

REBUTTAL TESTIMONY

of

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Accountant  
Accounting Department  
Financial Analysis Division  
Illinois Commerce Commission

Commonwealth Edison Company

Docket No. 11-0721

February 24, 2012

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1       **Witness Identification**

2       Q.     Please state your name and business address.

3       A.     My name is Daniel G. Kahle. My business address is 527 East Capitol  
4       Avenue, Springfield, Illinois 62701.

5       Q.     Have you previously filed testimony in this proceeding?

6       A.     Yes, my direct testimony was filed as ICC Staff Ex. 3.0 on January 13,  
7       2012.

8       **Purpose of Rebuttal Testimony**

9       Q.     What is the purpose of your rebuttal testimony in this proceeding?

10      A.     The purpose of my rebuttal testimony is to:

11           1.     Respond to the rebuttal testimony of Commonwealth Edison  
12           Company (the “Company” or “ComEd”) witnesses John Hengtgen  
13           (ComEd Ex. 16.0) relating to my proposed adjustments to cash  
14           working capital (“CWC”) and

15           2.     Respond to certain adjustments to CWC proposed by Illinois  
16           Industrial Energy Consumers (“IIEC”) witness Michael P. Gorman;  
17           The Citizens Utility Board (“CUB”) witness Ralph C. Smith; and The  
18           People of the State of Illinois (“AG”) and AARP (“AG/AARP”)  
19           witnesses David J. Efron and Michael L. Brosch.

20      **Schedule Identification**

21      Q.     Are you sponsoring any schedules as part of ICC Staff Ex. 15.0?

22      A.     Yes, I am sponsoring Schedule 15.01 – Cash Working Capital Adjustment

23 for the Company, which shows data as of, or for the year ended,  
24 December 31, 2010:

25 **Cash Working Capital Adjustment**

26 Q. Did you review Mr. Hengtgen's rebuttal testimony regarding your proposed  
27 adjustments to CWC?

28 A. Yes. Mr. Hengtgen rejected all of my proposed adjustments.

29 Q. Do you agree with any of Mr. Hengtgen's arguments?

30 A. Yes, one. I agree with Mr. Hengtgen's argument regarding the use of the  
31 date pass-through taxes are paid rather than statutory due dates (ComEd  
32 Ex. 16.0, pp. 16 – 17, 22). After considering Mr. Hengtgen's comments  
33 regarding the risk of incurring penalty or interest for late payment, I now  
34 reflect the Company's proposed expense lead days on lines 28 – 31 on  
35 ICC Staff Ex. 15.1. Paying the pass-through taxes a few days before the  
36 statutory due date to avoid the chance of incurring penalties and interest  
37 on late payments would seem to be in the ratepayers interest.

38 **EAC/REC and GRT/MUT Revenue Lags**

39 Q. Do you maintain your position of zero lag days for Energy  
40 Assistance/Renewable Energy Charges ("EAC/REC") and Gross  
41 Receipts/Municipal Utility Taxes ("GRT/MUT")?

42 A. Yes.

43 Q. Why does Mr. Hengtgen oppose your proposal?

44 A. Mr. Hengtgen contends that there is a lag between the provision of utility  
45 service and the collection of pass-through taxes. Mr. Hengtgen bases his  
46 contention on the Company's method of collecting pass-through taxes and  
47 statutory language stating that EAC/REC be included in charges for utility  
48 service and thus concludes that the EAC/REC should be considered a  
49 charge for public utility service (ComEd Ex. 16.0, p. 13).

50 Q. Why didn't Mr. Hengtgen's arguments cause you to change your position?

51 A. While Mr. Hengtgen is correct that the inclusion of pass-through taxes in  
52 utility bills is the method by which the Company collects pass-through  
53 taxes, the method of collection does not change the nature of pass-  
54 through taxes. Mr. Hengtgen puts form ahead of substance. The method  
55 by which the Company collects pass-through taxes does not change the  
56 fact that EAC/REC are due by the 20th of the month following the month  
57 in which the charges are collected and that GRT/MUT are due on or  
58 before the last day of the month following the month during which the tax  
59 is collected or is required to be collected.

