

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY :
: No. 11-_____
Formula rate tariff and charges authorized by :
Section 16-108.5 of the Public Utilities Act :

Direct Testimony of

MARTIN G. FRUEHE

Manager, Revenue Policy Department
Commonwealth Edison Company

OFFICIAL FILE

I.C.C. DOCKET NO. 11-0721

ComEd Exhibit No. 4.0

Witness Fruehe

Date 3-7-12 Reporter CC

TABLE OF CONTENTS

Section	Page
I. Introduction.....	1
A. Witness Identification	1
B. Purpose of Testimony	1
C. Summary of Conclusions.....	2
D. Itemized Attachments to Direct Testimony	4
E. Background and Qualifications.....	6
II. Delivery Service Revenue Requirement.....	7
III. Rate Base	10
A. Total Rate Base	10
B. Electric Plant in Service at Original Cost	11
C. Accumulated Provisions for Depreciation and Amortization.....	12
D. Net Plant Included in Delivery Service Rate Base	13
E. Construction Work In Progress.....	13
F. Property Held for Future Use.....	14
G. Cash Working Capital.....	14
H. Accumulated Deferred Income Taxes	14
I. Materials and Supplies	14
J. Other Assets and Liabilities	15
K. Customer Deposits	17
L. Customer Advances	18
M. Projected Plant Additions and Accumulated Reserve	18
IV. Operating Expenses	19
A. Total Operating Expenses	19
B. Distribution O&M Expenses.....	20
C. Customer-Related O&M Expenses, Including Uncollectible Accounts.....	21
D. Incentive Compensation Expenses	23
E. Administrative and General Expenses	25
F. Sales and Marketing Expense	28
G. Depreciation and Amortization of Electric Utility Plant	28
H. Taxes Other than Income	29
I. Income Taxes	29
V. Miscellaneous Revenues.....	30
VI. Adjustments, Including Projected Plant Additions.....	31
A. Adjustments to Rate Base	31
B. Adjustments to Operating Expenses and Other Revenues.....	32
VII. Gross Revenue Conversion Factor.....	32
VIII. Taxes	33

IX. Overall Weighted Cost of Capital (Rate of Return)..... 33

X. Comparison to Order in ICC Docket No. 10-0467 35

XI. Conclusion 38

1 **I. Introduction**

2 **A. Witness Identification**

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

4 A. My name is Martin G. Fruehe. My business address is Commonwealth Edison Company,
5 Three Lincoln Centre, Oakbrook Terrace, Illinois 60181.

6 **Q. By whom and in what position are you employed?**

7 A. I am the Manager, Revenue Policy Department, of Commonwealth Edison Company
8 (“ComEd”).

9 **B. Purpose of Testimony**

10 **Q. What is the purpose of your direct testimony?**

11 A. I present and support the specific data that “populate” the Schedules and Appendices
12 discussed in the direct testimony of ComEd witness Kathryn Houtsma, ComEd Exhibit
13 (“Ex.”) 2.0, for purposes of determining the delivery service revenue requirement to be
14 used in setting rates for 2012 under ComEd’s rate DSPP - Delivery Service Pricing and
15 Performance.

16 These Schedules and Appendices include most of the data provided for under Part
17 285 of the Illinois Commerce Commission’s (“Commission” or “ICC”) rules. I also
18 present Schedules and work papers consistent with the Schedules and work papers
19 required to support a delivery service revenue requirement in a general rate case under
20 Part 285. Table 1 in Section II of my testimony provides a tool to cross reference data
21 provided in the DSPP Schedules and Appendices with the Part 285 information.

22 Support for the delivery service revenue requirement components is provided in
23 my direct testimony and that of Scott Vogt (ComEd Ex. 3.0), Michelle Blaise (ComEd

24 Ex. 5.0), Ronald Donovan (ComEd Ex. 6.0), Michael Born (ComEd Ex. 7.0), and John
25 Hengtgen (ComEd Ex. 8.0). I also support limited components of that revenue
26 requirement.

27 I also present information comparing the delivery service revenue requirement to
28 be used in setting rates in this first period with the delivery service revenue requirement
29 approved by the Commission in its May 24, 2011 Order in ComEd's 2010 rate case, ICC
30 Docket No. 10-0467.

31 **C. Summary of Conclusions**

32 **Q. What are the conclusions of your direct testimony?**

33 **A.** The conclusions of my direct testimony are:

- 34 (1) **Delivery Service Revenue Requirement** – ComEd's delivery service revenue
35 requirement, reflecting adjustments, for purposes of setting the initial rates under
36 the formula rate is \$2,040,336,000, and will result in just and reasonable rates.
37 The initial revenue requirement reflects 2010 actual costs and projected 2011
38 plant additions, depreciation reserve, and depreciation expense. In the event
39 House Bill 3036 (the "Trailer Bill") becomes law, ComEd's delivery service
40 revenue requirement, reflecting adjustments, for purposes of setting the initial
41 rates under the formula rate is \$2,030,391,000, and will result in just and
42 reasonable rates;
- 43 (2) **Rate Base** – ComEd's rate base is \$6,647,180,000, reflecting adjustments. In the
44 event the Trailer Bill becomes law, ComEd's rate base is \$6,647,036,000,
45 reflecting adjustments;
- 46 (3) **Operating Expenses and Other Revenues** – ComEd's operating expenses

47 before income taxes are \$1,422,689,000, and after income taxes are
48 \$1,717,021,000, and its Other Revenues are \$128,894,000, reflecting adjustments
49 (and the exclusion of costs recovered under other tariff mechanisms and costs
50 disallowed in past ICC Orders for reasons other than timing), under ComEd's
51 proposed formula rate. In the event the Trailer Bill becomes law, ComEd's
52 operating expenses before income taxes are \$1,422,689,000, and after income
53 taxes are \$1,713,068,000, and its Other Revenues are \$128,894,000, reflecting
54 adjustments (and the exclusion of costs recovered under other tariff mechanisms
55 and costs disallowed in past ICC Orders for reasons other than timing), under
56 ComEd's proposed formula rate;

57 (4) **Gross Revenue Conversion Factor** – ComEd's gross revenue conversion factor
58 is 1.660;

59 (5) **ComEd's Overall Weighted Average Cost of Capital (the Rate of Return)** -
60 ComEd's overall weighted cost of capital (its rate of return) is 8.21%. In the
61 event the Trailer Bill becomes law, ComEd's overall weighted cost of capital (its
62 rate of return) is 8.12%; and

63 (6) **Comparison to Order in ICC Docket No. 10-0467** – ComEd's formula derived
64 delivery service revenue requirement, reflecting adjustments, of \$2,040,336,000 is
65 \$43,736,000 less than the \$2,084,072,000 approved by the Commission in ICC
66 Docket No. 10-0467. In the event the Trailer Bill becomes law, ComEd's formula
67 derived delivery service revenue requirement, reflecting adjustments, of
68 \$2,030,391,000 is \$53,681,000 less than the \$2,084,072,000 approved by the
69 Commission in ICC Docket No. 10-0467.

