documentation of ComEd's 1.66 Gross Revenue Conversion Factor.

throughout the year. If the revenue requirement calculation is improperly based upon the year-end level of such Rate Base investment, as if that investment was fully incurred on January 1 and existed in all months of the test year, the resulting return requirement is systematically overstated. This is the financial result caused by ComEd's proposal to utilize a year-end rate base within the reconciliation process.

Q. If return requirements are overstated relative to the actual amounts of capital being invested only gradually throughout a test year, why would regulators ever allow utilization of a year-end rate base?

A. The only valid reason for employing a year-end rate base in an otherwise average test year approach is to reduce regulatory lag by approximately six months, which is the difference between the mid-point of an historical test year and year-end. It should be noted that when a year-end or "annualized" rate base is used by regulators, it is common for other elements of the revenue requirement such as wage rates, employee headcounts, customer counts, depreciation expense and other known changes to be similarly annualized at year-end. The combined impact of such broadly applied annualization adjustments is to reduce regulatory lag.

Q. If ComEd's revenue requirements are to now be annually trued-up, so as to fully recover jurisdictional actual incurred costs, is there any remaining need to address regulatory lag through use of a year-end rate base?

A. No. Traditional test-year regulation involves setting utility rates that remain unchanged until the "next" rate case is filed, causing regulatory lag to exist when cost changes occur between test year rate cases. However, regulatory lag concerns are completely mitigated by the new formula ratemaking regime, where ComEd will be made "whole" with interest for experienced changes in all of its actual jurisdictional costs incurred to provide Delivery Services in Illinois. When the formula-based revenue requirements, which are inclusive of projected net Plant in Service additions, are trued-up through the reconciliation process to actual cost levels, any revenue requirement variances are allowed interest charges to be sure that regulatory lag imposes no financial consequences on ComEd. In this new regulatory environment, there is absolutely no need for the Commission to permit the use of year-end rate base as a remedy for regulatory lag.

Q. With the new annual reconciliation process in place to true-up ComEd's asserted revenue requirement to its actual cost levels, does it matter whether the revenue requirement at the inception of formula ratemaking utilizes a year-end versus an average rate base?

A. Not particularly. The methodology being used to develop the inception revenue requirement, such as depicted on ComEd Ex. 4.1 at Schedule FR A-1, is of less importance to ComEd's earnings than the method to be used in the future when calculating the true-up charges or credits to customers in future reconciliation proceedings.[19] The revenue requirement that is ultimately payable by ratepayers is the amount calculated <u>after</u> reconciliation, plus any associated carrying charges on such over or under-recoveries. The Commission's goal should be to adopt a revenue requirement calculation method that yields a reasonable approximation of the ultimate revenue requirement owed ComEd upon reconciliation so as to minimize the size of future reconciliation revenue adjustments.

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[19] This is not to say that inception rates are unimportant to ratepayers or the utility, where actual monthly bills payable by consumers are directly impacted by inception rate levels and the Company's cash flows are also impacted by the level of inception rates.

Q. In ComEd Ex. 2.1, the Company has proposed a spreadsheet template to document the calculation steps to be employed in administering Rate DSPP, with the same spreadsheet populated with input values in ComEd Ex. 4.1 TB. What changes to this template are needed to ensure that the reconciliation of revenue requirements is performed using an average Rate Base approach?

A. The simplest revision would be to insert two additional lines at what is presently identified as Sch. FR A-1-REC in the proposed spreadsheet template. The existing line 12 of this Schedule now references Sch. FR B-1 at line 49 to insert a year-end rate base from the current filing made each year. I would insert one additional line beneath existing line 12 to insert from the prior year's filing the Sch. FR B-1, line 49 recorded year-end Rate Base at December 31 of the previous year. Then a second line would be inserted to calculate the mathematical average of the prior year-end and current year-end Rate Base values to quantify an average Rate Base for purposes of calculating the "Net Revenue Requirement – Reconciliation" on Schedule FR A-1-REC each year.[20] Conforming changes would be needed within the Rate DSPP to effect reconciliation of the revenue requirement on an average Rate Base approach.

A more complex calculation of the actual average Rate Base used in reconciliation <u>could</u> be employed, that would require more elaborate spreadsheet template revisions than are recommended above. For example, certain elements of the Rate Base that are included in the amounts used above are not presently quantified at a single point in time, but are instead based upon 13-month averages

[20] It should be noted that ComEd Ex. 2.1 at Sch. FR A-3, at line 1, employs a "DS Rate Base" value from Sch. FR A-1 REC line 12 for determination of the ROE Collar Computation. The changes

or specific calculations, such as Customer Deposits, Materials & Supplies and CWC. It may be worthwhile in the interest of accuracy to substitute the most currently available 13 month averages or separately calculated CWC amounts within the average rate base amounts being used in reconciliation. These more complex calculations could be ordered by the Commission to be included in a compliance filing from ComEd once the more substantive issues involving the reconciliation process are resolved.

Q. Are you responsible for development and presentation of the Rate Base to be used in calculating the initial formula rate case revenue requirement in this Docket?

A. No. AG/AARP witness Mr. Effron is addressing the Rate Base issues on behalf of the Attorney General and AARP, except for Cash Working Capital and for the minor rate base impacts of several of my proposed expense adjustments, which are discussed later in this testimony.

III. RECONCILIATION INTEREST CHARGES.

Q. Please describe the Company's proposal with regard to the application of interest charges to the revenue requirement reconciliation balance.

A. ComEd proposes to apply a "Monthly Interest Rate" of 0.684% to the revenue requirement "Variance – Reconciliation Before Interest" amount calculated on ComEd Ex. 4.1 at Sch. FR A-4. This percentage represents 1/12 of the calculated Weighted Average Cost of Capital that is calculated at Sch. FR D-1 and appears at

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proposed herein for derivation of the DS Rate Base on an average basis within Sch. FR A-1-REC would properly flow through to the ROE Collar computation.

line 23. Thus, ComEd is proposing that the revenue requirement difference arising from the reconciliation process, whether positive or negative, be allowed to earn the Company's calculated overall cost of capital, rather than simple interest as provided for in the Act.

Q. Does new Section 16-108.5 of the Act specify the interest rate to be applied to the revenue requirement reconciliation balances until such amounts are charged or credited to ratepayers?

A. No. Section 108.5(d)(1) of the Act states, "Any over-collection or under-collection indicated by such reconciliation shall be reflected as a credit against, or recovered as an additional charge to, respectively, with interest, the charges for the applicable rate year." However, it does not specify the appropriate interest rate to be used for this purpose.

Q. Should the revenue requirement variances calculated for reconciliation purposes be allowed interest at ComEd's overall cost of capital?

A. No. The amounts in question represent short term assets or liabilities that are to be either charged or credited to ratepayers within the annual rate adjustment mechanism. These balances therefore do not require permanent financing by ComEd, and should not be expected to require new Exelon common stock issuances or parent company equity infusions for financing. There is no basis to assume that incremental equity financing will occur in connection with the annual revenue reconciliations. Therefore, ComEd's proposed interest rate that is based upon its overall cost of capital, including a weighted equity return element, should be rejected.