60 Moreover, the statutory reference to EAC/REC does not include any  
61 reference to CWC. There is nothing in Mr. Hengtgen's statutory reference

62 that requires EAC/REC to have the same lag as any other receipt by the  
63 Company or any lag at all. My proposal applies an appropriate lag to  
64 revenue and to pass-through taxes.

65 Q. Mr. Hengtgen also argues that EAC/REC and GRT/MUT should have the  
66 same lag as operating revenue because the Company does not follow the  
67 state statutes and the municipal ordinances which set forth the due dates  
68 for each charge or tax (ComEd Ex. 16.0, p. 14). Does this statement  
69 affect your position?

70 A. No, it does not. Mr. Hengtgen did not offer any requirement for the  
71 Company's early payment of EAC/REC or GRT/MUT, although he does  
72 agree that the charges and taxes are due after collection. Ratepayers  
73 should not be penalized with a higher CWC because the Company  
74 chooses to remit EAC/REC and GRT/MUT based on billings in the current  
75 month or prior months, rather than on the amounts collected as the State  
76 statutes and municipal ordinances require.

77 Q. Mr. Hengtgen indicates that the Company would consider changing how it  
78 pays EAC/REC or GRT/MUT. Does this affect your position?

79 A. No, it does not. Mr. Hengtgen contends that the Company would be  
80 severely penalized if the Commission adopts my proposal (ComEd Ex.  
81 16.0, p. 18). My proposed lag days for pass-through taxes are the same

82 as that approved by the Commission in the prior rate case, Docket No. 10-  
83 0467: there would be no additional burden placed on the Company. Mr.  
84 Hengtgen states on page 20 of his rebuttal testimony that the Company  
85 has not discussed this subject with the City of Chicago or other  
86 municipalities. What the Company might or might not negotiate with the  
87 various taxing authorities is too vague to be considered in this proceeding.

88

89 Q. Mr. Hengtgen implies that the programs receiving these funds could be  
90 impacted if the Commission maintains its position from the prior rate case  
91 (ComEd Ex. 16.0, p. 19, lines. 409-414). Please comment.

92 A. I am not proposing any changes to the Company's procedures. My  
93 proposed number of lag days for pass-through taxes is consistent with the  
94 prior rate case. Mr. Hengtgen did not indicate that the Commission's  
95 decision in the prior rate case had any impact on the programs receiving  
96 these funds.

97 Q. Did any interveners propose adjustments to EAC/REC and GRT/MUT  
98 Revenue Lags?

99 A. Yes. Similar to my proposal Mr. Gorman, Mr. Smith and Mr. Brosch also  
100 propose zero lag days for EAC/REC and GRT/MUT consistent with the

101 Commission's conclusion in the prior rate case.

102 Illinois Excise Taxes and City of Chicago Infrastructure Maintenance Fees  
103 Revenue Lags

104 Q. Do you maintain your position of 36.04 lag days for Illinois Excise Taxes  
105 and City of Chicago Infrastructure Maintenance Fees?

106 A. Yes.

107 Q. Why does Mr. Hengtgen oppose your proposal?

108 A. Mr. Hengtgen contends that I am eliminating service lag from the lag for  
109 Illinois Excise Taxes and City of Chicago Infrastructure Maintenance Fees  
110 (ComEd Ex. 16.0, p. 21). Mr. Hengtgen relies on the same arguments he  
111 made for the EAC/REC and GRT/MUT, which I have already addressed  
112 and will not repeat here. I also note that my proposal is the same as that  
113 adopted by the Commission in the prior rate case which also did not  
114 include service lag in the lag for Illinois Excise Taxes and City of Chicago  
115 Infrastructure Maintenance Fees.

116 Inter-Company Billings Expense Lead

117 Q. Do you maintain your position of 45.55 lead days for Inter-Company  
118 Billings?

119 A. Yes.

120 Q. Why does Mr. Hengtgen oppose your proposal?

121 A. Mr. Hengtgen contends that the expense lead should be based on the  
122 actual days as calculated by the Company and that I didn't offer any  
123 support for my position (ComEd Ex. 16.0, p. 23).

