

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY :
: No. 12-0321
Annual formula rate update and revenue :
requirement reconciliation authorized by :
Section 16-108.5 of the Public Utilities Act :

Direct Testimony of
MARTIN G. FRUEHE
Manager, Revenue Policy Department
Commonwealth Edison Company

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Witness Fruehe
Date 9/25/12 Reporter _____

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1 **I. Introduction**

2 **A. Witness Identification**

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

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

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

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

9 **B. Purpose of Testimony**

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

11 A. My testimony here has two principal purposes. First, I present the details underlying the
12 calculation of ComEd’s 2011 (“reconciliation year”) revenue requirement based upon
13 actual costs incurred in 2011 inclusive of rate making adjustments. This revenue
14 requirement is used to “reconcile” the 2011 actual costs to the revenue requirements in
15 effect during 2011 pursuant to the orders of the Illinois Commerce Commission
16 (“Commission” or “ICC”) in ICC Docket Nos. 07-0566 and 10-0467 weighted by the
17 time each such order was effective during 2011. The difference between the 2011 actual
18 revenue requirement and the weighted average of the revenue requirements in effect in
19 2011 is the reconciliation amount. I also provide the calculation of the revenue
20 requirement for the “filing year” 2012 which includes ComEd’s 2011 actual costs and
21 2012 projected plant additions, associated depreciation reserve roll-forward and projected
22 depreciation expense. Finally, the reconciliation amount as described above and an
23 adjustment for the Return on Equity collar (as described by Ms. Houtsma in ComEd Ex.

24 2.0) is added to the 2012 filing year revenue requirement to determine the total net
25 revenue requirement to go into effect January 1, 2013 (the "rate year").

26 Second, I present and support the specific data that "populate" the Schedules and
27 Appendices for purposes of determining the delivery service revenue requirement to be
28 used in setting rates to become effective January 1, 2013 under ComEd's rate DSPP -
29 Delivery Service Pricing and Performance.

30 These Schedules and Appendices include most of the data provided for under Part
31 285 of the Commission's rules. I also present Schedules and work papers consistent with
32 the Schedules and work papers required to support a delivery service revenue
33 requirement in a general rate case under Part 285.

34 Support for the delivery service revenue requirement components is provided in
35 my direct testimony and that of Joseph Trpik (ComEd Ex. 4.0), John Hengtgen (ComEd
36 Ex. 5.0), Michelle Blaise (ComEd Ex. 6.0), Ronald Donovan (ComEd Ex. 7.0 Revised),
37 and Michael Born (ComEd Ex. 8.0).

38 **C. Summary of Conclusions**

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

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

41 **(1) Revenue Requirements** – ComEd's 2011 reconciliation year revenue
42 requirement based upon actual 2011 costs was \$2,036,043,000. ComEd's 2012
43 (filing year) revenue requirement inclusive of 2011 actual costs and 2012
44 projected plant additions, depreciation reserve roll forward and depreciation
45 expense is \$2,111,197,000. ComEd's total revenue requirement, to go into effect
46 January 1, 2013, which incorporates the 2012 filing year revenue requirement, the

47 reconciliation amount and an adjustment for the Return on Equity Collar (as
48 described by Ms. Houtsma in ComEd Ex. 2.0) is \$2,131,121,000.

49 **(2) Reconciliation of Delivery Service Revenue Requirement for 2011** – The
50 reconciliation of the 2011 revenue requirement and the weighted average of the
51 revenue requirements in effect in 2011 is \$3,644,000, before interest, and
52 \$4,235,000 after including interest. These calculations are further discussed by
53 Ms. Houtsma (ComEd Ex. 2.0). The Return on Equity Collar adjustment, as
54 described by Ms. Houtsma in ComEd Ex. 2.0 is \$15,689,000.

55 **(3) 2011 (Reconciliation Year) Revenue Requirement Components.** The 2011
56 revenue requirement of \$2,036,463,000 is based on the following components:

57 **Rate Base** – ComEd’s 2011 actual rate base was \$6,163,060,000
58 reflecting adjustments.

59 **Operating Expenses and Other Revenues** ComEd’s 2011 actual
60 operating expenses before income taxes were \$1,565,048,000, and after
61 income taxes are \$1,714,370,000, and its Other Revenues are
62 \$145,683,000, reflecting adjustments (and the exclusion of costs recovered
63 under other tariff mechanisms and costs disallowed in past ICC Orders for
64 reasons other than timing), under ComEd’s proposed formula rate as
65 referred to in Sch C-1 RY, attached to my testimony in ComEd Ex. 3.3.

66 **ComEd’s Overall Weighted Average Cost of Capital (the Rate of**
67 **Return)** – ComEd’s overall weighted cost of capital (its rate of return) is

68 7.59% for the reconciliation calculation, the key components of which are
69 further discussed by Mr. Trpik (ComEd Ex. 4.0).

70 (4) **2012 (Filing Year) Revenue Requirement Components.** The 2012 revenue
71 requirement of \$2,111,197,000 is based on the following components:

72 **Rate Base** – ComEd’s rate base is \$6,713,996,000, reflecting adjustments.

73 **Operating Expenses and Other Revenues** – ComEd’s operating
74 expenses before income taxes are \$1,586,141,000, and after income taxes
75 are \$1,749,973,000, and its Other Revenues are \$145,683,000, reflecting
76 adjustments (and the exclusion of costs recovered under other tariff
77 mechanisms and costs disallowed in past ICC Orders for reasons other
78 than timing), under ComEd’s proposed formula rate as referred to in Sch
79 C-1 FY, attached to my testimony in ComEd Ex. 3.5.