Q. What would be a more appropriate rate of interest for application within ComEd's proposed formula rate template spreadsheet, at ComEd Ex. 2.1, Schedule FR A-4, line 4, in the Reconciliation Computation?

A. A short term debt interest rate should be used for this purpose, recognizing ComEd's ability to access credit markets at favorable cost rates to finance short term asset investments. For example, the cost of short term debt calculated for 2010 at ComEd Ex. 4.1, App 12 is only 1.43%. An alternative cost rate for consideration is the interest rate ComEd currently pays on customer deposit balances, which is presently zero percent.[21]

Q. Would utilization of a short term debt cost rate to calculate interest to be applied to revenue requirement reconciliation balances be beneficial to ComEd ratepayers?

A. Yes. Short term debt cost rates have recently remained at historically low levels and tend to be generally lower than the costs of more permanent debt capital most of the time. With the large anticipated future infrastructure investments ComEd will make pursuant to new Section 16-108.5 and because inflation impacts upon annual operating expenses are <u>not</u> projected beyond test year end in setting formula rates, it is reasonable to expect future reconciliations to often yield balances chargeable to ratepayers. Under these circumstances, a relatively lower interest rate would be beneficial to ratepayers.

Q. Is there another accounting measure that could appropriately be employed to determine the interest cost applicable to revenue requirement reconciliation variances?

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[21] Rate determined by the Commission in Docket No. 11-0793, approved December 21, 2011.

A. Yes. The Commission could deem the revenue requirement variances under formula ratemaking to be regulatory assets that represent a deferral of operating expenses to be recoverable (or returnable) in future rate periods. Since operating expenses are income tax deductible when incurred by the taxpayer, the deferred income tax balances associated with such expense deferrals could be used to reduce the balance upon which interest is accrued. Application of interest to only the net of income tax balance associated with such deferrals is consistent with the economic reality that income tax savings would be realized from ComEd's delayed recovery of tax deductible expenses, which should then serve to reduce the overall interest burden upon ratepayers by about 40 percent.

Q. Would it be reasonable to deem the revenue requirement reconciliation balances to be deferred operating expenses for this purpose?

A. Yes. The formula-based revenue requirement subject to later reconciliation includes the forecasted amount of all jurisdictional additions to net Plant in Service within Rate Base, but does not provide for projections of inflation in the utility's operating expenses. Aside from differences between actual and forecasted net Plant in Service amounts, the majority of the revenue requirement upon true-up to actual costs is likely to be caused by changes in operating expenses where no cost inflation projections are included.

Q. What changes to ComEd Ex. 2.1, Sch. FR A-4, the formula rate spreadsheet template "Reconciliation Computation", are required in order to apply your recommendations?

A. First, the "Variance" appearing at line 3 should be reduced by associated incremental deferred income taxes using the Company's composite Effective

Income Tax Rate, which is derived on Sch. FR C-4, at line 8. The calculation and subtraction of related Accumulated Deferred Income Taxes could be inserted as new lines 4 and 5 on Sch. FR A-4. Then, the "Monthly Interest Rate" on line 4 (to be renumbered line 6) could be modified to tie to ComEd's calculated current cost of short term debt as determined at App 12 of the template.

V. COMED PROPOSED CHANGES TO ICC RATEMAKING POLICIES.

Q. Has the Company proposed any significant revisions to the ratemaking policies previously established by the Commission in formulating and populating its formula ratemaking calculations at ComEd Ex. 2.1 and ComEd Ex. 4.1?

A. Yes. According to its response to Data Request AG 1.06, the Company has accepted and applied <u>some</u> of the ratemaking decisions from the Commission's Final Order in ICC Docket No. 10-0467, but has not employed established ICC precedent in several other areas in preparing its proposed formula rate filing. The areas where ICC policies are being challenged include changes to jurisdictional allocations for General and Intangible Plant and real estate taxes, inclusion of expenses for restricted stock awards to employees, inclusion of expenses for Perquisites and Awards to employees, and other items as more fully described in this response. I have included as AG/AARP Exhibit 1.5 a copy of the Company's response to Data Request AG 1.06.

Q. Is it reasonable for the Company and for other parties to propose revisions to the Commission's established ratemaking policies at this time?

A. Yes. This docket addresses the commencement of an entirely new regulatory framework that provides for annual formula-driven rate changes, along with annual reconciliation calculations to drive revenue requirements toward actual, recorded costs. The previous regulatory framework was based upon traditional, periodic rate case proceedings where there was no systematic, annual updating of rate levels or any reconciliation of revenue requirements to actual recorded costs. It is essential that certain of the Commission's ratemaking policies be evaluated at this time, to ensure compliance with the revisions to the Public Utilities Act and to ensure that just and reasonable rates will result from the new regulatory framework as applied to ComEd Delivery Services.

Q. Are you addressing all of the Company's proposed changes in ratemaking policy that are listed in AG/AARP Exhibit 1.5?

A. No. I am not addressing all of the Company-proposed changes. In the testimony that follows, I will address several of ComEd's proposed policy revisions. Other AG/AARP, Staff and Intervenor witnesses may address other changes in their testimony. My responsibilities in this docket were limited due to time and resource constraints, so the absence of testimony on any particular issues should not be construed as acceptance or rejection of ComEd's proposed ratemaking methods in any issue areas not specifically addressed in my testimony.

VI. CASH WORKING CAPITAL.

Q. Has ComEd proposed inclusion of an allowance for Cash Working Capital ("CWC") within the rate base used to establish annual formula rates?

A. Yes. ComEd Ex. 2.1 at App 3 is a blank template the Company proposes be used to calculate in the future an allowance for CWC in setting formula rates. The inputs on App 3 are "Sourced" to ComEd WP 3 which is contained in ComEd Ex. 4.2, where the income statement input values for the CWC computation are presented. ComEd's actual calculation of CWC under the Trailer Bill is set forth at ComEd Ex. 4.3, App 3 TB and in ComEd Ex. 8.1 TB. ComEd's lead/lag study supports a claimed CWC allowance of $48,931,000.

Q. Has ComEd applied the ratemaking policies for CWC that were set forth in the Commission's Final Order in Docket No. 10-0467?

A. Not completely. Several changes were made by Mr. Hengtgen relative to the CWC calculation methods that were approved by the Commission in the Company's prior rate case. These changes include:

- ComEd has assigned a full revenue lag to the collections of certain pass-through taxes and fees and modified the expense payment leads for certain of these payments.[22]
- ComEd has calculated and added an amount of CWC for non-AFUDC CWIP.[23]

[22] ComEd Ex. 8.0, p. 21, lines 404-410.
[23] Id. Lines 410-413.

- ComEd has not adopted the Commission-ordered 45.35 payment lead day value for intercompany transactions, to correct for cross subsidization that is generally prohibited in affiliated interest agreements, instead proposing a 30.55 lead day result from ComEd's analysis of calendar 2010 affiliate payment data.[24]

Q. In your Direct and Rebuttal Testimony in ComEd's last rate case, Docket No. 10-0467, you explained a number of problems with the Company's method of calculation to estimate the revenue collection lag. Does the Company's lead lag study in the instant Docket make any correction for these problems?