124 Q. Why didn't Mr. Hengtgen's arguments cause you to change your position?

125 A. Mr. Hengtgen contends that I didn't offer any support for my position  
126 (ComEd Ex. 16.0, p. 23). To the contrary, I offered my rationale on pages  
127 12 – 13 of my direct testimony. I described how paying an affiliate faster  
128 than non-affiliates is a form of cross-subsidization; that the timing of  
129 payments to affiliates is not covered by the affiliate agreement; and that  
130 the timing of payments to affiliated interests is within the Company's  
131 discretion. In addition, this issue was fully analyzed in the prior rate case,  
132 and there have been no changes to the facts related to this issue.

133 Mr. Hengtgen further argues that paying an affiliate faster than non-  
134 affiliate vendors is not cross-subsidization because non-affiliate vendors  
135 provide different services than the Company's affiliate (ComEd Ex. 16.0,  
136 p. 23). While Mr. Hengtgen offers examples of why the Company's non-  
137 affiliates might have longer expense leads, he did not offer any reason  
138 why the Company's affiliate should be paid within 15 days. Paying an  
139 affiliate faster than non-affiliates is a form of cross-subsidization. It is not  
140 reasonable for ratepayers to bear the cost of ComEd favoring its affiliates

141 over its non-affiliates in the way it pays its vendors.

142 Mr. Hengtgen also claimed that the Company's inter-company lead time  
143 compares favorably to other utilities (ComEd Ex. 16.0, p. 24). Mr.  
144 Hengtgen doesn't offer any analysis to show that ComEd's inter-company  
145 relations are similar to the other utilities he lists. A better comparison is  
146 between the Company's inter-company lead time and the lead time for the  
147 Company's payments to its own operation and maintenance service  
148 providers.

149 Q. Did any interveners propose adjustments to Inter-Company Billings  
150 expense leads?

151 A. Yes. Mr. Smith and Mr. Brosch made proposals for Inter-Company  
152 Billings Expense lead days similar to my proposal and consistent with the  
153 Commission's conclusion in the prior rate case.

154 Q. Do you adopt any intervener proposals to adjust CWC?

155 A. Yes. I adopt Mr. Brosch's position on the effect of non-AFUDC CWIP on  
156 CWC (AG/AARP Ex-1.0, pp. 37-38). The Final Order in Docket No. 10-  
157 0467 required that "... any lead/lag study shall include the effect of accrual  
158 accounting on payment for its smaller CWIP-related payments ..." (Order,  
159 p. 31).

160 The Final Order in Docket No. 10-0467 did not specify how to include this  
161 effect. Mr. Hengtgen applies an expense lead to the Accounts Payable  
162 related to CWIP (“CWIP A/P”) in the same manner that an expense lead  
163 is applied to expenses in a CWC calculation. CWIP A/P is not an  
164 expense: accounts payable is a balance sheet item. Therefore, it is  
165 unreasonable to apply an expense lead to a balance sheet item. Mr.  
166 Brosch proposes to adjust CWC by the year-end CWIP A/P balance. I  
167 agree that Mr. Brosch’s proposal is an appropriate method for including  
168 the effect of accrual accounting on payment for its smaller CWIP-related  
169 payments.

170 **Conclusion**

171 Q. Does this end your prepared rebuttal testimony?

172 A. Yes.

Commonwealth Edison Company  
 Cash Working Capital Adjustment  
 For the Year Ending December 31, 2010  
 (In Thousands)

