ComEd Ex. 35.0

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

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

Rebuttal Testimony on Rehearing of

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Commonwealth Edison Company

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I. INTRODUCTION

A. Witness Identification

Q. Please state your name.

A. My name is Kathryn M. Houtsma.

Q. Are you the same Kathryn Houtsma who gave testimony in this Docket prior to rehearing being granted and who also filed direct testimony on rehearing?

A. Yes. My testimony from before rehearing was granted includes Commonwealth Edison Company ("ComEd") Exhibits ("Exs.") 2.0, 12.0, and 21.0 and the attachments thereto, plus live testimony at the evidentiary hearing. My direct testimony on rehearing is ComEd Ex. 32.0 and the attachment thereto. My education, background, and duties have not changed.

Q. In what capacity are you testifying?

A. I have personal knowledge of the facts to which I am testifying. Moreover, I am testifying in my capacity as an accountant and Certified Public Accountant ("CPA") who has spent a large part of my 33 year career engaged in regulatory accounting matters and analyzing and developing utility revenue requirements. My opinions are offered based on that expertise.

B. Subject of Testimony

Q. What subjects does your rebuttal testimony on rehearing address?

A. I respond to (1) the direct testimony on rehearing of Staff witness Theresa Ebrey on the subject of ComEd's pension funding costs; (2) the respective direct testimony on rehearing of AG-AARP witnesses Michael Brosch and David Effron and CUB witness

Ralph Smith on the subject of the tax issues related to the reconciliation adjustment interest rate; and (3) the respective direct testimony on rehearing of Staff witness Richard Bridal and of Messrs. Brosch, Effron, Smith, and Gorman on the subject of the use of an average rate base method versus the year-end method in calculating reconciliation rate base. My testimony in response is submitted with no intention of waiving any rights ComEd may have to object to the scope of any of this testimony.

C. Summary of Conclusions

Q. **What are your conclusions?**

A. With respect to ComEd's pension funding costs, Ms. Ebrey continues to recommend that the Commission deny ComEd a debt-based return on its pension asset, based largely on her same flawed analyses of past Illinois Commerce Commission ("Commission") orders. Ebrey Reh. Dir., Staff Ex. 24.0, 4:48-50. As detailed in the testimony I have previously provided in this docket and further in this testimony, Ms. Ebrey's recommendation flatly contradicts Section 16-108.5(c)(4) of the Public Utilities Act (because under every applicable standard ComEd has a pension asset) and should be rejected. Houtsma Reb., ComEd Ex. 12.0, 4:86-12:262; Houtsma Sur., ComEd Ex. 21.0, 4:76-12:255.

Ms. Ebrey, for the first time, also presents a new ratemaking proposal that she claims is consistent with past Commission decisions, and this proposal should also be disregarded because it too is inconsistent with Section 16-108.5(c)(4) and is utterly lacking in merit. Under her proposal, she would provide for a long-term debt based return based only on the "discretionary" pension contributions made by ComEd, but only in a single year, and only if a customer benefit could be shown. *Id.*, 12:207-10. As I explain in more detail below, the distinction Ms. Ebrey draws between "discretionary" and "mandatory" pension plan contributions is illusory, and has absolutely no impact on the right to earn a return on the contributions. Moreover, Ms. Ebrey designs a "customer benefits" standard that she admits is impossible to satisfy beyond the current year, which leads to the absurd result that ComEd would only be able to earn a return in a single year. *Id.*, 13:226-14:239. The impact of this new "ratemaking proposal", if adopted, is an estimated loss to ComEd of nearly $77 million for the years 2010, 2011 and 2012 alone, with significant deficiencies in every year thereafter. Ms. Ebrey's eleventh hour attempt to negotiate such an inappropriate and unlawful proposal should be squarely rejected.

Regarding the tax issues related to the reconciliation adjustment interest rate raised by Messrs. Brosch, Effron, and Smith, their proposals are not reasonable and should be rejected.

And finally, the proposals of Messrs. Brosch, Effron, Smith, and Gorman regarding average rate base would result in increased regulatory lag and should be rejected. However, upon further review, I accept and agree with the argument made by Messrs. Effron and Bridal that one-half year's interest is appropriate even if an average rate base is used.

D. <u>Itemized Attachments to Rebuttal Testimony on Rehearing</u>

Q. Are there any attachments to your rebuttal testimony on rehearing?

A. Yes. Attached are three Exhibits:

- **ComEd Ex. 35.1** is a roll-forward of ComEd's pension asset balance initially presented as ComEd Ex. 12.1 with cumulative totals added;

- **ComEd Ex. 35.2** provides a detailed calculation of Ms. Ebrey's ratemaking proposal and the cost recovery shortfall resulting from it; and
- **ComEd Ex. 35.3** summarizes the investment gains and losses experienced by the pension plan investment trusts to which ComEd contributes.

II. PENSION FUNDING COSTS

Q. What is your overall response to Ms. Ebrey's recommendations regarding ComEd's pension funding costs?

A. Ms. Ebrey is clear that her primary recommendation continues to be "that the Commission affirm its conclusion in the May 29, 2012 Order that there is no pension asset due to [ComEd's] pension plan being under-funded." Ebrey Reh. Dir., Staff Ex. 24.0, 4:48-50. In her direct testimony on rehearing, Ms. Ebrey continues to support this incorrect conclusion by misapplying and misinterpreting Commission orders. *Id.*, 4:55-7:114. As a result, Section II.A of my rebuttal testimony on rehearing addresses each of the orders cited by Ms. Ebrey and corrects any mischaracterizations.

However, the most prominent feature of Ms. Ebrey's direct testimony on rehearing is her new "ratemaking proposal," which she suggests the Commission should consider if it "determines that some allowance recognizing the customer benefits of the discretionary pension contributions should be included in rates." *Id.*, 4:51-53. Specifically, Ms. Ebrey would provide for "a long-term debt based return on the discretionary pension contributions that Exelon and ComEd have made, limited to the ratepayer benefit resulting from those discretionary contributions." *Id.*, 9:155-57. Much like her flawed theory that ComEd has no pension asset, Ms. Ebrey's proposal reflects yet another theory lacking any support in Section 16-108.5(c), Commission orders or practice. Accordingly, I address each of the errors in her logic as follows:

- In Section II.B.1, I explain that the distinction Ms. Ebrey draws between "mandatory" and "discretionary" pension contributions for purposes of selecting the amount upon which a utility can earn a return is one wholly of her own making;
- In Section II.B.2, I correct Ms. Ebrey's mischaracterizations of Commission orders regarding the distinction she draws; and
- Section II.B.3, explains that Ms. Ebrey's ratemaking proposal, in addition to inappropriately excluding mandatory pension contributions from recovery, is also designed to exclude consideration of customer benefits beyond one year, all of which has the effect of denying ComEd the recovery of nearly $77 million in pension funding costs for the years 2010, 2011, and 2012.

Finally, in Section III.C, I respond to other claims made in Ms. Ebrey's direct testimony on rehearing.