A. No. The revenue collection lag underlying the asserted CWC amounts is still being estimated by ComEd through application of very crude assumptions to broad categories of month-end accounts receivable balances. ComEd does not actually measure how long it takes to collect revenues from its customers. Instead the Company looks to a breakdown of its month-end Accounts Receivable balances by customer class and assigns, without any supporting analysis, the following arbitrarily assumed revenue collection dates to each grouping of aged receivable balances:

Receivable Age>>	**0 - 30**	**31 - 60**	**61 - 90**	**91 - 120**	**121 - 150**	**151 - 180**	**181 - 210**	**211 - 270**	**271 - 365**
Residential	0	45	75	105	135	165	195	240	317.5
SCI	8	45	75	105	135	165	195	240	317.5
LCI	8	45	75	105	135	165	195	240	317.5
Railroad	0	0	15	45	75	105	135	165	287.5
Street Lighting	0	0	15	45	75	105	135	165	287.5
Public Authority	0	0	15	45	15	45	75	105	287.5
Government	0	8	45	75	105	135	165	195	302.5

24 Id., p. 15, lines 281-285.

For example, all of the residential customer accounts with balances owed that were 31-60 days old were assumed be paid precisely at the mid-point of this period, on day 45, and all Residential customer accounts with balances 61-90 days old are assumed to be fully paid to ComEd precisely on day 75, which is again the mathematical mid-point of the period. Similar "mid-point" assumptions were employed throughout ComEd's calculations, with no further analysis to determine within these broad aging categories when customers, on average, are actually paying their bills.

Equally crude "grace period" assumptions made by ComEd cause certain early aging categories to arbitrarily deviate from consistent use of the Company's mid-point assumptions that are employed elsewhere. For example, ComEd assigns an assumed zero lag value to all Residential balances 0-30 days old and assigns an 8 day value to small commercial and industrial ("SCI") and large commercial and industrial ("LCI") accounts falling within the same aging category. It is highly unlikely that all of the commercial customers in the SCI and LCI classes that pay their bills within 30 days also happen to elect to pay on exactly day number 8 in that aging group, as assumed by ComEd. I submit that it is factually impossible for all the residential customers who pay within the first 30 days after their bills are rendered to have actually paid on day number zero, as assumed by ComEd.

Problems are also obvious at the other end of the Accounts Receivable aging spectrum where ComEd has applied its mid-point assumptions. Extremely old receivables that have been outstanding more than 90 days are <u>fully</u> considered within the ComEd approach and contribute heavily to the Company's estimated revenue collection lag. ComEd's calculations fail to acknowledge that a large percentage of the oldest Accounts Receivable balances will ultimately become uncollectible and not be collected at all. There is no cash flow associated with a customer bill that is not paid, so the uncollectible portion of ComEd's oldest receivable balances, which are never satisfied by customer remittances, can have absolutely no impact upon the Company cash flows or CWC requirements.

I have included within AG/AARP Exhibit 1.1.6 copies of ComEd's responses to Data Request Nos. AG 1.29, AG 1.30, DGK 1.10 and DGK 1.11 to provide additional information regarding the arbitrary assumptions applied within the Company's revenue collection lag day estimation procedures.

Q. You presented extensive testimony in the Company's last rate case objecting to the revenue collection lag calculations that are again being used by the Company. How did the Commission respond to your prior testimony?

A. At page 48 of the Final Order in Docket No. 10-0467, the Commission rejected my criticisms of ComEd's revenue collection lag calculations. Nevertheless, recognizing that ComEd, in this Docket No. 11-0721, has proposed reconsideration of several CWC issues that were previously resolved differently in the Commission's Final Order in the prior rate case, I believe it is reasonable that the revenue collection lag measurement problems also be re-considered.

Q. What is your recommendation regarding the amount of CWC that should be included in ComEd's rate base at this time?

A. I recommend at this time, and <u>only</u> for initial determination of the inception rates that will later be subject to reconciliation, that the Company's proposed lead lag study at ComEd Ex. 4.3, App 3 TB and Ex. 8.1 TB be modified to reflect the following changes and then employed to set rates:

1. Revision of ComEd's estimated revenue collection lag to account for the uncollectible accounts portion of Accounts Receivables used in ComEd's calculation, which are receivables that will not be collected at all, and therefore cannot impact the timing of ComEd's cash flows,

2. Removal of non-cash Pension and OPEB accrued expense amounts from the "Receipts" to which a revenue lag value is applied by ComEd.

3. Insertion of the Commission's Docket No. 10-0467 ordered payment lead for intercompany transactions, to avoid potential cross-subsidization of affiliate transactions.

4. Reinstatement of the Commission's ordered treatment of pass-through taxes, assigning no revenue lag to these amounts where ComEd serves as the collection agent and no tax is owed until after revenues are collected by ComEd.

5. Correction of ComEd's inappropriate application of the calculated "Other O&M" payment lead value to CWIP-related Accounts Payable balances.

I further recommend that, before any CWC allowance is permitted in future formula rate changes or as part of the reconciliation of 2011 revenue requirements to actual costs in the Company's May 2012 filing, ComEd be ordered to conduct a more extensive analysis of its actual revenue collection lag days and revise the CWC calculations to reflect the results of such study, as more fully described herein.

Q. Have you prepared an Exhibit to summarize the changes you are recommending to ComEd's CWC calculations?

A. Yes. AG/AARP Exhibit 1.3 at page 2 is a spreadsheet calculation that reformats and summarizes ComEd lead/lag study Ex. 8.1 TB, to show the line by line impact of each cost element included in the Company's lead/lag study. Lines 1 through 26 and columns (a) through (g) of my Exhibit replicate the Company's results on ComEd Ex. 8.1 TB, but combine the Revenue Lag and Expense Lead for each line items so as to show the overall CWC impact of each element of the analysis. This presentation format is useful in isolating the CWC effects associated with the lead/lag study treatment of each category of transaction.

After this restatement of the Company's study, at columns (h) through (l), I present a side-by-side calculation showing each change I am proposing to illustrate the resulting differences in CWC. The cells on page 2 are shaded where an AG/AARP change to study inputs has been made.

Q. Please describe the elements within ComEd's 51.25 Revenue Lag Days amounts shown in column (c) of AG/AARP Exhibit 1.3.

A. ComEd's revenue lag is comprised of five segments, including:

1. A customer usage or service period lag of 15.21 days, plus
2. An average billing period lag of 2.06 days, plus
3. A collection lag between the billing date and customer remittances estimated at 32.24 days by ComEd, plus

4. A payment processing lag for processing and depositing of remittances, plus

5. A bank float of 0.79 days until deposited funds are available for use by ComEd.[25]

As noted previously in this testimony and in Docket No. 10-0467, there are major problems with the third element of the Company's calculation that must be corrected. ComEd should be required to undertake a systematic study of the timing of customers' actual remittances to more accurately estimate its revenue collection lag; using either of the two generally accepted methods used in other regulatory jurisdictions that employ lead lag studies. Until improvements are made in this area, the Company's lead/lag study is hopelessly inaccurate and should not be relied upon in any annual formula ratemaking process.

Q. Why are the revised Revenue Lag Day values that are shown in column (h) of AG/AARP Exhibit 1.3, page 2, so much lower than ComEd's 51.25 day overall revenue lag that is set forth in column (c)?