70 **D. Itemized Attachments to Direct Testimony**

71 Q. **What are the attachments to your direct testimony?**

72 A. The attachments to my direct testimony are:

73 (1) **ComEd Ex. 4.1** contains the applicable Schedules and Appendices of ComEd's
74 proposed formula rate, populated with data reflecting ComEd's delivery service
75 revenue requirement and its components for this first period;

- 76 • Formula Rate Schedules FR A-1, FR A-1-REC, FR A-2, FR A-3, FR A-4,
77 FR B-1, FR C-1, FR C-2, FR C-3, FR C-4, FR D-1, FR D-2, APP 1, APP
78 2, APP 3, APP 4, APP 5, APP 6, APP 7, APP 8, APP 9, APP 10, APP 11,
79 APP 12 and APP 13;

80 (2) **ComEd Ex. 4.2** contains the work papers that support the Schedules and
81 Appendices in ComEd Ex. 4.1;

82 (3) **ComEd Ex. 4.3** contains the alternative Schedules and Appendices of ComEd's
83 proposed formula rate, populated with data reflecting ComEd's delivery service
84 revenue requirement and its components for this first period in the event that
85 House Bill 3036 (the "Trailer Bill") becomes law;

- 86 • FR A-1 TB, FR B-1 TB, FR C-4 TB, FR D-1 TB, APP 3 TB;

87 (4) **ComEd Ex. 4.4** contains the alternative work papers that support the alternative
88 Schedules and appendices in ComEd Ex. 4.3;

89 (5) **ComEd Ex. 4.5** contains the following "Part 285" Schedules that were required to
90 be submitted in a general rate case under Part 285:

- 91 • Part 285 Schedule As: A-1, A-2, A-2.1, A-4, and A-5;
- 92 • Part 285 Schedule Bs: B-1, B-2, B-2.1, B-2.2, B-2.3, B-2.4, B-2.5, B-2.6,

93 B-2.7, B-2.8, B-2.9, B-3, B-4, B-5, B5.1, B5.2, B-5.3, B-6, B-7, B-7.1, B-
94 7.2, B-8, B-8.1, B-9, B-9.1, B-10, B-11, B12, B-13, B-14, and B-15;

95 • Part 285 Schedule Cs: C-1, C-2, C-2.1, C-2.2, C-2.3, C-2.4, C-2.5, C-3,
96 C-4, C-5, C-5.1, C-5.2, C-5.3, C-5.4, C-5.5, C-6, C-6.1, C-6.2, C-7, C-8,
97 C-9, C-10, C-10.1, C-11.1, C-11.2, C-11.3, C-11.4, C-12, C-13, C-14, C-
98 15, C-16, C-17, C-18, C-19, C-20, C-21, C-22, C-23, C-24, C-25, C-26, C-
99 27, C-28, C-29, C-30, C-31, C-32, and C-33; and

100 • Part 285 Schedule Ds: D-1, D-2, D-3, D-4, D-5, D-6, D-7, D-8, D-9, D-
101 10, D-11.

102 (6) **ComEd Ex. 4.6** contains work papers that support the Part 285 Schedules
103 included in ComEd Ex. 4.5;

104 (7) **ComEd Ex. 4.7** contains the following alternative Part 285 Schedules in the event
105 that the “Trailer Bill” becomes law;

106 • A-1 TB, A-2 TB, A-4 TB, A-5 TB, B-1 TB, B-8 TB, C-1 TB, C-5 TB, C-
107 5.4 TB, D-1 TB, D-6 TB;

108 (8) **ComEd Ex. 4.8** contains alternative work papers that support the alternative
109 Part 285 Schedules included in ComEd Ex. 4.7;

110 (9) **ComEd Ex. 4.9** provides a summary of ComEd’s 2010 incentive compensation
111 costs and the jurisdictional amount included in ComEd’s revenue requirement;

112 (10) **ComEd Ex. 4.10** provides support for ComEd’s 2010 pension and OPEB expense
113 and the 2010 actuarial valuation reports from Exelon’s consultant, Towers
114 Watson.

115 Unless otherwise noted, the Schedules, Appendices, and work papers in ComEd Exs. 4.1

116 through 4.10 have been prepared by me or under my direct supervision.

117 **E. Background and Qualifications**

118 Q. **What are your responsibilities at ComEd?**

119 A. As Manager, Revenue Policy Department, I am responsible for the review and evaluation
120 of potential regulatory alternatives for ComEd, with a focus on financial issues. I am also
121 responsible for the oversight and coordination of rate case related activities at both the
122 State and federal levels.

123 Q. **What is your professional experience?**

124 A. I have been employed by ComEd since 1992. I held the position of Account
125 Representative from 1992 to 1997, in which I serviced the accounts of many of ComEd's
126 large commercial, industrial and governmental customers. In 1998, I was promoted to
127 the Strategic Analysis Department as an Economic Analyst, where I was responsible for
128 supporting the capital budgeting process by evaluating the economic performance of
129 major discretionary investments and performing other operational financial analyses. In
130 2003, I was promoted to the Regulatory Services and Strategy Department as a Senior
131 Regulatory Analyst. In that position, I was responsible for the strategic and financial
132 evaluation of post-2006 regulatory strategies, including power procurement and
133 associated cost recovery. In 2006, I transferred to the Revenue Policy Department, where
134 I was responsible for assisting in the determination of ComEd's revenue requirement and
135 preparation of regulatory filings with both the Commission and the Federal Energy
136 Regulatory Commission ("FERC"). In 2007, I was named Manager - Rates in the
137 Revenue Policy Department. My title has subsequently changed to Manager, Revenue
138 Policy Department.

139 Q. **What is your educational background?**

140 A. I received a Bachelor of Science Degree in Marketing from Northern Illinois University
141 in 1987. In 1997, I received a Masters of Business Administration with a concentration
142 in Finance from DePaul University's Kellstadt Graduate School of Business.

143 **II. Delivery Service Revenue Requirement**

144 Q. **What is ComEd's delivery service revenue requirement for this first period under
145 ComEd's proposed formula rate?**

146 A. ComEd's delivery service revenue requirement, reflecting adjustments, for this first
147 period – the 2012 rate year – under ComEd's proposed formula rate is \$2,040,336,000.
148 This revenue requirement is based on a January 2011 forecast. In the event the Trailer
149 Bill becomes law, the revenue requirement under ComEd's proposed formula rate is
150 \$2,030,391,000.

151 Q. **Did you attempt to calculate the revenue requirement in accordance with the
152 requirements of Section 16-108.5 of the Public Utilities Act?**

153 A. Yes.

154 Q. **Will ComEd's delivery service revenue requirement under the proposed formula
155 rate produce rates that are just and reasonable?**

156 A. Yes. The delivery service revenue requirement includes only those costs that are
157 prudently incurred and reasonable in amount for the provision of delivery service. The
158 components of the revenue requirement are supported by my direct testimony as well as
159 the other witnesses I identified earlier.

160 Q. **In the regular course of its business, how does ComEd monitor and control its**
161 **expenses and capital expenditures to help ensure that its costs are reasonable?**

162 A. In addition to processes and controls at the operational level (which are discussed by
163 other witnesses), ComEd has rigorous financial controls in place. ComEd maintains
164 financial controls and processes that allow it to develop, monitor, control, and minimize
165 its expenses and capital expenditures. ComEd also has a capital project approval process
166 that we use to evaluate the quantitative and qualitative merits of projects. We also have
167 an integrated supply function that acquires materials and services in a manner designed to
168 minimize costs while maintaining quality.

169 Q. **Please summarize the Schedules and Appendices used in calculation of the revenue**
170 **requirement and describe briefly what they show.**

171 A. Table 1 below provides a summary of the Schedules and Appendices used in calculation
172 of the revenue requirement. The form of the Schedules and Appendices are explained in
173 further detail in the direct testimony of Kathryn Houtsma (ComEd Ex. 2.0).

