Docket No. 11-0721 On Rehearing
ICC Staff Exhibit 24.0

DIRECT TESTIMONY
ON REHEARING

of

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Accounting Department
Financial Analysis Division
Illinois Commerce Commission

Tariffs and charges submitted pursuant to
Section 16-108.5 of the Public Utilities Act
Commonwealth Edison Company

Docket No. 11-0721

July 26, 2012

PUBLIC VERSION
Confidential Information Identified As
*****BEGIN CONF XXXX END CONF*****

Q. Please state your name and business address.

A. My name is Theresa Ebrey. My business address is 527 East Capitol Avenue, Springfield, Illinois 62701.

Q. Are you the same Theresa Ebrey who previously provided direct and rebuttal testimony in this proceeding?

A. Yes. I provided direct testimony in this case as ICC Staff Exhibit 1.0 on January 13, 2012 and rebuttal testimony as ICC Staff Exhibit 13.0 on February 24, 2012.

Q. What is the purpose of your direct testimony on rehearing?

A. The purpose of my testimony is twofold.

1) I discuss the Commission's past practice with regard to the ratemaking treatment of allowing a return on pension contributions. Given that history, I present a ratemaking proposal that calculates a return on Commonwealth Edison Company's ("ComEd" or "the Company"), discretionary pension contributions that is consistent with the Commission's past practice.

2) I address two sets of misleading statements in ComEd's Application for Rehearing ("Application").

Q. Are you sponsoring any schedules as part of your testimony?

A. Yes. I am sponsoring Schedule 24.1 which presents the calculation of my ratemaking proposal that provides a return on ComEd's discretionary pension contributions that is consistent with the Commission's past practice.

Q. Are you sponsoring any attachments as part of your testimony?

A. Yes, I am sponsoring the following attachments to my testimony:

Attachment A	Company response to Staff data request ("DR") TEE 13.02
Attachment B	Company response to Staff DR TEE 13.06
Attachment C	Company response to Staff DR TEE 13.07
Attachment D	Company response to Staff DR TEE 13.08
Attachment E	Company response to Staff DR TEE 13.04
Attachment F	Company response to Staff DR TEE 13.03 including TEE 13.03 Attach 1 (CONFIDENTIAL)
Attachment G	Exelon 10-K 2011 Annual Report – Cover pages and pages 85, 133, and 304.

Q. In its Final Order in this proceeding, the Commission concluded a pension asset does not exist. Is this conclusion consistent with Commission practice?

A. Yes. The Commission's conclusion in this proceeding is consistent with Staff's recommendation as well as Commission practice insofar as no pension asset upon which would be allowed a return was found to exist in previous cases.

Q. You refer in this testimony to your ratemaking proposal that provides a return on ComEd's discretionary pension contributions. Is your ratemaking proposal consistent with Commission practice?

A. Yes. In prior rate cases, the Commission has allowed a return on certain discretionary pension contributions.

Q. Does the Commission's conclusion in this proceeding that no pension asset exists conflict with your ratemaking proposal regarding a return on ComEd's discretionary pension contributions?

A. No. My ratemaking proposal in this case addresses a return on certain discretionary pension contributions. My ratemaking proposal does not refer to or rely on a pension asset. My primary recommendation is that the Commission affirm its conclusion in the May 29, 2012 Order that there is no pension asset due to ~~the Commission~~ ComEd's pension plan being under-funded.

If the Commission, however, determines that some allowance recognizing the customer benefits of the discretionary pension contributions should be included in rates, I recommend that it adopt my ratemaking proposal in addition to my primary recommendation noted above.

<u>**Commission Practice**</u>

Q. In previous rate cases, how has the Commission addressed ComEd's requests to recognize a pension asset?

A. In Docket Nos. 05-0597 and 10-0467, the Commission denied the Company's request to recognize a pension asset for two reasons:

1) A pension asset was not shown to exist since the pension trust fund was not overfunded (Docket No. 05-0597, July 26, 2006, Final Order at 39); and
2) Allowing pension prepayments in the revenue requirement provides a perverse incentive for utilities to divert its capital away from utility investments. (Docket No. 10-0467, May 24, 2011, Order at 51)

Q. Nothwithstanding the Commission's conclusions that no pension asset exists, did the Commission in those prior cases allow a return on ComEd's discretionary pension contributions?

A. Yes, in both cases, the Commission allowed a return on certain discretionary pension contributions.

Q. In those cases, did the amounts ComEd requested for inclusion in rate base as a pension asset match the amounts ComEd reported as a pension asset in its 2005 and 2009 FERC Form 1 reports?

A. No, they did not. The following table shows that the amounts ComEd requested as "pension assets" did not match the amounts recorded as "pension assets" in the FERC Form 1 reports.

Docket Number	**ComEd's Requested Pension Asset to be included in Rates**		**Pension Asset in FERC Form 1, ACCT # 186, page 233**	**Difference**
	Amount	**Description**		
05-0597	$803,000,000	discretionary pension contribution (2005)	$937,956,000	$134,956,000
10-0467	$92,500,000	*jurisdictional* discretionary pension contribution (2009)	$907,476,000	$949,932,000

Q. You indicate that while the Commission did not recognize a pension asset for ComEd for ratemaking purposes, a return on its discretionary pension contributions was granted. Please elaborate.

A. The Commission granted a debt-based return on three occasions with respect to the 2005 discretionary pension contributions and on one occasion with respect to the 2009 discretionary pension contribution.