A. I have revised the Company's revenue collection lag calculations to remove the portion of Accounts Receivable that ComEd's own analysis predicts will become uncollectible. One of the many problems with the Company's estimation of the revenue collection lag is ComEd's inclusion of uncollectible accounts within the aged Accounts Receivable data. The Company's oldest tiers of Accounts Receivable contain a higher percentage of individual customer balances that are at high risk of ultimate write-off as uncollectible. However, ComEd's calculation to estimate the revenue collection lag day value gives no consideration to the heightened risk of uncollectibles among the oldest outstanding customer accounts.

[25] ComEd Ex. 8.0, p. 7:130 – p. 10:178.

I have applied the Company's own uncollectible risk factors, as used on ComEd's books to accrue provisions for uncollectibles expense, to the monthly Accounts Receivables data prior to employing ComEd's aging intervals and mid-point procedures. In all other respects, I have retained the Company's arbitrary assumptions and methods in the revenue collection lag calculations used to determine the revised overall revenue lag in column (h) of 46.08 days.

Q. Why is it necessary to remove the estimated uncollectible accounts from the Accounts Receivables aging data when estimating the revenue collection lag?

A. Uncollectible accounts are fully reflected in ComEd's data, but such accounts cannot influence the revenue lag days because, by definition, uncollectible accounts do not yield cash revenues. The Company collects no cash when an individual customer's account balance is written off and removed from the Accounts Receivable balance on the books. In place of these "lost" accounts receivable, ComEd is allowed to include uncollectibles expenses within its overall revenue requirement, so that the general body of ratepayers replace the revenue foregone by ComEd whenever individual customers do not pay for service.

Q. How significant is the uncollectible portion of the overall Accounts Receivables balance?

A. The total 13 month average Accounts Receivable balance used by ComEd to estimate the revenue collection lag totals $464.8 million.[26] The Accumulated Provisions for Uncollectible Accounts that represent the Company's expectations of Accounts Receivable that will never be collected range from $72.5 to $100.5

[26] ComEd response to AG 1.26, Attachment 1 (lead lag workpapers) CFRC 0000404.

million, which represents a substantial portion of the total balance. ComEd's reliance upon an aging analysis of Accounts Receivable balances that have not been reduced for the Company's own estimates of uncollectibles is clearly unreasonable. I have included a copy of ComEd's response to Data Request AG 7.02 within AG/AARP Exhibit 1.7 to further explain this point.

Q. What is the source of the uncollectible risk factors you used to reduce the Company's Accounts Receivables balances, prior to re-calculating the revenue collection lag day value?

A. I relied upon procedures and studies performed by ComEd to quantify its uncollectible expenses, based upon management's estimate of the collectability of the accounts receivable portfolio. These procedures are explained in the Company's response to Data Request No. AG 4.25, which is also included within AG/AARP Exhibit 1.7 (excluding voluminous attachments).

Q. After your proposed adjustment to remove estimated uncollectible accounts, is the Company's revenue collection lag estimate reasonable for future use by the Commission?

A. No. The revised revenue lag day value resulting from the adjustment to remove uncollectible accounts will modestly improve the accuracy of the Company's study. However, none of the problems and inherent inaccuracies arising from ComEd's arbitrary mid-point assumptions, the use of only month-end Accounts Receivable balances, and the Company's assumptions made regarding billing grace periods are remedied by the changes I have made to the revenue collection lag estimate.

Q. What should be required of ComEd in the future to correct its estimated revenue collection lag day value?

A. The Company should be required to conduct statistical samples of actual customer remittances, to determine the average number of days between collection date and the related prior billing date(s). Alternatively, ComEd should be required to collect and analyze its average daily electric service accounts receivables balance, net of the related uncollectibles reserve, to quantify how many days of its sales are "outstanding" within these balances. This Accounts Receivables "turnover" calculation relies upon dividing the net average daily balance of Accounts Receivables by annual utility sales revenues and is routinely used in other jurisdictions to quantify the revenue collection lag for energy utilities. I recommend that ComEd be required to employ either or both of these methods in future lead lag studies to actually measure customer remittance patterns and more accurately quantify the revenue collection lag, before any future CWC amounts are included in rate base.

Q. Have you examined any residential customer bills to test the reasonableness of ComEd's calculated 32.37 day collection lag estimate for its Residential customers using the Accounts Receivable aging data?

A. Yes. ComEd provided copies of randomly selected bills for 50 residential customers in two consecutive months, which bills did not show any significant pattern of past due balances. Some delinquencies would be expected within actual customers' bills if the overall population of Residential customers takes, on average, more than a month (over 32 days) to pay their bills. I have included

ComEd's response to Data Request AG 7.06 as AG/AARP Exhibit 1.8 to provide further information in this area. This limited sample of actual residential customer bills and payment history casts serious doubt upon the credibility of ComEd's asserted residential revenue collection lag.

Q. Turning to lead/lag study issues beyond the revenue lag day value, at line 2 of AG/AARP Exhibit 1.3, page 2, you have inserted a zero revenue lag day value for Employee Benefits – Pension and OPEB expenses. Why is this appropriate?

A. This is appropriate because a zero expense payment lead has been assumed by ComEd for these costs without any study or analysis of the timing of actual cash flows associated with pension or OPEB funding transactions. If the Company does not study and measure the timing of actual cash outflows for pensions and OPEB transactions, instead simply assigning a zero lag day value, it cannot reasonably assign a revenue lag day value for the cash inflows representing recovery of these expenses with the effect of increasing asserted CWC.

As shown in column (c) of line 2, ComEd's study applies a 51.25 day revenue lag with an assumed zero expense lead to this element of annual expenses. The effect of the Company's treatment is to increase CWC by $15.8 million, as shown in column (g). This is inappropriate, because both Pension and OPEB expenses are accrual basis expenses that are derived from actuarial studies, for which there are no recurring periodic cash flows <u>that have been analyzed by ComEd to determine CWC impacts</u>. According to ComEd's response to Data Request AG 1.27, "ComEd routinely and periodically makes payments to the trusts associated with these benefits. The revenue requirement schedules in this proceeding separately account for the net pension asset, which is the net amount of the cumulative non-cash pension accruals and the cash contributions, as well as the OPEB liability, which similarly represents the net amount of the non-cash accruals and the cash contributions." While these statements are true, the more important point admitted by ComEd in this response is, "Since these amounts are already included in rate base or earning a return…zero lag days are used. No separate measurement of the cash flows was done and no other analyses, workpapers, projections or correspondence exist supportive of the zero lead days." In the absence of any analysis of the timing of Pension and OPEB cash outflows, there is no foundation for blindly applying a 51.25 revenue lag day value for the related cash inflows (revenues) associated with these expenses. I have included a copy of ComEd's response to Data Request AG 1.27 within AG/AARP Exhibit 1.9.

Q. Mr. Hentgen, at page 14, line 276 of his Direct Testimony, states, "ComEd includes its Pension and OPEB amounts in the calculation of rate base separately so it is not necessary to include a lead time for these amounts in the lead lag study as that would be duplicative." Do you agree?