A. <u>The Commission's 2005 Rate Case Order on Rehearing Approved "Cost Recovery of the Pension Asset"</u>

Q. **Ms. Ebrey claims that the Commission has consistently ruled that ComEd has no pension asset. Do you agree with this conclusion?**

No. Ms. Ebrey continues to incorrectly and misleadingly cite the Commission's initial ruling in Docket No. 05-0597 as final and definitive. Ebrey Reh. Dir., Staff Ex. 24.0, 4:58-5:61. As I discussed in my rebuttal testimony in the initial proceeding in the instant docket, the Commission on Rehearing in Docket No. 05-0597 affirmatively reached a different conclusion and recognized a pension asset. In fact, the Commission did so both in its Order on Rehearing (at 28) as originally issued and in the Corrected Order on Rehearing (at 28):

> The record shows that the contribution assisted in providing adequate funding for the retirement obligations to ComEd's workforce and that ComEd's customers saved $30.2 million as a result of the contribution. The Commission finds that these savings more than outweigh the $25.3 million cost under this alternative.
>
> ***Accordingly, the Commission approves cost recovery of the Pension Asset*** under Alternative 3 that ComEd proposed on rehearing.

Commonwealth Edison Co., ICC Docket No. 05-0597, Corrected Order on Rehearing ("Corrected Order on Rehearing") (Dec. 20, 2006) at 28. (emphasis added).

Q. Do subsequent Commission orders elaborate further on the question of whether ComEd has a pension asset?

A. No. Although the Commission's orders in ComEd's 2007 and 2010 rate cases were consistent with the Commission's Corrected Order on Rehearing in Docket No. 05-0597 in that they granted ComEd's recovery of pension funding costs, these orders did not further comment on whether or not ComEd's pension contributions constitute or resulted in a pension asset. Ms. Ebrey somehow interprets the absence of specific commentary by the Commission as proof that the Commission agrees with her interpretation. That reasoning is erroneous.

Q. Can you explain in more detail what was consistent about the Commission's Orders in Docket Nos. 05-0597 (Rehearing), 07-0566, and 10-0467?

A. Yes. The Commission has consistently ruled that ComEd's pension asset should not be included in rate base. In its initial case in the instant docket ComEd requested recovery of costs associated with its pension asset as an adjustment to operating income and excluded the pension asset balance from its rate base. To be clear, however, the fact that the Commission has consistently excluded the pension asset from ComEd's rate base is a very different thing than saying that the Commission has consistently ruled that ComEd has no pension asset. Ms. Ebrey's contention that the Commission has unequivocally and consistently ruled that ComEd's pension contributions do not constitute a pension asset is contradicted by the plain language of the Corrected Order on Rehearing in Docket No. 05-0597. *See* Corrected Order on Rehearing at 28. Importantly, all three of those orders recognized that there are costs and benefits associated with funding the pension plan, and that both must be considered in setting charges for electric service.

Q. **Ms. Ebrey states that the Commission ruled in ICC Docket No. 05-0597 that a pension asset cannot exist when a pension plan is underfunded. Do you agree that was the Commission's ultimate determination in ComEd's 2005 rate case?**

A. No, again Ms. Ebrey cites the Commission's initial ruling in the case in that docket and ignores the contradictory and superseding conclusion reached by the Commission in the Corrected Order on Rehearing. Throughout Docket No. 05-0597, Staff advanced the argument that a pension asset cannot exist unless the plan is overfunded. In the end, however, the Commission provided for a debt return on a pension asset, as previously described.

Q. **Did the Commission agree with the Staff argument advanced by Ms. Ebrey in Docket No. 05-0597?**

A. The Commission, in its original Order in Docket No. 05-0597, found Ms. Ebrey's theory to be "persuasive" and denied ComEd any cost recovery associated with its pension asset. ICC Docket No. 05-0597, Final Order (July 26, 2006) at 39-40. Ms. Ebrey's theory was an "all or nothing approach". If there was no pension asset, there was no basis for recovery. However, the Commission reconsidered the issue on rehearing. The Corrected Order on Rehearing repeats Ms. Ebrey's theory that a pension plan must be overfunded in order to be considered a pension asset, but the Commission did not this time say that it found Ms. Ebrey's theory to be persuasive, and it further reversed its original finding and "[approved] cost recovery of the Pension Asset under Alternative 3… ." Corrected Order on Rehearing at 28. Notably, no Staff witness adopted Ms. Ebrey's definition of a pension asset in ComEd's 2007 or 2010 rate cases. Staff resurrected this rejected definition of a pension asset in its case in chief in the instant docket for the first time since the Corrected Order on Rehearing in Docket No. 05-0597.

Q. **Can you restate the basic explanation as to why a pension asset can exist despite the fact that a pension plan is underfunded?**

A. Yes. As discussed in my rebuttal and surrebuttal testimony in the initial phase of this docket (Houtsma Reb., ComEd Ex. 12.0, 7:143-45, 9:202-04; Houtsma Sur., ComEd Ex. 21.0, 8:162-66) and that of William Graf (ComEd Ex. 14.0, 4:82-5:101), a pension asset is recorded under Generally Accepted Accounting Principles ("GAAP") when a company's pension contributions exceed its net periodic benefit costs. In this sense, the company has prepaid its future pension costs. It is analogous to a college savings account, where parents put aside money many years in advance of when the college tuition bills come due. The fact that the amount of money in the accounts does not fully cover the future costs does not in any way make the money in the account worthless, and, given that parents could surely use that money in any manner of other ways, there is most certainly a cost to setting aside that capital. Unlike the vast majority of its costs, and unlike college tuition, ComEd cannot pay its pension costs on an "as you go basis." Accordingly, it is prudent for ComEd to make not only the mandatory contributions as defined by ERISA and the Pension Protection Act, but also to make contributions in excess of these amounts.

Q. **Ms. Ebrey claims that allowing a utility to recover the costs of funding its pre-paid pension costs creates a "perverse incentive" for the utility to divert funds to the pension plans at the expense of utility investments. Is this a reasonable concern?**

A. No. This concern is completely unfounded. The statute provides for a debt-based return on pension assets, which inherently is *less than* the overall weighted average cost of capital ("WACC") that investments in utility plant earn. 220 ILCS 5/16-108.5(c)(4)(D). Indeed, the only "perverse incentive" is one of Staff's own making – there is no question that the complete denial of any return on over $1 billion on pension plan investments, or the diminished, and temporary return suggested by Ms. Ebrey, would disincent any further investment in the pension plan, an outcome which benefits neither customers nor employees.

Moreover, to the extent Ms. Ebrey remains concerned that ComEd would under-invest in "iron in the ground" delivery service assets and instead fund the pension plan (despite a lower, debt-based return) (Ebrey Reh. Dir., Staff Ex. 24.0, 5:62-64, 11:193-

12:197), her fears are unfounded. ComEd is required by its status as a participating utility under Section 16-108.5(b) of the Act to invest an estimated $2.6 billion of capital in its electric delivery infrastructure -- $1.3 billion of which will modernize its current delivery system and $1.3 billion of which will build a smart grid infrastructure, in addition to maintaining a level of baseline investment. As ComEd witness Mr. Trpik notes in his affidavit, ComEd has already begun to make these investments. *See* Trpik Reh. Dir., ComEd Ex. 31.1. The framework and provisions of the Energy Infrastructure and Modernization Act ("EIMA") provide adequate assurance that ComEd will not divert capital to its pension plans at the expense of utility delivery services assets.