<u>On the 2005 Discretionary Pension Contribution:</u>

1) <u>Docket No. 05-0597 on Rehearing</u> – The Commission recognized that Exelon's discretionary contributions for ComEd ($803 million) provided customer benefits through a reduction in future pension expense. The Commission granted a long-term debt based return on the $803 million hypothetical debt ComEd would have had to borrow to fund the discretionary pension contribution. Thus, the return of $25.3 million was granted as an operating expense. (Order, Docket No. 05-0597 on Rehearing, December 20, 2006, Appendix A, page 2, column (d))

2) <u>Docket No. 07-0566</u> – Consistent with the previous case, the Commission continued to recognize the customer benefits of the $803 million discretionary contribution that Exelon made in 2005 and approved a revenue requirement that reflected the long-term debt return of $25.4 million. (Docket No. 07-0566, ComEd Ex. 7.1, Schedule C-2.18). At ComEd's request, the Commission included in its Amendatory Order a statement that clarified that the recovery the Commission

granted in Docket No. 05-0597 was not a return on a pension asset, but rather a return on the discretionary pension contribution made in 2005:

> In accordance with our Order in Docket 05-0597, ComEd did not include the $803 million pension contribution in rate base and instead, included an annual debt return on the pension contribution of 4.75%. In this proceeding, ComEd did not re-litigate the merits of including the pension contribution in rate base.[1]

3) Docket No. 10-0467 - The Commission approved Staff's proposal that reduced the outstanding debt balance for ComEd associated with the hypothetical borrowing for the 2005 discretionary pension contribution since the principal debt balance would have decreased over time. Thus, $18.75 million was granted as an operating expense. (Docket No. 10-0467, Staff Exhibit 18.0, Schedule 18.02, and Order, May 24, 2011, page 98)

On the 2009 Discretionary Pension Contribution:

In Docket No. 10-0467, the Commission recognized the customer benefit associated with a discretionary pension contribution and granted a limited return on the $92.591 million discretionary pension contribution made by ComEd in 2009.[2] The Commission granted a return of $6.464 million as an operating expense which the Company calculated to be the ratepayer benefit obtained by ratepayers from this discretionary contribution. (Order, Docket No. 10-0467, May 24, 2011, pp. 50-51)

Current Case

[1] Docket No. 07-0566, November 3, 2008, Amendatory Order at 1-2.
[2] ComEd made a $152 million extra pension contribution in 2009. Of that amount, $92.59 million is the ICC jurisdictional portion that ComEd sought to include in the revenue requirement. (Order, May 24, 2011, p. 49)

Q. Did ComEd make a discretionary pension contribution in 2010? If so, what treatment for this contribution did it seek from the Commission in Docket No. 11-0721?

A. Yes. ComEd made a discretionary pension contribution in 2010 of $230.6 million and asked the Commission to recognize that amount as a pension asset along with its other normal pension contributions net of pension accruals (for a total of $1.038 billion) in the instant proceeding. ComEd further asked that such amount be allowed a long-term debt return. (ComEd Ex. 4.1, Sch FR C-3)

Q. What was the Commission's conclusion regarding ComEd's request to recognize a pension asset in this rate case?

A. The Commission denied the request on the basis that a pension asset was not shown to exist since the pension trust fund was not overfunded. (Order, May 29, 2012, pp. 113-114)

Q. Are there additional arguments to support the Commission's conclusion?

A. The following arguments not previously raised in the record should be noted as additional support for the Commission's conclusion.

1) The FERC Uniform System of Accounts ("USOA"), which governs how companies report amounts recorded in their respective FERC Form 1 reports does not mention nor define the term "pension asset." The FERC USOA has no account titled, "Pension Asset." Likewise, there is no

instruction that states in what account a pension asset is to be recorded. Therefore, a company would have considerable discretion in what it could include or exclude in the category of pension asset. and

2) The amount that ComEd chose to reflect as a pension asset on its FERC Form 1 report reflects both its normal pension contributions (i.e., the required minimum contribution per applicable law) <u>and</u> discretionary pension contributions. In response to Staff DR TEE 3.08, the Company provided an analysis of the change in its pension asset during the period 2003 – 2010. That schedule, which was put into the evidentiary record as ComEd Cross Ex. 11 (Ebrey), reveals the pension asset presented by ComEd includes both normal pension contributions on line 6 and "special contributions" (discretionary pension contributions) on line 7.

<u>Ratemaking Proposal</u>

Q. Describe your ratemaking proposal regarding the pension issue that is consistent with the Commission's practice.

A. As described above, while the Commission has never recognized that ComEd has a pension asset, it has granted ComEd a long-term debt based return based on the discretionary pension contributions. In this case, the Commission has concluded, in considering the pension asset protocol, that no pension asset exists. However, my proposal, consistent with Commission practice, provides 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.

Q. Explain how one would determine the return to be allowed under your ratemaking proposal for the discretionary pension contributions.

A. The determination of the pension return amount under my ratemaking proposal consists of three parts:

1. Continue to recognize a return on the 2005 discretionary pension contribution - Per the Commission's Orders in Docket No. 05-0597 on Rehearing and in Docket No. 10-0467, this return amount would be calculated based on a hypothetical debt issuance by ComEd as if Exelon had not funded this discretionary pension contribution. The balance of this hypothetical debt would decline over time, so the calculated return can likewise be expected to decline. Since rates being developed in this docket are based on the 2010 calendar year, the appropriate corresponding return for the 2005 discretionary pension contribution is based on the assumed remaining balance of the hypothetical debt at the end of 2010 or $19.346 million.[3] (Schedule 24.1, lines 1-13)

2. Return on the 2009 discretionary pension contribution - Per the Commission's order in Docket No. 10-0467, this return amount was calculated by ComEd witness Kathryn M. Houtsma based on the ratepayer benefit in 2010 from the discretionary pension contribution made in 2009.[4] Since the rates being developed in this docket are based on the 2010 calendar year, the appropriate

[3] In Docket No. 10-0467, the return allowed for the 2005 discretionary pension contribution was lower, $18.75 million, because that case was setting rates to be in effect for the future period beginning June 1, 2011.
[4] ComEd Ex. 29.6, p. 1 of 2, Nov. 23, 2010.

corresponding return for the 2009 discretionary pension contribution is $6.464 million. (Schedule 24.1, line 14)

