

**STATE OF ILLINOIS**  
**ILLINOIS COMMERCE COMMISSION**

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| Commonwealth Edison Company  | ) |                |
|  | ) |                |
| Reconciliation of revenues collected under Rider UF with uncollectible costs incurred. | ) | Docket No. 12- |
|  | ) |                |

Direct Testimony of  
**KEVIN J. WADEN**  
Vice President and Controller  
Commonwealth Edison Company

August 31, 2012

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1 **I. Introduction and Purpose**

2 **A. Identification of Witness**

3 **Q. What is your name and business address?**

4 A. Kevin J. Waden, Commonwealth Edison Company (“ComEd”), Three Lincoln Centre,  
5 Oakbrook Terrace, Illinois 60181.

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

7 A. I am employed by ComEd as its Vice President and Controller.

8 **B. Purpose of Testimony**

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

10 A. The purpose of my direct testimony is to explain ComEd’s reconciliation of revenues  
11 collected under Rider UF – Uncollectible Factors (“Rider UF”) with the actual  
12 uncollectible costs incurred by ComEd that were prudently incurred and reasonable in  
13 amount, as recorded in ComEd’s accounting records, for the calendar year 2010. Rider  
14 UF’s operation is relatively straightforward, and assures that ComEd recovers from  
15 customers its actual uncollectible costs, no more and no less. To that end, I also discuss  
16 the impact of the 2010 balancing factor, which will increase the amounts otherwise to be  
17 recovered from most retail customers beginning with the September 2012 monthly billing  
18 period.

19 **C. Identification of Exhibits**

20 **Q. What exhibits are attached to and incorporated in your direct testimony?**

21 A. I have attached the following exhibits to my testimony:

22 ComEd Exhibit (“Ex.”) 2.1: Relevant tariff sheets from ComEd’s “Compliance Filing  
23 ICC Docket No. 07-0566”, submitted to the Illinois Commerce Commission (“ICC” or  
24 “Commission”) on September 12, 2008, effective September 16, 2008.

25 ComEd Ex. 2.2: ComEd’s Informational Sheets Filed to Incorporate Changes to  
26 Incremental Uncollectible Cost Factors, submitted to the ICC on May 19, 2011,  
27 applicable beginning with the June 2011 monthly billing period, and the supporting  
28 workpapers transmitted electronically to the Staff of the Commission on May 20, 2011.

29 ComEd Ex. 2.3: Relevant tariff sheets from ComEd’s “Compliance Filing ICC Docket  
30 No. 10-0467”, submitted to the ICC on May 25, 2011, effective June 1, 2011, and  
31 ComEd’s Informational Sheets Filed to Incorporate Changes to Incremental Uncollectible  
32 Cost Factors, applicable beginning with the June 2011 monthly billing period, and the  
33 supporting workpapers transmitted electronically to the Staff of the Commission on May  
34 25, 2011.

35 ComEd Ex. 2.4: ComEd’s “Informational Sheets Filed to Incorporate Changes to  
36 Incremental Uncollectible Cost Factors”, submitted to the ICC on August 18, 2011,  
37 applicable beginning with the September 2011 monthly billing period, and the supporting  
38 workpapers transmitted electronically to the Staff of the Commission on August 19,  
39 2011.

40 ComEd Ex. 2.5: ComEd’s Informational Sheets Filed to Incorporate Changes to  
41 Incremental Uncollectible Cost Factors, submitted to the ICC on May 17, 2012,  
42 applicable beginning with the June 2012 monthly billing period, and the supporting

43 workpapers transmitted electronically to the Staff of the Commission on May 17 and  
44 May 18, 2012.

45 ComEd Ex. 2.6: Relevant tariff sheets from ComEd’s “Compliance Filing ICC Docket  
46 No. 11-0721”, submitted to the ICC on June 6, 2012, effective June 20, 2012, and  
47 ComEd’s Informational Sheets Filed to Incorporate Changes to Incremental Uncollectible  
48 Cost Factors, applicable beginning with June 20, 2012 billings, and the supporting  
49 workpapers transmitted electronically to the Staff of the Commission on June 6, 2012.