A. Not completely. If Pension and OPEB transactions are recognized elsewhere in rate base, they should not be included in the lead lag study at all. Mr. Hentgen has included pension and OPEB expense recoveries within the revenue cash inflows to which he assigns a revenue lag, while simultaneously assuming no expense lead applies to the related cash outflows for these expenses. If one concludes that the separate inclusion of Pension asset and OPEB liability balances within rate base makes it unnecessary to include a lead value for these transactions, it is equally inappropriate to apply a revenue lag value to these transactions.

Q. At lines 4 and 5 of AG/AARP Exhibit 1.3, page 2, you have changed the Expense Lead Day values assigned to InterCompany Billings from the 30.55 days used by ComEd (in column d) to 45.35 days (in column j). Why has this change been made?

A. In Docket No. 10-0467, the Commission Staff proposed modification of the lead days applied to affiliate transactions out of concern that unreasonably expedited payments to affiliates could create an unreasonable cross-subsidy. In the Final Order in Docket No. 10-0467, the Commission adopted the Staff's proposed expense lead days, stating:

> Finally, with respect to payments of intercompany obligations, ComEd has not shown the need to reject Staff's adjustments in this area. According to the Company's initial brief, ComEd's affiliate invoices it on a monthly basis, on time, and the invoices require payments on or around the 15th of the month following the provision of service. Staff's adjustment is based on this statement. There was no mention of an affiliate agreement to the contrary. Therefore, the Commission accepts Staff's proposed number of expense lead days of 45.35, based on the fact that such payments are within the Company's discretion. [Final Order p.48]

As a point of reference, the Company's lead lag study concludes that vendors who are not affiliated with ComEd experience a payment lead of 66.82 days which is applied to "Other O&M Expense" at line 7 of AG/AARP Exhibit 1.3, page 2. It would be unreasonable to increase CWC requirements to accommodate more expedited payments to affiliates of ComEd, compared to the timing of payments to other vendors, without some showing by ComEd that the Company is compensated within affiliate billings for such expedited payments.

Q. Do you have a recommendation regarding the quantification of intercompany billings and payments made to ComEd's affiliated companies in future lead/lag studies?

A. Yes. Exelon BSC is the principal affiliate providing services to ComEd that are recorded as operating expenses. BSC services are provided by employees and vendors who may be paid through systems and procedures that are shared with ComEd, causing the relevant BSC lead days to largely mirror ComEd lead days for payroll and vendor payments. It may be possible to break down these allocated expenses from BSC into their underlying labor and other O&M components, to which ComEd's calculated lag day values for its corresponding directly incurred expenses may be applicable. This would have the effect of disaggregating the BSC intercompany charges into payroll and non-labor expense elements where common systems and policies may be used to pay ComEd and BSC employees and vendors. Such an approach would avoid the potential for affiliate cross-subsidization by charging ComEd customers for CWC that looks past affiliate contract payment terms to consider the timing of actual cash flows for BSC's own disbursements.

Q. At lines 21 and 22 of AG/AARP Exhibit 1.3, page 2, you have set to zero the revenue lag days associated with pass-through charges for Energy Assistance and Renewable Energy fees and Gross Receipts/Municipal Utility taxes. Why is this necessary?

A. ComEd has proposed revisions to the Commission-ordered treatment of pass-through taxes, with no justification for these changes.[27] In Docket No. 10-0467, the Commission found that pass-through taxes should <u>not</u> be assigned a revenue lag because they are payable after revenues are collected from customers, stating in the Final Order:

> The Commission agrees with Staff's interpretation as to the EAC/REC and GRT/MUT tax issues. For the EAC/REC tax, the utility shall remit all moneys received as payment to the Illinois Department of Revenue by the 20th day of the month *following the month of collection.* Under the GRT/MUT tax, this ordinance requires ComEd to file a monthly tax return to accompany the remittance of such taxes, due by the last day of the month following the month during which such tax is *collected*. Both the statute and ordinance requires ComEd to remit these pass-through taxes after they have been collected from customers. ComEd stated in its briefs that the Company correctly pays these taxes in the month following activity that occurs in a prior "tax liability" month. The Commission concludes that the CWC calculation for GRT/MUT pass-through taxes should reflect zero revenue lag days and 44.21 expense lead days and zero revenue lag days and 35.21 expense lead days for EAC/REC pass-through taxes as supported by Staff. [Final Order page 48]

The adjustments I have proposed at lines 21 and 22 of AG/AARP Exhibit 1.3, page 2 have the effect of eliminating the revenue lag day values for these pass-through amounts, as previously ordered by the Commission.

Additionally, I have revised the expense lead day value for the Energy Assistance Charge because 305 ILCS 20/13 provides that a public utility engaged in the delivery of electricity shall assess each of its customer accounts a monthly charge and shall remit all moneys received as payment to the Illinois Department of Revenue by the 20th day of the month following the month of collection. These terms yield an expense

[27] ComEd Ex. 8.0, p. 21; lines 414-428.

lead days value of 20 days, plus half of the prior month of 15.2 days, for a total expense lead of 35.2 days.

Q. Have there been any changes in the Company's processes for collecting and remitting pass-through taxes that justify revising the Commission's treatment of these cash flows in determining CWC?

A. No. There have also been no changes in the ordinances or levies associated with each respective tax that may justify the Company's proposed revisions to the Commission-ordered treatment of these items.[28]

Q. Why have you revised the CWC calculations associated with the "Accounts Payable Related to CWIP" at line 26 of AG/AARP Exhibit 1.3, page 2?

A. It appears that ComEd has applied its expense lead days applicable to "Other O&M expense" from line 7 of the CWC calculation to an Accounts Payable balance associated with CWIP at line 26. This is a meaningless calculation. For all other elements of the CWC calculation, revenue lag and expense lead day values/factors are applied to annual expenses or to annual pass-through tax amounts. Application of an "Other O&M Expense" lead day value to an Accounts Payable balance tells us nothing about the timing of ComEd payments related to CWIP transactions, because lag days are not applicable to Accounts Payable balances. The only explanation offered by

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[28] ComEd response to Staff Data Request DGK 1.01. In its response to Staff Data Request DGK 1.03, ComEd provided copies of selected ordinances enacting municipal utility/gross receipts taxes, including City of Chicago documentation stating at Section 3-53-040 that "The return and accompanying remittance shall be due on or before the last day of the month following the month during which the tax is collected or is required to be collected under Section 3-53-030."

Mr. Hentgen is his statement, “Third, as required by the Order in Docket No. 10-0467, I have reviewed the cash working capital requirements relating to non-AFUDC CWIP. I have included the impact of non-AFUDC CWIP in the results of my study.”[29]

Since the Company has quantified an Accounts Payable balance believed to be associated with CWIP included in rate base, I recommend that this balance be directly included in the CWC calculation. This balance is the best indicator of how much of the Company’s CWIP balance has not been funded in cash, but rather is being funded by ComEd vendors. A more detailed analysis of the timing of cash flows associated with construction/CWIP transactions could be undertaken, but in the absence of such analysis, directly offsetting the Accounts Payable balance should accomplish a reasonable quantification of vendor-supplied CWC for CWIP transactions.[30]

Q. Should the negative Cash Working Capital amount you have calculated at line 27 in column (l) of AG/AARP Exhibit 1.3, page 2 be included in the Company’s rate base for determination of the inception rates in this Docket No. 11-0721?