B. Ms. Ebrey's Ratemaking Proposal Is Unsupported by Commission Practice, Designed to Exclude Customer Benefits, and, if Adopted, Would Unfairly Deprive ComEd of Nearly $77 Million in Revenue for the Years 2010, 2011 and 2012.

1. Nature of mandatory and discretionary pension contributions

Q. Throughout her direct testimony on rehearing, Ms. Ebrey relies on a distinction between "mandatory" and "discretionary" pension contributions. Who designates whether a pension contribution is "mandatory" or "discretionary," and what significance does that have?

A. The designation of pension contributions as "mandatory" or "discretionary" is provided by ComEd's actuarial consultant. It is relevant when evaluating pension plan compliance with ERISA and other laws governing pension plan funding. As I discussed earlier, pension costs are unlike almost all other utility costs in that federal law requires that they be prepaid. ERISA, and related laws such as the Pension Protection Act of 2006, require that plans meet certain minimum funding thresholds. In a simplified sense, if the plan is falling short of those thresholds, the company is required to make mandatory contributions to reach appropriate minimum funded status.

Q. Do the "mandatory" and "discretionary" designations have significance outside the context of pension funding laws?

A. No. The cost of putting funds into the pension plan is the same regardless of whether it was mandatory or discretionary. For example, consider a year in which ComEd must make a pension contribution of $10 million to meet a mandatory requirement. If, under this example, ComEd makes a $100 million pension contribution for that year, $10 million will go toward satisfying the mandatory requirement and $90 million will be considered a discretionary contribution. Put another way, those dollars are invested in the same kinds of assets, and when it is time to pay benefits to retirees, the $10 million contribution that met the mandatory requirements can be paid out just as the $90 million contribution that was designated a discretionary contribution. Under GAAP, both the mandatory $10 million and the discretionary $90 million reduce pension costs at a rate equal to the expected return on assets in the pension trust fund, and both contributions lower rates in the form of lower jurisdictional pension expense. Nothing in the trust fund administration, pension accounting, or benefit payment process distinguishes a mandatorily-contributed dollar from a discretionarily-contributed dollar. Finally, I would note that both are considered similarly in the actuarial determination of annual pension expense in that the benefit of the contribution increases the expected return on assets, which in turn reduces pension expense. This will occur in the year of the contribution if the contribution is estimated as of the date of the actuarial report; otherwise, this benefit will be reflected in the following year. However, the considerations are the same regardless of whether a contribution is mandatory or discretionary.

Q. **Does the designation of a contribution as being mandatory or discretionary change the cost to ComEd of the capital used to make the contribution?**

A. Absolutely not. In the scenario I describe, ComEd must still transfer $100 million to the pension trust fund. To do so, it must either set aside $100 million of cash generated from its internal operations or it must rely on external financing for some or all of that $100 million. Due to the fungible nature of cash, it is impossible to determine what dollars are equity in the form of internally-generated cash and which came from external financing. As a result, the cost ComEd incurs as a result of committing these funds to its pension plan is its overall weighted average cost of capital. That cost of capital is neither lower nor higher because pension funding laws required a contribution to be made in the year in question rather than in some indeterminate time in the future.

2. <u>Past Commission practice on recoverability of mandatory pension expense</u>

Q. **Ms. Ebrey indicates that while, in her view, the Commission has not approved cost recovery of amounts shown on ComEd's financial statements as "pension assets," it has approved returns on discretionary contributions in ICC Docket Nos. 05-0597 (Rehearing), 07-0566, and 10-0467. Was the Commission's rationale for granting cost recovery in those instances based on the discretionary nature of the contributions?**

A. No, there is no language in any of those orders that indicates that those costs are recoverable because the pension contributions were discretionary. The rationale outlined in the Corrected Order on Rehearing in Docket No. 05-0597 applies to contributions at issue in all subsequent dockets, specifically that customers have benefitted from the pension contributions and that ComEd incurred a cost to make them.

Q. Is Ms. Ebrey correct in her contention that the Commission has not permitted cost recovery on mandatory pension contributions?

A. No, there is nothing in any of the orders previously cited where the Commission says that pension funding costs are unrecoverable because they were mandatory contributions, nor is there any logical reason to deny cost recovery simply because the contribution was mandated by ERISA requirements. Moreover, the $92 million pension contribution as to which a return was approved in ICC Docket No. 10-0467 (subject to a customer benefit level cap), included mandatory contributions as well as a reduction for expense accruals.

Q. What would the impact be if cost recovery were limited to a return only on discretionary contributions?

A. It would increase costs. ComEd's pension asset balance, as shown on ComEd Ex. 35.1 is the net effect of 1) discretionary contributions, 2) mandatory contributions, and 3) the cumulative balance of annual expense accruals (which reduce the asset balance).[1] As shown on ComEd Ex. 35.1, the discretionary contributions (before jurisdictional allocations) total $1,186,137,000 – an amount that is greater than the net pension asset balance of $1,038,760,000 reported in the Federal Energy Regulatory Commission ("FERC") Form 1. Because the annual expense accrual is recovered through charges for

[1] Although Ms. Ebrey claims to reveal new information that the pension asset includes both normal (mandatory) pension contributions and discretionary contributions, this information was provided over five months ago in ComEd Ex. 12.1 to my Rebuttal Testimony in the initial phase of this case.

electric service, the exclusion of these costs from the total contributions ensures that a return is only earned on amounts not previously recovered through such charges. Thus, Ms. Ebrey wrongly implies that ComEd is seeking to recover costs that have not previously been allowed for recovery in the past. The fact is that the net pension asset balance, which includes mandatory contributions and the annual expense accruals, results in lower costs than would result from a focus on just the discretionary contributions. ComEd's approach ensures that all components of the pension asset are considered, including recognizing the expense accruals, and therefore credits customers for the amounts which are reflected in charges for electric service.

3. Ms. Ebrey's Ratemaking Proposal Mechanism

Q. **Does Ms. Ebrey's ratemaking proposal provide for reasonable recovery of the costs of contributing to the pension plan?**

A. No. As an initial matter, Ms. Ebrey's primary recommendation is unchanged from that in the initial phase of this case – she continues to argue that the Commission should provide no recovery whatsoever on ComEd's pension asset. However, on rehearing she now presents for the first time a new ratemaking proposal, which she claims is consistent with past Commission practice. Ebrey Reh. Dir., Staff Ex. 24.0, 9:149-15:264. Under this approach, (1) a long-term debt return would be allowed on the 2005 contribution based on a hypothetical cost of long-term debt, that will decline over time, without regard to refunding; and (2) post 2005 contributions would be allowed to earn a return based on the resulting ratepayer benefit, but this return would be allowed <u>for one year only</u> and only if the contributions are discretionary. *Id.*, 10:160-11:188, 13:228-29. I address each of these separately, but in both cases the allowed returns fall seriously short of the actual costs incurred. This result is not consistent with my understanding of the formula rate which provides for "the recovery of the utility's actual costs of delivery services". 220 ILCS 5/16-108.5(c)(1). In fact, the recovery that she would provide does not even come close to the actual costs, and disappears quickly due to her (i) conclusion that, under her methodology a customer benefit cannot be accurately calculated after the first year a contribution is made, and (ii) hypothetical assumptions made regarding the 2005 contribution.