50 ComEd Ex. 2.7: ComEd’s “Informational Sheets Filed to Incorporate Changes to  
51 Incremental Uncollectible Cost Factors”, submitted to the ICC on August 17, 2012,  
52 applicable beginning with the September 2012 monthly billing period, and the supporting  
53 workpapers transmitted electronically to the Staff of the Commission on August 20,  
54 2012.

55 ComEd Ex. 2.8: Report entitled “2012 ComEd Rider Uncollectible Factors Review”.

56 **D. Background and Experience**

57 **Q. Mr. Waden, please summarize your duties and responsibilities in your current**  
58 **position.**

59 A. In my current role as Vice President and Controller for ComEd, I am responsible for  
60 ComEd’s accounting operations and associated internal controls as well as its external  
61 financial report filings with the Securities and Exchange Commission, the Federal Energy  
62 Regulatory Commission (“FERC”), and the ICC. Additionally, I am responsible for  
63 accounting research at ComEd, including the implementation of new accounting  
64 standards.

65 **Q. Mr. Waden, please summarize your educational background and professional**  
66 **experience.**

67 A. I graduated with honors from Augustana College, Rock Island, Illinois in 1992 with a  
68 Bachelor's degree in Accounting and Business Administration. I am also a 1998  
69 graduate of Northwestern University's J.L. Kellogg Graduate School of Management,  
70 where I earned a Master of Business Administration degree in finance, real estate and  
71 organizational behavior. Additionally, I am a licensed Certified Public Accountant in the  
72 State of Illinois and a member of the American Institute of Certified Public Accountants.

73 I began my career at Arthur Andersen, LLP in 1993 in the audit practice of the  
74 Chicago office as a staff auditor. Over the next nine years, my responsibilities at Arthur  
75 Andersen continued to expand, and I received several promotions, ultimately to the level  
76 of experienced manager. A significant portion of my time at Arthur Andersen was  
77 focused on the energy industry, which included working with ComEd from 1995 through  
78 2000. In May 2002, I joined ComEd as the Manager of Financial Reporting. In  
79 September 2003, I was promoted to Director of Financial Reporting and Accounting  
80 Research for Exelon Energy Delivery, LLC. In January 2007, I became the Director of  
81 Accounting Operations for ComEd, and in January 2008, my role expanded to cover both  
82 Accounting Operations and Financial Reporting. I was promoted to my current position  
83 effective August 2009.

84 **II. Summary of Operation of Rider UF**

85 **Q. Please generally describe Rider UF.**

86 A. The purpose and intent of Rider UF is to pass through to retail customers the applicable  
87 uncollectible costs incurred by ComEd. To this end, Rider UF prescribes the method of

88 computing the charges or credits that reflect the incremental difference between ComEd's  
89 actual uncollectible amount, set forth as its "Uncollectible Accounts" (Account No. 904)  
90 in its FERC Form No. 1: Annual Report of Major Electric Utilities, Licensees and Others  
91 ("FERC Form 1") and the uncollectible amount associated with the recovery of  
92 uncollectible costs accrued through the application of existing charges. Each May,  
93 ComEd files with the Commission an informational filing that reflects this incremental  
94 difference from the prior calendar year through revised incremental uncollectible cost  
95 factors applicable for the 12-month period beginning with the June monthly billing period  
96 and extending through the following May monthly billing period.

97 Following the application of the incremental uncollectible cost factors, ComEd  
98 calculates a balancing factor for each of the customer groups described in Rider UF.  
99 Each balancing factor reflects the difference between the incremental uncollectible cost  
100 for a given year and the amounts accrued for such incremental amount through the  
101 application of the incremental uncollectible cost factors. Rider UF provides that  
102 balancing factors be applied beginning with the next September monthly billing period.  
103 The balancing factors related to the 2010 incremental uncollectible factors reflect a  
104 cumulative under collection of Rider UF revenues. Therefore, the application of the  
105 balancing factors beginning in September 2012 will increase the amount otherwise to be  
106 recovered from all retail customers.

