STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

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

REHEARING DIRECT TESTIMONY OF MICHAEL L. BROSCH

ON BEHALF OF THE

PEOPLE OF THE STATE OF ILLINOIS

AND AARP

DATED: JULY 26, 2012

DIRECT TESTIMONY OF MICHAEL L. BROSCH

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<u>EXHIBIT LIST</u>

AG/AARP Exhibit No. 5.1 Selected Interest Rates from the Board of Governors of the Federal Reserve System

AG/AARP Exhibit No. 5.2 Copy of ComEd response to AG 3.01 in Docket No. 12-0321

AG/AARP Exhibit No. 5.3 Exelon SEC Form 10 Q excerpts.

I. INTRODUCTION / SUMMARY

Q. Please state your name and business address.

A. My name is Michael L. Brosch. My business address is PO Box 481934, Kansas City, Missouri 64148-1934.

Q. By whom are you employed and in what capacity?

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

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

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

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

A. My qualifications were previously described in my Direct Testimony, AG/AARP Exhibit No. 1.0 as well as in AG/AARP Exhibit No. 1.1 summarizing my education and professional qualifications and AG/AARP Exhibit No. 1.2 that lists my previous testimonies in utility regulatory proceedings.

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

A. My testimony addresses two of the three issues for which Commonwealth Edison Company ("ComEd" or "Company") was granted rehearing in this Docket pursuant to the Notice of Commission Action dated June 22, 2012: (1) whether to incorporate year-end or average rate base calculations in the reconciliation revenue requirement; and (2) what interest rate and method should be applied to reconciliation balances and credit adjustments.[1] My testimony responds to ComEd's rehearing testimony and provides additional information in support of utilizing an Average Year versus Year-End Rate Base. My rehearing testimony also addresses the Methodology Regarding Calculation of Interest on Reconciliation Adjustments issue. I respond to ComEd's reconciliation interest arguments and provide additional information regarding the reasonableness of adopting a short term and debt only interest rate for this purpose. I also explain in greater detail the need to account for accumulated deferred income taxes ("ADIT") arising from the reconciliation process through utilization of a net of income tax interest calculation on reconciliation balances.

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

A. Section 16-108.5(d)(1) of the Energy Infrastructure Modernization Act ("EIMA") 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 applicable FERC Form 1 that reports the actual costs for the prior rate year). Any over-collection or under-collection indicated by such reconciliation shall be reflected as a credit against, or recovered as an additional charge to, respectively, with interest, the

[1] Transcript of Special Open Meeting of June 22, 2012 at 12-24.

charges for the applicable rate year." I continue to recommend that this reconciliation be performed using an average rate base calculation, so that ComEd is allowed a return on its actual level of invested capital throughout the entire year, rather than a point-in-time level of invested capital at year-end. I also continue to recommend that a short-term and debt only rate of interest be applied in calculating the refunds or surcharges to customers that result from the reconciliation procedures and that the approved interest rate be applied on a net of tax basis to recognize Accumulated Deferred Income Taxes ("ADIT") arising from the reconciliation process.

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

A. I relied upon ComEd's pre-filed testimony and exhibits in this Docket 11-0721, including the Company's rehearing testimony and exhibits that were filed on July 6, 2012. I also relied upon the Company's responses to data requests submitted by Staff and the AG and a copy of Public Act Numbers 97-0616 and 97-0646, adding 220 ILCS 5/16-108.5 to the Public Utilities Act ("Act"), that was provided to me by AG counsel. Finally, I also rely upon my prior experience with regulation of public utilities over the past 33 years, including significant experience in Illinois rate cases and with alternative forms of regulation for public utilities in Illinois and other states.

II. AVERAGE RECONCILIATION RATE BASE.

Q. What did the Commission state when it granted rehearing on the issue of whether the average rate base or year-end rate base should be used to calculate the actual revenue requirement in the reconciliation?

A. With regard to this issue, the Commission stated that they "want to see it fleshed out like we did for the other issues" and that another look "with the goal of really fine-tuning and ensuring that we get it right" would be "beneficial for all of us."[2]

Q. Should the average rate base or year-end rate base be used to calculate the actual revenue requirement in the reconciliation?

A. The average rate base should be used.

Q. What is your understanding of the purpose of the revenue requirement reconciliation that is prescribed in Section 16-108.5(d)(1) of the Act within the context of this issue?

A. The reconciliation procedure that is set forth in the Act ensures that a participating utility will have all of its recorded and prudently incurred expenses and its rate base investments fully included in its revenue requirement for recovery from its ratepayers. FERC Form 1 reported expense and rate base amounts become direct inputs into the formula used to calculate the reconciliation revenue requirement, which is then compared to the previously authorized revenue requirement that included prior year and estimated costs, in order to reconcile all cost differences with interest for recovery from (or return to) ratepayers. Under these procedures, there is no regulatory lag in the ratemaking process with respect to cost recovery

[2] **Public Utility Special Open Meeting, June 22, 2012, Tr. 9-10.**

and the participating utility can be confident that its prudently incurred investments and expenses will be fully and promptly recovered from customers.

Q. Does the inclusion of projected net plant in service investments in the rate base used in the determination of prospective rates help to reduce the size of reconciliation adjustments to the revenue requirement?

A. Yes. The Act requires incremental new utility plant investments by participating utilities and then provides for timely rate recovery of such incremental investments by specifying that budgeted additions to net utility plant in service are to be included in the prospective revenue requirement that will later be subject to reconciliation.[3]

Q. Does the application of an interest rate to the reconciliation balance result in full recovery of the "real" cost of any changes in utility expense and rate base investment?

A. Yes. The difference in revenue requirement upon reconciliation of the prior year expenses and rate base is allowed to accrue interest for the entire period between when such costs were incurred and when the difference has been fully collected from or returned to ratepayers. By applying interest in this way, full recovery of changes in the inflation-adjusted "real" cost of service is ensured, including compensation for the time value of money associated with any delay in either recovery or return of reconciliation balances in rates charged to customers.

Q. What is "rate base" in the context of public utility regulation?

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[3] 220 ILCS 5/16-108.5(c) provides that, "The utility shall file, together with its tariff, final data based on its most recently filed FERC Form 1, plus projected plant additions and correspondingly updated depreciation reserve and expense for the calendar year in which the tariff and data are filed, that shall populate the performance-based formula rate and set the initial delivery services rates under the formula."

A. Rate base is a compilation of asset and liability accounts that reflects the cumulative amounts of all investments made by the utility to provide regulated services. Rate base includes the cumulative effect of all historical and recent additions to Plant in Service, reduced by the accumulation of depreciation and deferred income taxes to date. The cumulative balances for net plant in service and other rate base investments are indicative of the actual amounts of capital that are invested in the utility business and that must be allowed to earn a return. For this reason, rate base is multiplied by an overall cost of capital or rate of return in determining revenue requirement. In the balance of this testimony, I will refer to "rate base investment" to indicate and refer to this linkage between the rate base assets and the corresponding amounts of debt and equity capitalization that are being measured and periodically updated in the ratemaking process.

Q. How must the reconciliation rate base be calculated in order to provide for full recovery of changes in the rate base investment of a participating utility?

A. The important point with respect to the reconciliation revenue requirement is that the utility should earn a return on the amount of actual rate base investment that was deployed <u>throughout the reconciliation year</u>, which is essentially an average amount of investment and not the generally higher accumulated investment level at year-end.