80 **ComEd’s Overall Weighted Average Cost of Capital (the Rate of**
81 **Return)** – ComEd’s overall weighted cost of capital (its rate of return) for
82 the filing year 2012 is 7.55%, the key components of which are further
83 discussed by Mr. Trpik (ComEd Ex. 4.0).

84 (5) **Gross Revenue Conversion Factor** – ComEd’s gross revenue conversion factor
85 is 1.7000 for both the 2011 and 2012 revenue requirements.

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

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

88 A. The attachments to my direct testimony are:

89 (1) **ComEd Ex. 3.1** contains the applicable Schedules and Appendices of ComEd’s

90 proposed formula rate, populated with data reflecting ComEd's delivery service
91 revenue requirement and its components for rates to become effective January 1,
92 2013;

- 93 • Formula Rate Schedules FR A-1, FR A-1 REC, FR A-2, FR A-3, FR A-4,
94 FR B-1, FR C-1, FR C-2, FR C-3, FR C-4, FR D-1, FR D-2, App 1, App
95 2, App 3, App 4, App 5, App 6, App 7, App 8, App 9, App 10, App 11,
96 App 12 and App 13;

97 (2) **ComEd Ex. 3.2** contains the work papers that support the Schedules and
98 Appendices in ComEd Ex. 3.1;

99 (3) **ComEd Ex. 3.3** contains the following "Part 285" Schedules that are required to
100 be submitted in a general rate case under Part 285 and support the revenue
101 requirement calculations associated with Schedule FR A-1 REC:

- 102 • Part 285 Schedule As: , A-2 RY, A-2.1, A-4 RY, and A-5 RY;
- 103 • Part 285 Schedule Bs: B-1 RY, B-2 RY, B-2.1, B-2.2, B-2.3, B-2.6, B-
104 2.7, B-3, B-4, B-5, B-5.1, B-5.2, B-5.3, B-6, B-7, B-7.1, B-7.2, B-8, B-8.1,
105 B-9, B-9.1, B-10, B-11, B-12, B-13, B-14, and B-15;
- 106 • Part 285 Schedule Cs: C-1 RY, C-2 RY, C-2.2, C-2.3, C-2.4, C-2.5, C-
107 2.6, C-3, C-4, C-5 RY, C-5.1, C-5.2, C-5.3, C-5.4 RY, C-5.5, C-6, C-6.1,
108 C-6.2, C-7, C-8, C-9, C-10, C-10.1, C-11.1, C-11.2, C-11.3, C-11.4, C-12,
109 C-13, C-14, C-16, C-17, C-18, C-19, C-20, C-21, C-22, C-23, C-24, C-25,
110 C-26, C-27, C-28, C-29, C-30, C-31, C-32, and C-33; and
- 111 • Part 285 Schedule Ds: D-1 RY, D-2, D-3, D-4, D-5, D-6 RY, D-7, D-8,
112 D-9, D-10, D-11, and D-12.

- 113 (4) **ComEd Ex. 3.4** contains work papers that support the part 285 schedules
114 included in ComEd Ex. 3.3
- 115 (5) **ComEd Ex. 3.5** contains the following part 285 schedules that support the
116 revenue requirement presented on FR A-1 to the extent that that they differ from
117 the part 285 schedules which support the revenue requirement presented in
118 Schedule FR A-1 REC:
- 119 • Part 285 Schedule As: A-1 FY, A-2 FY, A-4 FY, and A-5 FY; and
 - 120 • Part 285 Schedule Bs: B-1 FY, B-2 FY, B-2.4 FY, and B-2.5 FY; and
 - 121 • Part 285 Schedule Cs: C-1 FY, C-2 FY, C-2.1 FY, C-5 FY, and C-5.4 FY;
 - 122 and
 - 123 • Part 285 Schedule Ds: D-1 FY and D-6 FY.
- 124 (6) **ComEd Ex. 3.6** contains work papers that support the Part 285 Schedules
125 included in ComEd Ex. 3.5;
- 126 (7) **ComEd Ex. 3.7** provides a summary of ComEd's 2011 incentive compensation
127 costs and the jurisdictional amount included in ComEd's revenue requirement;
- 128 (8) **ComEd Ex. 3.8** provides support for ComEd's 2011 pension and OPEB expense
129 and the 2011 actuarial valuation reports from Exelon's consultant, Towers
130 Watson.
- 131 (9) **ComEd Ex. 3.9** provides support for ComEd's 2011 rate case expenses related to
132 ICC Docket No. 11-0721.

133 Unless otherwise noted, the Schedules, Appendices, and work papers in ComEd
134 Exs. 3.1 through 3.9 have been prepared by me or under my direct supervision.

135 **E. Background and Qualifications**

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

137 A. As Manager, Revenue Policy Department, I am responsible for the review and evaluation
138 of potential regulatory alternatives for ComEd, with a focus on financial issues. I am also
139 responsible for the oversight and coordination of activities related to the development of
140 ComEd's revenue requirement at both the State and federal levels.

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

142 A. I have been employed by ComEd since 1992. I held the position of Account
143 Representative from 1992 to 1997, in which I serviced the accounts of many of ComEd's
144 large commercial, industrial and governmental customers. In 1998, I was promoted to
145 the Strategic Analysis Department as an Economic Analyst, where I was responsible for
146 supporting the capital budgeting process by evaluating the economic performance of
147 major discretionary investments and performing other operational financial analyses. In
148 2003, I was promoted to the Regulatory Services and Strategy Department as a Senior
149 Regulatory Analyst. In that position, I was responsible for the strategic and financial
150 evaluation of post-2006 regulatory strategies, including power procurement and
151 associated cost recovery. In 2006, I transferred to the Revenue Policy Department, where
152 I was responsible for assisting in the determination of ComEd's revenue requirement and
153 preparation of regulatory filings with both the Commission and the Federal Energy
154 Regulatory Commission ("FERC"). In 2007, I was named Manager - Rates in the
155 Revenue Policy Department. My title has subsequently changed to Manager, Revenue
156 Policy Department.