Line	Description (a)	Amount (b)	Lag (Lead) (c)	CWC Factor (d) (c/365)	CWC Requirement (e) (b*d)	Column b Source (f)
1	Revenues	\$ 915,694	51.25	0.14041	\$ 128,574	Schedule 15.01, Page 2, column b, line 9
	Collections of Pass-through Taxes:					
2	Energy Assistance/Renewable Energy	46,376	0.00	0.00000	-	Company Schedule C-18, Page 1, Column B, Lines 3 + 4
3	Gross Receipts/Municipal Utility Tax	238,383	0.00	0.00000	-	Company Schedule C-18, Page 1, Column B, Line 19
4	Illinois Excise Tax	247,941	36.04	0.09874	24,482	Company Schedule C-18, Page 1, Column B, Line 20
5	City of Chicago Infrastructure Maintenance Fee	91,819	36.04	0.09874	9,066	Company Schedule C-18, Page 1, Column B, Line 2
6	Total Receipts	<u>\$ 1,540,213</u>			<u>162,122</u>	Lines 1 through 5
7	Base Payroll and Withholdings	231,425	(15.05)	(0.04123)	(9,542)	Schedule 15.01, Page 3, Column b, Line 8
8	Incentive Pay Expense	28,995	(228.50)	(0.62603)	(18,152)	ComEd Ex. 16.6, Line 10
9	Employee Benefits - Amort. Of Sever.	112,785	0.00	0.00000	-	Company Schedule B-8 TB, Page 1, Column B, Line 9
10	Employee Benefits - Other	52,652	(4.95)	(0.01356)	(714)	Company Schedule B-8 TB, Page 1, Column B, Line 10
11	Inter-Company billings - Less Pass-throughs	91,985	(45.55)	(0.12479)	(11,479)	Schedule 15.01, Page 2, Column b, Line 14
12	Inter-Company billings - Pass-throughs	32,391	(45.55)	(0.12479)	(4,042)	Schedule 15.01, Page 2, Column b, Line 15
13	Property Leases	29,778	(6.33)	(0.01734)	(516)	Company Schedule B-8 TB, Page 1, Column B, Line 13
14	Other Operations and Maintenance Expenses	280,614	(66.82)	(0.18307)	(51,371)	Schedule 3.01, Page 2, Column b, Line 24
15	Property/Real Estate Tax	15,153	(339.12)	(0.92910)	(14,079)	Company Schedule C-18, Page 1, Column C, Line 5
16	FICA Tax	22,891	(15.05)	(0.04123)	(944)	Company Schedule C-18, Page 2, Column D, Line 9
17	Federal Unemployment Tax	200	(75.63)	(0.20721)	(41)	Company Schedule C-18, Page 2, Column D, Line 8
18	State Unemployment Tax	418	(75.63)	(0.20721)	(87)	Company Schedule C-18, Page 2, Column D, Line 10
19	Electricity Distribution Tax	66,890	(30.13)	(0.08255)	(5,522)	Company Schedule C-18, Page 2, Column D, Line 5
20	State Franchise Tax	1,582	(190.67)	(0.52238)	(826)	Company Schedule C-18, Page 1, Column C, Line 11
21	City of Chicago Dark Fiber Tax	-	-	-	-	
22	State Public Utility Fund Tax	3,869	(37.67)	(0.10321)	(399)	Company Schedule C-18, Page 1, Column C, Line 7
23	Illinois Sales and Use Tax	561	(2.66)	(0.00729)	(4)	Company Schedule C-18, Page 1, Column C, Line 9
24	Chicago Sales and Use Tax	21	(37.46)	(0.10263)	(2)	Company Schedule C-18, Page 1, Column C, Line 10
25	Interest Expense	225,988	(91.13)	(0.24967)	(56,423)	Schedule 13.06, Column b, Line 3
26	State Income Tax	(33,979)	(37.88)	(0.10378)	3,526	Schedule 13.01, Column i, Line 19
27	Federal Income Tax	(216,583)	(37.88)	(0.10378)	22,477	Schedule 13.01, Column i, Line 20
	Payments of Pass-through Taxes					
28	Energy Assistance/Renewable Energy	46,376	(40.69)	(0.11148)	(5,170)	Company Schedule C-18, Page 1, Column B, Lines 3 + 4
29	Gross Receipts/Municipal Utility Tax	238,383	(44.22)	(0.12115)	(28,880)	Company Schedule C-18, Page 1, Column B, Line 19
30	Illinois Excise Tax	247,941	(4.12)	(0.01129)	(2,799)	Company Schedule C-18, Page 1, Column B, Line 20
31	City of Chicago Infrastructure Maintenance Fee	91,819	(43.46)	(0.11907)	(10,933)	Company Schedule C-18, Page 1, Column B, Line 2
32	Total Outlays	<u>\$ 1,340,730</u>			<u>(195,922)</u>	Sum of Lines 7 through 31
33	Accounts Payable Related to CWIP				<u>(1,283)</u>	Company Schedule B-8 TB, Page 2, Column B, Line 35
34	Cash Working Capital per Staff				\$ (35,083)	Line 6 plus line 32 plus line 33
35	Cash Working Capital per Company				39,805	ComEd Ex. 16.6, Line 39
39	Difference -- Adjustment per Staff				<u>(74,888)</u>	Line 34 minus Line 35