Q. Did the Commission agree with this view of how the reconciliation rate base investment should be calculated?

A. Yes. In its May 29, 2012 Order, the Commission stated:

> The Commission concludes that an average rate base should be used going forward in reconciliations in the manner set forth by the IIEC, the AG, CUB, the City of Chicago, the AARP

> and Staff. In so holding, the Commission notes that traditionally, rates are set pursuant to a "test year," which is a sort of one-year "snapshot" of a utility's operations, either in a particular future year, or, based upon a previous year's operations. A "test year" has been defined as a consecutive 12-month period that is a representative year for a utility in terms of costs and revenues relative to the year in which rates will be in effect. (*See, e.g.,* AEP.com). The test year average proposed by these many parties embodies a future test year concept, averaging the test year with the previous year, in order to more accurately account for plant additions that span more than one month or that span from one year to the next.
>
> The statute here contemplates a scenario that is different from a test-year rate case, as it is one that will involve a yearly "true up" of statutorily-defined expenditures and items. It is not like an historical test year, in that, while it does concern what happened in the past, it continues from year to year, in accordance with what Section 16-108.5 provides. It is not a "snapshot," therefore, of what occurred in a particular year. Nor is it like a purchased gas or other type of traditional (*e.g.,* coal tar clean-up) reconciliation in that it does not just concern a particular set of costs, for which no rate of return, or other items, such as depreciation, is allowed (which is the case in a purchased gas reconciliation or coal tar reconciliation). Yet, the General Assembly clearly envisioned a process where there would be a "running tabulation" regarding certain items from year-to-year, which bears some resemblance to established reconciliation cases.
>
> If the General Assembly intended to include only year-end balances in this regard, it would have so stated. It did not.

The yearly reconciliation or "true-up" of utility expenses and rate base to actual recorded cost levels ensures continuous updating of the revenue requirement. In this new environment, it is essential that an average rate base investment be used in the reconciliation calculations, as approved by the Commission in its May 29th Order. Only by using an average rate base calculation, can the reconciliation account for the actual cost information for the applicable calendar year being reconciled.

Q. Why would utilization of a year-end rate base not properly account for ComEd's actual level of invested capital for the reconciliation year?

A. Utilities do not incur all of their capital investment costs on January 1 of each reconciliation year, but instead tend to invest continuously and gradually in new utility plant in service. In fact, the incremental investment commitments made by ComEd as a participating utility under EIMA[4] virtually guarantee that the Company's rate base invested capital will steadily increase over the next 10 years. If a year-end rate base is employed in the reconciliation calculation, the Company will be allowed a return on rate base investment that exceeds the generally lower average investment levels that actually existed throughout the earlier months of the year being reconciled. This approach would systematically overcharge customers as if year-end rate base investment levels and the corresponding capital investment incurred by the utility had existed in each month of the reconciliation year prior to year-end, which is factually impossible given the large future investments under EIMA that will be incurred by ComEd.

Q. Did your previous Direct Testimony in this Docket No. 11-0721 provide information regarding ComEd expectations of future growth in rate base invested capital?

A. Yes. Confidential AG/AARP Exhibit 1.4 contained a copy of ComEd's response to Data Request RMP 1.01 Attachment 1 including financial projections showing the Company's projected future Ratemaking Capital Structure with a "Total Capitalization" that steadily increases over the 2011 to 2016 forecast horizon, as one would expect given the Company's EIMA capital spending commitments. As noted

[4] 220 ILCS 5/16-108.5(b)(1)(A) specifies a total of $2.6 billion of defined incremental investments in electric system upgrades, modernization projects, training facilities and Smart Grid technologies.

previously, rate base is a proxy for the amount of a utility's invested capital and rate base can be expected to change in corresponding direction and magnitude with the utility's total capitalization.

Q. If ComEd's rate base steadily grows over the next 10 years as the Company makes its required incremental EIMA investments, should a year-end rate base be utilized in order to better match rate levels to investment levels that exist when the rates are actually being collected from customers?

A. No. The reconciliation procedure ensures full recovery of the utility's actual level of rate base invested capital, with interest applied to account for any timing differences between the incurrence of costs and the recovery of costs. In this fully reconciled true-up environment, there is no need to annualize rate base investment levels as of year-end to reduce regulatory lag. The reconciliation with interest on all over or under-recoveries eliminates regulatory lag with respect to rate base investment.

Q. According to Mr. Trpik's Direct Testimony on Rehearing at line 65, "Because ComEd's level of investment is directly related to its revenues and earnings, and because the Order in this proceeding has resulted in a significant reduction in ComEd's revenues and earnings, ComEd's capital investment plans have been negatively affected." Will the utilization of an average reconciliation rate base, as approved by the Commission's May 29 Order, deny ComEd recovery on any of its new rate base investment?

A. No. Mr. Trpik and ComEd undoubtedly would prefer the higher revenues that would result from utilization of a year-end rate base investment in calculating the reconciliation revenue requirement, but use of an average rate base would more fairly and accurately compensate ComEd investors as they gradually fund new capital investments each year. The Company will not be denied recovery of any incremental rate base investments that are prudently made using an average reconciliation rate base. At the same time, ComEd will not be over-compensated as would occur with a year-end rate base approach that wrongly presumes that rate base investments actually made near the end of the year had been placed in service months before the costs were actually incurred.

Q. According to Ms. Houtsma's Direct Testimony on Rehearing at line 44, "In an environment like that under the EIMA, where ComEd is required to make billions of dollars of ongoing incremental investment, this lag – be it two years or one – will certainly create the need for a reconciliation adjustment, and once the spending on EIMA ramps up (all other things being equal) will make it a positive adjustment, *i.e.*, the rate-setting revenue requirement in effect during the rate year will fall short of ComEd's true prudent and reasonable costs in the rate year." Does the "lag" Ms. Houtsma references justify using a year-end level of rate base investment?

A. No. The lag referenced by Ms. Houtsma is purely a cash flow lag with no negative earnings impact, because ComEd will record a regulatory asset and additional revenues to account for any deficient earnings it may experience, for full recovery in the future with interest. Even though ComEd is required to wait for cash recovery of the regulatory asset that is created while the reconciliation rate adjustments are being accumulated, the time value of money during this period is compensated with interest. There is no regulatory lag in ComEd's earnings (rather than cash flow) produced by using an average reconciliation rate base investment level because

ComEd will be compensated with interest on the average rate base that accurately represents the amounts of capital actually invested in the business throughout the reconciliation year.

Q. Ms. Houtsma states at line 77, "In sum, actual costs not recovered in the rate year are not recovered until at least two years after they have been incurred." Does this lag in cash recovery (or return) of revenue requirement reconciliation amounts justify use of a year-end rate base?

A. No. I reject the notion that the Company's actual costs associated with its incremental capital investments are not fully recovered with interest on any delayed recoveries. Again the Company's testimony is focused upon the timing of cash flows, rather than any inability to fully recover actual prudently incurred rate base investment. The only valid concern with regard to the calculation of the reconciliation rate base is whether that calculation accurately quantifies actual levels of invested capital incurred throughout the reconciliation year. This concern is satisfied by using an average rate base investment level in order to avoid overstating the utility's actual invested capital in the first several months of each reconciliation year. If the interest rate and method applied to the reconciliation balance until cash is recovered or returned are reasonable, the utility will be made whole for its actual costs through the reconciliation process using an average rate base approach, eliminating the financial effect of the regulatory lag built into the statute.

Q. How did the Company explain the effects of the Commission's decisions in Docket No. 11-0721 to its investors within its Securities and Exchange Commission ("SEC") Form 10 Q?