Q. **Why does the allowance of a hypothetical debt-based rate of return on the 2005 contribution not provide adequate compensation?**

A. In the Corrected Order on Rehearing in ICC Docket No. 05-0597, the Commission authorized a debt-based return based on debt rates assuming that ComEd had hypothetically funded the pension contribution in that year with debt, rather than equity. Corrected Order on Rehearing at 28. Ms. Ebrey proposes that those hypothetical debt costs be amortized over time until the return ultimately falls to zero. Ebrey Reh. Dir., Staff Ex. 24.0, 12:204-15. In this scenario, ComEd's return would fall to zero, even though it is projected that the pension asset will not have been anywhere close to having been fully recovered. This assumption fails to consider whether funds are available each year to hypothetically retire the hypothetical debt or whether they would need to be refinanced.

Moreover, Ms. Ebrey's reliance on "hypothetical" is contrary to one of the core objectives of the EIMA legislation, which is to allow utilities to recover actual costs, no more, no less. The use of "hypothetical" costs such as Ms. Ebrey suggests thwarts that objective because it ignores the reality of the actual financial situation that ComEd faces. I would also add that the concern raised by the Commission in 05-0597 regarding the use of equity to fund the 2005 pension contribution is adequately addressed by the provisions of the statute that provide for a debt-only return on the pension assets.

Q. **How do you respond to the second part of Ms. Ebrey's proposal, which would allow a return on any and all post 2005 contributions for one year only?**

A. This is incredibly short-sighted. As I understand Ms. Ebrey's logic, she acknowledges that contributions reduce pension expense, and therefore suggests that a return should be allowed based on the amount of the customer benefit. However, although she acknowledges that it is "probable that there might be a ratepayer benefit that continues" beyond that year, she nonetheless concludes that it would be difficult to calculate accurately, and so proposes that it fall to zero. Ebrey Reh. Dir., Staff Ex. 24.0, 13:231-14:239. In other words, Ms. Ebrey proposes a standard to calculate the return (i.e., her customer benefits test), and then determines that her own standard is too difficult to accurately implement. Her solution is to penalize the utility by abandoning all customer benefits after one year. As ComEd has made clear, its investment in pension is significant, and Ms. Ebrey's one year only proposal would result in the loss of a return on over a billion dollars of investment that no party disputes was prudent.

Q. **What is the financial impact of Ms. Ebrey's new ratemaking proposal?**

Ms. Ebrey calculates that her ratemaking proposal would provide recovery of $25.8 million of pension funding costs for calendar year 2010, the subject of this proceeding, or about 25% less than the debt return provided by EIMA. However, it is important to note that this gap widens dramatically in the next two years as ComEd's pension asset grows due to an $871 million pension contribution in 2011, coupled with the fact that Ms. Ebrey's cost recovery dissipates quickly. The table below compares the pension funding costs (in $000) calculated under EIMA by applying a debt-based return to the pension asset, with the returns that Ms. Ebrey's new method would provide:

	2010	2011	2012
Cost Recovery			
Ebrey Method	25,777	50,871	16,480
Section 16-108.5(c)(4)(D)	34,548	72,581	62,931
Recovery shortfall	(8,772)	(21,711)	(46,451)
Cost recovery as percentage of net pension asset			
Ebrey Method	4.75%	4.09%	1.47%
Section 16-108.5(c)(4)(D)	6.37%	5.83%	5.60%

Q. **What is your response to Ms. Ebrey's contention that the costs of funding the pension plan should only be recoverable in the year the investment is made?**

A. I find it to be arbitrary and in conflict with other sound ratemaking principles. Under Ms. Ebrey's reasoning, the cost of a transformer should only be recovered in the year the transformer was purchased because the depreciation rates may vary and the salvage value may change. With respect to the prepaid pension costs, the funding costs should be recovered as long as the excess contributions are available to satisfy future costs.

Q. **Ms. Ebrey points out that ComEd's pension trust funds lost value in 2008. What ratemaking implications should come from that fact?**

A. It should have no effect on the pension asset value. While Ms. Ebrey is right that the pension investment trusts rise or fall as all investments do, ratemaking is done based on actual costs and not fair market values. What is relevant for ratemaking purpose is the dollar value of the contribution when it is made.

Q. **So are the actual losses or gains in the investments irrelevant?**

A. No, the investment losses and gains are reflected in pension costs, either annually or in an amortized fashion, depending on their magnitude. This is explained on the second page of Attachment B to Ms. Ebrey's direct testimony. Ebrey Reh. Dir., Staff Ex. 24.0, Attachment B. Investment losses will tend to increase pension costs if all other factors are held even, while favorable market performance will lower pension costs.

C. <u>Responses to Other Claims Made in Ms. Ebrey's Direct Testimony on Rehearing</u>

Q. **Ms. Ebrey maintains that ComEd's contention that jurisdictional pension expense was reduced by $61M as a result of pension contributions made since 2005 is misleading because it does not account for fluctuations in the market value of the assets. How do you respond?**

A. First, I note that Ms. Ebrey never disputed this claim or ComEd's calculations that supported it during the initial phase of this case despite ample opportunities to do so. *See* Houtsma Reb., ComEd Ex. 12.3. As for the substance of her claim, the assets in the pension trusts are like all investments – they increase and decrease over time as markets fluctuate. Ms. Ebrey cites a data request response that indicates the fact that there were market losses in 2008 as the sole basis to support her claim that investments made during the seven-year period had diminished in value by 2010, the year at issue here. Ebrey Reh. Dir., Staff Ex. 24.0, 16:293-95; *id.*, Attachment D. The fact remains that the 2008 losses were more than offset by gains experienced in every other year. And although the gains and market returns were less in some years than had been previously anticipated, the pension funds experienced gains in the years 2006, 2007 and 2009 totaling $3.1B, which was more than enough to offset the 2008 losses of $2.4B and restore any loss of principal value that may have been experienced in 2008. *See* Houtsma Reh. Reb., ComEd Ex. 35.3

Q. **Why were market losses in 2008 cited as a reason for higher pension expense in 2010 if gains in other years offset the losses?**

A. The market returns experienced in 2008 were substantially less than had been previously estimated in actuarial estimates. Although gains in other years were sufficient to offset the loss in asset value by 2010, the difference between the actual returns for 2008 and the estimated returns reflected in pension expense represents a loss that is amortized in future years. In other words, the impact in 2010 is not due to the loss of the principal value of contributions; rather, it is due to the amortization of the negative returns experienced in 2008 over a period of year. The calculation of the $61 million benefit was provided as ComEd Ex. 12.3 to my rebuttal testimony, and it is based on the original amount of the contributions. Houtsma Reb., ComEd Ex. 12.3. Any of the original loss of principal value in 2008 should have been restored through gains in other years so that the original principal value is available to earn returns in 2010. I continue to believe that this is a reasonable methodology to estimate the benefits in 2010 due to the contributions, and that it is not at all "misleading" as Ms. Ebrey posits. Moreover, even if for sake of argument, we ignore the market gains and focus only on the 26% investment losses in 2008, customers still overwhelmingly benefit from the pension contributions. If we assume that the amount of the contributions were diminished by 26% in 2008, and correspondingly diminish the $61 million by 26%, the jurisdictional reduction in pension expense would be $45.1 million. Even under this assumption the benefit associated with the contribution is greater than the $34 million funding cost identified by ComEd in this docket and far in excess of the funding cost proposed by Ms. Ebrey in her latest ratemaking proposal. Therefore, I again take exception to Ms. Ebrey's claim that my testimony is misleading. Of far more concern is Ms. Ebrey's disingenuous proposal to completely disregard the fact that customer benefits from contributions will recur each year, and quantify the benefit as zero simply because it is too much trouble to calculate the impact with precision.