107 **Q. Please describe the uncollectible costs recoverable through Rider UF.**

108 A. The costs recoverable through Rider UF are equal to the bad debt expense recorded in  
109 Account No. 904 of FERC Form 1 for the applicable year that are related to distribution  
110 and supply service provided to retail customers. The activities related to managing bad

111 debt that are undertaken by ComEd are described in more detail in the direct testimony of  
112 William B. DeLoach. *See* ComEd Ex. 3.0.

113 ComEd accrues the estimated allowance for the uncollectible accounts expense on  
114 customer receivables and records such estimate in FERC Form 1 Account No. 904  
115 (Uncollectible Accounts) and Account No. 144 (Accumulated Provision for Uncollectible  
116 Accounts).

117 **Q. How does ComEd recover the uncollectible amounts through existing charges?**

118 A. Consistent with the Commission rate case order in effect during 2010, a specific amount  
119 of uncollectible costs associated with distribution service was reflected in the distribution  
120 revenue requirement in 2010. Therefore, ComEd recovered these costs through the  
121 application of Customer Charges, Standard Metering Service Charges, Distribution  
122 Facilities Charges, and the Illinois Electricity Distribution Tax Charge (“IEDT”)  
123 (collectively, the “standard delivery service charges”), in accordance with the provisions  
124 of Rate BES – Basic Electric Service (“Rate BES”), Rate BESH – Basic Electric Service  
125 Hourly Pricing (“Rate BESH”), and Rate RDS – Retail Delivery Service (“Rate RDS”).  
126 Concerning electric power and energy supply and transmission service, ComEd recovers  
127 its uncollectible costs through the application of a multiplier adjustment to base supply-  
128 related charges. Specifically, the adjustment is included in the Purchased Electricity  
129 Charges and PJM Services Charges applied in accordance with the provisions of Rate  
130 BES, as well as in the Capacity Charges, Hourly Energy Charges, PJM Services Charges,  
131 and Miscellaneous Component Charges applied in accordance with the provisions of Rate  
132 BESH and Rider PPO – Power Purchase Option (“Rider PPO”). These multipliers are

133 also set by the Commission in its most recent rate case order, and are identified in Rider  
134 UF as the base uncollectible cost factors (“BUFs”).

135 **Q. How does ComEd recover the incremental difference between its actual**  
136 **uncollectible amount, set forth as its bad debt expense in Account No. 904 in its**  
137 **FERC Form 1, and the uncollectible amounts included in its existing rates?**

138 A. Rider UF provides for the determination of incremental uncollectible cost factors that are  
139 applied as multipliers to base charges. Distinct incremental cost factors are determined  
140 for three different customer groupings: residential customers; nonresidential customers  
141 to which the Watt-Hour Delivery Class, Small Load Delivery Class, Medium Load  
142 Delivery Class, and Large Load Delivery Class are applicable; and all other customers.  
143 Further, as I describe below, Rider UF provides for the determination and application of  
144 two sets of incremental uncollectible cost factors – incremental supply uncollectible cost  
145 factors (“ISUFs”) and incremental distribution uncollectible cost factors (“IDUFs”).

146 ISUFs are determined to provide for the recovery of incremental uncollectible  
147 costs associated with the supply of electricity by ComEd to its customers, and are applied  
148 only to customers for which ComEd supplies electric power and energy. ISUFs  
149 determined in accordance with Rider UF are applied as multipliers to the Purchased  
150 Electricity Charges and PJM Service Charges in accordance with the provisions of Rate  
151 BES. As previously noted, separate ISUFs are determined for the three different  
152 customer groupings. A system average ISUF, consistent with current tariff provisions, is  
153 applied as a multiplier in the computation of the Capacity Charges, Hourly Energy  
154 Charges, PJM Services Charges, and Miscellaneous Component Charges in accordance

155 with the provisions of Rate BESH and Rider PPO. ISUFs are applied in addition to the  
156 application of the previously described BUFs.