A. At pages 43-44 of Exelon's SEC 10 Q dated May 10, 2012, the regulatory treatment of the rehearing issues within the ALJ's proposed order was described as follows:

> During the first quarter of 2012, ComEd and several intervenors filed testimony in the proceeding. The intervenors proposed various reductions to ComEd's proposed revenues, which included changes to return on pension asset, rate base and operating expenses. On May 1, 2012, the ALJs issued a proposed order in ComEd's formula rate tariff proceeding providing for a $146 million reduction in the revenue requirement being recovered in current rates, as opposed to ComEd's final position supporting a $59 million reduction. The primary differences between the ALJ's proposed order and ComEd's final position relate to different approaches to allocating certain costs and differences in timing or rate recovery mechanisms for various costs. The ALJs propose the use of average annual rate base and capital structure amounts (as opposed to year–end amounts as proposed by ComEd) and lower carrying costs on future reconciliation amounts. If approved by the ICC, the revenue requirement reduction as proposed by the ALJs **would primarily delay the timing of cash flows, with a less significant impact on earnings given the annual reconciliation mechanism as described below**. Use of average annual rate base and capital structure amounts (vs. year–end amounts), though, would unfavorably impact future earnings given increased regulatory lag.
>
> ComEd is currently assessing the potential impacts of the proposed order and cannot predict the reduction in the revenue requirement the ICC may approve and which provisions of the ALJs' proposed order will ultimately be included in the final order. As a proposed order, it has no independent legal effect as the ICC must vote on a final order which may materially vary from the findings and conclusions in the proposed order. If the ICC provides significant changes to ComEd's filed revenue requirement request, it could have a material impact on ComEd's future results of operations and cash flows. [emphasis added]

In its SEC 10Q discussion of the rehearing issues, the Company acknowledges that use of an average reconciliation rate base and lower carrying costs on future reconciliation amounts, "…would primarily delay the timing of cash flows, with a less significant impact on earnings given the annual reconciliation mechanism."

III. RECONCILIATION INTEREST.

Q. How did the Commission treat the issue of establishing an interest rate for reconciliation balances and credits under formula rates?

A. In its Order in Docket 11-0721, the Commission adopted a 3.42% interest rate on the reconciliation balance, which it described as "the weighted costs of short-term and long-term debt [and which] exclude[d] the weighted cost of common equity."[5] However, the Commission later granted rehearing on this issue.

Q. What position did you take in Direct Testimony in Docket No. 11-0721 regarding the appropriate interest rate to be applied in calculating reconciliation refunds and surcharges?

A. I recommended utilization of a short term debt cost rate for application to reconciliation balances, pending their recovery from or return from ratepayers. Alternatively, I recommended the Commission consider using the same interest rate that it approves for payment on customer deposits as the reconciliation balance interest rate.

Q. Do you support using a blended short and long-term debt cost rate, as was approved by the Commission in its May 29 Order?

A. Yes. While there is ample justification for using a currently lower short term debt cost rate or customer deposit interest rate, for the reasons explained in my prior testimony in Docket No. 11-0721, a reasonable balance that is quite generous to ComEd was struck by the Commission in adopting a blended debt cost rate. Because future reconciliation balances, either positive or negative, may extend over

[5] Docket 11-0721, Order at 166.

more than 12 months, some consideration and blending of longer-term debt cost rates may be appropriate. However, rather than using ComEd's embedded cost of long-term debt, the Commission's blended debt cost rate should rely upon the market interest rates currently available for newly issued debt that are indicative of the marginal financing costs arising from reconciliation calculations under the Act.

Q. **According to Mr. Houtsma's Direct Testimony on Rehearing at line 123, the only interest rate that appropriately compensates for the time value of money is "...the utility's Weighted Average Cost of Capital ("WACC")." Do you agree?**

A. No. The time value of money today and tomorrow is clearly not ComEd's weighted historical cost of capital, but is instead forward looking and necessarily concerned with the marginal cost of capital today and tomorrow. I would urge the Commission to be mindful of more than only ComEd's known historical sources of capital to determine a reasonable and compensatory marginal interest rate in connection with reconciliation balances.

Q. **What do you mean by "marginal interest rate" in the context of reconciliation balances?**

A. The reconciliation revenue requirement represents a balance to either be collected from or returned to ratepayers. This balance will impact the utility's future marginal cash flows, the "next" dollars of new financing that are either needed or avoided by ComEd if its reconciliation balances are positive or negative, respectively. From ComEd's perspective, if it must finance a regulatory asset associated with reconciliation amounts to be collected from ratepayers, it will do so using marginal working capital resources from available internal cash flows or from new dollars of short term debt, until more permanent financing is required. ComEd is not able to apply its already deployed permanent debt and equity capital, as summarized in its WACC, to finance the future marginal working capital requirements arising from the reconciliation process. These capital resources have already been deployed to support rate base assets. With regard to long-term debt in particular, the utility's weighted cost is a function of timing of past debt issuances and market interest rates at those times and tells us nothing about the marginal cost of new debt.

Q. Have you calculated a more appropriate blended interest rate that could reasonably be applied to ComEd's reconciliation balances, based upon current marginal capital cost rates and the Commission's short and long-term debt blending methodology?

A. Yes. The Commission might look to published market interest rates for guidance with respect to current yields required to attract capital. I have included as AG/AARP Exhibit No. 5.1 a copy of reported Selected Interest Rates from the Board of Governors of the Federal Reserve System for the week July 23, 2012.[6] It reports a yield percentage for Baa-rated corporate bonds of 4.85% and for short-term non-financial commercial paper annual current yields of 0.21%. Weighting these values together equally produces an interest rate based upon current marginal costs of short/long term debt of 2.53%.[7] Such a widely published report of currently available market interest rates could be updated annually to account for changing capital market conditions.

Q. Why is it reasonable to equally weight the marginal cost of short term and long term debt in determining a reasonable reconciliation interest rate?

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[6] Available at: http://www.federalreserve.gov/releases/h15/current/default.htm

[7] (4.85% + 0.21%) / 2 = 2.53%

A. The reconciliation balance should have an average term of about 24 months from the mid-point of the accumulation year being reconciled, which is denoted "Yr X" on ComEd Ex. 10.2, page 6 (Sch FR A-4) to the mid-point of the recovery year denoted "Yr X+2". Over 24 months, the utility could elect to use and roll-over short term debt financing as it matures or could employ long term debt after a period of short term financing. The fact that a reconciliation balance can swing from positive to negative amounts each year may argue for use of a more than 50 percent weighting of short term debt, while the potential for persistently positive reconciliations after EIMA investments have ramped up in future years may argue for more permanent financing of reconciliation balances at that time. With these considerations in mind, an equal weighting of published market yields on short term and long term debt would accomplish a reasonable estimate of the time value of money associated with reconciliation balances awaiting recovery from, or return to ratepayers.

Q. According to Ms. Houtsma, the Commission's historical treatment of customer deposits supports using ComEd's WACC for reconciliation balances because, "In sum, the Commission has been clear that advances of funds between customers as a whole and ComEd are to be compensated at WACC." Is this true?

A. No. Advances of funds from customers in the form of deposits are not allowed to earn ComEd's WACC, but instead accrue interest at a periodically adjusted rate that has recently been much lower than ComEd's WACC. The availability of the low-cost capital to the utility has been accounted for as a rate base offset to recognize this capital resource at its actual cost. These facts have nothing to do with how ComEd may finance its marginal working capital requirements arising from reconciliation balances, because additional customer deposits are not available for such funding.

Q. According to Mr. Trpik, the 3.42% debt cost rate used by the Commission is not correctly calculated and, "[a] more accurate calculation would produce a rate of 6.36%."[8] Ms. Houtsma's footnote 2 references Mr. Trpik's testimony and states, "An 'average debt return' would assume that only debt financing is used. If the Commission determines that a debt based rate should be utilized, then the charges should be calculated in the relative proportion of short term and long term debt to the total amount of debt outstanding." Do you agree with this alternative approach?

A. No. Very little short term debt was included in the Commission-approved ComEd capital structure,[9] causing Mr. Trpik's alternative percentage rate to be heavily weighted toward the historical embedded cost of ComEd's long-term debt. A more reasonable balance would be an equal weighting of short-term and long-term debt and would employ marginal cost rates rather than embedded costs to both elements of debt cost.

Q. Is there another important issue that merits consideration in the Commission's re-evaluation of the rate and method of calculating interest on reconciliation balances?

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8 ComEd Ex. 31.0, line 122.

9 The May 29, 2012 Order in Docket No. 11-0721 summarized the positions of ComEd and Staff in a data table on page 117, where long term debt "LTD" was approximately 53% of total capitalization and short term debt "STD" was about 0.5% of total capitalization.