Q. **Ms. Ebrey labels as "misleading" the claim made by ComEd in its Application for Rehearing that "ComEd's contributions are not only far in excess of the minimum required by law, they continue to increase the level of funding." She claims that ComEd has not consistently made contributions in excess of minimum funding requirements, and therefore the Commission's incentive provided in the Order on Rehearing in Docket No. 05-0597 is no longer appropriate. Is she accurate?**

A. No. There is nothing misleading about ComEd's statement. The record in this case demonstrates that ComEd has made $369.5 million in contributions in excess of ERISA-mandated minimums in 2009 and 2010 alone, and another $871 million in 2011. (ComEd did not seek any recovery on that 2011 contribution in this Docket). Ms. Ebrey dismisses the significance of this $1.2 billion investment by comparing the number of years in which no discretionary contributions were made to the number of years in which they were made. Ebrey Reh. Dir., Staff Ex. 24.0, 18:329-19:350. She concludes that ComEd's statement that it is committed to, and has made, contributions far in excess of the minimum required by law is "misleading" because discretionary contributions were only made in three years, compared to five years without discretionary contributions. *Id.*

First, I believe her standard that counts number of years, rather than dollars invested, is superficial and clearly an inappropriate measure. Under her test, commitment could be demonstrated by contributing $1 million above the minimum in each of the last 9 years, which would result in $9 million of discretionary contributions, whereas ComEd would be deemed to not be committed even though over $1 billion has been contributed. This is obviously flawed logic. Further, the fact that discretionary contributions were not made in 2003, 2004, 2006, 2007, and 2008, is a reflection of the circumstances in those years, not a lack of commitment to funding the plan. While ComEd did not make discretionary contributions in 2003 and 2004, it did nonetheless contribute $391 million over those years. The record in Docket No. 05-0597 discusses at great length the fact that ComEd's 2005 contribution brought the pension plans to fully-funded (and not overfunded) status. Corrected Order on Rehearing at 28. Given the fact that ComEd's pension plan was essentially fully funded between that time and the economic and stock market downturn that began in 2008, there was no need for ComEd to continue to make large discretionary contributions in 2006 and 2007.

Q. **Ms. Ebrey also claims that ComEd is not committed to funding the pension plan in the future above the minimum requirements in the future. Is that an accurate contention?**

A. No, it is not. The document upon which Ms. Ebrey relies to draw this conclusion is a document provided to the Exelon Board of Directors in April 2010 seeking approval to contribute $500 million to the pension plan in 2010, and indicating that no discretionary contributions were planned beyond that. Ebrey Reh. Dir., Staff Ex. 24.0, 19:351-55; Ebrey Reh. Dir., Staff Ex. 24.0, Attachment F. Ms. Ebrey assumes that the conclusions in this document are immutable and unchanging, when in reality ComEd is constantly updating and revising its analysis. In this case, Ms. Ebrey's contention that ComEd would fund only at the minimum level in the future is wholly refuted by the fact that Exelon made a $2 billion pension contribution in January 2011, $871 million of which was made by ComEd. That fact is far more telling than an outdated presentation from over two years ago.

Q. **Ms. Ebrey claims that the amounts that ComEd included in its revenue requirement in Docket Nos. 05-0597 and 10-0467 are not the amounts stated in the FERC Form 1 as pension assets. Do you agree with her?**

A. No. First, I am not sure what significance the components of ComEd's requests in those dockets has here, because the amount allowed by the Commission was not the amount ComEd requested. But, putting that issue aside, Ms. Ebrey does not account for various, rather elementary explanations as to why the amount in the revenue requirement might differ from the amounts in the FERC Form 1. I recount those explanations below.

With respect to the 2005 pension contribution, the amount included in the calculation of pension cost recovery in ComEd's revenue requirement in Docket No. 05-0597 on rehearing was not the $803 million she notes in her table at Line 75 but rather $534.5 million after jurisdictional allocation and netting accumulated deferred income taxes. Ms. Ebrey also ignores that page 233 of ComEd's 2005 FERC Form 1 shows a beginning balance in Account 186 of $155.7 million against which roughly $22.5 million of net periodic pension costs were netted. Ebrey Reh. Dir., Staff Ex. 24.0, 5:70-75.

ComEd opted not to request cost recovery of the portion of the asset resulting from contributions made prior to 2005, though no party in Docket No. 05-0597 alleged that it would have been improper for ComEd to have done so.

Ms. Ebrey seems similarly confused with respect to the alleged discrepancy she cites for Docket No. 10-0467. First, the arithmetic difference in the last column of her table equals approximately $815 million (rather than a difference of $949.9 million, as she indicates). Second, Ms. Ebrey fails to exclude the $803 million portion of the pension asset that she cites on the immediately preceding line of the table that was excluded from rate base in Docket No. 10-0467 consistent with the Commission's Corrected Order on Rehearing in Docket No. 05-0597, as is well documented in Ms. Ebrey's testimony. Finally, Ms. Ebrey presents the pension asset ending balance on a total company basis yet compares that amount to the jurisdictional discretionary pension asset ComEd requested in its revenue requirement (before adjustment for accumulated deferred income taxes). Had Ms. Ebrey accounted for the $803 million ComEd excluded from rate base resulting from the Corrected Order on Rehearing in Docket No. 05-0597 and had she shown the total company remaining pension asset of $104.5 million, she would have arrived precisely at the ending balance of $907.4 million in the FERC Form 1.

Q. **What is your response to Ms. Ebrey's argument that the FERC Uniform System of Accounts does not have an account for "pension asset," and therefore a utility could presumably put any manner or costs in that account and seek recovery?**

A. This concern is unfounded. ComEd takes its financial reporting obligations very seriously, and each FERC Form 1 is certified to be accurate by ComEd's Chief Financial

Officer. Moreover, the validity of ComEd's pension asset, which is reported consistently on both the FERC Form 1 and the independently audited financial statements filed with the Securities and Exchange Commission ("SEC"), was confirmed by the rebuttal testimony in the original proceeding in the instant Docket of Mr. William Graf, Deloitte & Touche, its lead technical accounting partner for the utility industry.