A. Not directly. The lead day values and factors from columns (h) through (k) of my Exhibit should be used to determine CWC within the Commission’s rate order order, after updating the annual expense and pass-through tax

29 ComEd Ex. 8.0, p. 21:410-413.

30 It should be noted that ComEd directly subtracts Accounts Payable balances that are associated with its Materials & Supplies inventories included in rate base, as noted at ComEd Ex. 4.1, App 1, line 61 and ComEd Ex. 4.2, WP14 at line 8.

amounts in column (b) at lines 1 through 24 to match the amounts that are finally approved for ratemaking purposes by the Commission. I expect the result of such updating to be negative CWC. A negative CWC result is indicative of the fact that ComEd's ratepayers, employees, vendors and taxing authorities, rather than Exelon investors, are supplying the net cash working capital that is required to operate the business. This negative amount should be included in rate base to fully and properly quantify investors' overall net investment in rate base.

Q. At page 17 of her Direct Testimony, Ms. Houtsma indicates that a lead lag study is "time intensive" and she suggests that under formula regulation of the Company, "…an updated study of the lead/lag days [be performed] only every three years."[31] Do you agree with this recommendation?

A. Only after the problems with ComEd's estimated revenue collection lag and other recurring issues are resolved would it be appropriate to perform detailed lead/lag day studies on a three-year cycle. The more intensive analysis recommended herein with regard to revenue collection lag analysis should be undertaken to improve upon the accuracy of the revenue lag, before such lag day values can reasonably be "frozen" for re-use in multiple annual rate adjustment filings.

VI. JURISDICTIONAL ALLOCATIONS.

Q. Earlier in this testimony, you stated that ComEd has proposed changes to the methods used to perform jurisdictional allocations in determining revenue

requirements. What specific jurisdictional allocation changes have been proposed by the Company?

A. At page 29 of her Direct Testimony, Ms. Houtsma[32]identifies several differences in the jurisdictional allocation of ComEd's costs between the FERC transmission jurisdiction and the ICC retail delivery service business. These include changes to the allocation of General and Intangible ("G&I) Plant, changes to the allocation of Real Estate Taxes, changes in allocation of Late Payment Charges and more detailed calculations of Depreciation expense on projected Plant additions.

Q. With regard to the revisions to G&I Plant allocations, what rationale is cited by Ms. Houtsma in support of the proposed changes?

A. For all G&I Plant investment other than Communications Equipment, ComEd proposes to now use a composite wages and salaries allocation factor to allocate investment between the FERC and ICC jurisdictions. This represents a change in allocation methods that apparently is being made to simplify the G&I allocations, reducing the time and expense incurred by ComEd in conducting special studies that were relied upon in the past, while also conforming allocations to what is being used by ComEd in its formula transmission rate filings at FERC.[33]

Q. What do you mean by "conforming allocations" to what is being used by ComEd in its formula transmission rate filings at FERC?

A. When allocations are aligned or conformed between the ICC and FERC jurisdictions, ComEd will recover 100% of its costs overall when both jurisdictions are combined and will avoid the creation of jurisdictional differences due to

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31 ComEd Ex. 2.0, p. 17:338-345.

32 Id., p. 29.

allocation methods that would otherwise create over or under-recovery of total costs.

Q. Was anything wrong with the allocation methods that were previously employed in ComEd rate cases and that have been approved by the ICC?

A. No. Allocation methods necessarily employ the exercise of judgment and more than one approach can produce reasonable results. Ms. Houtsma notes this fact in her testimony by characterizing the prior allocation method used for Tools, Shop and Garage Equipment (Account 394), stating it is, "…not unreasonable to assume that the usage of this equipment will vary in proportion to the type of plant investment, it is also reasonable to assume that the usage of tools will correlate to a labor-based allocator because the tools and equipment are used by employees. Neither method is perfect, although both can be considered reasonable."[34]

Q. Has the Commission previously considered proposals by ComEd to revise G&I allocation methods?

A. Yes. In Docket No. 10-0467 ComEd proposed revising the allocation of G&I Plant based upon wages and salaries. In its Final Order, the Commission rejected the Company's proposed changes, stating:

> ComEd contends that use of the new procedure is inconsequential, as if the previous methods for functionalizing General and Intangible plant had been used, it would have only been about 1.2% lower than the $1,280,718,000 gross plant that ComEd seeks here. In fact, however, this 1.2% is still several million dollars. It is $15,368,616, which is not a trivial amount. This contravenes Ms. Houtsma's testimony that ComEd will not over-recover or under-recover using the new methodology. It also belies ComEd's contention that this methodology does not assign more costs to distribution service. The Commission agrees with Staff that these

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33 ComEd responses to Data Requests AG 6.01. The allocation factors now proposed by ComEd are summarized at ComEd Ex. 4.1, Sch FR A-2.

34 ComEd Ex. 2.0, p. 29:605-611.

> proposed changes should be rejected. ComEd proffers no reason that justifies imposing this additional cost upon ratepayers. The Commission does not approve ComEd's proposed new accounting procedures. [Order p. 41-42]

The nature of the underlying Plant assets and how they are used has not changed since Docket No. 10-0467, so it is difficult to rationalize why such changes are warranted at this time.

Q. What is the revenue requirement impact of the Company's proposed revisions to G&I net Plant investment allocations in this Docket No. 11-0721?

A. According to ComEd's response to Staff Data Request No. PR 1.02, the ICC Delivery Service revenue requirement is increased by $2.547 million as a result of the proposed changed allocations for G&I Plant Investment and related depreciation expenses. I have included a copy of this response within AG/AARP Exhibit 1.10.

Q. What is your recommendation regarding the Company's proposed changes to jurisdictional allocation methods applied to G&I Plant investment and related depreciation expense?

A. I recommend that these ComEd proposed changes in T&I Plant allocation be rejected, as there is no justification for increasing the Delivery Service revenue requirement to effect these changes. AG/AARP Exhibit 1.3, page 1 reflects, in column (d) an adjustment to reduce depreciation expense and rate base for the overall impact of ComEd's proposed changes to jurisdictional allocation of G&I investment, as quantified in AG/AARP Exhibit 1.10.

Q. Beyond the changes to G&I investment allocations that was previously considered and rejected by the Commission, has ComEd also proposed

changes in the way property tax expenses are allocated between the FERC transmission and ICC delivery service jurisdictions?

A. Yes. Ms. Houtsma also states that, "In prior rate cases real estate taxes were allocated using a variety of methods; in the formula they are allocated using a net plant allocator. This is consistent with how that allocation is made in determining transmission rates and provides a reasonable allocation to delivery service."[35] According to ComEd's response to Data Request 3.01, this change in allocation method increases the Company's asserted tax expense by $3.345 million. In its response to Data Request CUB 3.02, the Company opines, "The real estate tax allocation method applied in Docket 10-0467 did not necessarily produce a more accurate jurisdictional allocation than what ComEd has proposed in this instant proceeding" and they provide more detail regarding the allocation studies done in the past to allocate real estate tax expenses. I have included copies of both of these responses to CUB within AG/AARP Exhibit 1.10.