3. <u>Return on the 2010 discretionary pension contribution</u> - In 2010, the discretionary pension contribution came from ComEd's internally generated funds – provided by ratepayers, not investors – and, thus, the return calculation based on a hypothetical debt issuance would not be appropriate to use here.[5] Based upon the Company response to Staff DR TEE 13.02, the discretionary pension contribution made by ComEd in 2010 did not reduce 2010 pension expense.[6] Therefore, there was no ratepayer benefit in 2010 that resulted from the 2010 discretionary pension contribution. The Company has indicated the ratepayer benefit from this 2010 discretionary contribution will not be realized until 2011. (Schedule 24.1, line 15)

Q. Identify the key features of your ratemaking proposal.

A. The key features include:

- The proposal is consistent with the Commission's practice in providing a return for Exelon's and ComEd's discretionary pension contributions;
- The proposal addresses the Commission's concern in Docket No. 10-0467 that allowing pension prepayments in the revenue requirement provides a perverse incentive for utilities to divert its capital away from utility investments by

[5] Company response to Staff DR TEE 3.06
[6] Company response to Staff DR TEE 13.02. (Attachment A)

maintaining the Commission's decision not to recognize the discretionary pension contribution as a pension asset;

- The proposal is consistent with the Commission's recognition in Docket Nos. 05-0597 and 10-0467 that ratepayers derive a benefit from ComEd's discretionary pension payments.
- The proposal is consistent with the Commission's recognition in Docket Nos. 05-0597 and 11-0721 that a pension asset exists only when the pension trust fund is overfunded.

Q. If the Commission adopts this ratemaking proposal, please summarize how past and future pension contributions would need to be handled to be consistent with this decision.

A. If the Commission were to adopt this ratemaking proposal, the general policy would effectively be to recognize a long-term debt based return on discretionary pension contributions only to the extent that the discretionary pension contributions benefit ratepayers in the applicable rate year. Specifically, there would be two different calculations to apply this policy. The first calculation would involve the 2005 discretionary pension contribution only. In future cases, the ratepayer benefit from the 2005 discretionary contribution would be recognized as a long-term debt based return on a declining hypothetical debt balance that was initially established in the Commission Order in Docket No. 05-0597 on Rehearing.

The second calculation involves determining the long-term debt based return on future discretionary pension contributions limited to the ratepayer benefit in the form of reduced pension expense that applies to the rate year at issue. For example, the Company has indicated that its discretionary $230 million pension contribution in 2010 will reduce pension expense in 2011. Therefore, in the Company's formula rate case based on calendar year 2011 data (assuming no pension asset is recognized), the commensurate ratepayer benefit from that 2010 discretionary pension contribution would be recognized as an operating expense. The calculation process would be similar to that adopted by the Commission in Docket 10-0467. (Docket No. 10-0467, Staff Exhibit 18.0, Schedule 18.01)

Q. Would that same calculation be made over a number of years for the discretionary contribution made in a single year?

A. No, the customer benefit for the discretionary contribution made in a single year should only be considered in the initial year that such a ratepayer benefit is realized. A discretionary contribution is, in effect, a prepayment of a future minimum funding contribution. While it is probable that there *might* be a rate payer benefit that continues beyond the next year, the various dynamic factors that would impact the pension calculations make an accurate calculation next to impossible. As the Company itself acknowledged, the components that are used in determining pension costs include "discount rate, expected return on assets, salary growth rate, retirement age, employee turnover, and mortality, among others".[7] Since the total pension funding amount is not static and is affected by a variety of components that change

[7] Company response to Staff DR TEE 13.06. (Attachment B)

over time, accurately determining the ratepayer benefit of the discretionary pension contributions throughout the life of the pension fund would be technically infeasible.

Q. How will this return be reflected in future formula rate revenue requirements?

A. The amount determined through this ratemaking proposal would be included in the Operating Statement as "Pension Funding Costs" consistent with the treatment in Docket Nos. 05-0597 and 10-0467.

Q. Has the Company provided an opinion as to whether allowing a return on the discretionary pension contributions, as has been the Commission's practice, would be appropriate?

A. The Company indicated in response to Staff discovery with regard to the discretionary contributions made to the ComEd pension plan in 2005, 2009, and 2010 that "the recovery provided by the order in ICC Docket No. 10-0467 is not consistent with the requirements of Section 16-108.5(c)(4)(D)".[8]

Q. How do you respond?

A. As I stated above, my ratemaking proposal is unrelated to the pension asset protocol. The Commission has concluded in this proceeding that ComEd had no pension asset for ratemaking purposes. My ratemaking proposal therefore looks to Commission practice. The Orders in Docket Nos. 05-0597 and 10-0467 provided a debt return on the discretionary pension contributions (as an operating expense) to the extent that

[8] Staff Cross Ex. 10 and Staff Cross Ex. 11.

they provided ratepayer benefits. Section 16-108.5 states that the formula rate approved by the Commission shall:

> (1) Provide for the recovery of the utility's actual costs of delivery services that are prudently incurred and reasonable in amount consistent with Commission practice and law. (Section 16-108.5(c)(1))

To the extent that these discretionary pension contributions are deemed to be prudent and reasonable costs of the Company's delivery services, it is consistent with Commission practice that they be reflected in rates in the manner discussed above.

Recommendation

Q. What do you recommend to the Commission regarding the pension asset issue on rehearing?

A. I recommend that the Commission affirm its conclusion in the May 29, 2012 Order that there is no pension asset due to the pension plan being under-funded.

If the Commission, however, determines that its practice should be recognized and some allowance recognizing the customer benefits of the discretionary pension contributions should be included in rates, the Commission should adopt my ratemaking proposal. The information is also presented in my Schedule 24.1 which is consistent with the Commission's practice.

MISLEADING STATEMENTS IN COMPANY'S APPLICATION

Q. Which misleading statements by the Company are you addressing?

A. I will address two sets of statements made by the Company in its Application that pertain to: 1) the claimed reduction in jurisdictional pension expense; and 2) claims made with regard to the discretionary funding of the Company's pension plan.