Q. **Ms. Ebrey claims that the 2010 pension contribution was made with funds supplied by customers, not shareholders, and that is why the contribution should earn a debt return. Is that contention correct?**

A. No, Ms. Ebrey is wrong on both facts. First, the contribution was made using internally generated funds, and Ms. Ebrey's inference that internally generated funds solely represent customer funds is wrong. Revenues collected from customers include a return on equity, which results in retained earnings that can either be reinvested in assets – including contributing to the pension trust fund or investing in utility assets, or dividended to shareholders. Also, to the extent that revenues collected from customers include recovery of pension costs related to the annual pension expense accruals, those funds are already accounted for as a reduction to the pension asset, such that the pension asset balance represents amounts contributed above and beyond any customer supplied funds. This was shown on ComEd Ex. 12.1 to my rebuttal testimony in the initial proceeding, as well as in ComEd Ex. 35.1 which demonstrates that the pension asset balance is the cumulative difference between all contributions, less the cumulative amount of pension accruals, which form the basis of customer collections.

Ms. Ebrey is also wrong on why ComEd recovers it pension funding costs through a debt rate of return. The genesis of the debt return for pension funding cost recovery comes from Commission's Order on Rehearing in Docket No. 05-0597. The Commission found that source of funds to make the contributions was not customers at all but rather an equity infusion by ComEd's parent. Corrected Order on Rehearing (Dec. 20, 2006) at 28. The Commission chose a debt return because it approximated the cost ComEd would have incurred had it sought external financing itself rather than having obtained the funds in the form of an equity infusion from its parent. ComEd accepted a debt rate of return as prescribed by EIMA irrespective of the fact that its pension contributions are not purely debt financed.

Q. Ms. Ebrey claims that if an investment is made with ComEd's internally generated funds, it is inherently made with customer supplied funds. Do you agree with that?

A. No. Ms. Ebrey does not state the basis for this statement, but it appears she assumes that all revenue comes from customers, and hence, internally generated funds are all supplied by customers. However, this ignores the fact that charges applied to customers include an equity return, which represents retained earnings that are either reinvested in utility assets, including pension or plant, or provided as dividends to shareholders. Moreover, net income that is not provided as dividends to shareholders is retained earnings, and thus is a part of shareholder equity.

III. INTEREST ON THE RECONCILIATION ADJUSTMENT

Q. Both AG/AARP witnesses, Mr. Brosch and Mr. Effron, make recommendations to reduce the interest rate applicable to reconciliation balances. Are their recommendations the same?

A. In essence, yes, but they approach the subject from different perspectives. Mr. Brosch claims that ComEd is benefiting through the accounting recognition of the Accumulated Deferred Income Taxes (ADIT) associated with the recognition of the regulatory asset related to the reconciliation balance, as he considers it a non-investor supplied source of funds. He ultimately recommends reducing the applicable interest rate by a factor of (1 – T), where T is the income tax rate. Mr. Effron approaches the issue by stating that the over or under collection of revenues is subject to income taxes resulting in a net source of investor supplied funds. In other words, Mr. Effron argues that the reconciliation balance to which interest is applied should be reduced to reflect income taxes foregone by the deferral of revenues, and that this should alternatively be accomplished by reducing the interest rate by (1-T). In addition, I note that CUB witness Smith also supports a similar adjustment, which should also be rejected for the reasons I provide below.

Q. **Is Mr. Brosch's assertion that the ADIT associated with the regulatory asset represents non-investor supplied funds accurate?**

A. No. The ADIT associated with the regulatory asset is simply an accounting entry recognizing that income taxes will be payable in the future when the reconciliation revenues are received. ComEd does not receive a cash tax benefit that can be deployed to finance either the reconciliation or rate base in general as a result of recording this accounting entry. The fact that ComEd does not have to pay income taxes in 2011 on revenue that it did not receive in 2011 simply does not generate any cash. This is the very same argument that Mr. Brosch made in the initial proceeding when he proposed to include the ADIT associated with the regulatory asset as a reduction to rate base. The only difference is that he is now proposing to implement it as a reduction in the reconciliation interest rate, rather than to reflect a rate base reduction. However, his underlying premise, i.e., that the ADIT associated with the regulatory asset provides a source of cash continues to be incorrect.

Q. **Mr. Brosch justifies his proposal by claiming that 2011 expenses will be deductible on the 2011 tax return, creating a timing difference and leading to the ADIT. Is this correct?**

A. No. While it is true that 2011 operating expenses will be deductible on the 2011 income tax return, the ADIT balance of $11.94 million that he cites is not related to the deduction of 2011 expenses. The ADIT balance he cites relates to taxes payable in the future on deferred revenues. The fact that 2011 expenses are tax deductible in 2011 is already fully accounted for in the determination of the revenue requirement and the tax deduction is considered in the same year that the related expense is recovered. The ADIT related to the regulatory asset are simply not related to the 2011 operating expenses.

Q. **Did Mr. Brosch make the same recommendation in the original proceeding in the instant Docket?**

A. Yes.

Q. **Did the Commission accept Mr. Brosch's recommendation?**

A. No. The Commission did not accept his argument in the original Order in the instant Docket11-0721, nor should it do so here.

Q. **In its decision to grant rehearing on issues related to ICC Docket No. 11-0721, did the Commission grant rehearing on the reconciliation balance to which interest is applied?**

A. No, and the Commission should therefore ignore this issue on rehearing for that additional reason.

Q. **Does Mr. Effron's testimony provide any additional arguments on this subject that should be considered by the Commission in this proceeding?**

A. No. Mr. Effron's recommendation is essentially the same as Mr. Brosch's in that the applicable interest rate should be reduced for income taxes, although he approaches it from a different angle. Mr. Effron argues that interest on the reconciliation value should be calculated on the net cash value of the under/overrecovery amount. In other words, if the undercollected amount is $1,000,000, then interest should be applied to the net of tax amount of $600,000, because ComEd would have had to pay income tax on the $1,000,000. Mr. Effron proposes to achieve this result not by reducing the reconciliation balance by income taxes but by applying the interest rate on a net of tax basis.

Q. **Why would it be inappropriate to apply the interest rate on a net of tax basis?**

A. The problem with this approach is that it ignores the fact that the revenue collected to recover the interest on the reconciliation will be subject to income taxes as well. For example, using the exemplary undercollection amount of $1,000,000 from Mr. Effron testimony, the 11-0721 Order's interest rate of 3.42% and a 41% income tax rate, Mr. Effron's proposal would provided for interest at a rate of 2.0% (3.42 * (1-.41)), or $20,000 on an annualized basis. However, the $20,000 itself would be subject to income taxes, and therefore, the after-tax amount available to ComEd is only 20,000*(1-.41) or $11,800. This is less than the amount than what would be achieved by applying a 3.42% rate of interest to a $600,000 net of income tax reconciliation amount. Mr. Effron's proposal to reduce the interest rate for income taxes is improper and should be rejected.