A. Yes. As I explained in my earlier Direct Testimony in Docket No. 11-0721 and again in ComEd's pending formula rate update Docket No. 12-0321, the Company experiences incremental income tax deferral benefits when it incurs costs that are recoverable through rate revenues in later periods. These tax deferral benefits are being recorded by ComEd as Accumulated Deferred Income Taxes ("ADIT") associated with the reconciliation regulatory asset/liability balances.

Q. Why does ComEd record a regulatory asset or liability associated with the reconciliation of its annual revenue requirement on its books?

A. The reconciliation revenue requirement amount owed to, or recoverable from ratepayers is recorded by ComEd as a regulatory asset or liability. Statement of Financial Accounting Standards 71 ("SFAS 71")[10] recognizes that a unique consideration is introduced by rate regulation that may impact the relationship of costs and revenues. Regulators sometimes include incurred costs in the revenue requirement in a period other than the period in which the costs would be charged to expense by an unregulated enterprise. That procedure can create new regulatory assets (future cash inflows from the rate-making process), can reduce assets (reductions of future cash inflows from the rate-making process), or may create new regulatory liabilities (future cash outflows that will result from the rate-making process). Thus, under SFAS 71, a regulated utility is required to capitalize a cost as a regulatory asset or recognize an obligation as a regulatory liability, if it is probable that through the ratemaking process there will be a corresponding increase or decrease in future revenues.

[10] Accounting Standards have recently been codified with legacy SFAS 71 now included within Accounting Standards Codification ("ASC") 840 and 980.

Q. Has ComEd recorded regulatory asset/liability balances pursuant to SFAS 71 because of the formula rate case reconciliation procedures?

A. Yes. In its response to Data Request No. AG 3.01 in Docket No. 12-0321, ComEd indicated that it had recorded a Regulatory Asset balance of $29,005,000 as shown in its FERC Form 1, page 232.1, Line 9, "which represents the estimated under-recovery of ComEd's revenue requirement in 2011 (reconciliation) as of December 31, 2011, determined using the formula rate methodology allowed under the Energy Infrastructure Modernization Act ("EIMA")." This estimated amount was later changed after ComEd evaluated changes required in the Commission May 29, 2012 Order in Docket No. 11-0721, but a regulatory asset/liability balance is required to be recognized on the Company's books in accordance with Generally Accepted Accounting Principles ("GAAP") to properly account for the effects of regulation on the Company's accrual-basis revenues and earnings. I have included a copy of this data request response as AG/AARP Exhibit 5.2.

Q. Does ComEd record Accumulated Deferred Income Taxes ("ADIT") associated with its formula rate regulatory asset/liability balance?

A. Yes. As indicated in the response to AG 3.01, the per books ADIT balance associated with the $29 million that ComEd estimated it would collect through reconciliation was a credit of $11.944 million.[11] In this response, ComEd stated, "The deferred income tax balance is treated as non-jurisdictional because the regulatory asset is not included in rate base."

Q. What do the deferred taxes associated with the reconciliation regulatory asset or liability represent?

[11] See ComEd Ex. 10.3 WP 4, page 4 of 4 at line 95.

A. The recorded ADIT amount associated with the EIMA reconciliation regulatory asset or liability represents the estimated income tax cash flow savings arising from the book/tax timing difference between when deductible expenses are incurred and when the related taxable revenues will be collected as a result of the reconciliation process. Using ComEd's accounting estimates mentioned in the AG 3.01 response, the Company will defer the income tax recognition of about $29 million of reconciliation revenues to be recovered in 2013 as a result of the fact that Section 16-108.5 allows it to retroactively reconcile its revenue requirement. All of the related tax deductible *expenses* and other costs incurred in 2011 would be recognized on the 2011 Exelon income tax return, creating a timing difference and an associated ADIT credit balance of $11.944 million, which represents non-investor funds available to the utility from income tax deferrals.

Q. Is the Company correct in excluding from rate base the recorded ADIT balances associated with the reconciliation regulatory asset simply because, "the regulatory asset is not included in rate base," as noted in AG 3.01?

A. No. There is more to this story. The income tax deferral results in ComEd having non-investor, ADIT funds available to it prior to final recovery of the full reconciliation amount, and these non-investor funds must be recognized somewhere, either in calculating rate base or in calculating the interest applicable to the reconciliation balance. The rate base exclusion of ADIT proposed by ComEd is <u>only</u> reasonable if the interest accrued on the reconciliation balance is applied to a net-of income tax balance, as I recommended in Docket No. 11-0721.

Q. In Docket No. 11-0721, ComEd argued that the recorded ADIT liability does not provide a source of cash to ComEd.[12] Do the recorded ADIT amounts associated with reconciliation regulatory asset/liability balances provide ComEd with cash?

A. Yes. When the collection of taxable revenues lags behind the deduction of expenses on ComEd/Exelon income tax returns, there is a cash flow benefit to the Company because the Company retains revenues that would otherwise be used to pay income taxes. Alternatively, if ComEd's collection of taxable revenues occurs more rapidly than deductible expenses are incurred, the Company's income taxes become payable sooner and cash flow is again impacted. While the cash flows of actually collecting or refunding the reconciliation balances are delayed pending reconciliation, interest is accrued throughout the collection or recovery period to compensate for the timing of such cash flows. It is important to recognize the timing of both the reconciliation revenues and the related income taxes to fully account for all of the cash flows associated with formula ratemaking.

Q. The Commission's Order in Docket No. 11-0721 indicates a concern that recognition of formula ratemaking-related ADIT may not comply with Generally Accepted Accounting Principles. Does ComEd maintain its books in compliance with Generally Accepted Accounting Principles?

A. Yes. The Company's auditors have certified that ComEd and Exelon financial accounting is in compliance with GAAP.[13] There is no dispute that ComEd

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[12] See ComEd Ex. 12.0, line 818, where Ms. Houtsma stated, "The simple recording of a deferred income tax liability for accounting purposes does not provide a source of cash to ComEd to fund the revenue shortfall."

[13] In its Annual Report for 2011 at page 41, Exelon states, "Our independent registered public accounting firm, PricewaterhouseCoopers LLP (PwC), issued a report dated Feb. 9, 2012, on its integrated

maintains its books in accordance with GAAP or that ADIT must be recorded in connection with the reconciliation regulatory asset/liability balance because the reconciliation process creates a book/tax timing difference. The only real dispute is how to treat the ADIT arising from the reconciliation process for ratemaking purposes. GAAP does not provide any direction to regulators about which ADIT balances are jurisdictional or how ADIT balances should be treated in formula ratemaking proceedings. ComEd would prefer to retain these ADIT benefits for shareholders by excluding them from rate base and also ignoring them when applying interest to the reconciliation balance to be charged or credited to customers. ComEd's approach would allow the Company to collect more than the actual costs associated with the reconciliation balance by ignoring the tax timing differences recognized by GAAP and quantified as $11.944 million.[14] The more equitable approach is to not ignore income tax effects, but to instead apply interest on a net of income tax basis when calculating charges or credits to customers on ComEd Ex. 10.2, Schedule FR A-4. This was the approach I recommended in Docket No. 11-0721 and again in Docket No. 12-0321.

Q. After the issuance of the Commission May 29 Order in Docket No. 11-0721, has the $29 million regulatory asset now become a large regulatory liability to be returned to customers in the Company's compliance filing?

A. Yes. Under circumstances involving a refund to ratepayers, the application of the reconciliation interest rate to a net of tax basis would serve to decrease the

audit of our consolidated financial statements and our internal control over financial reporting. In its report PwC expressed an unqualified opinion that those consolidated financial statements present fairly, in all material respects, the financial position of Exelon Corporation and its subsidiaries at Dec. 31, 2011, and 2010, and the results of their operations and their cash flows for each of the three years in the period ended Dec. 31, 2011, in conformity with accounting principles generally accepted in the United States of America."