<u>Jurisdictional Pension Expense</u>

Q. In its Application, the Company stated:

> **The undisputed evidence in this case shows that, because of ComEd's contributions to its pension plan, jurisdictional pension expense was *reduced* by $61 million. (Application for Rehearing, p. 10) (Emphasis not added)**

Do you agree that the jurisdictional pension expense was reduced by $61 million?

A. No, I do not. The calculation of the impact to jurisdictional pension expense of ComEd's contributions to its pension plan would be affected by market conditions. The Company's calculation of the $61 million,[9] however, ignores the impact of the market on the pension contributions made during the seven-year period 2003 through 2009.[10] The Company's calculation incorrectly assumes that the investments made with the contributions over the seven-year period maintained their value throughout the period. The Company's response to Staff DR TEE 13.08 confirms that the pension plans experienced "significant market losses during 2008". Consequently, the investments made prior to 2008 would have decreased in value by 2010. Therefore, the ratepayer benefit would not be calculated on the amount of the initial contribution but on the current, lesser value of those investments.

[9] ComEd Cross Ex. 12 (Ebrey).
[10] Company Responses to Staff DRs TEE 13.07 and TEE 13.08. (Attachment C and Attachment D)

Moreover, the Company's calculated reduction to pension expense is based on ALL contributions to the pension plan over the seven-year period used in the calculation.[11] In every recent order in which the Commission considered the recovery of pension funding costs (i.e., Docket Nos. 05-0597, 07-0566, and 10-0467), however, the Commission *only* considered the reduction in pension expense (i.e., the ratepayer benefit) that resulted from the *discretionary pension contributions made in 2005 and 2009*. At no time has the Commission granted recovery of costs for normal quarterly contributions based on their impact on pension expense.

Discretionary Funding of the Company's Pension Plan

Q. Please provide a brief overview of how the Company's pension plan is set up and recorded on its books.

A. ComEd participates in Exelon's pension plan rather than having its own stand-alone pension plan. Therefore, to accurately understand ComEd's pension situation, one must bring together ComEd's share of all the applicable components of Exelon's pension situation. In other words, ComEd's part mirrors the whole. Exelon's SEC financial statements show a net pension obligation rather than a pension asset.[12]

ComEd reports a pension asset in its FERC Form 1 based on intercompany transactions with Exelon that reflect ComEd's share of Exelon's pension situation. Specifically, the pension asset on ComEd's books only reflects the cumulative difference between its pension accruals (as determined by the actuarial study each

[11] ComEd Cross Ex. 12 (Ebrey).
[12] See Exelon's 12/31/10 SEC 10-K, p. 272 (Benefit obligation of \$12.524 billion – Fair value of plan assets of \$8.859 billion = Pension obligation of \$3.665 billion).

year) and the pension contributions made by ComEd (which consists of the required minimum contribution and any discretionary pension contributions). It does not reflect the substance of ComEd's share of the total Exelon pension status – that ComEd (and Exelon, on a consolidated basis) has a pension liability.[13] The Company admits that in preparing the Exelon consolidated financial statements that the pension asset for each of the Exelon subsidiaries is "reclassified and netted against the pension obligation to reflect the total Exelon consolidated liability".[14] It is undisputed that ComEd's pension is only 68.2% funded as of December 31, 2010.[15] Further, ComEd admits that prior to 2004 it did not record its pension accruals and pension contributions as a pension asset but as a pension liability. (ComEd Cross Ex. 11 (Ebrey))

Q. In its Application for Rehearing. ComEd states that:

> **...the Commission disregards the importance of creating the proper incentives, citing the fact that as of December 31, 2010, ComEd's pension plan was 68.2% funded. The Commission has apparently inferred from this that ComEd is not "committed" to funding the plan above the minimum required by law. That inference, however, is not only unsupported by evidence but is contradicted by it. ComEd's contributions are not only far in excess of the minimum required by law, they continue to increase the level of funding. (ComEd Application for Rehearing, p. 10)**

Please comment.

[13] The liability is labeled "Pension obligation" on Combined Exelon, Exelon Generation Company, LLC, ComEd, and PECO, 2010 Annual Report on Form 10-K, pursuant to section 13 and 15(d)), Filed on 2/10/2011, Filed Period 12/31/2010, p. 161.
[14] Company response to Staff DR TEE 13.04. (Attachment E)
[15] Company response to Staff DR TEE 3.08, also Staff Ex. 1.0, Attachment B.

A. Altogether, these statements give the misleading impression that: 1) the Company has consistently provided pension contributions far in excess of the minimum required by law; and 2) the Company is committed to funding its pension plan above the minimum required by law. These statements, however, are not borne out by the facts provided by the Company in this proceeding nor relevant facts in the Company's financial statements.

First, while the record shows that the Company did make discretionary pension contributions in 2005, 2009 and 2010, it also shows that it did not make discretionary pension contributions in 2003, 2004, 2006, 2007 and 2008. Thus, in those five years, it did not contribute in excess of the minimum required by law. (ComEd Cross Ex. 11 (Ebrey))

Second, the Company's pension funding strategy which it provided to the Exelon Board of Directors on April 27, 2010***BEGIN CONF*** [redacted] ***END CONF*** (Rehearing TEE 13.03 Attach 1)[16]

Third, the Company in its 2011 Financial Statement indicates that the large contribution made in 2011 that led to its pension plan being 83% funded which the Company discussed in its application for rehearing (ComEd Application for Rehearing,

[16] The document discussed in the response to Rehearing TEE 13.03 as "TEE 13.03_Attach 1 (CONFIDENTIAL)" was actually labeled "REHEARING TEE 13.01_Attach 1 (CONFIDENTIAL)". The document provided by the Company is Attachment F to this testimony.

p. 10) was made to give the Company flexibility around the timing of future minimum contributions.[17]

Thus, consistent with this pension funding strategy going forward, it is not surprising that for 2012, Exelon's plan is to contribute only $22 million into ComEd's pension plan.[18]

Q. Does this conclude your prepared direct testimony on rehearing?

A. Yes, it does.

[17] Exelon and ComEd 2011 10-K, p. 85. (Attachment G)
[18] Exelon and ComEd 2011 10-K, pp. 133 and 304 (Attachment G).