157 IDUFs, on the other hand, are determined to provide for the recovery of the  
158 remaining incremental uncollectible costs incurred by ComEd and are applicable to all  
159 customers. IDUFs determined in accordance with the provisions of Rider UF are applied  
160 as multipliers to the standard delivery service charges, as shown in Rate RDS. These  
161 charges with the adjustment due to the application of the multipliers are applied to  
162 customers in accordance with the provisions in Rate BES, Rate BESH, or Rate RDS, as  
163 applicable. Like ISUFs, IDUFs are determined for the three different customer  
164 groupings.

165 **Q. How are the ISUFs and IDUFs determined and applied?**

166 A. Rider UF provides the equations used to determine the applicable IDUFs and ISUFs that  
167 effectuate the recovery of the incremental difference between ComEd's bad debt expense  
168 in Account No. 904 in its FERC Form 1 for a given calendar year and the uncollectible  
169 amounts associated with the recovery of uncollectible costs accrued through the  
170 application of existing charges during that year. These IDUFs and ISUFs addressed in  
171 this testimony were applicable beginning with the June 2011 monthly billing period and  
172 extending through the May 2012 monthly billing period.

173 **Q. Does Rider UF include any further adjustments following the application of the**  
174 **IDUFs and ISUFs?**

175 A. Yes, it does. To ensure there is no over or under collection of uncollectible costs, Rider  
176 UF includes balancing factors that ComEd determines each year. Beginning with the

177 September 2012 monthly billing period, a distribution balancing factor (“DBF”) for 2010  
178 will be incorporated into the determination of each IDUF and a supply balancing factor  
179 (“SBF”) will be incorporated into the determination of each ISUF.

180 • DBF: A DBF is determined each year for each of the three customer groups. For  
181 example, using 2011 as an exemplar year, the DBF would be the difference  
182 between the incremental distribution uncollectible cost for 2011 for that group  
183 and the amounts accrued for such incremental amount through the application of  
184 the IDUF for that group during the June 2012 monthly billing period through the  
185 May 2013 monthly billing period.

186 • SBF: Similarly, an SBF is determined each year for each of the three customer  
187 groupings. Using 2011 again as an exemplar year, the SBF would be the  
188 difference between the incremental supply uncollectible cost for 2011 for that  
189 group and the amounts accrued for such incremental amount through the  
190 application of the ISUF for the group during the June 2012 monthly billing period  
191 through the May 2013 monthly billing period.

192 Continuing with the 2011 example, because the balancing factors cannot be determined  
193 until after such May monthly billing period in 2013, Rider UF would provide for the  
194 application of the balancing factors only during the nine monthly billing periods  
195 beginning with the September 2013 monthly billing period and extending through the  
196 following May 2014 monthly billing period.

197

198 **III. Calculation of Rider UF Factors for Applicable Periods**

199 **A. 2010 Reconciliation Period**

200 **Q. During 2010, how did ComEd recover uncollectible costs through existing charges?**

201 A. As I described above, ComEd recovered the uncollectible amounts included in existing  
202 charges through the BUFs that were in effect during the year 2010. Specifically, during  
203 the period beginning January 1, 2010 and extending through December 31, 2010, ComEd  
204 applied the BUFs consistent with the Commission's 2007 Rate Case Order. *See* ComEd  
205 Ex. 2.1; *Commonwealth Edison Co.*, ICC Docket No. 07-0566, Final Order (September  
206 10, 2008).