[14] See ComEd Ex. 10.3 WP 4, page 4 of 4 at line 95.

Company's refund obligation (and increase the reconciliation revenue requirement), by reducing total interest amounts accrued. However, regardless of the immediate ratepayer/shareholder impact, a complete accounting for reconciliation interest requires that the related income tax deferral effects recorded as ADIT not be ignored.

Q. What do you recommend regarding reconciliation interest calculations?

A. The most practical way to account for non-investor supplied funds represented by ADITs in the reconciliation balance, given the structure of ComEd's formula ratemaking on its Schedule FR A-4, is to proportionately reduce the allowed interest rate to a net of income tax equivalent rate. This can be accomplished by multiplying the Commission-approved interest rate at line 4 by the inverse of the composite income tax rate on a new line 5, to determine an equivalent net of income tax rate on a new line 6. Mathematically, using the 3.42% interest rate previously approved by the Commission for illustration purposes, this would appear as follows:

Ln	Description	Source	Amounts
4	Annual Interest Rate	ICC Order Dkt 11-0721	3.42%
5	Net of Tax Factor	1 – 41.175% (Sch FR C-4, line 4)	.58825
6	Net of Tax Rate	Line 4 * Line 5	2.01%

Factoring the allowed Annual Interest Rate to reflect the tax impact of the delayed revenue recovery and the ADIT arising from the reconciliation process recognizes the effect of the extra cash retained by the Company due to the income tax deferrals reflected in the ADIT balance and is a more precise accounting for such income tax effects. Another benefit of my recommended approach is that it accurately and effectively matches the ADIT balance to the ultimate approved reconciliation balance, correcting for any imprecise estimates that may have been recorded as ADIT balances on the Company's books. This approach captures the actual cost of the reconciliation to the Company and is superior to simply ignoring the effect of the tax timing difference by excluding the recorded ADIT balances from rate base as ComEd has proposed.

Q. If the reconciliation interest rate is modified by future Commission order, should the "Net of Tax Factor" shown in your table be applied to any revised interest rate used in the future?

A. Yes.

IV. COMED'S ABILITY TO INVEST.

Q. ComEd rehearing Exhibit 31.1 is a copy of the Affidavit of Joseph R. Trpik, Jr. in which Mr. Trpik states in paragraph 3, "ComEd plans its level of investment each year based upon its forecasted revenues and earnings. When ComEd's revenues and cash flows fall short of its actual cost of service, it has no choice but to cut its levels of new investment. The unexpected and significant reduction in future revenues and cash flow resulting from the 11-0721 Order have adversely impacted the investments that ComEd can make in EIMA programs including, but not limited to, AMI." Is it true that ComEd has no choice with regard to its investment decisions?

A. No. As long as ComEd has access to capital markets, the Company's management has a choice about whether or not to invest in otherwise discretionary capital projects. In its most recent SEC Form 10Q Exelon and its subsidiaries including

ComEd reported, "The Registrants believe their cash flow from operating activities, access to credit markets and their credit facilities provide sufficient liquidity" and indicated that, "If ComEd lost its investment grade credit rating as of March 31, 2012, it would have been required to provide incremental collateral of $218 million, which is well within its current available credit facility capacity of $697 million, which takes into account commercial paper borrowings as of March 31, 2012." I have included a copy of the Credit Matters and Exelon Credit Facilities sections of this SEC report as AG/AARP Exhibit No. 5.3.

It is not clear from Mr. Trpik's affidavit whether he is indicating that ComEd or Exelon has imposed additional investment limitation criteria in deciding whether or not to make discretionary investments in ComEd rate base at this time. Regardless of internal investment priorities, ComEd clearly has access to sufficient capital funding on reasonable terms if it decides to invest in new rate base assets in Illinois.

Q. At paragraph 13 of his Affidavit, Mr. Trpik states, "...the 11-0721 Order creates a great deal of uncertainty about our ability to recover our costs, not only those that were directly impacted by the 11-0721 Order but others that we will be incurring under EIMA, including AMI costs." Is there any significant uncertainty introduced by the Commission's Order regarding ComEd's ability to recover its costs, including the costs of new investment under EIMA?

A. No. All prudently incurred costs, including changes in ComEd expenses and growth in ComEd's rate base investment will be recoverable based upon amounts recorded in its FERC Form 1 each year. Any incurred cost amounts not recovered currently through prospective rates will be subject to comprehensive reconciliation and later recovery with interest. Each new dollar of prudently incurred EIMA investment will be includable in rate base in the year it is completed and depreciation on such investments will be recoverable from ratepayers.

Q. At paragraph 14 of his Affidavit, Mr. Trpik states, "ComEd cannot invest billions of dollars in new infrastructure when it is denied the revenue streams that are needed to fund such investment." Has Mr. Trpik identified or quantified any inability to fund EIMA investments under the revenue streams that will result from formula ratemaking pursuant to the Commission's May 29, 2012 Order?

A. No. ComEd may be less willing to immediately fund EIMA investments under the somewhat lower revenue streams resulting from the Commission's May 29 Order than if the Company had prevailed on more of the ratemaking issues addressed in Docket No. 11-0721. There can be no mistake, however, that the Company is quite able to invest in EIMA initiatives with the existing capital resources that are available to it, particularly given the very supportive formula ratemaking mechanism that has been established for participating utilities in Illinois.

Q. Does this conclude your testimony at this time?

A. Yes.

ICC Docket 11-0721
AG/AARP Exhibit 5.1
REHEARING

Selected Interest Rates (Weekly) - H.15

Current Release (48 KB PDF)

Release Date: July 23, 2012

The weekly release is posted on Monday. Daily updates of the weekly release are posted Tuesday through Friday on this site. If Monday is a holiday, the weekly release will be posted on Tuesday after the holiday and the daily update will not be posted on that Tuesday.

July 23, 2012
H.15 Selected Interest Rates
Yields in percent per annum

Instruments	2012 Jul 16	2012 Jul 17	2012 Jul 18	2012 Jul 19	2012 Jul 20	Week Ending Jul 20	Week Ending Jul 13	2012 Jun
Federal funds (effective) 1 2 3	0.18	0.17	0.16	0.13	0.13	0.18	0.17	0.16
Commercial Paper 3 4 5 6								
Nonfinancial								
1-month	0.16	0.14	0.13	0.13	0.13	0.14	0.13	0.14
2-month	0.18	0.17	0.17	0.14	0.17	0.17	0.17	0.17
3-month	0.21	0.23	0.21	0.19	0.20	0.21	0.22	0.21
Financial								
1-month	0.15	0.11	0.12	0.11	0.12	0.12	0.12	0.13
2-month	0.14	0.15	0.16	0.16	0.15	0.15	0.15	0.16
3-month	0.17	0.20	0.33	0.19	0.28	0.23	0.28	0.21
CDs (secondary market) 3 7								
1-month	0.20	0.20	0.20	0.19	0.19	0.20	0.20	0.19
3-month	0.29	0.30	0.30	0.30	0.30	0.30	0.32	0.32
6-month	0.45	0.48	0.48	0.47	0.47	0.47	0.48	0.48
Eurodollar deposits (London) 3 8								
1-month	0.31	0.31	0.31	0.31	0.31	0.31	0.30	0.30
3-month	0.43	0.43	0.43	0.43	0.43	0.43	0.43	0.43
6-month	0.63	0.63	0.63	0.63	0.63	0.63	0.63	0.63
Bank prime loan 2 3 9	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Discount window primary credit 2 10	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
U.S. government securities								
Treasury bills (secondary market) 3 4								
4-week	0.03	0.08	0.07	0.06	0.07	0.06	0.07	0.05
3-month	0.10	0.10	0.09	0.09	0.09	0.09	0.10	0.09
6-month	0.14	0.14	0.14	0.14	0.14	0.14	0.15	0.15
1-year	0.17	0.17	0.17	0.16	0.16	0.17	0.19	0.18
Treasury constant maturities								
Nominal 11								
1-month	0.04	0.08	0.07	0.06	0.07	0.06	0.07	0.05
3-month	0.10	0.10	0.09	0.09	0.09	0.09	0.10	0.09
6-month	0.14	0.14	0.14	0.14	0.14	0.14	0.15	0.15