ICC Docket No. 11-0721 (ON REHEARING)

**Commonwealth Edison Company's Response to
Illinois Commerce Commission ("STAFF") Data Requests
REHEARING TEE 13.01 – 13.09
Date Received: July 9, 2012
Date Served: July 13, 2012**

REQUEST NO. REHEARING TEE 13.02:

Using the same methodology used in the Company's response to Staff data request BAP 1.04 in Docket No. 10-0467, please provide the calculation of reduction in pension expense in 2010 resulting from the $230,685,000 discretionary contributions allocated to ComEd made to the pension trust in August 2010 and September 2010.

RESPONSE:

As discussed in the surrebuttal testimony of ComEd witness Ms. Houtsma, (ComEd Ex. 21.0, 13:269-278), ComEd's 2010 pension contribution did not reduce 2010 pension expense as ComEd's actuarial consultant determined the 2010 expense allocable to ComEd based on the January 1, 2010 valuation (updated in March 2010 to reflect final January 1 census data) and the contributions were not contemplated in that valuation. The actuarial valuation that establishes pension expense for the following year takes expected contributions and benefit payments into consideration; if additional (or lesser) contributions are made, the amount of pension expense is not adjusted unless the plan is remeasured.

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REHEARING TEE 13.01 – 13.09
Date Received: July 9, 2012
Date Served: July 16, 2012**

REQUEST NO. REHEARING TEE 13.06:

Please explain when the pension expense for each year is determined and what specifically is included in making that determination.

RESPONSE:

ComEd objects to this data request on grounds that it does not seek information that is relevant to any factual issue on rehearing and is not reasonably calculated to lead to the discovery of admissible evidence. ComEd further objects to this data request on grounds that it requires ComEd to produce information that was available at the time of the initial proceedings in this docket. .Subject to and without waiving these objections, ComEd responds to this data request as follows.

Net periodic pension cost is actuarially determined at the beginning of each year, based on the plan obligation and measurement assumptions at the beginning of the year. Some of the key measurement assumptions include discount rate, expected return on assets (EROA), salary growth rate, retirement age, employee turnover, and mortality, among others. Net periodic pension cost also reflects expected contributions to be made during the current fiscal year. Current year contributions that differ from beginning-of-year expectations are reflected in the following year's pension costs. The net periodic pension cost is also based on participant census data as of the beginning of the year. Given that final census data is typically not available by the time net periodic pension cost is recorded for the first month of the year, many companies, including Exelon, initially use an estimate of beginning-of-year census data and record a "true-up" later in the year once final census data is available. Exelon typically receives an actuarial report based on final January 1st census data and records its "true-up" to current year pension cost in March of each year. In this March report, ComEd's pension cost for the year is determined. For the March 2010 actuarial report and the assumptions used in making the determination of pension cost for that year see those Corrected documents ComEd provided pursuant to General Information Requirement Section 285.305(g) (CONFIDENTIAL). At that point, pension costs are generally fixed, although costs could change if a re-measurement of the plan were required during the year, which would occur in the case of a significant event such as a major plan amendment or settlements. A settlement is a transaction that relieves the employer of responsibility for a benefit obligation under the plan, such as paying a lump sum to a participant. A re-measurement is triggered if the settlement of obligations exceeds a certain threshold.

Net periodic pension cost includes the following components which are determined in each actuarial valuation:

- Service cost – represents the portion of the net benefit cost attributable to the additional benefit earned by an employee for service performed for the entity during the year. The service cost recognized in net periodic pension cost is the actuarially determined present value of projected benefits attributed to that period based upon the pension plan benefit formula.

- Interest cost – represents the portion of net benefit cost attributable to the cost of carrying the pension obligation from one period to the next. The projected benefit obligation (PBO) is measured at present value, using a discount rate representing the time value of money. Thus, the interest cost component of pension cost is the increase in the PBO due to the passage of time.

- Expected return on plan assets – represents the portion of net benefit cost attributable to the expected increase in the value of plan assets over the course of the year. The expected return on plan assets is the product of the expected long-term rate of return (EROA) on plan assets and the market-related value of plan assets. The EROA has the effect of reducing pension cost and is estimated based on market conditions and the nature of the assets.

- Amortization of prior service cost / credit – arises from plan amendments that increase / decrease benefits for service rendered in prior periods. It is measured by the increase in the PBO at the date the amendment is adopted. Prior service cost / credit is amortized as a component of net periodic pension cost over the estimated average remaining service period of impacted plan participants.

- Amortization of gains / losses – arise from experience that is different from assumptions, or changes in assumptions (such as asset returns that differ from expectations). Exelon amortizes its gains and losses as a component of net periodic pension cost if they exceed a corridor, defined as the greater of 10 percent of the PBO or 10 percent of the market-related value of plan assets at the beginning of the year (Exelon's PBO is greater than the market-related value of plan assets). Gains or losses that exceed the corridor are amortized over the estimated average remaining service period of active employees expected to receive benefits.

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Date Received: July 9, 2012
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REQUEST NO. REHEARING TEE 13.07:

Referring to Company Exhibit 12.1, please explain why the expense for 2005 decreased by 2/3 from the 2004 level when the discretionary contribution in 2005 was not made until March?