Table 1

Schedules	Title	Description	Corresponding Part 285 Schedules
FR A-1	Net Revenue Requirement	Calculation of jurisdictional annual revenue requirement (FR A-1), including reconciliation (FR A-1-REC).	A-5
FR A-2	Allocators	Calculation of applicable allocator factors	WPA-5
FR A-3	ROE Collar	Calculation of ROE Collar	n/a
FR A-4	Reconciliation	Calculates the difference between previously forecasted revenue requirement and actual revenue requirement	n/a
FR B-1	Rate Base	Jurisdictional rate base summary calculation	B-1
FR C-1	Expenses	Calculation of jurisdictional operating expenses and taxes other than income	C-1
FR C-2	Depreciation and Amortization	Calculation of current and projected jurisdictional depreciation and amortization expense	C-12
FR C-3	Pension Funding Costs	Calculation of jurisdictional costs related to ComEd's pension asset	C-2
FR C-4	Taxes	Calculations of the effective income tax rate, interest synchronization, permanent tax differences, and Gross Revenue Conversion Factor	A-2.1, C-5, C-5.3, C-5.4, C-5.5
FR D-1	Cost of Capital	Calculation of ComEd's capital structure, return on equity, and weighted average cost of capital	D-1
FR D-2	Average Yield on Treasury Securities	Calculation of the average monthly yield on 30 year U.S. treasuries	n/a
Appendices			
1	Capital	Includes rate making adjustment to ComEd's rate base, jurisdictional customer advances, projected plant additions and projected depreciation reserve increase, and CWIP not accruing AFUDC.	B-2, B-4, B-5, B-7, B-8.1, B-15
2	Customer Deposits	Calculation of the average monthly balance of customer deposits and includes the interest accrued on customer deposits.	B-13
3	Cash Working Capital	Calculation of ComEd's delivery service cash working capital requirement	B-8
4	Accumulated Deferred Income Taxes	Calculation of the jurisdictional amount of accumulated deferred income taxes	B-9
5	Deferred Charges	Calculation of the jurisdictional amount of regulatory assets, deferred debits, operating reserves, asset retirement obligations, deferred credits and other deferred charges	B-10
6	Property Held for Future Use in Rate Base	Calculates the jurisdictional amount of Property Held for Future Use to be included in rate base	B-11, B-12
7	Expense	Includes rate making adjustments to ComEd's operating expenses and identification of unusual expenses greater than \$10M to be amortized over five years, jurisdictional calculation of regulatory asset amortization, and identification of jurisdictional taxes other than income.	WPC-1a, C-2, C-6, C-6.1, C-7, C-8, C-16, C-18, C-19, C-20, C-21, C-26
8	Depreciation	Calculation of the projected depreciation expense	B-2, B-4, B-5, B-6, C-12
9	Permanent Tax Impacts	Calculation of jurisdictional permanent tax differences	C-5, C-5.3
10	Other Revenues	Calculation of jurisdictional other revenues which offset the revenue requirement	C-23
11	Franchise Delivery Service Value	Calculation of the cost of delivery service provided to municipalities served under Rider FCA.	C-23
12	Cost of Short Term Debt	Calculation of ComEd's short term debt cost and balance, and costs to maintain ComEd's credit facilities	D-2
13	Embedded Cost of Long Term Debt	Calculation of ComEd's long term debt cost and balance	D-3

174

175 Q. How is ComEd's delivery service revenue requirement shown in the populated
176 formula rate Schedules in ComEd Ex. 4.1?

177 A. The key components of the revenue requirement calculation are shown on Schedule FR
178 A-1. These include operating expenses, rate base, return on rate base, taxes, interest

179 synchronization, and other revenues. It should be noted that any amounts for
180 reconciliations from previous forecasts are presented on Schedule FR A-1, but because
181 this is the initial filing of the formula rate, this amount is blank. Additionally, the Return
182 on Equity collar adjustment is not applicable to Schedule FR A-1 but is applicable to
183 Schedule FR A-1-REC. The inputs to these components and calculations are presented
184 on other, supporting Schedules discussed below. In the event the Trailer Bill becomes
185 law, these schedules will be replaced with Schedules FR A-1 TB and FR A-1-REC TB.

186 Q. **What other Schedules are involved in the development of the delivery service**
187 **revenue requirement?**

188 A. The "FR B," "FR C," and "FR D" Schedules in ComEd Ex. 4.1, which relate to rate base,
189 operating expenses and revenues, and cost of capital, respectively, are also involved in
190 the development of the delivery service revenue requirement. Additionally, several
191 Appendices included in ComEd Ex. 4.1 directly support the calculation of the revenue
192 requirement presented on Schedule FR A-1. These Schedules and the associated
193 Appendices are discussed in the remainder of my direct testimony.

194 **III. Rate Base**

195 **A. Total Rate Base**

196 Q. **What is ComEd's proposed delivery service rate base?**

197 A. ComEd's rate base for purposes of determining the delivery service revenue requirement,
198 as of December 31, 2010 and including 2011 projected plant additions, is \$6,647,180,000
199 (or \$6,647,036,000 in the event the Trailer Bill becomes law). As Michelle Blaise
200 (ComEd Ex. 5.0), Ronald Donovan (ComEd Ex. 6.0), and Michael Born (ComEd Ex.
201 7.0) testify, the assets in rate base are used and useful and the related investment set forth

202 in ComEd Ex. 4.1 (Schedule FR B-1) is prudent and reasonable, appropriately
203 functionalized to delivery service, and appropriate for purposes of determining the
204 revenue requirement.

205 Q. **What is included in ComEd's rate base?**

206 A. In brief, ComEd's rate base includes:

- 207 (1) Costs recorded in Distribution Plant Accounts as of December 31, 2010, such as
208 land, poles, cable, transformers, and meters;
- 209 (2) Costs recorded in General Plant and Intangible Plant Accounts as of
210 December 31, 2010 that support the provision of distribution and customer
211 service, such as office furniture, vehicles, stores equipment, and capitalized
212 software as of December 31, 2010;
- 213 (3) Costs of Distribution Plant and General and Intangible Plant additions (such as
214 those described above) that are projected to be placed in service by December 31,
215 2011, with a "roll forward" to December 31, 2011 of the Accumulated Reserve
216 for Depreciation and Amortization (the "depreciation reserve") for plant existing
217 as of December 31, 2010;
- 218 (4) Other assets and liabilities that pertain to the appropriate level of capital
219 investment necessary to provide distribution and customer service, as discussed
220 below.

221 B. **Electric Plant in Service at Original Cost**

222 Q. **How did ComEd calculate the appropriate level of electric utility plant in service at
223 original cost included in rate base?**

224 A. The level of gross investment in electric utility plant in service at original cost included in

225 ComEd's rate base as of December 31, 2010, before projected plant additions, is
226 \$14,357,154,000, calculated by adding \$13,047,951,000 of Distribution Plant and
227 \$1,309,203,000 of General and Intangible ("G&I") Plant as shown in ComEd Ex. 4.1,
228 Schedule FR B-1, lines 4 through 16. Projected plant additions are discussed below.

229 **Q. What conclusions can be reached about the G&I Plant included in ComEd's rate**
230 **base that related to delivery service functions other than operations?**

231 A. ComEd uses G&I Plant in the provision of delivery services to its retail customers. The
232 majority of the plant is devoted to operational functions that are addressed by Ms. Blaise
233 (ComEd Ex. 5.0) and Mr. Donovan (ComEd Ex. 6.0). However, such plant is also
234 acquired for other essential purposes, such as for financial and support systems, which I
235 am familiar with. The plant acquired for such purposes is acquired using the same
236 planning, acquisition, cost control, and supply management tools as other plant. It was
237 reasonable for management to decide to invest in that plant and, in my opinion, that plant
238 was prudently acquired and placed in service at a reasonable cost.

239 **Q. Is ComEd requesting an original cost finding in this proceeding?**

240 A. Yes. ComEd requests that the Commission approve the original cost of plant in service
241 as of December 31, 2010, before adjustments, of \$14,357,154,000.

242 **C. Accumulated Provisions for Depreciation and Amortization**

243 **Q. What is the total amount of ComEd's accumulated provisions for depreciation and**
244 **amortization?**

245 A. The total amount of accumulated depreciation as of December 31, 2010, before projected
246 plant additions, related to ComEd's rate base was \$5,717,587,000, comprised of

247 \$5,126,074,000 related to Distribution Plant and \$591,513,000 related to G&I Plant.
248 These amounts are summarized on ComEd Ex. 4.1, Schedule FR B-1, lines 17 through
249 33. The projected increase in accumulated depreciation and amortization is discussed
250 below.