Instruments	2012 Jul 16	2012 Jul 17	2012 Jul 18	2012 Jul 19	2012 Jul 20	Week Ending Jul 20	Week Ending Jul 13	2012 Jun
1-year	0.18	0.18	0.18	0.17	0.17	0.18	0.20	0.19
2-year	0.24	0.25	0.22	0.22	0.22	0.23	0.26	0.29
3-year	0.31	0.32	0.30	0.31	0.29	0.31	0.36	0.39
5-year	0.60	0.62	0.60	0.62	0.59	0.61	0.63	0.71
7-year	0.97	0.99	0.97	0.99	0.95	0.97	0.98	1.08
10-year	1.50	1.53	1.52	1.54	1.49	1.52	1.52	1.62
20-year	2.18	2.22	2.21	2.24	2.17	2.20	2.21	2.31
30-year	2.56	2.59	2.59	2.61	2.55	2.58	2.59	2.70
Inflation indexed 12								
5-year	-1.18	-1.16	-1.19	-1.20	-1.18	-1.18	-1.15	-1.05
7-year	-0.94	-0.92	-0.94	-0.97	-0.98	-0.95	-0.90	-0.82
10-year	-0.61	-0.59	-0.60	-0.62	-0.67	-0.62	-0.58	-0.50
20-year	-0.02	0.00	0.00	-0.01	-0.08	-0.02	0.01	0.10
30-year	0.37	0.40	0.40	0.40	0.33	0.38	0.40	0.50
Inflation-indexed long-term average 13	-0.02	0.02	0.02	0.02	-0.04	0.00	0.02	0.11
Interest rate swaps 14								
1-year	0.43	0.43	0.44	0.42	0.43	0.43	0.47	0.52
2-year	0.46	0.47	0.47	0.44	0.45	0.46	0.50	0.57
3-year	0.53	0.54	0.53	0.51	0.52	0.53	0.57	0.65
4-year	0.66	0.67	0.67	0.65	0.65	0.66	0.70	0.80
5-year	0.82	0.84	0.84	0.82	0.82	0.83	0.87	0.99
7-year	1.18	1.20	1.21	1.20	1.18	1.19	1.23	1.36
10-year	1.59	1.62	1.63	1.63	1.60	1.61	1.64	1.77
30-year	2.29	2.33	2.36	2.35	2.32	2.33	2.36	2.44
Corporate bonds								
Moody's seasoned								
Aaa 15	3.39	3.42	3.35	3.37	3.30	3.37	3.44	3.64
Baa	4.85	4.88	4.85	4.88	4.80	4.85	4.90	5.02
State & local bonds 16				3.75		3.75	3.83	3.94
Conventional mortgages 17				3.53		3.53	3.56	3.68

Footnotes

1. The daily effective federal funds rate is a weighted average of rates on brokered trades.

2. Weekly figures are averages of 7 calendar days ending on Wednesday of the current week; monthly figures include each calendar day in the month.

3. Annualized using a 360-day year or bank interest.

4. On a discount basis.

5. Interest rates interpolated from data on certain commercial paper trades settled by The Depository Trust Company. The trades represent sales of commercial paper by dealers or direct issuers to investors (that is, the offer side). The 1-, 2-, and 3-month rates are equivalent to the 30-, 60-, and 90-day dates reported on the Board's Commercial Paper Web page (www.federalreserve.gov/releases/cp/).

6. Financial paper that is insured by the FDIC's Temporary Liquidity Guarantee Program is not excluded from relevant indexes, nor is any financial or nonfinancial commercial paper that may be directly or indirectly affected by one or more of the Federal Reserve's liquidity facilities. Thus the rates published after September 19, 2008, likely reflect the direct or indirect effects of the new temporary programs and, accordingly, likely are not comparable for some purposes to rates published prior to that period.

7. An average of dealer bid rates on nationally traded certificates of deposit.

8. Source: Bloomberg and CTRB ICAP Fixed Income & Money Market Products.

9. Rate posted by a majority of top 25 (by assets in domestic offices) insured U.S.-chartered commercial banks. Prime is one of several base rates used by banks to price short-term business loans.

10. The rate charged for discounts made and advances extended under the Federal Reserve's primary credit discount window program, which became effective January 9, 2003. This rate replaces that for adjustment credit, which was discontinued after January 8, 2003. For further information, see www.federalreserve.gov/boarddocs/press/bcreg/2002/200210312/default.htm. The rate reported is that for the Federal Reserve Bank of New York. Historical series for the rate on adjustment credit as well as the rate on primary credit are available at www.federalreserve.gov/releases/h15/data.htm.

11. Yields on actively traded non-inflation-indexed issues adjusted to constant maturities. The 30-year Treasury constant maturity series was discontinued on February 18, 2002, and reintroduced on February 9, 2006. From February 18, 2002, to February 9, 2006, the U.S. Treasury published a factor for adjusting the daily nominal 20-year constant maturity in order to estimate a 30-year nominal rate. The historical adjustment factor can be found at www.treasury.gov/resource-center/data-chart-center/interest-rates/. Source: U.S. Treasury.

12. Yields on Treasury inflation protected securities (TIPS) adjusted to constant maturities. Source: U.S. Treasury. Additional information on both nominal and inflation-indexed yields may be found at www.treasury.gov/resource-center/data-chart-center/interest-rates/.

13. Based on the unweighted average bid yields for all TIPS with remaining terms to maturity of more than 10 years.

14. International Swaps and Derivatives Association (ISDA®) mid-market par swap rates. Rates are for a Fixed Rate Payer in return for receiving three month LIBOR, and are based on rates collected at 11:00 a.m. Eastern time by Garban Intercapital plc and published on Reuters Page ISDAFIX®1. ISDAFIX is a registered service mark of ISDA. Source: Reuters Limited.

15. Moody's Aaa rates through December 6, 2001, are averages of Aaa utility and Aaa industrial bond rates. As of December 7, 2001, these rates are averages of Aaa industrial bonds only.

16. Bond Buyer Index, general obligation, 20 years to maturity, mixed quality; Thursday quotations.

17. Contract interest rates on commitments for fixed-rate first mortgages. Source: Primary Mortgage Market Survey® data provided by Freddie Mac.

Note: Weekly and monthly figures on this release, as well as annual figures available on the Board's historical H.15 web site (see below), are averages of business days unless otherwise noted.

Current and historical H.15 data are available on the Federal Reserve Board's web site (www.federalreserve.gov/). For information about individual copies or subscriptions, contact Publications Services at the Federal Reserve Board (phone 202-452-3244, fax 202-728-5886).

Description of the Treasury Nominal and Inflation-Indexed Constant Maturity Series

Yields on Treasury nominal securities at "constant maturity" are interpolated by the U.S. Treasury from the daily yield curve for non-inflation-indexed Treasury securities. This curve, which relates the yield on a security to its time to maturity, is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market. These market yields are calculated from composites of quotations obtained by the Federal Reserve Bank of New York. The constant maturity yield values are read from the yield curve at fixed maturities, currently 1, 3, and 6 months and 1, 2, 3, 5, 7, 10, 20, and 30 years. This method provides a yield for a 10-year maturity, for example, even if no outstanding security has exactly 10 years remaining to maturity. Similarly, yields on inflation-indexed securities at "constant maturity" are interpolated from the daily yield curve for Treasury inflation protected securities in the over-the-counter market. The inflation-indexed constant maturity yields are read from this yield curve at fixed maturities, currently 5, 7, 10, and 20 years.