207 **Q. How did ComEd calculate the 2010 ISUFs and IDUFs?**

208 A. This information is provided in ComEd Ex. 2.3 attached to my direct testimony, which  
209 includes ComEd's "Incremental Uncollectible Cost Factors Informational Sheet"  
210 submitted to the Commission on May 25, 2011, for charges to be effective beginning  
211 with the June 2011 monthly billing period and extending through the May 2012 monthly  
212 billing period, as well as the supporting workpapers that were provided electronically to  
213 the Staff of the Commission. The first and second pages are the transmittal letter for the  
214 compliance filing made pursuant to the Commission's May 24, 2011 Order in ICC  
215 Docket No. 10-0467, and included within the attachments are the incremental  
216 uncollectible cost factors to be effective beginning with the June 2011 monthly billing  
217 period and extending through the May 2012 monthly billing period. The relevant  
218 informational sheet sets forth the incremental uncollectible cost factors as follows:

|                | 2010 IDUFs | 2010 ISUFs |
|----------------|------------|------------|
| Residential    | 1.0011     | 0.9984     |
| Nonresidential | 1.0027     | 1.0046     |
| All Others     | 1.0003     | 0.9984     |

219            In support of these factors, Schedule I of the supporting Incremental Uncollectible  
220            Cost Factors workpaper provides the summary computations of the 2010 incremental  
221            uncollectible cost factors. *See* ComEd Ex. 2.3. For each of the separate retail customer  
222            groupings (Residential, Nonresidential, and All Others) applicable to distribution and  
223            supply (Column A), the following information is provided: Column B sets forth the  
224            allocated uncollectible costs recorded in the 2010 FERC Form 1 Account No. 904;  
225            Column C shows the uncollectible revenues accrued through rates during 2010; Column  
226            D includes the under or over recovery of uncollectible costs during 2010; Column E sets  
227            forth the expected revenues for the June 2011 through May 2012 billing periods; and  
228            Column F shows the 2010 IDUFs and ISUFs ((1 + Column D) divided by Column E).  
229            Schedules II, III, IV, and V support Schedule I. Schedules II and III provide more  
230            detailed calculations of the 2010 IDUFs and ISUFs, Schedule IV sets forth the calculation  
231            of the 2010 Delivery Uncollectible Revenue (“DUR”), and Schedule V shows the  
232            allocation of uncollectible costs between supply and distribution based on the 2010 FERC  
233            Form 1 Account No. 904.

234            The 2010 IDUFs and ISUFs reflected in ComEd Ex. 2.3 were revised in August  
235            2011 to incorporate the balancing factors for the prior reconciliation period. *See* ComEd  
236            Ex. 2.4.

237 **Q. How were the 2010 incremental uncollectible cost factors applied to ComEd's**  
238 **customers?**

239 A. As I described above, the applicable 2010 ISUF or IDUF was applied as a multiplier to  
240 the relevant charges beginning with the June 2011 monthly billing period and extending  
241 through the May 2012 monthly billing period.

242 **B. Balancing Factors**

243 **Q. Has ComEd submitted an informational filing to the Commission that sets forth the**  
244 **balancing factors to be applied beginning in September 2012?**

245 A. Yes. As required by Rider UF, on August 17, 2012, ComEd submitted its “Informational  
246 Sheets Filed to Incorporate Changes to Incremental Uncollectible Cost Factors.” *See*  
247 ComEd Ex. 2.7. On August 20, 2012, ComEd also transmitted electronically to  
248 Commission Staff the workpapers supporting the computations of the balancing factors.  
249 *See id.* As prescribed by Rider UF, for each customer group the DBF is the difference  
250 between the incremental distribution uncollectible costs for the year 2010 for that group  
251 and the amounts accrued for such incremental amounts through the application of the  
252 IDUFs for that group during the June 2011 through May 2012 monthly billing periods.  
253 Similarly, for each customer group the SBF is the difference between the incremental  
254 supply uncollectible costs for the year 2010 for that group and the amounts accrued for  
255 such incremental amounts through the application of the ISUFs for that group during the  
256 June 2011 through May 2012 monthly billing periods.