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

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

161 **II. Delivery Service Revenue Requirement for 2011**

162 Q. **What was ComEd's delivery service revenue requirement in effect in 2011?**

163 A. As I mentioned earlier, Section 16-108.5(d) (1) requires that, for the first reconciliation
164 (which this is) ComEd calculate the revenue requirement or requirements established by
165 the rate order or orders in effect from time to time during the calendar year in question, in
166 this case 2011. If more than one rate order was in effect, the revenue requirement is to be
167 "weighted."

168 In ComEd's case, two revenue requirements were in effect during 2011. The first
169 was that established by the Commission's order in Dkt. 07-0566, which established a
170 delivery services revenue requirement of \$1,961,065,000. *See* ICC Docket No. 07-0566,
171 Final Order at page 77, September 10, 2008. The rates established by that Order were in
172 effect, in 2011, from January 1, through May 31, 2011, or five months. The second
173 revenue requirement was established by the Commission's Order in ICC Docket No. 10-
174 0467, which established a delivery services revenue requirement of \$2,084,072,000. *See*
175 ICC Docket No. 10-0467, Final Order at page 316, May 24, 2011. Rates established by
176 that Order were in effect in 2011 from June 1, through December 31, 2011, or seven
177 months.

178 ComEd therefore established a weighted delivery service revenue requirement for
179 2011 of \$2,032,819,000, as illustrated in the following calculation:

180	\$1,961,065,000	x	5 Months / 12 Months =	\$817,110,000
181	\$2,084,072,000	x	7 Months / 12 Months =	<u>\$1,215,709,000</u>
182			Sum =	\$2,032,819,000

183 Q. **How does this weighted 2011 revenue requirement compare to the revenue**
184 **requirement that would have resulted using actual costs and the cost of equity**
185 **required by Section 16-108.5(d)(1)?**

186 A. The weighted 2011 revenue requirement is \$3,644,000 less than the revenue requirement
187 based on 2011 actual costs (which I discuss in more detail in the following section).
188 ComEd Ex. 3.1, Sch FR A-4.

189 Q. **What does Schedule FR A-1 REC show?**

190 A. This schedule provides the final calculation of the actual 2011 revenue requirement for
191 reconciliation purposes, including the key revenue requirement components (operating
192 expenses, rate base, return and taxes).

193 Q. **Please explain the entries on this Schedule.**

194 A. As discussed above, the entries on this schedule provide the key inputs into ComEd's
195 revenue requirement calculation for the previous year now that the actual costs are
196 known. The 2011 revenue requirement is shown on line 23. This amount is used as an
197 input to Schedule FR A-4, which calculates the reconciliation amount to be included in
198 the total revenue requirement to be effective on January 1, 2013.

199 Q. **Does the revenue requirement based on 2011 actual costs contain any costs**
200 **previously excluded from rates by a prior Commission order based on a finding of**
201 **imprudence or unreasonableness?**

202 A. No. The delivery service revenue requirement based on actual 2011 costs includes only
203 those costs that are prudently incurred and reasonable in amount for the provision of
204 delivery service.

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

207 A. In addition to processes and controls at the operational level (which are discussed by
208 other witnesses), ComEd has rigorous financial controls in place. ComEd maintains
209 financial controls and processes that allow it to develop, monitor, control, and minimize
210 its expenses and capital expenditures. ComEd also has a capital project approval process
211 used to evaluate the quantitative and qualitative merits of projects. ComEd also has an
212 integrated supply function that acquires materials and services in a manner designed to
213 minimize costs while maintaining quality.

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

216 A. Table 1 below provides a summary of the Schedules and Appendices used in calculation
217 of the revenue requirement. The form of the Schedules and Appendices were explained
218 in detail in the direct testimony of Kathryn Houtsma in ICC Docket- No. 11-0721
219 (ComEd Ex. 2.0).

Table 1

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

220

221 Q. How is ComEd's delivery service revenue requirement shown in the populated
222 formula rate Schedules in ComEd Ex. 3.1?

223 A. The key components of the revenue requirement to be effective with the January 2013
224 monthly billing period are shown on Schedule FR A-1. These include operating
225 expenses, rate base, return on rate base, taxes, interest synchronization, other revenues,

226 the reconciliation amount as calculated on Schedule FR A-4 and the Return on Equity
227 collar adjustment as calculated on Schedule FR A-3. The inputs to these components and
228 calculations are presented on other, supporting Schedules discussed below.

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

231 A. The "FR B," "FR C," and "FR D" Schedules in ComEd Ex. 3.1, which relate to rate base,
232 operating expenses and revenues, and cost of capital, respectively, are also involved in
233 the development of the delivery service revenue requirement. Additionally, several
234 Appendices included in ComEd Ex. 3.1 directly support the calculation of the revenue
235 requirement presented on Schedule FR A-1. These Schedules and the associated
236 Appendices are discussed in the remainder of my direct testimony.

237 Q. **Are the amounts included in the Schedules and Appendices in ComEd Ex 3.1**
238 **reflective of ComEd's positions in its surrebuttal testimony in ICC Docket No.**
239 **11-0721?**

240 A. Yes. As discussed by Dr. Hemphill (ComEd Ex. 1.0) ComEd will, without intending to
241 waive any rights thereby, update its submissions in light of the ICC's final order in ICC
242 Docket No. 11-0721.