Q. Does the AG/AARP adjustment appearing in column (d) of your AG/AARP Exhibit 1.3 include a reversal of the expense impact arising from this additional ComEd-proposed change in jurisdictional allocations?

A. Yes. Aside from noting that the new approach to allocated real estate taxes is consistent with methods being used in ComEd's FERC transmission rate filings, the Company has not justified making this change and shifting more real estate tax expense into the delivery service jurisdiction. I recommend that this change in jurisdictional allocations <u>not</u> be approved without a showing by ComEd that the

35 ComEd Ex. 2.0, p. 30:615-618.

previously submitted and ICC-approved cost allocation procedures for real estate taxes were inaccurate or otherwise inappropriate.

Q. In the event the Commission changes its decision in the prior rate order cited above, and now approves ComEd's proposed changes in G&I Plant and/or real estate tax allocations, is there a another jurisdictional allocation adjustment that could be applied to mitigate some of the increased revenue requirement arising from the allocation changes?

A. Yes. The Commission could further revise the jurisdictional allocation of Late Payment Fee revenues to treat these revenues as 100 percent ICC jurisdictional. This further change in revenue allocation procedures would help to mitigate the cost shifting impact of the Company's proposed changes in jurisdictional allocations of G&I Plant and/or real estate taxes.

Q. Was the jurisdictional treatment of Late Payment Fee revenues disputed in ComEd's last rate case?

A. Yes. In Docket No. 10-0467, the Commission approved an adjustment that I sponsored to assign much more of the Company's Late Payment Charge revenues to the ICC Delivery Service jurisdiction than had been proposed by ComEd.[36] Ms. Houtsma references this prior ICC decision at page 30 of her testimony, "…the formula applies nearly 100% of these revenues to delivery service consistent with the Commission's treatment of late payment charges in docket No. 10-0467."[37]

Q. Has the Company actually included "nearly 100%" of its test year Late Payment Charge revenues in determining the delivery service revenue requirement in this Docket No. 11-0721?

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[36] Docket No. 10-0467, Final Order pp. 305-306.

A. ComEd's WPC-23 at Page 2 of 11 shows Account 450 Late Payment Fees (called "forfeited discounts" in the FERC accounts) that total $36.1 million in total, with about $2.6 million of this amount attributed to the Company's Transmission business. Thus, the Company is attributing about 93 percent of these revenues to the ICC Delivery Service jurisdiction, with the other 7 percent treated as non-jurisdictional.

Q. Why has the Company attributed some of its Late Payment Charge revenues to reduce the formula transmission rates that are regulated by the FERC?

A. According to the Company's response to Data Request AG 4.05, "A significant portion of ComEd's transmission revenues relate to the bundled service it provides under Rider PE, and ultimately retail customers. Since a proportional amount of the customers' bills relate to transmission, a proportional amount of the Late Payment Charges should be allocated to transmission. ComEd has consistently assigned a portion of its late payment charges to transmission (ICC Docket Nos. 05-0597, 07-07566 and 10-0467)." When asked to provide copies of (or citation to) each FERC rule, order and/or other authority relied upon by ComEd to attribute Late Payment charges to the transmission jurisdiction, the Company stated that it "has not relied on any specific FERC orders." I have included a copy of this ComEd response as AG/AARP Ex. 1.10.

VII. OPERATING EXPENSE ADJUSTMENTS.

Q. Has ComEd proposed any changes to the Commission's ratemaking policies regarding rate recovery of management retention bonuses, discretionary

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[37] ComEd Ex. 2.0, p. 30:619-625.

management performance awards, stock-based compensation and executive perquisite expenses?

A. Yes. In Docket No. 10-0467, adjustments were made to normalize the level of test year retention bonus awards, to exclude recovery of Other Stock Awards and Executive Perquisites, and to effect a 50/50 sharing of discretionary management Performance Awards. In this Docket No. 11-0721, ComEd is proposing full recovery, without normalization adjustments or ratemaking disallowances, for these types of expenses.

Q. What was the stated basis for the Commission's treatment of these types of costs in the previous rate case?

A. According to the Commission's Final Order in Docket No. 10-0467:

> The amount of the perquisites and awards here, during the test year, is more than the total amount for the previous three years. If the Commission did not amortize these discretionary costs of the period of time proffered by the AG/CUB, the Commission creates the incentive for utilities to "shove" discretionary costs into the test year, in order to make it appear that the utility has less funds available than it really has. Also, while some of these awards may benefit consumers, they also undoubtedly benefit shareholders, as they reward improvements in job performance. Therefore, the AG/CUB proposals to amortize these expenses over four years, and to decrease the amount for perquisites and awards by half, is adopted. The Commission notes that ComEd has articulated no facts indicating that shareholders do not benefit from these 'perks.'

Q. Has ComEd provided any evidence that shareholders do not benefit from these "perks"?

A. ComEd has provided no evidence that these costs are <u>not</u> beneficial to shareholders or that they provide any measurable benefit to ratepayers.

Q. Page 3 of AG/AARP Exhibit 1.3 reflects an “Adjustment to Awards and Perquisites” that includes a normalization of the much higher than average Retention Awards paid to Company employees (at lines 1 through 8), a 50% reduction in discretionary Performance Based Awards, and full removal of Other Stock Awards and Perquisites. Were these adjustments calculated by ComEd?

A. Yes. In response to Data Request AG 4.08, ComEd performed and provided (at Attachment 1, page 2) these calculations to quantify the effect of applying the Commission’s adjustment made to ComEd’s perquisite and awards in ICC Docket No. 10-0467. I have included a copy of this response as AG/AARP Exhibit 1.11.

Q. Is it appropriate to normalize the retention bonuses of $4.3 million that were recorded in 2010 even though all of ComEd’s expenses will be subject to reconciliation and true up in future proceedings?

A. Yes. ComEd paid retention bonuses to employees in 2010 that were much larger than in any recent prior year. If large and unusual amounts of Retention Awards are not consistently normalized, customers will be burdened with excessive rates until the future date when reconciliation and true-up calculations are performed and allowed to impact approved rates.

Q. Turning next to AG/AARP Exhibit 1.3 at page 4, what are the adjustments you are proposing with regard to ComEd’s asserted Incentive Compensation expenses?

A. I am proposing no adjustments for the recorded expenses for the ComEd Annual Incentive Program (“AIP”) or for the portion of the ComEd Long-term Incentive Program (“LTIP”) that has not already been removed from expenses in the ratemaking adjustment explained by Mr. Fruehe.[38] The adjustment set forth at AG/AARP Exhibit 1.3, page 4 removes the portion of the ComEd share of AIP plan costs that were originally incurred at Exelon BSC pursuant to formula driven by Earnings per Share metrics, rather than the permissable criteria specified at Section 16-108.5(c)(4)(A) of the PUA. At line 4, a similar adjustment is proposed to eliminate AIP charges to ComEd from another affiliated company, Philadelphia Electric Company ("PECO"). ComEd has made no showing to support recovery of these affiliate company charges of incentive compensation, pursuant to the recovery criteria specified in the PUA.