257

258 **IV. Description of Annual Report**

259 **Q. Is ComEd filing an annual report with the Commission, as required by Rider UF?**

260 A. Yes. ComEd's Annual Report to the Illinois Commerce Commission Concerning the  
261 Operation of Rider UF – Uncollectible Factors, Regarding the Recovery of Incremental  
262 Uncollectible Costs for the Period Beginning June 1, 2011 and Extending through May  
263 31, 2012 (“Annual Report”) is filed as ComEd Ex. 1.0. Specifically, Rider UF requires  
264 ComEd to file each year “[o]n or before August 31 ... a petition with the ICC to initiate a  
265 review of the reconciliation of the Company’s uncollectible costs incurred during  
266 calendar year X-2 and its recovery of such costs beginning with the June monthly billing  
267 period in year X-1 extending through the May monthly billing period in year X.” Rider  
268 UF, Ill. C. C. No. 10, 2nd Revised Sheet No. 267.15. Rider UF also requires that ComEd  
269 “provide a report with such petition addressing the operation of th[e] rider.” *Id.* This  
270 report must include “(a) schedules with detailed work papers showing the determination  
271 of any IDUF<sub>CS</sub>, ISUF<sub>CS</sub>, and IDUF<sub>SYS</sub> that were applied for the period under review; and  
272 (b) the results of the internal audit described in the Annual Audit section of th[e] rider.”  
273 *Id.* In addition, the report must be verified by an officer of the Company.

274 **Q. Does the Annual Report include the required schedules and workpapers?**

275 A. Yes. As prescribed by Rider UF, the Annual Report consists of a summary page that sets  
276 forth the 2010 IDUF and ISUF, as well as the balancing factors to be applied beginning  
277 with the September 2012 monthly billing period. The summary page further provides  
278 citations to the relevant supporting workpapers previously transmitted to Commission  
279 Staff and attached to my direct testimony as ComEd Exs. 2.3 and 2.4. In addition, my

280 Verification of the Annual Report is attached to the Verified Petition of Commonwealth  
281 Edison Company for Reconciliation Under Rider UF – Uncollectible Factors.

282 **Q. Does the Annual Report include the results of an internal audit that was conducted**  
283 **consistent with the Annual Audit section of Rider UF?**

284 A. Yes. As required by Rider UF, the Annual Report includes “the results of the internal  
285 audit described in the Annual Audit section of [Rider UF].” Rider UF, Ill. C. C. No. 10,  
286 2nd Revised Sheet No. 267.15. Consistent with this section, Exelon’s internal audit team  
287 performed testing to ensure that:

- 288 • Costs recovered pursuant to Rider UF are recovered only through the rider  
289 and are not also being recovered inappropriately through charges imposed  
290 under other tariffs;
- 291 • IDUF<sub>CS</sub> and ISUF<sub>CS</sub> determined pursuant to Rider UF that are included in  
292 retail customers’ bills for electric service are properly calculated in  
293 accordance with the provisions of Rider UF;
- 294 • IDUF<sub>CS</sub> and ISUF<sub>CS</sub> determined pursuant to Rider UF that are included in  
295 retail customers’ bills for electric service are properly applied to such bills  
296 during the proper monthly billing period;
- 297 • Revenues or credits accrued from the application of Rider UF are correctly  
298 stated and recorded for accounting purposes;
- 299 • Costs recovered pursuant to Rider UF are properly identified, recorded,  
300 and reflected in computations made pursuant to Rider UF;
- 301 • Applicable uncollectible expenses, as reported in the FERC Form 1 or as  
302 net write-offs, are identified, recorded and properly reflected in  
303 calculations and reconciliations made in accordance with the provisions of  
304 Rider UF; and
- 305 • Bad debt expenses or net write-offs, as applicable, associated with  
306 receivables purchased by ComEd in accordance with the provisions of  
307 Section 16-118 of the Act are not recovered through the application of  
308 Rider UF.

309 As explained in ComEd Ex. 2.8, the audit found that the control activities are effective at  
310 mitigating the financial risks mentioned above and no material issues were discovered as  
311 a result of these tests.

312 **Q. Does this conclude your direct testimony?**

313 A. Yes.