251 **D. Net Plant Included in Delivery Service Rate Base**

252 Q. **How was the level of net plant included in delivery service rate base calculated?**

253 A. Net plant included in rate base before projected plant additions is \$8,639,567,000, and is
254 calculated by subtracting the total amount of accumulated depreciation from the total
255 amount of gross plant as shown on ComEd Ex. 4.1, Schedule FR B-1, line 34.

256 **E. Construction Work In Progress**

257 Q. **Is any construction work in progress (“CWIP”) included in rate base?**

258 A. Yes. Rate base includes ComEd’s investments in small or short-term projects that
259 support the distribution and customer functions, on which Allowance for Funds Used
260 During Construction (“AFUDC”) is not being capitalized. The amount as of
261 December 31, 2010, was \$6,225,000. See ComEd Ex. 4.1, Schedule FR B-1, line 35. It
262 is important to note that ComEd is not seeking inclusion as such of the specific projects
263 that were recorded in CWIP as of year-end 2010. Rather, the overall level of CWIP that
264 does not accrue AFUDC as of December 31, 2010, is included, and is a reasonable proxy
265 for the amounts expected to be incurred in future periods. Michelle Blaise testifies
266 (ComEd Ex. 5.0) that the amount of CWIP included is reasonable. The testimony of
267 ComEd witness John Hengtgen (ComEd Ex. 8.0) addresses cash working capital
268 requirements related to CWIP not accruing AFUDC.

269 **F. Property Held for Future Use**

270 Q. **Has ComEd requested to include any Property Held for Future Use in its delivery**
271 **service rate base?**

272 A. Not at this time.

273 **G. Cash Working Capital**

274 Q. **Has ComEd included any cash working capital in its delivery service rate base?**

275 A. Yes. Rate base includes \$49,075,000 for cash working capital as shown on Schedule FR
276 B-1, line 37. ComEd Witness John Hengtgen (ComEd Ex 8.0) is sponsoring the analysis
277 of the cash working capital requirement. In the event the Trailer Bill becomes law, rate
278 base includes \$48,931,000 of cash working capital.

279 **H. Accumulated Deferred Income Taxes**

280 Q. **What amount of Accumulated Deferred Income Taxes (“ADIT”) was deducted from**
281 **rate base?**

282 A. The appropriate level of ADIT to be deducted from rate base is \$1,830,839,000, after
283 adjustments, as shown in ComEd Ex. 4.1, Schedule FR B-1, line 38. This level was
284 derived through an analysis of the components of the deferred tax balances and then
285 either by directly assigning or allocating the items based on the assignment or allocation
286 of the operating items to which they relate. The jurisdictional amounts allocated to
287 delivery service are presented in Appendix 4.

288 **I. Materials and Supplies**

289 Q. **How was the level of Materials and Supplies included in rate base determined?**

290 A. ComEd included the year-end balance of materials and supplies less the associated

291 accounts payable in its rate base. The year end balance related to distribution is
292 \$28,925,000. The accounts payable related to distribution was calculated by multiplying
293 the distribution related materials and supplies balance by the O&M factor included in its
294 cash working capital. The result of the calculation is an accounts payable balance of
295 \$5,293,000. The net amount of materials and supplies included in rate base is
296 \$23,632,000. See Schedule FR B-1, line 39.

297 **J. Other Assets and Liabilities**

298 Q. **What are the other assets included in ComEd's rate base?**

299 A. Two categories of other assets are included in rate base. The first, shown on Schedule
300 FR B-1, line 40 is regulatory assets in the amount of \$8,439,000. These assets include a
301 regulatory asset representing the unamortized balance of \$8,439,000 for capitalized
302 incentive compensation costs that was approved by the Commission in its Order in
303 ComEd's 2001 rate case, ICC Docket No. 01-0423 and represents the amount recorded at
304 year end 2010.

305 Deferred debits totaling \$4,082,000 comprise the second category, shown on
306 Schedule FR B-1, line 41. This sum includes (1) Cook County Forest Preserve Fees of
307 \$1,454,000, which represents prepayments made to the Cook County Forest Preserve
308 District related to licensing fees for distribution lines, and (2) a Long Term Receivable
309 From the Mutual Beneficial Association (MBA) Plan of \$2,628,000 which relates to
310 payments that ComEd has made to the trust on behalf of union employees for short term
311 disability and for which it is awaiting reimbursement.

312 Q. **What are the other liabilities included in ComEd's rate base?**

313 A. The other liabilities, after adjustments, included in rate base are operating reserves of

314 \$334,157,000, Asset Retirement Obligations of \$29,561,000, and Deferred Credits of
315 \$10,755,000. These amounts are reductions to rate base and are summarized on Schedule
316 FR B-1, lines 42 through 44.

317 **Q. Please describe the operating reserves ComEd has included as a reduction to rate**
318 **base.**

319 **A.** Operating reserves are recorded in FERC Account 228. The jurisdictional amounts
320 reducing ComEd's rate base consist of the following:

- 321 (1) Post-retirement benefits of \$280,688,000;
322 (2) Injuries and damages of \$47,463,000; and
323 (3) Other miscellaneous environmental liabilities of \$6,006,000, primarily related to
324 the reserve for the remediation of Superfund sites.

325 **Q. Please describe the Asset Retirement Obligations included as a reduction to**
326 **ComEd's rate base.**

327 **A.** The delivery service jurisdictional amount of Asset Retirement Obligations of
328 \$29,561,000 recorded in Account 230 represents asset removal costs recovered through
329 depreciation expense (these costs were previously recorded in Account 108-
330 Accumulated Depreciation and were reclassified in 2005 in accordance with the Uniform
331 System of Accounts).

332 **Q. Please describe the deferred credits included as a reduction to ComEd's rate base.**

333 **A.** Deferred credits are recorded in FERC Account 253. Jurisdictional deferred credits
334 reducing ComEd's rate base are deferred rents of \$9,270,000 and \$1,485,000 of deferred
335 benefits for tax deductions related to the unamortized balance of Accelerated Cost

336 Recovery System ("ACRS") tax credits sold in 1981.

337 Q. **Please describe the other deferred charges included in ComEd's rate base.**

338 A. The other deferred charges included in ComEd's rate base relate to the unamortized
339 balances of one-time expenses greater than \$10 million that ComEd has removed from its
340 operating expenses and amortized over a five year period, as required by Section 16-
341 108.5(c)(4)(C) and (F). In particular, ComEd amortized over five years a June 2010
342 storm expense of \$11,079,000 and the recognition of three years of anticipated Illinois
343 Electric Distribution Tax (IEDT) credits of \$38,980,000. The unamortized balance of the
344 storm expenses, \$8,863,000 increases rate base. The unamortized balance of the IEDT
345 credits of \$31,184,000 decreases rate base. Netting these two balances results in a
346 decrease to rate base of \$22,321,000. *See* ComEd Ex. 4.1, Appendix 5, lines 31 through
347 33.

348 Q. **Will the unamortized balance of IEDT credit and the June 2010 storm expense be**
349 **reflected in the true-up calculation of 2011 or the projected costs for 2012?**

350 A. No. Per Section 16-108.5(d)(1) of the Act, the true up of the actual costs incurred during
351 2011 will be compared to the weighted average (by month) of the revenue requirements
352 in effect in 2011 (ICC Dockets 07-0566 and 10-0467). Since this credit and expense
353 were actually incurred in 2010, they will no longer be reflected in the formula after this
354 filing.

355 K. **Customer Deposits**

356 Q. **Has ComEd accounted for Customer Deposits in its delivery service rate base?**

357 A. Yes. ComEd's rate base is reduced by \$129,534,000 for customer deposits. This amount
358 is shown on ComEd Ex. 4.1, Schedule FR B-1, line 46. ComEd calculated this amount in
359 a manner consistent with the Commission's decision in ICC Docket No. 10-0467, by
360 including the thirteen month average of the total amount of customer deposits (as
361 opposed to only those associated with delivery service) reduced by the interest accrued
362 on the deposits. Appendix 2 provides the detailed calculation.