243 **III. Rate Base**

244 **A. Total Rate Base**

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

246 A. ComEd's rate base for purposes of determining the delivery service revenue requirement,
247 as of December 31, 2011 is \$6,163,060,000 and for the purposes of determining the 2012

248 filing year revenue requirement is \$6,713,996,000, including 2012 projected plant
249 additions. As Michelle Blaise (ComEd Ex. 6.0), Ronald Donovan (ComEd Ex. 7.0
250 Revised), and Michael Born (ComEd Ex. 8.0) testify, the assets in rate base are used and
251 useful and the related investment set forth in ComEd Ex. 3.1 (Schedule FR B-1) is
252 prudent and reasonable, appropriately functionalized to delivery service, and appropriate
253 for purposes of determining the revenue requirement.

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

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

- 256 (1) Costs recorded in Distribution Plant Accounts as of December 31, 2011, such as
257 land, poles, cable, transformers, and meters;
- 258 (2) Costs recorded in General Plant and Intangible Plant Accounts as of
259 December 31, 2011 that support the provision of distribution and customer
260 service, such as office furniture, vehicles, stores equipment, and capitalized
261 software as of December 31, 2011;
- 262 (3) Costs of Distribution Plant and General and Intangible Plant additions (such as
263 those described above) that are projected to be placed in service by December 31,
264 2012, with a "roll forward" to December 31, 2012 of the Accumulated Reserve
265 for Depreciation and Amortization (the "depreciation reserve") for plant existing
266 as of December 31, 2011;
- 267 (4) Other assets and liabilities that pertain to the appropriate level of capital
268 investment necessary to provide distribution and customer service, as discussed
269 below.

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

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

273 A. The level of gross investment in electric utility plant in service at original cost included in
274 ComEd's rate base as of December 31, 2011, before projected plant additions, is
275 \$15,036,912,000, calculated by adding \$13,616,337,000 of Distribution Plant and
276 \$1,420,575,000 of General and Intangible ("G&I") Plant as shown in ComEd Ex. 3.3,
277 Schedule B-1 Recon, lines 2 through 4. Projected plant additions are discussed below.

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

280 A. ComEd uses G&I Plant in the provision of delivery services to its retail customers. The
281 majority of the plant is devoted to operational functions that are addressed by Ms. Blaise
282 (ComEd Ex. 6.0) and Mr. Donovan (ComEd Ex. 7.0 Revised). However, such plant is
283 also acquired for other essential purposes, such as for financial and support systems, with
284 which I am familiar. The plant acquired for such purposes is acquired using the same
285 planning, acquisition, cost control, and supply management tools as other plant. It was
286 reasonable for management to decide to invest in that plant and, in my opinion, that plant
287 was prudently acquired and placed in service at a reasonable cost.

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

289 A. Yes. ComEd requests that the Commission approve the original cost of plant in service
290 as of December 31, 2011, before adjustments, of \$15,028,488,000. This amount is
291 calculated by subtracting capitalized incentive compensation and sporting activity costs

292 disallowed in prior ICC orders and such costs capitalized in 2011 of \$8,424,000 (see
293 ComEd Ex. 3.1, App 1, lines 4 through 8).

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

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

297 **A.** The total amount of accumulated depreciation as of December 31, 2011, before projected
298 plant additions, related to ComEd's rate base was \$5,968,754,000 comprised of
299 \$5,309,258,000 related to Distribution Plant and \$659,496,000 related to G&I Plant.
300 These amounts are summarized on ComEd Ex. 3.1, Schedule FR B-1, lines 17 through
301 33. The projected increase in accumulated depreciation and amortization is discussed
302 below.

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

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

305 **A.** Net plant included in rate base before projected plant additions is \$9,038,182,000, and is
306 calculated by subtracting the total amount of accumulated depreciation from the total
307 amount of gross plant as shown on ComEd Ex. 3.1, Schedule FR B-1, line 34.

308 **E. Construction Work In Progress**

309 **Q. Is any construction work in progress ("CWIP") included in rate base?**

310 **A.** Yes. As ComEd agreed with Staff in ICC Docket No. 11-0721, ComEd has included
311 CWIP in the calculation of its reconciliation rate base (Schedule A-1 REC, line 12).
312 ComEd's calculation of rate base for the filing year 2012 does not include any amount for
313 CWIP, but that amount will be included in the reconciliation for 2012. Accordingly,

314 ComEd's 2011 reconciliation rate base includes ComEd's investments in small or short-
315 term projects that support the distribution and customer functions, on which Allowance
316 for Funds Used During Construction ("AFUDC") is not being capitalized. The amount as
317 of December 31, 2011, was \$8,490,000. See ComEd Ex. 3.1, Schedule FR B-1, line 35.
318 Michelle Blaise testifies (ComEd Ex. 6.0) that the amount of CWIP included is
319 reasonable. The testimony of ComEd witness John Hengtgen (ComEd Ex. 5.0) addresses
320 cash working capital requirements related to CWIP not accruing AFUDC.

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

322 Q. **Has ComEd included any Property Held for Future Use in its delivery service rate**
323 **base?**

324 A. Not at this time.

325 **G. Cash Working Capital**

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

327 A. Yes. Rate base includes \$42,439,000 for cash working capital as shown on Schedule FR
328 B-1, line 37. ComEd Witness John Hengtgen (ComEd Ex 5.0) is sponsoring the analysis
329 of the cash working capital requirement.