RESPONSE:

ComEd objects to the question as vague and ambiguous as it implies that a 2/3 reduction in costs from 2004 to 2005 was not appropriate without providing a foundation for that assumption. ComEd also objects to the question on grounds that it does not seek facts relevant to any issue on rehearing and not reasonably calculated to lead to discovery of admissible evidence. ComEd further objects to the question as it mischaracterizes the data provided in ComEd Ex. 12.1. ComEd Ex. 12.1 does not include amounts for either 2005 or 2004 pension expense. ComEd Ex. 12.1, line 3, presents the annual changes to the pension asset/liability accounts that are accrued as a combination of pension expense and capitalized pension costs. Notwithstanding these objections, ComEd responds as follows:

A variety of factors that are subject to change from year to year are used to determine annual pension costs, including, but not limited to, contributions to the pension fund, the discount rate used to value future pension obligations, investment returns, and various actuarial assumptions regarding the demographics of the employee and retiree population. Pension costs (O&M and capitalized amounts) in 2005 of $22.4 million were lower than the comparable amount of $62.0 million in 2004 principally due to the contribution of $803 million to the pension fund in March 2005, partially offset by the impacts of a decrease in the discount rate from 6.25% in 2004 to 5.75% in 2005 (which has an adverse impact on pension costs).

ComEd also notes that the March 2005 contribution was made before the actuarial valuation for 2005 was completed, and therefore the contribution was able to be considered in the 2005 actuarial valuation.

ICC Docket No. 11-0721 (ON REHEARING)

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Illinois Commerce Commission ("STAFF") Data Requests
REHEARING TEE 13.01 – 13.09
Date Received: July 9, 2012
Date Served: July 13, 2012**

REQUEST NO. REHEARING TEE 13.08:

Referring to Company Exhibit 12.1, why did the expense increase by 20% in 2010 over the 2009 level after an additional $152 million was contributed to the plan in 2009? Please explain why expense in 2010 did not decrease given the influx of cash in 2009.

RESPONSE:

ComEd interprets this data request referring to the increase in the accrual (including amounts charged to expense and capital) in 2010 over 2009, ($124,022,000) and ($102,676,000), respectively, rather than the expense as neither year's expense is provided on ComEd Ex. 12.1. Given that interpretation, ComEd responds as follows:

The increase in the 2010 accrual (costs) was driven mainly by a decrease in the applicable discount rate (5.83% in 2010 and 6.09% in 2009). Additionally, the pension plans experienced significant market losses during 2008, which contributed to the higher costs in 2010. These increases in the costs were partially offset by the impact of the 2009 contribution (which reduced the accrual).

Docket No. 11-0721 on Rehearing
ICC Staff Exhibit 24.0
Attachment E

ICC Docket No. 11-0721 (ON REHEARING)

Commonwealth Edison Company's Response to
Illinois Commerce Commission ("STAFF") Data Requests
REHEARING TEE 13.01 – 13.09
Date Received: July 9, 2012
Date Served: July 16, 2012

REQUEST NO. REHEARING TEE 13.04:

Please provide all entries that were made in the consolidation process to prepare the Exelon Consolidated financial statements that eliminated the pension asset that appeared on the Exelon Generation Company, Commonwealth Edison Company, and PECO Energy Company for the year ended December 31, 2010.

RESPONSE:

ComEd objects to this data request on grounds that it seeks information that is not relevant to any issue on rehearing and is not reasonably calculated to lead to the discovery of admissible evidence. ComEd further objects to this data request on grounds that it is duplicative of other data requests that have already been responded to and does not seek any other information that was not available at the time of the proceedings in this case prior to rehearing.

Journal entries made in 2010 for the pension plan on either ComEd's or Exelon's books were provided in ComEd's Response to Staff Data Request TEE 3.02. The attachment labeled as REHEARING TEE 13.04_Attach 1 includes this detail as well as a summary of the entries. The pension asset is not "eliminated" but rather reclassified and netted against the pension obligation to reflect the total Exelon consolidated liability. ComEd also notes that, as described in its Response to Staff Data Request TEE 3.07, and in the Surrebuttal Testimony of Kathryn M. Houtsma, ComEd Ex. 21.0, 9:185-9:200, Exelon has recorded a regulatory asset that is directly related to and offsets ComEd's total pension obligation and should be considered when evaluating Exelon's total consolidated position. The table below shows Exelon's consolidated reclass to reflect the ultimate consolidated obligation position.

Amounts in millions		
ComEd Pension Asset	1,039	(1)
PECO Pension Asset	281	(1)
Exelon Generation Pension Asset	1,236	(1)
Exelon Consolidated Reclass to Obligation	(2,556)	

(1) Ties to Exelon's 2010 Form 10-K, Exelon Generation page 166, ComEd page 172, and PECO page 178.

CFRCR 0089681

ICC Docket No. 11-0721 (ON REHEARING)

**Commonwealth Edison Company's Response to
Illinois Commerce Commission ("STAFF") Data Requests
REHEARING TEE 13.01 – 13.09
Date Received: July 9, 2012
Date Served: July 16, 2012**

REQUEST NO. REHEARING TEE 13.03:

Please provide the analysis, studies, reports, etc. used by Exelon and/or ComEd in the determination to make the discretionary contributions to the pension trust in 2010. Include all alternative uses considered for the funds that were contributed to the trust and reasons for rejecting them.

RESPONSE:

ComEd objects to this data request on grounds that it does not seek information that is relevant to any factual issue on rehearing and is not reasonably calculated to lead to the discovery of admissible evidence. ComEd further objects to this data request on grounds that it requires ComEd to produce information that was available at the time of the initial proceedings in this docket. Subject to and without waiving these objections, ComEd responds to this data request as follows.

The attachment labeled as TEE 13.03_Attach 1 (CONFIDENTIAL) includes materials presented regarding the pension funding strategy to the Exelon Board of Directors on April 27, 2010. Due to the nature of the information contained in this attachment, only a CONFIDENTIAL version of the attachment is being provided.