Last update: July 23, 2012

ICC Docket No. 12-0321

Commonwealth Edison Company's Response to
The People of the State of Illinois ("AG") Data Requests
AG 3.01 – 3.05
Date Received: June 15, 2012
Date Served: June 21, 2012

REQUEST NO. AG 3.01:

Referring to ComEd Exhibit 10.3, WP 4, Page 4, please explain what the deferred taxes on the "Regulatory (Asset)/Liab: Distribution Formula Rate" on Line 95 represent and why this balance is treated as being non-jurisdictional.

RESPONSE:

The Deferred Income Taxes of ($11,944,000) are applied to the Regulatory Asset balance of $29,005,000 shown on the 2011 FERC Form 1, Page 232.1, Line No. 9, which represents the estimated under-recovery of ComEd's revenue requirement in 2011 (reconciliation) as of December 31, 2011, determined using the formula rate methodology allowed under the Energy Infrastructure Modernization Act ("EIMA").

The deferred income tax balance is treated as non-jurisdictional because the regulatory asset is not included in rate base.

ICC Docket 11-0721
AG/AARP Exhibit 5.3 REHEARING

EXELON CORP

10-Q

Quarterly report pursuant to sections 13 or 15(d)
Filed on 05/10/2012
Filed Period 03/31/2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended March 31, 2012

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number	Name of Registrant; State of Incorporation; Address of Principal Executive Offices; and Telephone Number	IRS Employer Identification Number
1-16169	EXELON CORPORATION (a Pennsylvania corporation) 10 South Dearborn Street P.O. Box 805379 Chicago, Illinois 60680-5379 (312) 394-7398	23-2990190
333-85496	EXELON GENERATION COMPANY, LLC (a Pennsylvania limited liability company) 300 Exelon Way Kennett Square, Pennsylvania 19348-2473 (610) 765-5959	23-3064219
1-1839	COMMONWEALTH EDISON COMPANY (an Illinois corporation) 440 South LaSalle Street Chicago, Illinois 60605-1028 (312) 394-4321	36-0938600
000-16844	PECO ENERGY COMPANY (a Pennsylvania corporation) P.O. Box 8699 2301 Market Street Philadelphia, Pennsylvania 19101-8699 (215) 841-4000	23-0970240
1-1910	BALTIMORE GAS AND ELECTRIC COMPANY (a Maryland corporation) 2 Center Plaza 110 West Fayette Street Baltimore, MD 21201-3708 (410) 234-5000	52-0280210

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

	Large Accelerated Filer	Accelerated Filer	Non-accelerated Filer	Smaller Reporting Company
Exelon Corporation	☑			
Exelon Generation Company, LLC			☑	
Commonwealth Edison Company			☑	

PECO Energy Company	☑
Baltimore Gas and Electric Company	☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑.

The number of shares outstanding of each registrant's common stock as of March 31, 2012 was:

Exelon Corporation Common Stock, without par value	852,410,272
Exelon Generation Company, LLC	not applicable
Commonwealth Edison Company Common Stock, $12.50 par value	127,016,584
PECO Energy Company Common Stock, without par value	170,478,507
Baltimore Gas and Electric Company Common Stock, without par value	1,000

Credit Matters

The Registrants fund liquidity needs for capital investment, working capital, energy hedging and other financial commitments through cash flows from continuing operations, public debt offerings, commercial paper markets and large, diversified credit facilities. The credit facilities include $11.4 billion in aggregate total commitments of which $8.5 billion was available as of March 31, 2012, and of which no financial institution has more than 13% of the aggregate commitments. Exelon, Generation, ComEd, PECO and BGE had access to the commercial paper market during the first quarter of 2012 to fund their short-term liquidity needs, when necessary. The Registrants routinely review the sufficiency of their liquidity position, including appropriate sizing of credit facility commitments, by performing various stress test scenarios, such as commodity price movements, increases in margin-related transactions, changes in hedging levels and the impacts of hypothetical credit downgrades. The Registrants have continued to closely monitor events in the financial markets and the financial institutions associated with the credit facilities, including monitoring credit ratings and outlooks, credit default swap levels, capital raising and merger activity. See PART I. ITEM 1A. RISK FACTORS of Exelon's 2011 Annual Report on Form 10-K for further information regarding the effects of uncertainty in the capital and credit markets or significant bank failures.

The Registrants believe their cash flow from operating activities, access to credit markets and their credit facilities provide sufficient liquidity. If Generation lost its investment gradé credit rating as of March 31, 2012, it would have been required to provide incremental collateral of $2.8 billion, which is well within its current available credit facility capacities of $4.2 billion, which includes collateral obligations for derivatives, non-derivatives, normal purchase normal sales contracts and applicable payables and receivables, net of the contractual right of offset under master netting agreements. If ComEd lost its investment grade credit rating as of March 31, 2012, it would have been required to provide incremental collateral of $218 million, which is well within its current available credit facility capacity of $697 million, which takes into account commercial paper borrowings as of March 31, 2012. If PECO lost its investment grade credit rating as of March 31, 2012, it would have been required to provide collateral of $1 million pursuant to PJM's credit policy and could have been required to provide collateral of $48 million related to its natural gas procurement contracts, which, in the aggregate, is well within PECO's current available credit facility capacity of $599 million. If BGE lost its investment grade credit rating as of March 31, 2012, it would have been required to provide collateral of $3 million pursuant to PJM's credit policy. Both this collateral as well as any collateral BGE would be required to provide related to its natural gas procurement contracts are, in the aggregate, well within BGE's current available credit facility capacity of $599 million.

Exelon Credit Facilities

Exelon, ComEd and BGE meet their short-term liquidity requirements primarily through the issuance of commercial paper. Generation and PECO meet their short-term liquidity requirements primarily through the issuance of commercial paper and borrowings from the intercompany money pool. The Registrants may use their respective credit facilities for general corporate purposes, including meeting short-term funding requirements and the issuance of letters of credit. See Note 8 of the Combined Notes to the Consolidated Financial Statements for further information regarding the Registrants' credit facilities.

The following table reflects the Registrants' commercial paper programs supported by the revolving credit agreements and bilateral credit agreements at March 31, 2012:

Commercial Paper Programs

Commercial Paper Issuer	Maximum Program Size(a)	Outstanding Commercial Paper at March 31, 2012	Average Interest Rate on Commercial Paper Borrowings for the three months ended March 31, 2012
Exelon Corporate(b)	$ 500	$ —	0.42%
Generation	5,600	—	—
ComEd	1,000	302	0.52%
PECO	600	—	—
BGE	600	—	—

(a) Equals aggregate bank commitments under revolving credit agreements and bilateral credit agreements. See discussion and table below for items affecting effective program size.

(b) The Exelon $1.5 billion revolver and the Exelon supplemental facilities are not currently used to support the Exelon commercial paper program.

In order to maintain their respective commercial paper programs in the amounts indicated above, each Registrant must have credit facilities in place, at least equal to the amount of its commercial paper program. While the amount of its commercial paper outstanding does not reduce available capacity under a Registrant's credit agreement, a Registrant does not issue commercial paper in an aggregate amount exceeding the available capacity under its credit agreement.

Credit Agreements

					Available Capacity at March 31, 2012		
Borrower	Facility Type	Aggregate Bank Commitment(a)	Facility Draws	Outstanding Letters of Credit	Actual	To Support Additional Commercial Paper	Average Interest Rate on Facility Borrowings for three months ended March 31, 2012
Exelon Corporate(b)	Syndicated Revolver	$ 2,000	$ —	$ 106	$ 1,894	$ 498	—
Exelon Corporate(b)	Bilateral / Commodity Linked	1,560	—	1,091	469	—	—
Generation	Syndicated Revolver	5,300	—	1,057	4,243	4,243	—
Generation	Bilateral	300	—	299	1	1	—
ComEd	Syndicated Revolver	1,000	—	1	999	697	—
PECO	Syndicated Revolver	600	—	1	599	599	—
BGE	Syndicated Revolver	600	—	1	599	599	—

(a) Excludes $118 million of credit facility agreements arranged with minority and community banks at Generation, ComEd and PECO. These facilities, which expire in October 2012, are solely utilized to issue letters of credit. See Note 8 of the Combined Notes to the Consolidated Financial Statements for further information.