330 **H. Accumulated Deferred Income Taxes**

331 Q. **What amount of Accumulated Deferred Income Taxes ("ADIT") was deducted from**
332 **rate base?**

333 A. The appropriate level of ADIT to be deducted from rate base as of December 31, 2011 is
334 \$2,462,933,000, after adjustments, as shown in ComEd Ex. 3.1, Schedule FR B-1, line
335 38. This level was derived through an analysis of the components of the deferred tax

336 balances and then either by directly assigning or allocating the items based on the
337 assignment or allocation of the operating items to which they relate. The 2011 ADIT
338 balance is reflective of the 100% bonus depreciation applicable to 2011 capital
339 investments as well as the adoption of the safe harbor method of tax accounting for repair
340 costs. The jurisdictional amounts allocated to delivery service are presented in ComEd
341 Ex. 3.1 App 4.

342 **I. Materials and Supplies**

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

344 **A.** ComEd included in its rate base the 13 month average balance of materials and supplies
345 (M&S) less the associated accounts payable in its rate base. The balance of M&S related
346 to distribution is \$33,651,000. The accounts payable related to distribution was
347 calculated by multiplying the distribution related M&S balance by the O&M factor
348 included in its cash working capital. The result of the calculation is an accounts payable
349 balance of \$6,158,000. The net amount of M&S included in rate base is \$27,493,000.
350 See Schedule FR B-1, line 39.

351 **J. Other Assets and Liabilities**

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

353 **A.** Two categories of other assets are included in rate base. The first, shown on Schedule
354 FR B-1, line 40 is regulatory assets in the amount of \$14,515,000. These assets include a
355 regulatory asset representing the unamortized balance of \$8,198,000 for capitalized
356 incentive compensation costs that was approved by the Commission in its Order in
357 ComEd's 2001 rate case, ICC Docket No. 01-0423 and represents the amount recorded at
358 year end 2011. Additionally, unamortized balances of costs of \$6,317,000 related to

359 ComEd's Advanced Metering Initiative ("AMI") pilot as approved by the Commission in
360 ICC Docket No. 10-0467 are included. This amount consists of (1) the accelerated
361 depreciation associated with the meters retired as a result of the AMI pilot \$4,882,000
362 and (2) customer applications related costs \$1,435,000.

363 Deferred debits totaling \$3,754,000 comprise the second category, shown on
364 Schedule FR B-1, line 41. This sum includes (1) Cook County Forest Preserve Fees of
365 \$1,240,000, which represent prepayments made to the Cook County Forest Preserve
366 District related to licensing fees for distribution lines, and (2) a Long Term Receivable
367 from the Mutual Beneficial Association (MBA) Plan of \$2,514,000 which relates to
368 payments that ComEd has made to the trust on behalf of union employees for short term
369 disability and for which it is awaiting reimbursement, as referred to in ComEd Ex. 3.1,
370 App 5, lines 5-6..

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

372 **A.** The other liabilities, after adjustments, included in rate base are Operating Reserves of
373 \$339,042,000, Asset Retirement Obligations of \$26,896,000, and Deferred Credits of
374 \$11,687,000. These amounts, described in following answers, are reductions to rate base
375 and are summarized on Schedule FR B-1, lines 42 through 44.

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

378 **A.** Operating reserves are recorded in FERC Account 228. The jurisdictional amounts
379 reducing ComEd's rate base total \$339,042,000 and consist of the following:

380 (1) Post-retirement benefits of \$286,275,000;

- 381 (2) Injuries and damages of \$47,584,000¹; and
382 (3) Other miscellaneous environmental liabilities of \$5,993,000, primarily related to
383 the reserve for the remediation of Superfund sites, as referred to in ComEd Ex.
384 3.1, App 5, which is attached to my testimony in ComEd Ex 3.3.

385 Q. Please describe the Asset Retirement Obligations included as a reduction to
386 ComEd's rate base.

387 A. The delivery service jurisdictional amount of Asset Retirement Obligations of
388 \$26,896,000 recorded in Account 230 represents asset removal costs recovered through
389 depreciation expense (these costs were previously recorded in Account 108-
390 Accumulated Depreciation and were reclassified in 2005 in accordance with the Uniform
391 System of Accounts), as referred to in ComEd Ex. 3.1, App 5, line 25, which is attached
392 to my testimony.

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

394 A. Deferred credits are recorded in FERC Account 253. Jurisdictional deferred credits
395 reducing ComEd's rate base are deferred rents of \$7,608,000, \$738,000 of deferred
396 benefits for tax deductions related to the unamortized balance of Accelerated Cost
397 Recovery System ("ACRS") tax credits sold in 1981, and \$3,341,000 of deferred
398 revenues associated with the lease of fiber optic cable, as referred to in ComEd Ex. 3.1,
399 App 5, which is attached to my testimony.

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

¹ This amount is offset by \$810,000 for expected insurance recoveries on public claims.

401 A. The other deferred charges included in ComEd's rate base relate to the unamortized
402 balances of one-time expenses greater than \$10 million that ComEd has removed from its
403 operating expenses and amortized over a five year period, as required by Section 16-
404 108.5(c)(4)(C) and (F). In particular, ComEd is amortizing over five years the expenses
405 of three 2011 storms, each of which was in excess of \$10 million, and in total were
406 \$68,201,000. The unamortized balance of the storm expenses, \$54,561,000, is included in
407 rate base, as referred to in ComEd Ex. 3.1, App 7, line 27, which is attached to my
408 testimony.