TEE 13.03 Attachment 1

(Attachment F Continued)

22 Pages

Confidential and Proprietary

EXELON CORP

10-K

Annual report pursuant to section 13 and 15(d)
Filed on 2/9/2012
Filed Period 12/31/2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2011

OR

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

Commission File Number	Exact Name of Registrant as Specified in its Charter; 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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
EXELON CORPORATION:	
Common Stock, without par value	New York and Chicago
PECO ENERGY COMPANY:	
Cumulative Preferred Stock, without par value: $4.68 Series, $4.40 Series, $4.30 Series and $3.80 Series	New York
Trust Receipts of PECO Energy Capital Trust III, each representing a 7.38% Cumulative Preferred Security, Series D, $25 stated value, issued by PECO Energy Capital, L.P. and unconditionally guaranteed by PECO Energy Company	New York

Securities registered pursuant to Section 12(g) of the Act:

COMMONWEALTH EDISON COMPANY:
Common Stock Purchase Warrants, 1971 Warrants and Series B Warrants

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In 2010, the PAPUC approved PECO's Smart Meter Procurement and Installation Plan, representing an investment of up to a total of $650 million, including its $200 million SGIG, on its smart grid and smart meter infrastructure. See the *Regulatory and Legislative Matters* section below and Note 2 of the Combined Notes to Consolidated Financial Statements for additional information on the utility infrastructure projects.

Liquidity and Cost Management

Pension Plan Funding. In January 2011, Exelon contributed $2.1 billion to its pension plans which, along with other factors, increased the funded status of the Exelon pension plans to 83% at December 31, 2011 from 71% at December 31, 2010. This contribution creates flexibility around the timing of future expected minimum contributions, decreases future pension costs, and allows Exelon to further pursue its liability hedge strategy in order to reduce the volatility of its pension assets relative to its pension liabilities.

Financing Activities. On January 18, 2011, ComEd issued $600 million of 1.625% First Mortgage Bonds due January 15, 2014. The net proceeds of the bonds were used as an interim source of liquidity for the January 2011 contribution to Exelon-sponsored pension plans in which ComEd participates. ComEd anticipates receiving tax refunds as a result of both the pension contribution and the Tax Relief Act of 2010 allowing for 100% bonus depreciation deductions in 2011 and 2012. As a result, the immediate use of the net proceeds to fund the planned contribution will allow those future cash receipts to be available to fund capital investment and for general corporate purposes.

On September 7, 2011, ComEd issued $250 million of 1.95% First Mortgage Bonds due September 1, 2016 and $350 million of 3.40% First Mortgage Bonds due September 1, 2021. The majority of the net proceeds of the bonds was used to refinance $191 million of ComEd's variable rate tax-exempt bonds on October 12, 2011 and $345 million of ComEd's 5.40% First Mortgage Bonds due December 15, 2011. The remainder of the net proceeds were used to fund other general corporate purposes.

Credit Facilities. On March 23, 2011, Exelon Corporate, Generation and PECO replaced their unsecured revolving credit facilities with new facilities with aggregate bank commitments of $500 million, $5.3 billion and $600 million, respectively. Although the covenants are largely the same as the prior facilities, the new facilities have higher borrowing costs, reflecting current market pricing. See Note 10 of the Combined Notes to Consolidated Financial Statements for further information regarding those costs.

ComEd's $1.0 billion unsecured revolving credit facility expires on March 25, 2013 unless extended in accordance with terms. ComEd plans to renew or replace the credit facility in 2012. See Note 10 of the Combined Notes to Consolidated Financial Statements for further information regarding the credit facility terms.

On October 21, 2011, Generation, ComEd and PECO replaced their expiring minority and community bank credit facility agreements with new minority and community bank credit facility agreements in the amounts of $50 million, $34 million and $34 million, respectively. See Note 10 of the Combined Notes to Consolidated Financial Statements for further information regarding the credit facilities.

Cost Management. Exelon is committed to operating its businesses responsibly and managing its operating and capital costs in a manner that serves its customers and produces value for its shareholders. Exelon is also committed to an ongoing strategy to make itself more effective, efficient and innovative. Exelon is committed to maintaining a cost control focus and continues to analyze cost

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The Registrants primarily use their capital resources, including cash, to fund capital requirements, including construction expenditures, retire debt, pay dividends, fund pension and other postretirement benefit obligations and invest in new and existing ventures. The Registrants spend a significant amount of cash on capital improvements and construction projects that have a long-term return on investment. Additionally, ComEd and PECO operate in rate-regulated environments in which the amount of new investment recovery may be delayed or limited and where such recovery takes place over an extended period of time. See Note 10 of the Combined Notes to Consolidated Financial Statements for further discussion of the Registrants' debt and credit agreements.

Proposed Merger Commitments

As part of the application for approval of the merger by the MDPSC and related settlements, Exelon and Constellation have proposed a package of benefits to Baltimore Gas and Electric Company customers, the City of Baltimore and the State of Maryland, which results in a direct investment, including capital projects, in the State of Maryland of more than $1 billion. Exelon will evaluate the funding sources for these commitments at the time the specific investments or contributions are made. The funding may be through a combination of cash on the balance sheet, cash from operations or external financing. Of the $1 billion, Exelon estimates that approximately $150–200 million will be funded in 2012 with the remainder funded in 2013 and beyond. See Note 3 of the Combined Notes to Consolidated Financial Statements for further discussion of the proposed merger with Constellation.

Cash Flows from Operating Activities

General

Generation's cash flows from operating activities primarily result from the sale of electric energy to wholesale customers. Generation's future cash flows from operating activities may be affected by future demand for and market prices of energy and its ability to continue to produce and supply power at competitive costs as well as to obtain collections from customers. ComEd's and PECO's cash flows from operating activities primarily result from the transmission and distribution of electricity and, in the case of PECO, gas distribution services. ComEd's and PECO's distribution services are provided to an established and diverse base of retail customers. ComEd's and PECO's future cash flows may be affected by the economy, weather conditions, future legislative initiatives, future regulatory proceedings with respect to their rates or operations, and their ability to achieve operating cost reductions. See Notes 2 and 18 of the Combined Notes to Consolidated Financial Statements for further discussion of regulatory and legal proceedings and proposed legislation.