363 **L. Customer Advances**

364 Q. **Has ComEd accounted for Customer Advances in its delivery service rate base?**

365 A. Yes. ComEd receives refundable distribution system extension deposits from customers
366 under the terms of Rider DE - Distribution System Extensions, and for customer
367 advances to begin construction. ComEd has reduced rate base for the customer deposits
368 and advances that relate to projects that are included in rate base as of December, 2010 in
369 the amount of \$47,520,000. See ComEd Ex. 4.1, Schedule FR B-1, line 47 and Appendix
370 1, Lines 30 through 37.

371 **M. Projected Plant Additions and Accumulated Reserve**

372 Q. **Are projected plant additions included in rate base?**

373 A. Yes. ComEd has included its 2011 projected plant additions of \$684,431,000. This
374 amount consists of \$576,236,000 of Distribution Plant additions and \$108,195,000 of
375 G&I Plant additions. These amounts are shown on Schedule FR B-1, lines 50 and 52,
376 respectively. Additional detail is provided in ComEd Ex. 4.1, Appendix 1, lines 38
377 through 46.

378 Q. Have adjustments been made for the projected growth in the accumulated
379 depreciation reserve?

380 A. Yes. ComEd has “rolled forward” its accumulated reserve for depreciation. This is
381 accomplished by increasing the 2010 accumulated reserve by the estimated amount of
382 depreciation expense for 2011, \$363,584,000. This change to the accumulated reserve is
383 accounted for on ComEd Ex. 4.1, Schedule FR B-1, lines 51 plus 53. Essentially, the
384 reserve is increased by the estimated 2011 Distribution Plant depreciation expense of
385 \$284,647,000 and the 2011 G&I Plant depreciation expense of \$78,937,000. Detailed
386 calculations are provided on ComEd Ex 4.1, Appendix 1, lines 47 through 55.

387 IV. Operating Expenses

388 A. Total Operating Expenses

389 Q. What are ComEd’s proposed delivery service operating expenses supporting the
390 proposed revenue requirement?

391 A. For the year ending December 31, 2010, ComEd’s delivery service operating expenses
392 before income taxes were \$1,422,689,000, and after income taxes \$1,717,021,000 (or, if
393 the Trailer Bill becomes law \$1713,068,00), and its Other Revenues were \$128,894,000,
394 reflecting adjustments (and the exclusion of costs recovered under other tariff
395 mechanisms and costs disallowed in past ICC Orders for reasons other than timing). As
396 ComEd witnesses Michelle Blaise (ComEd Ex. 5.0) and Ronald Donovan (ComEd
397 Ex. 6.0) testify, the operating expenses set forth on the Schedules in ComEd Ex. 4.1 were
398 prudently incurred and are reasonable in amount.

399 Q. What categories of distribution and customer operating expenses, reflecting
400 adjustments, are included in the delivery service revenue requirement?

- 401 A. ComEd's distribution and customer operating expenses include:
- 402 (1) Expenses recorded in Operating and Maintenance ("O&M") Accounts that
403 are functionalized to the distribution function;
- 404 (2) The portion of expenses recorded in other O&M Accounts that are
405 customer-related and appropriately assigned or allocated to the delivery
406 service function; and
- 407 (3) The portion of expenses recorded in other Accounts appropriately
408 assigned or allocated to the delivery service function, including
409 Administrative and General (A&G) Expenses Accounts, Depreciation and
410 Amortization Expenses Accounts, Taxes Other Than Income Taxes
411 Accounts, and Income Taxes Accounts.

412 Q. **Which Schedules and Appendices in ComEd Ex. 4.1 support ComEd's operating**
413 **expenses and Other Revenues?**

414 A. Schedule FR C-1 "Expense," FR C-2 "Depreciation," and FR C-3 "Pension Funding" in
415 ComEd Ex. 4.1 support ComEd's operating expenses. The following Appendices support
416 ComEd's expenses and Other Revenues: Appendix 7 "Expense," Appendix 8
417 "Depreciation," Appendix 10 "Other Revenues," and Appendix 11 "Franchise Service."
418 Operating expenses and Other Revenues and their components are also reflected in the
419 related Part 285 Schedules and Part 285 work papers. In addition, operating expenses
420 and Other Revenues are reflected in Schedule FR A-1 as indicated earlier.

421 B. **Distribution O&M Expenses**

422 Q. **Generally, what do you mean when you refer to distribution O&M expenses?**

423 A. Distribution O&M expenses are expenses recorded in FERC Accounts 580 through 598,
424 which directly relate to the distribution function.

425 Q. **What amount of distribution O&M expense is included in the revenue requirement?**

426 A. ComEd's 2010 Distribution O&M expenses were \$313,141,000. After reflecting
427 adjustments, a total of \$312,853,000 in distribution O&M expenses recorded in FERC
428 Accounts 580-598 is included in the revenue requirement. *See* ComEd Ex. 4.1, Schedule
429 FR A-1, line 1 and Schedule FR C-1. The prudence, reasonableness and need for these
430 expenses are addressed by Michelle Blaise in ComEd Ex. 5.0.

431 C. **Customer-Related O&M Expenses, Including Uncollectible Accounts**

432 Q. **What are customer-related O&M expenses?**

433 A. Customer-related expenses are expenses recorded in FERC Accounts 901-910, which
434 include the costs of maintaining and servicing customer accounts, *e.g.*, meter reading,
435 customer service, and billing and credit activities.

436 Q. **What amount of customer-related expenses is appropriately included in the revenue
437 requirement?**

438 A. In determining the revenue requirement, ComEd has adjusted the \$316,633,000 of
439 customer-related expenses for the following:

440 (1) \$84,390,000 reduction to remove the costs associated with ComEd's energy
441 efficiency and demand response program recovered under Rider EDA;

442 (2) \$31,137,000 reduction to reflect the non-jurisdictional portion of uncollectible
443 accounts expense and the related outside collection agency costs;

444 (3) \$9,298,000 reduction to remove costs associated with the AMI pilot recovered

- 445 through Rider AMP;
- 446 (4) \$5,000 reduction for certain industry association dues for which recovery is not
447 being sought;
- 448 (5) \$1,664,000 reduction to remove general advertising expenses; and
- 449 (6) \$27,000 reduction to remove CARE expenses.

450 Adjustments 1 - 6 can be found on ComEd Ex. 4.1, Appendix 7, page 1, lines 1 through
451 21. After these adjustments, \$189,446,000 of FERC Accounts 901-910 directly relate to
452 and support the delivery service function and are included in the revenue requirement as
453 shown in ComEd Ex. 4.1, Schedule FR A-1, lines 2 and 3. These expenses are addressed
454 by Ronald Donovan (ComEd Ex. 6.0).¹

455 Q. **How much uncollectible accounts expense is included in the revenue requirement?**

456 A. \$16,671,000. Uncollectible accounts expense is generally a function of revenues billed
457 and has been assigned to the delivery service function by applying the revenue allocator
458 of 34.87% (Schedule FR A-2, line 27) to ComEd's total uncollectible expense recorded
459 in the 2010 FERC Form 1, Account 904. As a result, delivery service uncollectible
460 expenses are \$16,671,000 of the \$47,808,000 of ComEd's total 2010 uncollectible
461 accounts expense. (See ComEd Ex. 4.1, Schedule FR C-1, line 8 and Appendix 7, page
462 1, lines 23 through 25.) These expenses are also addressed further in the direct testimony
463 of Ronald Donovan (ComEd Ex. 6.0).

464 Q. **How does this amount relate to the implementation of the provisions for recovering**

¹ In addition, certain costs recorded in customer accounts (e.g., Accounts 908-909) include communication and support systems that are not managed by Customer Operations, and my testimony addresses those expenses as well as expenses in A&G accounts.

465 incremental uncollectible costs contained in ComEd's uncollectibles rider, Rider
466 UF?