409 **K. Customer Deposits**

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

411 A. Yes. ComEd's rate base is reduced by \$133,403,000 for customer deposits, as shown on
412 ComEd Ex. 3.1, Schedule FR B-1, line 46. ComEd calculated this amount in a manner
413 consistent with the Commission's decision in ICC Docket No. 10-0467, by including the
414 thirteen month average of the total amount of customer deposits (as opposed to only those
415 associated with delivery service). See ComEd Ex. 3.1, App 2.

416 **L. Customer Advances**

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

418 A. Yes. ComEd receives refundable distribution system extension deposits from customers
419 under the terms of Rider DE - Distribution System Extensions, and for customer
420 advances to begin construction. ComEd has reduced rate base for these deposits and
421 advances that relate to projects that are included in rate base as of December 31, 2011 in
422 the amount of \$52,413,000. See ComEd Ex. 3.1, Schedule FR B-1, line 47 and App 1,
423 Lines 30 through 37.

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

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

426 **A.** Yes. The filing year 2012 rate base includes ComEd's 2012 projected plant additions of
427 \$938,037,000. This amount consists of \$784,813,000 of Distribution Plant additions and
428 \$153,224,000 of G&I Plant additions. These amounts are shown on Schedule FR B-1,
429 lines 50 and 52, respectively. Additional detail is provided in ComEd Ex. 3.1, App 1,
430 lines 38 through 46.

431 **Q. Have adjustments been made for the projected growth in the accumulated**
432 **depreciation reserve?**

433 **A.** Yes. ComEd has "rolled forward" its accumulated reserve for depreciation. This is
434 accomplished by increasing the 2011 accumulated reserve by the estimated amount of
435 depreciation expense for 2012, which is \$378,611,000. This change to the accumulated
436 reserve is accounted for on ComEd Ex. 3.1, Schedule FR B-1, lines 51 plus 53.
437 Essentially, the reserve is increased by the estimated 2012 Distribution Plant depreciation
438 expense of \$286,689,000 and the 2012 G&I Plant depreciation expense of \$91,922,000.
439 All amounts described here are net of projected removal costs. Detailed calculations are
440 provided on ComEd Ex 3.1, App 1, lines 47 through 55.

441 **IV. Operating Expenses**

442 **A. Total Operating Expenses**

443 **Q. What are ComEd's proposed delivery service operating expenses supporting the**
444 **proposed revenue requirement?**

445 **A.** For the year ending December 31, 2011, ComEd's delivery service operating expenses
446 before income taxes were \$1,586,141,000, and after income taxes were \$1,714,370,000,

447 and its Other Revenues were \$145,683,000, reflecting adjustments (and the exclusion of
448 costs recovered under other tariff mechanisms and costs disallowed in past ICC Orders
449 for reasons other than timing). As ComEd witnesses Michelle Blaise (ComEd Ex. 6.0)
450 and Ronald Donovan (ComEd Ex. 7.0 Revised) testify, the operating expenses set forth
451 on the Schedules in ComEd Ex. 3.1 were prudently incurred and are reasonable in
452 amount.

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

455 **A.** ComEd's distribution and customer operating expenses include:

- 456 (1) Expenses recorded in Operating and Maintenance ("O&M") Accounts that
457 are functionalized to the distribution function;
- 458 (2) The portion of expenses recorded in other O&M Accounts that are
459 customer-related and appropriately assigned or allocated to the delivery
460 service function; and
- 461 (3) The portion of expenses recorded in other Accounts appropriately
462 assigned or allocated to the delivery service function, including
463 Administrative and General (A&G) Expenses Accounts, Depreciation and
464 Amortization Expenses Accounts, Taxes Other Than Income Taxes
465 Accounts, and Income Taxes Accounts.

466 **Q. Which Schedules and Appendices in ComEd Ex. 3.1 support ComEd's operating**
467 **expenses and Other Revenues?**

468 A. Schedules FR C-1 "Expense," FR C-2 "Depreciation," and FR C-3 "Pension Funding",
469 Appendices App 7 "Expense," and App 8 "Depreciation" in ComEd Ex. 3.1 support
470 ComEd's operating expenses. Appendices App 10 "Other Revenues," and App 11
471 "Franchise Service" support ComEd's Other Revenues. Their components are also
472 reflected in the related Part 285 Schedules and Part 285 work papers. In addition,
473 operating expenses and Other Revenues are reflected in Schedule FR A-1 as indicated
474 earlier.

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

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

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

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

480 A. ComEd's 2011 Distribution O&M expenses were \$414,484,000. After reflecting
481 adjustments, a total of \$414,496,000 in distribution O&M expenses recorded in FERC
482 Accounts 580-598 is included in the revenue requirement. *See* ComEd Ex. 3.1, Schedule
483 FR A-1, line 1 and Schedule FR C-1. The prudence, reasonableness and need for these
484 expenses are addressed by Ms. Blaise in ComEd Ex. 6.0.

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

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

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

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

492 A. In determining the revenue requirement, ComEd has adjusted the \$352,704,000 of
493 customer-related expenses for the following:

494 (1) \$110,232,000 reduction to remove the costs associated with ComEd's energy
495 efficiency and demand response program recovered under Rider EDA;

496 (2) \$33,274,000 reduction to reflect the non-jurisdictional portion of uncollectible
497 accounts expense and the related outside collection agency costs (this item is
498 discussed in more detail below);

499 (3) \$44,000 reduction to remove costs associated with incentive compensation related
500 to net income recorded in customer accounts;

501 (4) \$9,000 reduction for certain industry association dues for which recovery is not
502 being sought;

503 (5) \$2,115,000 reduction to remove general advertising expenses; and

504 (6) \$730,000 increase to include interest on customer deposits in operating expenses.