Q. What is the additional adjustment appearing at line 5 of AG/AARP Exhibit 1.3, page 4?

A. ComEd makes available to certain "Key Managers" an incentive program that involves the awarding of Restricted Stock in Exelon. In 2010, the Company recorded jurisdictional expenses of $1,921,000 based upon the award of 53,670 shares to Key Managers and Directors.[39] In Data Request AG 1.15, the Company was asked to explain in detail each of the performance criteria that were employed to determine the stock grant amounts for each individual recipient of stock. In its response, ComEd stated that it "…objects to providing information as to individuals on grounds that the requested information is not relevant and not reasonably likely to lead to the discovery of admissible evidence and further would constitute an invasion of the privacy of the individuals involved. Subject to and without waiver of this objection, ComEd notes that while individual performance may apply in the determination of the amount of specific awards, the primary objective of the

[38] ComEd Ex. 4.0, p. 23:475 - p. 25:521.

program is to attract and retain key employees." I have included a complete copy of this response as AG/AARP Exhibit 1.11.

Q. Does the expense for awards of Restricted Stock that ComEd incurred in 2010 meet the rate recovery criteria specified in the Act?

A. This cannot be determined, given ComEd's objection to providing the information requested in Data Request AG 1.15. Additionally, incentive compensation that is paid in shares of stock, rather than cash, should be viewed as fundamentally driven by financial rather than operational metrics, since the value of such shares is tied most directly to the financial performance of the business, rather than to measurement of the quality of service provided to customers. I do not believe that any stock-based compensation arrangement is compliant with the incentive compensation cost recovery criteria specified in the Act.

Q. Please describe the items described as "Adjustments Conceded by ComEd" at page 5 of AG/AARP Exhibit 1.3.

A. In response to the data requests referenced in the "Source" column of this page, ComEd indicated an intent to revise its asserted expenses and rate base values to reflect elimination of certain legal fees and sporting event costs.

Q. What is the purpose of page 6 in AG/AARP Exhibit 1.3?

A. Page 6 of AG/AARP Exhibit 1.3 is a placeholder to be used for adjustments to the level of charitable contributions that ComEd seeks to include in rates. ComEd's Schedule C-7 is a listing of individual charitable contributions that exceed $5,000 (plus $438,000 representing total contributions of less than $5,000), for which the Company has proposed total rate recovery of $5.995 million. The descriptions of

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[39] ComEd Ex. 4.9, p. 3 of 22, line 6.

each of the itemized donations consist of the name of the organization and a program area classification added by ComEd. This listing does not specify the nature of the organization, how the organization meets any of the Commission's review criteria or whether the services the organization provides are within the ComEd service territory. The information in Schedule C-7 is therefore insufficient to determine whether the listed donations meet the statutory standard, as applied by the Commission in ComEd's last rate case.[40] Given the large number of national organizations included in ComEd Schedule C-7 that operate outside the ComEd service territory, it is imperative that ComEd affirmatively establish how these donations benefit ratepayers within its service territory. For the listed transactions on Schedule C-7, ComEd should be expected to present additional evidence supporting the reasonableness of ratepayer funding pursuant to 220 ILCS 5/9-227 and the policies established by the Commission.

Q. Did the Commission exclude some of ComEd's charitable contributions in its Final Order in Docket No. 10-0467?

A. Yes. At page 108 of its Final Order, the Commission concluded, "The Commission concurs with Staff's proposal to disallow charitable contributions made by ComEd to organizations outside of the Company's service territory. There is no evidence that these contributions provide any benefit to ratepayers in ComEd's service territory. The Commission agrees with Staff that it is not reasonable to require

[40] 220 ILCS 5/9-227 provides in relevant part: "It shall be proper for the Commission to consider as an operating expense, for the purpose of determining whether a rate or other charge or classification is sufficient, donations made by a public utility for the public welfare or for charitable scientific, religious or educational purposes, provided that such donations are reasonable in amount." In the last ComEd Rate Order, the Commission concluded that donations must provide a "benefit to ratepayers in ComEd's service territory." Docket 10-0467, Order at 108 (May 24, 2011).

ComEd ratepayers to bear the cost of such contributions. Accordingly, Staff's adjustment is adopted."

Q. Did you make an effort to evaluate the overall reasonableness of ComEd's proposed annual budget for charitable giving at ratepayers' expense?

A. Yes. ComEd is one of several large business units that are owned and controlled by Exelon Corporation. To my knowledge, the Illinois retail rate jurisdiction provides Exelon with its only opportunity to make charitable contributions and to then receive full reimbursement for such contributions from utility ratepayers. In contrast, the Exelon-PECO utility business in Pennsylvania and the ComEd and other Exelon transmission businesses that are regulated by FERC do not allow rate recovery of charitable contributions.[41] This situation provides an opportunity for the ICC to evaluate the reasonableness of ComEd's overall charitable contributions in comparison to the level of charitable contributions by the other Exelon business units, where regulatory policies are less accomodating than in Illinois.

Q. Did the AG submit any data requests seeking information about charitable contribution expenditures made by PECO, Exelon Generation, Exelon Transmission Company and other Exelon entities for comparison to the ComEd budget for charitable contributions?

A. Yes. Data requests AG 4.11 and 7.08 were submitted for this purpose. ComEd objected to providing any information regarding the amounts of charitable giving that are funded by any other Exelon business units and that are not a party to this proceeding. I recommend that the Commission determine information about

[41] ComEd's response to Data Request AG 7.08 confirms that recovery of charitable contributions is not included in PECO's rates and that ComEd does not seek recovery of charitable contributions in its FERC formula rate.

comparable levels of charitable contributions among Exelon affiliates to be relevant to the issue of overall reasonableness of ComEd's proposed spending. This information would allow the Commission to determine whether ComEd ratepayers are being asked to pay a disproportionate share of the corporate-wide contributions of Exelon and other ComEd affiliates. ComEd should supply this information as soon as possible to give the parties sufficient opportunity to analyze it in anticipation of an appropriate response.

Q. Why have you included, at page 7 of AG/AARP Exhibit 1.3, a calculation applying a zero interest rate to the Customer Deposits balance included in ComEd's asserted Rate Base?

A. The Company apparently neglected to account for interest expense on Customer Deposits. It is unusual for the interest rate to be zero on such balances, so I have included page 7 as a place holder to indicate the recognized need to account for interest on such deposits in future formula rate calculations. In future formula rate proceedings, interest expense should be added into total expenses at a level corresponding to the balance of Customer Deposits that is included in rate base.

VIII. CONCLUSION AND RECOMMENDATION.

Q. What is your recommendation regarding the initial revenue requirement to be determined for ComEd in this Docket?

A. I recommend that ComEd's Delivery Service revenue requirement be found to be no larger than the amount shown in AG/AARP Exhibit 1.3, at page 1, line 25 in column (k). This amount should be further modified for any Commission-approved ratemaking adjustments proposed by the Staff and other parties, that is not addressed in my or Mr. Effron's Direct Testimony.

Q. What do you recommend regarding the Company's proposed formula rate template set forth at ComEd Exhibit 2.1?

A. ComEd formula rate template should be modified as necessary to comport with the ratemaking decisions reflected in the Commission's Order in this Docket. Corresponding changes to proposed Rate DSPP should also be submitted in a ComEd compliance filing, subject to review by Staff and other parties, prior to the new formula rate tariff being made effective.

Q. Does this conclude your testimony at this time?

A. Yes.