467 A. The terms of ComEd's Rider UF provide that the incremental amounts collected under
468 the rider represent the difference between actual uncollectible expense incurred and the
469 amount included in base rates. Upon approval of new rates in this proceeding, the Base
470 Distribution Uncollectable (BDU) amount in Rider UF will be decreased to \$16,671,000
471 and the incremental amounts charged or credited under Rider UF will be the difference
472 between that amount and the actual costs for the relevant period.

473 **D. Incentive Compensation Expenses**

474 Q. **Please describe ComEd's Incentive Compensation Programs.**

475 A. ComEd has two basic incentive compensation programs: the Annual Incentive Program
476 ("AIP"), and the Long-term Incentive Program ("LTIP"). All ComEd employees
477 participate in the AIP while the LTIP is applicable to key managers and those at or above
478 the vice president level.

479 Q. **How much of the 2010 AIP costs has ComEd included in the delivery service
480 revenue requirement?**

481 A. After the removal of certain executive compensation and the application of a
482 jurisdictional allocator, ComEd included \$26,101,000 of AIP expense in O&M and
483 \$17,652,000 capitalized AIP in rate base.

484 Q. **Were any of the 2010 AIP goals related to Net Income or Return on Equity goals,
485 including an affiliate's earnings per share?**

486 A. No.

487 Q. **Please describe the goals associated with the AIP.**

488 A. There were seven goals, or Key Performance Indicators (KPIs) associated with ComEd's
489 2010 AIP which conformed to recent ICC orders regarding recovery of incentive
490 compensation through rates. The goals focused on cost control (O&M and capital spend),
491 system performance (outage duration and frequency), customer satisfaction, safety, and
492 certain company focused and environmental initiatives. ComEd Ex. 4.9 includes a copy
493 of ComEd's 2010 AIP.

494 Q. **Is the LTIP exactly the same for key managers as for those at or above the vice
495 president level?**

496 A. No. The LTIP available to key managers is based upon meeting individual performance
497 goals. The LTIP available to vice presidents and above is based upon company-wide
498 performance goals. Awards for both plans typically vest over three years.²

499 Q. **How much of the 2010 executive LTIP is included in the delivery Service revenue
500 requirement?**

501 A. \$973,000 of expense is included in O&M and \$81,000 of capital is included in rate base.

502 Q. **Were any of the LTIP performance metrics based on goals related to Net Income or
503 Return on Equity goals, including an affiliate's earnings per share?**

504 A. Not for 2010, but during 2008 and 2009, one of the three performance metrics applicable
505 to the executive LTIP included a return on equity component.

506 Q. **Were these amounts included in 2010 O&M expenses?**

² LTIP for retirement eligible executives is expensed during the year it is awarded. LTIP for all others is expensed over three years.

507 A. Since the LTIP plans typically vest over three years, one third of the amounts awarded for
508 2008 and 2009 were expensed in 2010. For the year 2010, no LTIP was awarded to vice
509 presidents and above thus only amounts for 2008 and 2009 were included in 2010 O&M
510 expenses.

511 Q. **Did you remove the amounts related to the return on equity metrics from the**
512 **revenue requirement?**

513 A. Yes. \$545,000 was removed from jurisdictional O&M expense on Appendix 7, Line 12
514 and \$41,000 was removed form rate base on Appendix 1, Line 7.

515 Q. **Have you provided a summary of incentive compensation costs?**

516 A. Yes, ComEd Ex. 4.9 provides a summary, by FERC account of 2010 AIP and LTIP costs
517 in total and the jurisdictional amounts included in the revenue requirement. It also
518 provides a description of each plan's goals. These descriptions show that ComEd's
519 incentive compensation plans are based on the achievement of operational metrics,
520 including metrics related to budget controls, outage duration and frequency, safety,
521 customer service, efficiency and productivity, and environmental compliance.

522 E. **Administrative and General Expenses**

523 Q. **What types of expenses are included in the Administrative and General Expenses**
524 **category?**

525 A. Under the USOA, A&G Expenses are recorded in Accounts 920-935. Costs included in
526 those Accounts generally represent a wide variety of corporate support and overhead
527 costs that benefit or derive from more than one business function. Major A&G support
528 areas include the Human Resources, Finance, Legal, Supply Management, Information

529 Technology, and Corporate Governance functions. Additionally, the costs of employee
530 pensions and benefits, including health care for active and retired employees, as well as
531 rents, injuries and damages expenses, and regulatory expenses are included in these A&G
532 Accounts. Finally, as I mentioned earlier, certain other non-operational costs are recorded
533 in other accounts. These types of costs all represent expenses ComEd incurs in providing
534 delivery services to its retail customers. They are managed carefully and with analogous
535 systems of cost control and review similar to distribution and customer operational
536 expenses. It was reasonable for ComEd to incur all of these costs and, in my opinion,
537 they were prudently incurred and are reasonable in amount. A&G expenses that support
538 operations are also discussed by Michelle Blaise (ComEd Ex. 5.0) and Ronald Donovan
539 (ComEd Ex. 6.0).

540 Q. **Who provides the services covered by Administrative and General expenses?**

541 A. In general, services are provided either internally by ComEd employees or by other
542 service providers, including Exelon Business Services Company ("EBSC"). EBSC
543 provides corporate governance, technical, and numerous other support services to the
544 Exelon companies. These services are provided to ComEd under the terms of the
545 General Services Agreement approved by the ICC and the Securities and Exchange
546 Commission. Costs for these services are directly charged to ComEd where possible, and
547 if costs cannot be directly charged, they are allocated to ComEd and the other Exelon
548 affiliates utilizing cost-causative allocation factors. In all cases, services provided by
549 EBSC are billed to ComEd at cost (*i.e.*, with no mark-up). The process by which ComEd
550 acquires services from EBSC is a transparent one that assures that ComEd, and in turn
551 ComEd's customers, receive good value.

552 Q. **What amount of pension expense is included in Administrative and General**
553 **expenses?**

554 A. As shown on ComEd Ex. 4.10, page 1, ComEd's total 2010 pension cost was
555 \$132,472,000, of which \$77,362,000 was expensed. The jurisdictional amount included
556 in ComEd's Administrative and General expenses was \$69,022,000. These amounts are
557 supported by, and reconciled to, the Towers Watson actuarial studies also included in
558 ComEd Ex. 4.10.

559 Q. **What amount of other post retirement benefit (OPEB) costs is included in A&G?**

560 A. As shown on ComEd Ex. 4.10, page 1, ComEd's total 2010 OPEB cost was \$86,110,000,
561 of which \$49,051,000 was expensed. The jurisdictional amount included in ComEd's
562 Administrative and General expenses was \$43,754,000. These amounts are supported by,
563 and reconciled to, the Towers Watson actuarial studies also included in ComEd Ex. 4.10.

564 Q. **Please describe the documents included in ComEd Ex. 4.10.**

565 A. Page 1 provides a summary of ComEd's 2010 pension and OPEB expenses reconciled to
566 the 2010 Towers Watson actuarial reports. It also includes a calculation of the
567 jurisdictional amounts included in ComEd's revenue requirement. Pages 2 through 6 are
568 a copy of the March 2010 Towers Watson actuarial report that allocates Exelon's pension
569 and OPEB costs across the subsidiary companies. Pages 7 through 15 provide
570 documentation of the 2010 Supplemental Pension Benefit Plan (SERP) cost settlement
571 charges. Finally, the 2010 Towers Watson Deferred Compensation Unit (DCU) plan
572 valuation is provided on pages 16 through 21.

573 Q. **What method was used to determine the A&G expenses to be included in the**

574 **delivery service revenue requirement?**

575 A. The functionalization of the appropriate total A&G expense amount is largely based on
576 the 2010 relationship of total ComEd delivery service (distribution and customer-related)
577 wages and salaries included in O&M expenses to the total ComEd wages and salaries
578 included in O&M expenses, *i.e.*, the wages and salaries allocator. In certain instances,
579 costs are allocated based on a direct assignment. This method is consistent with the
580 approach used by ComEd and approved by the Commission in ComEd's last three rate
581 cases, ICC Docket No. 05-0597, Docket No. 07-0566, and Docket No. 10-0467.