Pension and Other Postretirement Benefits

Management considers various factors when making pension funding decisions, including actuarially determined minimum contribution requirements under ERISA, contributions required to avoid benefit restrictions and at-risk status as defined by the Pension Protection Act of 2006, management of the pension obligation and regulatory implications. Exelon expects to contribute approximately $139 million to its pension plans in 2012, of which Generation, ComEd and PECO expect to contribute $60 million, $22 million and $16 million, respectively. Exelon contributed approximately $2.1 billion to its pension plans in January 2011 of which Generation, ComEd and PECO contributed $954 million, $873 million and $110 million, respectively. Exelon funded the $2.1 billion contribution with approximately $500 million from cash from operations, $750 million from the tax benefits of making the pension contributions and $850 million associated with the accelerated cash tax benefits from the 100% bonus depreciation provision enacted as part of the Tax Relief Act of 2010. Exelon contributed $766 million and $441 million to its pension plans in 2010 and 2009, respectively. See Note 13 of the Combined Notes to Consolidated Financial Statements for the Registrants' 2011 and 2010 pension contributions.

Unlike the qualified pension plans, Exelon's other postretirement plans are not subject to regulatory minimum contribution requirements. Management considers several factors in determining the level of contributions to Exelon's other postretirement benefit plans, including levels of benefit

(Dollars in millions, except per share data unless otherwise noted)

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Contributions

Exelon allocates pension and other postretirement benefit contributions to its subsidiaries in proportion to active service costs recognized and total costs recognized, respectively. The following table provides contributions made by Generation, ComEd, PECO and BSC to the pension and other postretirement benefit plans:

	Pension Benefits			Other Postretirement Benefits		
	2011	2010	2009	2011 (a)	2010 (a)	2009 (a)
Generation	$ 954	$356	$201	$ 121	$ 94	$ 69
ComEd	873	260	154	108	60	53
PECO	110	73	31	28	35	22
BSC	157	77	45	20	14	13
Exelon	$2,094	$766	$441	$ 277	$ 203	$ 157

(a) The Registrants present the cash contributions above net of Federal subsidy payments received on each of their respective Consolidated Statements of Cash Flows. Exelon, Generation, ComEd and PECO received Federal subsidy payments of $11 million, $5 million, $4 million and $1 million, respectively, in 2011, $10 million, $5 million, $3 million and $2 million, respectively, in 2010 and $10 million, $5 million, $3 million and $1 million, respectively, in 2009.

Exelon plans to contribute approximately $96 million to its qualified pension plans in 2012, of which Generation, ComEd and PECO will contribute $57 million, $11 million and $16 million, respectively. Exelon plans to make non-qualified pension plan benefit payments of approximately $42 million in 2012, of which Generation, ComEd and PECO will pay $3 million, $11 million and $1 million, respectively. Management considers various factors when making pension funding decisions, including actuarially determined minimum contribution requirements under ERISA, contributions required to avoid benefit restrictions and at-risk status as defined by the Pension Protection Act of 2006 (the Act), management of the pension obligation and regulatory implications. The Act requires the attainment of certain funding levels to avoid benefit restrictions (such as an inability to pay lump sums or to accrue benefits prospectively), and at-risk status (which triggers higher minimum contribution requirements and participant notification).

Unlike the qualified pension plans, Exelon's other postretirement plans are not subject to regulatory minimum contribution requirements. Management considers several factors in determining the level of contributions to Exelon's other postretirement benefit plans, including levels of benefit claims paid and regulatory implications (amounts deemed prudent to meet regulatory expectations and best assure continued rate recovery). Exelon expects to contribute approximately $302 million to the other postretirement benefit plans in 2012, of which Generation, ComEd and PECO expect to contribute $132 million, $114 million and $34 million, respectively.

During the first quarter of 2012. Exelon will receive an updated valuation of its pension and other postretirement benefit obligations to reflect actual census data as of January 1, 2012 and will adjust the benefit obligations as necessary.

Docket No. 11-0721 on Rehearing
ICC Staff Exhibit 24.0
Schedule 24.1

Commonwealth Edison Company
Adjustment To Reflect 2010 Pension Funding Costs
For the Test Year Ending December 31, 2010
(In Thousands)

Line No. (a)	Description (b)		Amount (c)	Source (d)
	Calculated 2005 Pension Contribution Funding Costs for 2010 per Staff:			
1	Longest Term To Maturity - Senior Secured First Mortgage Bonds (Theoretical)		30.0	Docket No. 05-0597, ComEd Ex. 52.15, p. 1, line 7.
2	Shortest Term To Maturity - Senior Secured First Mortgage Bonds (Theoretical)		5.0	Docket No. 05-0597, ComEd Ex. 52.15, p. 1, line 5.
3	Span of Maturity		25.0	Line 1 minus line 2
4	To Obtain Simple Average Span of Maturity		2.0	
5	Simple Average Span of Maturity		12.5	Line 3 divided by line 4
6	Number of Years to Shortest Term of Maturity		5.0	Line 2
7	Estimated Average Term To Maturity (in years)		17.5	Line 5 plus line 6
8	Estimated Average Term To Maturity (in months)		210.0	Line 8 multiplied by 12
9	Estimated Number of Months Recovered Prior to Instant Proceeding		48.0	January 2007 through December 2010
10	Estimated Percentage of Term Expired		0.23	Line 9 divided by line 8
11	Estimated Percentage of Term Unexpired		0.77	100% minus line10
12	2005 Pension Contribution Funding Costs		25,078	Docket No. 10-0467, Company Schedule C-2.3, line 7
13	Estimated Remaining Balance of 2005 Pension Contribution Funding Costs	$	19,346	Line 11 multiplied by line 12
14	2010 Ratepayer benefit from September 2009 pension contribution		6,464	Company response to Staff data request TEE 13.01
15	2010 Ratepayer benefit from 2010 discretionary pension contribution		0	Company response to Staff data request TEE 13.02
16	2010 Pension Funding Costs	$	25,810	Sum of lines 13, 14, and 15

Format for the above calculation taken from the Order, Docket No. 10-0467, Appendix A, page 24.