505 (7) \$2,000 increase to adjust for an accrual reversal related to Customer's Affordable
506 Reliable Energy expenses.

507 Adjustments 1 - 6 can be found on ComEd Ex. 3.1, App 7, page 1, lines 1 through 26.

508 After these adjustments, \$207,762,000 of FERC Accounts 901-910 directly relate to and
509 support the delivery service function and are included in the revenue requirement as

510 shown in ComEd Ex. 3.1, Schedule FR A-1, lines 2 and 3. These expenses are addressed
511 by Mr. Donovan (ComEd Ex. 7.0 Revised).²

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

513 A. \$24,669,000, of which \$20,150,000 is directly related to ComEd's 2011 actual
514 uncollectible accounts expense recorded in FERC Account 904. Uncollectible accounts
515 expense is generally a function of revenues billed and has been assigned to the delivery
516 service function by applying the revenue allocator of 35.17% (Schedule FR A-2, line 27)
517 to ComEd's total uncollectible expense recorded in the 2011 FERC Form 1, Account
518 904. As a result, delivery service uncollectible expenses include \$20,150,000 of the
519 \$57,292,000 of ComEd's total 2011 uncollectible accounts expense. (See ComEd Ex.
520 3.1, Schedule FR C-1, line 8 and App 7, page 1, lines 24 through 26.) These expenses are
521 also addressed further in the direct testimony of Mr. Donovan (ComEd Ex. 7.0 Revised).

522 **Q. Were any other adjustments made to ComEd's 2011 uncollectible expense?**

523 A. Yes. Because all of ComEd's uncollectible costs and recoveries (including those directly
524 related to delivery service) are ultimately reconciled under Rider UF, it was necessary to
525 make an adjustment to the delivery services uncollectible amount included in the formula
526 rate revenue requirement. This adjustment effectively removed any difference related to
527 uncollectibles from this proceeding's reconciliation. In order to properly account for the
528 uncollectible expense reconciliation that is part of Rider UF, ComEd had to increase its
529 2011 delivery service uncollectible expense of \$20,150,000 by \$4,519,000 to match the

² In addition, certain costs recorded in customer accounts (e.g., Accounts 908-909) include communication and support systems that are not managed by Customer Operations, and my testimony addresses those expenses as well as expenses in A&G accounts.

530 amount of uncollectible expense included in the revenue requirements in effect in 2011.
531 (See ComEd Ex. 3.1, App 7, line 13). Had ComEd not made this adjustment, the
532 difference between the 2011 actual uncollectible expense and the amount included in the
533 revenue requirements in effect in 2011 would have been accounted for twice, once
534 through the formula rate's reconciliation and once through Rider UF. As ICC Staff
535 witness Mr. Knepler stated in his direct testimony in ICC Docket 11-0721, "the recovery
536 of actual uncollectible costs could be subject to two annual reconciliation proceedings".
537 (ICC Docket No. 11-0721, Knepler Dir. Staff Ex. 2.0, 5:93-4).

538 **Q. In ICC Docket 11-0721, ICC Staff witness Knepler recommended that all**
539 **uncollectible costs be recovered through Rider UF. Did you agree with his**
540 **recommendation?**

541 **A.** ComEd did not object to Mr. Knepler's recommendation in regards to delivery service
542 uncollectibles with the caveat that the Commission determine that such a change is
543 consistent with rates approved in ICC Docket No. 10-0467 and that certain revisions
544 would be made to the formula to account for the change.

545 **Q. Please explain the necessary changes to the formula.**

546 **A.** As I discussed in my rebuttal testimony in ICC Docket No. 11-0721 (ComEd Ex. 13.0,
547 lines 832 – 857) the reconciliation calculation (Sch FR A-1 REC, ComEd Ex. 3.1) and
548 the return on equity collar calculation need to be adjusted. The specific line item changes
549 are discussed in the rebuttal testimony referenced above. If the Commission approves the
550 Staff recommendation in its final order in 11-0721 ComEd will include these as part of
551 the subsequent update discussed by Mr. Hemphill (ComEd Ex. 1.0).

552 Q. **If uncollectibles are completely removed from both the 2011 revenue requirement as**
553 **calculated on Schedule FR A-1 REC and from the weighted average of the revenue**
554 **requirements in effect in 2011 (Sch FR A-3, line 2), does the reconciliation amount**
555 **change?**

556 A. No. It remains the same as discussed in Section II above.

557 **D. Incentive Compensation Expenses**

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

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

563 Q. **How much of the 2011 ComEd AIP cost has ComEd included in the delivery service**
564 **revenue requirement?**

565 A. After the removal of certain executive compensation and the application of a
566 jurisdictional allocator, ComEd included \$32,563,000 of AIP expense in O&M and
567 \$20,590,000 capitalized AIP in rate base, as set forth in ComEd Ex. 3.7 attached to my
568 testimony.

569 Q. **Were any of ComEd's 2011 AIP goals related to Net Income or Return on Equity**
570 **goals, including an affiliate's earnings per share?**

571 A. ComEd's 2011 AIP plan did not include any goals related to net income or return on
572 equity or earnings per share.

573 Q. **Please describe the goals associated with ComEd's AIP.**

574 A. Seven goals, or Key Performance Indicators (KPIs), were associated with ComEd's 2011
575 AIP, all of which conformed to section 16-108.5 and recent ICC orders regarding
576 recovery of incentive compensation through rates. The goals focused on cost control
577 (O&M and capital spend), system performance (outage duration and frequency),
578 customer satisfaction, safety, and certain company focused and environmental initiatives.
579 ComEd Ex. 3.7 includes a copy of ComEd's 2011 AIP.