582 Q. **What amount of A&G expenses is included in the revenue requirement?**

583 A. \$341,550,000. This amount has increased only slightly (0.5%) from the amount allowed
584 in Docket No. 10-0467 (\$339,624,000). These expenses are discussed in large part by
585 Michelle Blaise (ComEd Ex. 5.0) and Ronald Donovan (ComEd Ex. 6.0).

586 F. **Sales and Marketing Expense**

587 Q. **How much sales and marketing O&M expense is included in the revenue**
588 **requirement?**

589 A. No sales and marketing expenses were included in the revenue requirement.

590 G. **Depreciation and Amortization of Electric Utility Plant**

591 Q. **How much depreciation and amortization expense of electric utility plant is included**
592 **in the revenue requirement?**

593 A. \$405,551,000. The level of 2010 depreciation and amortization expenses included in the
594 revenue requirement is \$389,584,000, comprised of \$313,879,000 related to Distribution
595 Plant and \$75,705,000 related to G&I Plant. Additionally, the revenue requirement

596 includes \$15,967,000 of depreciation expense associated with the 2011 projected plant
597 additions. See ComEd Ex. 4.1, Schedule FR C-2 for calculations of both the actual 2010
598 and projected 2011 jurisdictional depreciation expense.

599 **H. Taxes Other than Income**

600 Q. **What taxes other than income are included in the revenue requirement?**

601 A. The level of taxes other than income included in the revenue requirement is
602 \$109,085,000. In general, these include real estate taxes, the Illinois Electric Distribution
603 Tax, payroll taxes and several other taxes. A detailed analysis of the taxes other than
604 income included in the revenue requirement is provided on ComEd Ex. 4.1, Appendix 7,
605 page 2, lines 43 through 61. The amounts on line 61 represent the taxes prior to final
606 jurisdictional amounts, which can be found on ComEd Ex. 4.1, Schedule FR C-1, line 12.

607 **I. Income Taxes**

608 Q. **What level of income taxes is included in the revenue requirement?**

609 A. The amount of income taxes included in the revenue requirement is \$294,332,000 (see
610 ComEd Ex. 4.1, Schedule FR A-1, lines 18 and 19), which includes the impact of the
611 projected plant additions. If the Trailer Bill becomes law, this amount is \$290,379,000.
612 Income taxes have been calculated based on the expenses and miscellaneous revenues
613 assigned or allocated to the delivery service function. Because the tax treatment of
614 revenues and expenses is often different from the accounting treatment of those items,
615 ComEd has analyzed 2010 test year book and tax differences and assigned or allocated
616 those differences to the delivery service function as described in ComEd Ex. 4.1,
617 Schedule FR C-4 and Appendix 9.

618 V. Miscellaneous Revenues

619 Q. **What miscellaneous revenues are reflected in the calculation of the revenue**
620 **requirement?**

621 A. Based on a detailed analysis of these revenues, \$128,894,000, after adjustments, was
622 directly assigned or allocated to the delivery service function and was therefore deducted
623 from the revenue requirement. See ComEd Ex. 4.1, Appendix 10 for detailed
624 calculations. Miscellaneous revenues include \$33,479,000 received in connection with
625 late payment fees and earned finance charges allocated to the delivery service function
626 based on the methodology approved by the Commission in ICC Docket No. 10-0467,
627 \$8,381,000 for miscellaneous service revenues (for example meter service fees),
628 \$58,064,000 of revenues received as rental payments for facilities recorded in
629 distribution accounts and included in the delivery service rate base (equipment and meter
630 rentals, pole attachments, office space subleases, etc.). Other Electric Revenues of
631 \$1,935,000 (namely fees earned from a telephone referral program and reimbursements
632 for customer requested studies), an adjustment of \$4,299,000 to reflect annualized
633 revenues to be collected from reselling municipalities as compensation for their usage of
634 a portion of the ComEd distribution system, and other adjustments totaling \$22,736,000
635 (inclusion of cost of delivery service recovered under Rider FCA - Franchise Cost
636 Additions, amounts recovered for facility lighting and others). See ComEd Ex. 4.1,
637 Appendix 11 for calculation details of the adjustment for Franchise Cost Additions.

638 VI. Adjustments, Including Projected Plant Additions

639 A. Adjustments to Rate Base

640 Q. **What is the net change to the delivery service rate base related to the 2011 projected**
641 **plant additions and the increase in the depreciation reserve?**

642 A. As discussed in Section III above, ComEd has included both the 2011 projected plant
643 additions and the estimated increase in, or the “roll-forward” of, the depreciation reserve
644 relating to plant in service as of December 31, 2010. These amounts increased rate base
645 by a net amount of \$320,847,000. The projected plant additions are reasonably expected
646 to be placed in service by December 2011. These amounts are supported in the direct
647 testimony of Michelle Blaise. The increase in the depreciation reserve is calculated by
648 adding the estimated 2011 depreciation expense to the reserve. This amount reflects the
649 estimated 2011 depreciation expense on both plant existing as of December 31, 2010 and
650 the 2011 projected plant additions. These calculations are presented on ComEd Ex. 4.1,
651 Appendix 1, lines 38 through 55.

652 Q. **Have you made any other adjustments to rate base?**

653 A. Yes. ComEd has reduced its delivery service rate base for costs recovered through other
654 tariffs (for example, 2010 AMI - Advanced Metering Infrastructure pilot costs recovered
655 through Rider AMP - Advanced Metering Program Adjustment, costs incurred for Rider
656 PORCB – Purchase of Receivables and Combined Billing, and costs recovered through
657 Rider EDA - Energy Efficiency and Demand Response Adjustment). Additionally,
658 ComEd reduced its rate base for amounts disallowed in prior ICC rate proceedings for
659 reasons other than timing (for example, capitalized incentive costs disallowed). These
660 amounts are presented on ComEd Ex. 4.1, Appendix 1, lines 1 through 29).

661 **B. Adjustments to Operating Expenses and Other Revenues**

662 Q. **What types of adjustments has ComEd made to its 2011 operating expenses?**

663 A. The costs ComEd has removed from its operating expenses include rate-making
664 adjustments, costs recovered through other tariffs, and voluntary exclusions. Some of
665 these adjustments have already been described above and include CARE - Customers'
666 Affordable Reliable Energy costs, bank fees accounted for in the cost of credit facilities,
667 non-delivery service regulatory costs, and others. ComEd also reduced its operating
668 expenses for costs recovered through other tariffs (for example, supply administration
669 costs and residential real-time pricing). Finally, in an attempt to narrow the potential
670 issues in dispute, ComEd has voluntarily reduced its operating expenses for expenses
671 such as a portion of compensation costs of certain executives, half of its corporate jet
672 costs, and certain lease expenses. These amounts are presented on ComEd Ex. 4.1,
673 Appendix 7, page 1.

674 Q. **What types of adjustments has ComEd made to its Other Revenues?**

675 A. ComEd has reduced its Other Revenues by removing the amounts applicable to
676 transmission services. In particular, the amounts in Accounts 450 and 451 are reduced by
677 the amounts assigned to transmission. *See* ComEd Ex. 4.1 Appendix 10.

678 **VII. Gross Revenue Conversion Factor**

679 Q. **What is ComEd's Gross Revenue Conversion Factor ("GRCF")?**

680 A. ComEd's GRCF is 1.660. Schedule FR C-4, line 13 in ComEd Ex. 4.1 shows the
681 development of the GRCF.

682 **VIII. Taxes**

683 Q. **How is Schedule FR C-4 used in developing ComEd's delivery service revenue**
684 **requirement?**

685 A. Schedule FR C-4 provides the calculations of ComEd's effective income tax rate, gross-
686 up factor for income taxes, interest synchronization deduction, and gross revenue
687 conversion factor. Schedule FR C-4 also summarizes the permanent tax differences and
688 amortization of permanent tax differences. These amounts, after application of the gross
689 revenue conversion factor, reduce the revenue requirement by \$3,950,000.