Note:

Lag (Lead) is from ComEd Ex 16.6, Column C except where noted (Shaded)  
 Lines 2 - 5: Staff Ex. 3.0, p. 6  
 Lines 11 and 12: Staff Ex. 3.0, p. 11

Commonwealth Edison Company  
 Cash Working Capital Adjustment  
 For the Year Ending December 31, 2010  
 (In Thousands)

<u>Line</u>	<u>Description</u> (a)	<u>Amount</u> (b)	<u>Source</u> (c)
1	Total Operating Revenues	\$ 2,082,773	Schedule 13.01 , Column i, Line 5
2	-- not used --	-	
3	Uncollectible Accounts	-	Schedule 13.01, Column i, Line 6
4	Depreciation & Amortization	(419,794)	Schedule 13.01, Column i, Line 12
5	City of Chicago Dark Fiber Tax	(79)	Company Schedule C-18, Page 2, Column D, Line 17
6	Return on Equity	(297,153)	Line 12 below
7	Less Deferred Taxes and ITC	(442,607)	Schedule 13.01, Column i, Line 21
8	Regulatory Debits	(7,446)	Line 21 below
9	Total Revenues for CWC calculation	<u>\$ 915,694</u>	Sum of Lines 1 through 8
10	Total Rate Base	\$ 6,411,004	Schedule 13.03, Column d, Line 23
11	Weighted Cost of Capital	4.64%	Schedule 7.01
12	Return on Equity	<u>\$ 297,153</u>	Line 10 times Line 11
13	Operating Expense Before Income Taxes	\$ 1,367,591	Schedule 13.01, Column i, Line 18
14	Intercompany billings - Less Pass-throughs	(91,985)	Company Schedule B-8 TB, Page 1, Column B, Line 11
15	Intercompany billings - Pass-throughs	(32,391)	Company Schedule B-8 TB, Page 1, Column B, Line 12
16	Employee Benefits Expense	(165,437)	Company Schedule B-8 TB, Page 3, Column B, lines 9 + 10
17	Payroll Expense	(231,425)	Schedule 15.01, Page 3, Column b, Line 8
18	Uncollectible Accounts	-	Schedule 13.01, Column i, Line 6
19	Depreciation & Amortization	(419,794)	Schedule 13.01, Column i, Line 12
20	Property Leases	(29,778)	Company Schedule B-8 TB, Page 1, Column B, Line 13
21	Regulatory Debits	(7,446)	Schedule 13.01, Column i, Line 14 + Line 15
22	-- not used --	-	
23	Taxes Other Than Income	(108,722)	Schedule 13.01 Column i, Line 13
24	Other Operations & Maintenance for CWC Calculation	<u>\$ 280,614</u>	Sum of Lines 13 through 23

**Commonwealth Edison Company**  
**Cash Working Capital Adjustment**  
 For the Year Ending December 31, 2010  
 (In Thousands)

<u>Line</u>	<u>Description</u> (a)	<u>Amount</u> (b)	<u>Source</u> (c)
1	Direct O & M Payroll per Company	\$ 293,336	Company Schedule C-11.1, Page 1, column B, line 8
2	less: Power Production payroll	(1,432)	Company Schedule C-11.1, Page 1, column B, line 2
3	less: Transmission payroll	(27,293)	Company Schedule C-11.1, Page 1, column B, line 3
4	less: Incentive Compensation disallowed	(2,135)	Schedule 13.02, Page 1, Column d
5	less: Perquisites and Awards disallowed	(2,056)	Schedule 13.02, Page 1, Column e
6	less: Incentive Pay Expense	(28,995)	ComEd Ex. 16.6, Line 10
7	-- not used --	-	
8	Direct Payroll per Staff	<u>\$ 231,425</u>	Sum of Lines 1 through 7