(b) The Exelon $1.5 billion revolver and the Exelon supplemental facilities are not currently used to support the Exelon commercial paper program.

Generation also has a three-year senior secured credit facility associated with certain solar projects. The amount committed under the facility is $150 million, which may be increased up to a total amount of

$200 million at the subsidiary's request with additional commitments by the lenders. Obligations under this facility are secured by the equity interests in the subsidiary and the entities that own the solar projects as well as the assets of the subsidiary of each project entity and are guaranteed by Constellation and the project entities. As of March 31, 2012, the outstanding loan balance was $129 million.

CEU, a subsidiary of Generation, has a reserve-based lending facility that supports the upstream gas operations. The borrowing base committed under the facility is $150 million and can grow up to $500 million if the assets support a higher borrowing base and if CEU is able to obtain additional commitments from lenders. The facility expires in July 2016 and any borrowings under this facility are secured by the upstream gas properties. As of March 31, 2012, the outstanding loan balance was $35 million.

Borrowings under each revolving credit agreement bear interest at a rate selected by the borrower based upon either the prime rate or at a fixed rate for a specified period based upon a LIBOR-based rate. The agreement also provides for adders based upon the credit rating of the borrower. As of March 31, 2012, the borrowings under the Exelon $500 million revolving credit agreement increased to 50 basis points for prime-based borrowings and 150 basis points for LIBOR-based borrowings. Under the ComEd agreement executed on March 28, 2012, adders of up to 65 basis points for prime-based borrowings and 165 basis points for LIBOR-based borrowings may be added based upon ComEd's credit rating. At March 31, 2012, ComEd's adder was 27.5 basis points for prime based borrowings and 127.5 basis points for LIBOR-based borrowings.

Under the Exelon and Generation bilateral and commodity-linked credit agreements, Exelon and Generation pay a facility fee, payable quarterly at a rate per annum equal to a specified facility fee rate on the total amount of the credit facility regardless of usage.

Each revolving credit agreement for Exelon, Generation, ComEd and PECO requires the affected borrower to maintain a minimum cash from operations to interest expense ratio for the twelve-month period ended on the last day of any quarter. The following table summarizes the minimum thresholds reflected in the credit agreements for the three months ended March 31, 2012:

	Exelon	Generation	ComEd	PECO
Credit agreement threshold	2.50 to 1	3.00 to 1	2.00 to 1	2.00 to 1

At March 31, 2012, the interest coverage ratios at the Registrants were as follows:

	Exelon	Generation	ComEd	PECO
Interest coverage ratio	14.41	25.85	6.40	7.88

The BGE credit agreement contains a provision requiring BGE to maintain a Debt to Capitalization ratio equal to or less than 65%. As of March 31, 2012, the BGE Debt to Capitalization ratio as defined in its credit agreement was 46%.

An event of default under any Registrant's credit facility will not constitute an event of default under any of the other Registrants' credit facilities, except that a bankruptcy or other event of default in the payment of principal, premium or indebtedness in principal amount in excess of $100 million in the aggregate by Generation under its credit facility will constitute an event of default under the Exelon corporate credit facilities.

Security Ratings

The Registrants' access to the capital markets, including the commercial paper market, and their respective financing costs in those markets, may depend on the securities ratings of the entity that is accessing the capital markets.

The Registrants' borrowings are not subject to default or prepayment as a result of a downgrading of securities, although such a downgrading of a Registrant's securities could increase fees and interest charges under that Registrant's credit agreements.

As part of the normal course of business, the Registrants enter into contracts that contain express provisions or otherwise permit the Registrants and their counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contracts law, if the Registrants are downgraded by a credit rating agency, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance, which could include the posting of collateral. See Note 7 of the Combined Notes to Consolidated Financial Statements for additional information on collateral provisions.

Intercompany Money Pool

To provide an additional short-term borrowing option that will generally be more favorable to the borrowing participants than the cost of external financing, Exelon operates an intercompany money pool. Maximum amounts contributed to and borrowed from the money pool by participant during the three months ended March 31, 2012, in addition to the net contribution or borrowing as of March 31, 2012, are presented in the following table:

	Maximum Contributed	Maximum Borrowed	Contributed (Borrowed)
Generation	$ —	$ 78	$ —
PECO	206	—	117
BSC	—	136	(117)
Exelon Corporate	17	N/A	—

Investments in Nuclear Decommissioning Trust Funds

Exelon and Generation maintain trust funds, as required by the NRC, to fund certain costs of decommissioning Generation's nuclear plants. The mix of securities in the trust funds is designed to provide returns to be used to fund decommissioning and to offset inflationary increases in decommissioning costs; however, the equity securities in the trust funds are exposed to price fluctuations in equity markets, and the values of fixed-rate, fixed-income securities are exposed to changes in interest rates. Generation actively monitors the investment performance of the trust funds and periodically reviews asset allocations in accordance with Generation's NDT fund investment policy. With regards to equity securities, Generation's investment policy establishes limits on the concentration of equity holdings in any one company and also in any one industry. With regards to its fixed-income securities, Generation's investment policy limits the concentrations of the types of bonds that may be purchased for the trust funds and also requires a minimum percentage of the portfolio to have investment grade ratings (minimum credit quality ratings of "Baa3" by Moody's, "BBB-" by S&P and "BBB-" by Fitch Ratings) while requiring that the overall portfolio maintain a minimum credit quality rating of "A2". See Note 10 of the Combined Notes to Consolidated Financial Statements for further information regarding the trust funds, the NRC's minimum funding requirements and related liquidity ramifications.

Shelf Registration Statements

As of March 31, 2012, Exelon, Generation, ComEd and PECO each had a current shelf registration statement effective with the SEC that provides for the sale of unspecified amounts of securities. BGE's shelf registration was terminated in connection with the merger and ComEd's shelf registration subsequently expired on April 30, 2012. Exelon expects to file a new single, combined shelf registration statement for all of the Registrants with the SEC in the second quarter of 2012. The ability of each Registrant to sell securities off its shelf registration statement or to access the private placement markets will depend on a number of factors at the time of the proposed sale, including other required regulatory approvals, as applicable, the current financial condition of the Registrant, its securities ratings and market conditions.

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

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

AFFIDAVIT OF MICHAEL L. BROSCH

MICHAEL L. BROSCH, being duly sworn or affirmed, states as follows:

1. My name is Michael L. Brosch. I hold certification as a Certified Public Accountant and principal in the firm Utilitech, Inc., a consulting firm engaged primarily in utility rate and regulation work. My business address is PO Box 481934, Kansas City, Missouri 64148-1934.

2. On July 26, 2012, my Direct testimony on Rehearing, identified as AG/AARP Exhibit 5.0, and attached exhibits AG/AARP Ex. 5.1, 5.2 and 5.3 were filed on e-Docket in this proceeding.

3. I have no corrections or changes to my Direct Testimony on Rehearing, AG/AARP Ex. 5.0, or attached AG/AARP Exhibits 5.1, 5.2 or 5.3. If asked under oath or affirmation the questions posed in AG/AARP Exhibit 5.0, I would provide the answers reflected in that exhibit.

5. The testimony identified above is true and correct to the best of my knowledge and belief. Under penalties as provided by law pursuant to Section 1-109 of the Illinois Code of Civil Procedure, the undersigned certifies that the statements set forth in this instrument are true and correct, except as to matters therein stated to be on information and belief and as to such matters the undersigned certifies as aforesaid that he verily believes the same to be true.

Further Affiant sayeth not.

Michael L. Brosch