690 Q. **How is Appendix 9 used in developing ComEd's delivery service revenue**
691 **requirement?**

692 A. Appendix 9 provides a detailed analysis of ComEd's Permanent Tax Differences by
693 presenting each tax difference on a line-by-line basis and applying a jurisdictional
694 allocator. Appendix 9 also identifies ComEd's Investment Tax Credits and a
695 jurisdictional calculation of each.

696 **IX. Overall Weighted Cost of Capital (Rate of Return)**

697 Q. **What is ComEd's overall weighted cost of capital (rate of return)?**

698 A. ComEd's 2010 overall weighted cost of capital (rate of return) is 8.21%. That figure is
699 derived from the following capital structure and costs, which reflect the full removal of
700 good will from the capital structure.

Capital Structure Component	Weighting	Cost	Weighted Cost
Common equity	45.54%	10.25%	4.67%
Long-term debt	53.89%	6.37%	3.43%
Short-term debt	0.57%	1.43%	0.01%
Credit Facility Cost			0.10%
Total weighted average	100%		8.21%

701 The capital structure, costs of debt, and the formula components of the rate of
702 return on common equity are discussed in the direct testimony of Scott Vogt (ComEd Ex.
703 3.0). Alternatively, if the Trailer Bill becomes law, ComEd's weighted average cost of
704 capital is 8.12%.

Capital Structure Component	Weighting	Cost	Weighted Cost
Common equity	45.54%	10.05%	4.58%
Long-term debt	53.89%	6.37%	3.43%
Short-term debt	0.57%	1.43%	0.01%
Credit Facility Cost			0.10%
Total weighted average	100%		8.12%

705 Q. **Which Schedules and Appendices in ComEd Exs. 4.1 support ComEd's rate of**
706 **return?**

707 A. Schedules FR D-1 and FR D-2 and Appendices 12 and 13 in ComEd Ex. 4.1 support
708 ComEd's rate of return.

709 Q. **Please explain Schedule FR D-1.**

710 A. Schedule FR D-1 summarizes ComEd's overall weighted cost of capital. It provides
711 calculations of ComEd's capital structure, weighted costs of each capital structure
712 component and the overall weighted average cost of capital.

713 Q. **Please explain Schedule FR D-2.**

714 A. Schedule FR D-2 calculates the average monthly market yields on 30-year treasury
715 bonds. This amount is added to the return on equity base of 600 basis points to determine
716 ComEd's cost of equity. Alternatively, if the Trailer Bill becomes law, the equity base is
717 580 basis points.

718 Q. **How is Appendix 12 used in developing ComEd's delivery service revenue**

719 **requirement?**

720 A. Appendix 12 shows the calculation of ComEd's cost and balance of short-term debt, net
721 of Construction Work in Progress, along with ComEd's costs to maintain its credit
722 facilities.

723 Q. **How is Appendix 13 used in developing ComEd's delivery service revenue**
724 **requirement?**

725 A. Appendix 13 contains the calculation of ComEd's cost and balance of long-term debt and
726 lists ComEd's existing first mortgage bonds, sinking fund debentures, notes and
727 subordinated deferrable interest debt.

728 X. **Comparison to Order in ICC Docket No. 10-0467**

729 Q. **How does ComEd's delivery service revenue requirement presented in your**
730 **testimony compare with the delivery service revenue requirement approved by the**
731 **Commission in ICC Docket No. 10-0467?**

732 A. ComEd's formula derived delivery service revenue requirement presented here is
733 \$2,040,336,000, \$43,736,000 less than the \$2,084,072,000 approved by the Commission
734 in ICC Docket No. 10-0467. If the Trailer Bill becomes law, these amount are
735 \$2,030,391,000 and \$53,681,000, respectively.

736 Q. **What factors account for the differences between ComEd's delivery service revenue**
737 **requirement presented here and the delivery service revenue requirement approved**
738 **by the Commission in ICC Docket No. 10-0467?**

739 A. The drivers of the differences are illustrated by the following bridge table.

Table 2	
\$\$ in Millions	
10-0467 Final Order Revenue Requirement	\$ 2,084
<u>Change in Effective Rate of Return</u>	
Cost of Equity from 10.50% to 10.05%	\$ (12)
Capital Structure	(14)
Cost of Debt	(7)
Credit Facility Fees	(1)
Total Adjusted Effective Rate of Return	\$ (34)
State Tax Change from 9.5% to 7.3%	(12)
Increased Rate Base	11
<u>Change in Expense</u>	
Bad Debt	\$ (15)
Ill Dist Tax Credit Amortization	(8)
Depreciation	19
Pension Asset Return	9
Regulatory Asset Amortization	(6)
A&G	2
Total Expense Change	\$ 1
Increased Other Revenues	(10)
2011 Formula Rate Revenue Requirement	\$ 2,040
Trailer Bill Reduction in Cost of Equity	\$ (10)
Trailer Bill - Formula Rate Revenue Requirement	\$ 2,030

740

741

742

743

744

745

746

747

748

As shown in the table above, the majority of the difference results from the lower effective rate of return embedded in the formula rate and the application of a lower state income tax. The formulaic approach to determining return on equity results in this case in a return on equity 25 basis points lower than what was allowed in the previous rate case. Additionally, the 2010 capital structure is more leveraged than 2009 (54.46% vs. 52.72% total debt) which drives down the overall cost of capital. Also, the cost of long term debt as calculated in ComEd Ex. 4.1, Appendix 13 is 15 basis points lower than the amount allowed in Docket No. 10-0467. This is mainly the result of lower rates realized

749 when issuing new debt and refinancing existing debt. Finally, credit facility fees were
750 approximately \$1.7 million lower in 2010 than the amounts included in ICC Docket No.
751 10-0467.

752 Next, the final Order in Docket No. 10-0467 applied the increased 2011 Illinois
753 State income tax rate of 9.5% as a *pro forma* adjustment, but the formula applies the rate
754 in effect in the year 2010 of 7.3%.

755 Rate base increased over the amount allowed in ICC Docket No. 10-0467
756 primarily to due to the increase of all 2011 projected plant additions net of increased
757 depreciation reserve.

758 Operating expenses were lower primarily due to a reduction in uncollectible
759 expense in 2010 compared to 2009, the accounting accrual for three years' worth of
760 Illinois Electric Distribution Tax credits in 2010 due to ComEd in future years (this credit
761 is being amortized over five years per operation of the formula), and lower amortization
762 of regulatory assets in 2010 than allowed in Docket No. 10-0467 (*i.e.*, the additional
763 regulatory asset amortization allowed by the Commission in its final Order as these
764 amounts were not recognized until 2011 and not included in 2010 costs). These decreases
765 were offset by increases to depreciation expense, the return on pension asset, and a small
766 increase in Administrative and General Expense.

767 Other Revenues increased in 2010 over 2009 principally due to increased late
768 payment fees and the greater assignment of the Earned Finance Charges to delivery
769 services.

770 Finally, as reflected in Table 2 above, if the Trailer Bill becomes law, the reduced Return
771 on Equity base (580 basis points as opposed to 600 basis points) results in an additional
772 \$10 million reduction to the revenue requirement.

773 **XI. Conclusion**

774 **Q. What is your overall conclusion regarding the revenue requirement determined**
775 **pursuant to the formula rate?**

776 **A.** It will produce just and reasonable rates. ComEd has applied the formula set forth in the
777 testimony of Kathryn Houtsma and populated and supported it with the Schedules and
778 Appendices attached to my testimony.

779 **Q. Does this complete your direct testimony?**

780 **A.** Yes.