IV. AVERAGE VERSUS YEAR-END RECONCILIATION RATE BASE

Q. **Staff witness Bridal and CUB witness Smith make similar claims that rate base data for the "entire year" must refer to an average rate base, not just the year end rate base, and that "final" FERC Form 1 data just means "ultimate and definitive", not the latest or most current. Similarly, Mr. Brosch claims that the average rate base calculation is proper for reconciliation because ComEd should earn a return on the amount of actual rate base investment that was deployed throughout the reconciliation year. How do you respond?**

A. As I testified during the initial phase of this case, Section 16-108.5(c)(6)(d)(1) provides for "a reconciliation of the revenue requirement that was in effect for the prior rate year (as set by the cost inputs for the prior rate year) with the actual revenue requirement for the prior rate year (as reflected in the FERC Form 1 that report the actual costs for the prior rate year)." 220 ILCS 5/16-108.5(c)(6)(d)(1). In other words, the statute is clear that the reconciliation rely on the FERC Form 1 data for the previous year rather than an average of FERC Form 1 data from the prior rate year and the year before that. And, the fact that plant data for the year previous to the prior rate year (which would be necessary to calculate an average rate base) is published in the FERC Form1 does not suggest that data for both years should be used.

Moreover, Section 16-108.5(c) otherwise directs where average data is to be used, and it notably did not do so regarding the establishment of the revenue requirement. Indeed, to determine the cost of equity, "*the average* for the applicable calendar year of the monthly average yields of 30-year U.S. Treasury bonds" must be used. 220 ILCS 5/16-108.5(c)(3)(A) (emphasis added). No such directive applies to the revenue requirement.

And finally, under the Commission's Rules of Practice, the test year rules allow for use of either an historical test year or a future test year. 83 Ill. Admin. Code § 287.20. In my experience, historical test years with pro forma adjustments typically utilized a year-end rate base, which makes sense because all of the utility's costs will have been incurred by the time that new rates reflecting those costs take effect. This has been the norm for all of ComEd's delivery services rate cases. And, while the formula rate structure adopts a different approach from the test year, the same logic underlying use of a year-end rate base for the historical test year applies to the formula rate setting – the initial rates in this proceeding, which took effect in June 2012, reflect actual costs for 2010 and certain estimated costs for 2011. Although a true-up will occur to reflect all of the actual costs for 2011, it will not be reflected in rates until 2013. In no instance will costs be reflected in rates before the cost has actually been incurred. As a result, use of a year-end rate base is reasonable and consistent with test year practices in Illinois.

Q. **What is your response to Mr. Bridal's references to Peoples Gas's Rider ICR and the Qualified Infrastructure Plant ("QIP") Surcharge applicable to water utilities, which he claims use a form of rate base averages?**

A. First, although I am not a lawyer, it is my understanding that neither QIP nor Rider ICR was established under or operates pursuant to EIMA, so I do not believe that either provides guidance regarding the determination of whether an average or year-end rate base should be adopted in this docket. Notwithstanding this point, I further disagree with Mr. Bridal's statement that the QIP surcharge is very similar to the formula rate. First, although ComEd does not have a QIP, I note that Section 9-220.2 of the Act permits that the surcharge can operate on a historical or a prospective basis, whereas EIMA does not permit such flexibility. 220 ILCS 5/9-220.2(a). Second, the QIP provides only for a return on and cost recovery of the cost related to utility plant. The formula rate, however, is an all-inclusive rate that considers all elements of the revenue requirement, not just the investment in qualifying plant and depreciation that is considered in the QIP. Indeed, the QIP does not even appear to consider Accumulated Deferred Income Taxes associated with the plant.

Equally inapplicable is Mr. Bridal's reference to Rider ICR, which operates very differently from the formula rate in that the initial charges for Rider ICR are based upon a forecast for a given period, and the subsequent reconciliation simply compares the calculation of the recovery factor based on the actual data for that period to the factor originally calculated based on a forecast. This is much different from the formula rate in that the initial revenue requirement collected during any given year is not based on a forecast for that year.

In short, these riders operate in a different manner and under different statutes, and therefore I do not find them to be instructive within the context of Section 16-108.5(c)'s formula rate structure. Moreover, Mr. Bridal's colleague, Staff witness Alan

Pregozen, acknowledges in his direct testimony on rehearing that rider mechanisms are not an appropriate point of comparison to the formula rate. *See* Pregozen Reh. Dir., Staff Ex. 25.0, 2:33-3:42.

Q. **Do you agree with Mr. Bridal's assertion that a year-end rate base does not properly account for the actual cost of plant for the calendar year, based upon the accounting for depreciation expense?**

A. I agree with Mr. Bridal that depreciation expense is calculated and recorded periodically throughout the year. This is accurately reflected in a year-end balance. Accordingly, I do not agree with Mr. Bridal that an average rate base is necessary to properly account for depreciation expense.

Q. **What is your response to Mr. Bridal's claim that a year-end rate base nonetheless overestimates the balance interest is applied to, and Messrs. Brosch's and Effron's claims that a year-end rate base will systematically overcharge customers because it will exceed the generally lower average investment levels that actually existed through the earlier months of the year?**

A. I do not agree with this characterization. As I explained above, by the time the rates go into effect for a given rate year, all of the costs will have been incurred and the plant placed in service. The balances therefore reflect actual costs for actual investment prudently incurred, reasonable in amount and used and useful.

Q. **Do you agree with Mr. Effron's claim that a year-end rate base confers a "windfall" on ComEd, and that, even if a year-end rate base is adopted, an adjustment should be made to the ROE collar calculation?**

A. I do not. The ROE collar should not and is not designed to recover variations in components of the revenue requirement, which are addressed separately in the reconciliation. The collar calculation should capture earnings driven by kilowatthour sales volume differences due to weather extremes of economic conditions. It is important that the rate base that is used on Line 1 of Schedule FR A-3 correspond with the rate base used to determine rates and revenue requirements that are included on Line 15 of Schedule FR A-3 so that revenue requirement differences and reconciliations are captured solely in the reconciliation.

Q. Mr. Brosch characterizes the formula rate as a "fully reconciled true-up environment", which he claims means there is no need to annualize rate base investment levels as of year-end to reduce regulatory lag. In short, he argues that the average rate base does not deny ComEd recovery on any of its new rate base investment and more accurately compensates ComEd investors as they gradually fund new capital investments each year. Is Mr. Brosch's characterization of the formula rate reconciliation process accurate?

A. No. While a formula rate with annual updates generally serves to reduce regulatory lag to some extent, it does not eliminate it. Regulatory lag would be eliminated only if rates collected during each calendar year reflect cost levels in effect for that same year. As described above, putting aside the fact that the rate is updated annually, costs will continue to be collected in arrears, and actual costs for any given period will not be fully reflected in rates until up to two years after they are incurred. Moreover, the substantially lower interest rate adopted in the Commission's May 29 Order, which is far less than ComEd's weighted average cost of capital, further exacerbates the issue of regulatory lag by failing to fully compensate ComEd for the time value of money. This is described in more detail in the rebuttal testimony on rehearing of Dr. Hemphill. See ComEd Ex. 34.0.

Q. **Messrs. Effron and Bridal both dispute your statement that the application of one-half year's interest in the first year of the reconciliation calculation would improperly result in a "double count" if applied to an average rate base, and would only be appropriate if a year-end rate base were adopted. How do you respond?**

A. I have reviewed their respective testimonies on this issue, and although I was considering the calculation from a cost- build up standpoint, I also understand their argument that one-half year's interest is appropriate to recognize that the under- or over-recovery occurs over the course of the year. Therefore, upon review, I accept their argument and agree that one-half year's interest is appropriate even if an average rate base is used.

Q. **Mr. Gorman comments at length on your description of the reconciliation process, and disagrees for the first time with your description of how the reconciliation works. How do you respond?**

A. Dr. Hemphill's rebuttal testimony on rehearing responds to and corrects Mr. Gorman's inaccurate portrayal of the reconciliation process.

Q. **Does this complete your rebuttal testimony on rehearing?**

A. Yes.

Commonwealth Edison Company
Analysis of Change in Pension Asset, 2003-2010
(in millions of dollars, before jurisdictional allocation)

	A	B	C	D	E	F	G	H	I	J	K	L
Line No.		2003	2004	2005	2006	2007	2008	2009	2010	2011	Cumulative 2003-10	Cumulative 2003-11
1	Beginning balance (1)	(91.246)	3.893	155.719	937.956	913.785	875.240	846.939	907.476	1,038.783		
2	Accruals											
3	Normal accruals	(42.940)	(62.032)	(22.439)	(26.930)	(40.803)	(37.231)	(102.676)	(124.022)	(109.261)	(459.073)	(568.334)
4	Severance/settlement and curtailment accruals	(39.127)	(2.924)	0.000	(0.114)	(0.585)	(0.415)	(0.496)	(3.650)	0.000	(47.311)	(47.311)
5	Contributions											
6	Normal quarterly contributions (2)	177.206	216.782	1.705	2.873	2.843	9.345	11.228	28.294	318.129	450.276	768.405
7	Special contributions			802.971				152.481	230.685	554.898	1,186.137	1,741.035
8	**Ending balance (3)**	**3.893**	**155.719**	**937.956**	**913.785**	**875.240**	**846.939**	**907.476**	**1,038.783**	**1,802.549**		
9	Date of Incremental Contribution			Mar-05				Sep-09	Aug-10, Sep-10	Jan-11		

NOTES
(1) Prior to 2004, the accruals and contributions were recorded to the pension liability subaccounts rather than the pension asset.
(2) The breakout between normal contributions and special/discretionary contributions for 2003 is unavailable. As such, all contributions for those years are classified as normal contributions. 2010 normal contributions adjusted to account for mistaken exclusion of $24,000 in non-qualified plan contributions.

Commonweath Edison Company
Cost Recovery of Ebrey Proposal vs. Cost Recovery Outlined by EIMA
(in $ thousands)

	2010	2011	2012
Cost Recovery			
Ebrey Method	25,777	50,871	16,480
Section 16-108.5(c)(4)(D)	34,548	72,581	62,931
Recovery shortfall	(8,772)	(21,711)	(46,451)
Cost recovery as percentage of net pension asset			
Ebrey Method	4.75%	4.09%	1.47%
Section 16-108.5(c)(4)(D)	6.37%	5.83%	5.60%

Commonwealth Edison Company
Cost Recovery of Ebrey Proposal vs. Cost Recovery Outlined by EIMA
(in $ thousands)

	CALENDAR YEAR		
	2010 (A)	2011 (A)	2012 (P)
Per 16-108.5(c)(4)(D)			
Year-end pension asset balance	1,038,783 (1)	1,802,549 (1)	1,670,000 (2)
Pension-related ADIT	(430,892) (3)	(422,173) (4)	(424,000) (2)
Pension asset net of ADIT	607,891	1,380,376	1,246,000
Jurisdictional allocator (2)	89.22% (3)	90.19% (4)	90.19% (2)
Jurisdictional net pension asset	542,360	1,244,961	1,123,767
Weighted average cost of long-term debt (2)	6.37% (3)	5.83% (4)	5.60% (2)
Pension funding cost recovery per 16.108.5(C)(4)(d)	34,548	72,581	62,931
Per Ebrey's Proposal			
STEP 1 - Cost recovery due to 2005 contribution (5)	19,346	17,913	16,480
STEP 2 - Customer Benefits (from calculations on Page 2)			
Ebrey method customer benefits from 2009 contribution	6,431	0	0
Ebrey method customer benefits from 2010 contributions	0	10,217	0
Ebrey method customer benefits from 2011 contributions		22,741	0
Ebrey method total	6,431	32,958	0
Total pension cost recovery under Ebrey Proposal	25,777	50,871	16,480
Shortfall compared to provisions of 16.108.5(C)(4)(d)	(8,772)	(21,711)	(46,451)
Cost recovery as percentage of net pension asset	4.75%	4.09%	1.47%
Weighted average cost of debt	6.37%	5.83%	5.60%

NOTES
(1) Per FERC Form 1, Page 233, Line 25
(2) Forecast per ComEd Long Range Plan
(3) ComEd Ex. 4.1, Sch FR C-3
(4) ICC Dkt. No. 12-0321, ComEd Ex. 3.1, Sch. FR C-3
(5) Staff Ex. 24.1, adjusted in 2011 and 2012 for passage of 12 and 24 additional months of time, respectively.

Commonwealth Edison Company
Cost Recovery of Ebrey Proposal vs. Cost Recovery Outlined by EIMA
Calculation of Step 2 in Ebrey Method
(in $ thousands)

	2009		2010		2011	
Discretionary contributions in calendar year	152,481	(1)	230,685	(2)	554,898	(3)
Expected return on assets	8.50%	(4)	8.50%	(5)	8.00%	
Reduction in pension cost	12,961		19,608		44,392	
Expensed portion	56.0%	(6)	58.4%	(7)	56.8%	(8)
Reduction in pension expense	7,258		11,451		25,215	
Jurisdictional allocator	88.6%	(9)	89.2%	(10)	90.2%	(11)
Jurisdictional reduction to pension expense	6,431		10,217		22,741	
Jurisdictional reduction to pension expense in calendar year	0		0		22,741	
Previously unrecognized jurisdictional reduction to pension expense	0		6,431		10,217	
Total customer benefits through lower pension expense			6,431		32,958	

NOTES
(1) ComEd Ex. 35.1, Column H, Line 7
(2) ComEd Ex. 35.1, Column I, Line 7
(3) ComEd Ex. 35.1, Column J, Line 7
(4) ComEd's response to TEE 3.05 CORRECTED_Attach 1, Line 4
(5) ComEd's response to TEE 3.05_Attach 1, Column D
(6) ICC Dkt. No. 10-0467, ComEd's Response to BAP 1.04_Attach 1, Column G.
(7) ComEd's response to TEE 3.05_Attach 1, Column F
(8) ICC Dkt. No. 12-0321, ComEd Ex. 3.8, Line 20
(9) ICC Dkt. No. 10-0467, ComEd's Response to BAP 1.04_Attach 1, Column I.
(10) ComEd's response to TEE 3.05_Attach 1, Column H
(11) ICC Dkt. No. 12-0321, ComEd Ex. 3.8, Line 20

Commonwealth Edison Company
Pension Investment Trust Fund Realized Gains and Losses, 2003-11
As reported in Exelon Corporation Form 10-K for the respective years
(in millions of dollars on an Exelon-wide basis)

	A	B	C	D	E	F	G	H	I	J
Line No.		2003	2004	2005	2006	2007	2008	2009	2010	2011
1	Actual Return on Plan Assets	1,189	723	612	1,145	553	(2,420)	1,352	893	1,003