580 Q. **Did any ComEd employees participate in an AIP other than ComEd's in 2011?**

581 A. Yes. A small number of employees participated in BSC's AIP in 2011.

582 Q. **Did you remove any of these costs from the revenue requirement?**

583 A. Yes. Because 75% of the BSC AIP is related to a net income goal, ComEd removed this
584 cost from its AIP total. A reduction of \$148,000 is included on ComEd Ex. 3.1 App 7 line
585 12.

586 Q. **Did you make any adjustments for BSC AIP costs that were allocated to ComEd?**

587 A. No. BSC costs should be viewed as a whole for services provided, not by individual cost
588 components. Also, as ComEd's Initial Brief and Reply Briefs in ICC Docket No. 11-0721
589 discussed, the section of the Act which prohibits recovery of AIP related to net income or
590 earnings per share does not apply to employees of an affiliate.

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

593 A. No. The LTIP available to key managers is actually deferred compensation and is not
594 dependent upon ComEd meeting any particular goals. The LTIP available to vice
595 presidents and above is based upon company-wide performance goals, which included

596 ComEd's total cost (O&M and capital), SAIFI, CAIDI, safety, implementation of an
597 operational performance index, employee engagement, and environmental commitments.
598 Awards for both plans typically vest over three years.³

599 Q. **How much of the 2011 executive LTIP is included in the delivery service revenue**
600 **requirement?**

601 A. \$4,984,000 of expense is included in O&M and \$606,000 of capital is included in rate
602 base, as is referred to in ComEd Ex. 3.7, pg. 2, attached to my testimony.

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

605 A. Not for 2011, but during 2009 one of the three performance metrics applicable to the
606 executive LTIP included a return on equity component.

607 Q. **Were these amounts included in 2011 O&M expenses?**

608 A. Because the LTIP plans typically vest over three years, one third of the amounts awarded
609 for 2009 were expensed in 2011.

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

612 A. Yes. \$127,000 was removed from jurisdictional O&M expense on App 7, Line 12 and
613 \$13,000 was removed from rate base on App 1, Line 7 of ComEd Ex. 3.1 and ComEd Ex.
614 3.2, attached to my testimony.

³ LTIP for retirement eligible executives is expensed during the year it is awarded. LTIP for all others is expensed over three years.

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

616 A. Yes, ComEd Ex. 3.7 provides a summary, by FERC account, of 2011 AIP and LTIP costs
617 in total and the jurisdictional amounts included in the revenue requirement. It also
618 provides a description of each plan's goals. These descriptions show that ComEd's
619 incentive compensation plans are based on the achievement of operational metrics,
620 including metrics related to budget controls, outage duration and frequency, safety,
621 customer service, efficiency and productivity, and environmental compliance. Ms. Blaise
622 provides additional discussion of ComEd's performance related to its 2011 AIP goals and
623 the reasonableness of these amounts. See ComEd Ex. 6.0.

624 E. **Administrative and General Expenses**

625 Q. **What types of expenses are included in the Administrative and General expenses**
626 **category?**

627 A. Under the USOA, A&G Expenses are recorded in Accounts 920-935. Costs included in
628 those Accounts generally represent a wide variety of corporate support and overhead
629 costs that benefit or derive from more than one business function. Major A&G support
630 areas include the Human Resources, Finance, Legal, Supply Management, Information
631 Technology, and Corporate Governance functions. Additionally, the costs of employee
632 pensions and benefits, including health care for active and retired employees, as well as
633 rents, injuries and damages expenses, and regulatory expenses are included in these A&G
634 Accounts. Finally, as I mentioned earlier, certain other non-operational costs are
635 recorded in other accounts. All these types of costs represent expenses ComEd incurs in
636 providing delivery services to its retail customers. They are managed carefully and with
637 analogous systems of cost control and review similar to distribution and customer

638 operational expenses. It was reasonable for ComEd to incur all of these costs and, in my
639 opinion, they were prudently incurred and are reasonable in amount. A&G expenses that
640 support operations are also discussed by Ms. Blaise (ComEd Ex. 6.0) and Mr. Donovan
641 (ComEd Ex. 7.0 Revised).

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

643 A. In general, services are provided either internally by ComEd employees or by other
644 service providers, including BSC. BSC provides corporate governance, technical, and
645 numerous other support services to the Exelon companies. These services are provided to
646 ComEd under the terms of the General Services Agreement approved by the ICC and the
647 Securities and Exchange Commission. Costs for these services are directly charged to
648 ComEd where possible, and if costs cannot be directly charged, they are allocated to
649 ComEd and the other Exelon affiliates utilizing cost-causative allocation factors. In all
650 cases, services provided by BSC are billed to ComEd at cost (*i.e.*, with no mark-up). The
651 process by which ComEd acquires services from BSC is a transparent one that assures
652 that ComEd, and in turn ComEd's customers, receive good value.

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

655 A. As shown on ComEd Ex. 3.8, page 1, ComEd's total 2011 pension cost was
656 \$113,351,000, of which \$64,408,000 was expensed. The jurisdictional amount included
657 in ComEd's Administrative and General expenses was \$58,089,000. These amounts are
658 supported by, and reconciled to, the Towers Watson actuarial studies also included in
659 ComEd Ex. 3.8.

660 Q. **Can you describe the change in jurisdictional pension expense from 2010 to 2011?**

661 A. As described above, ComEd's delivery service jurisdictional pension expense in 2011
662 totaled \$58,089,000. The derivation of this amount from the actuarial reports is shown in
663 ComEd Ex. 3.8 attached to my testimony. This amount represents a decrease of \$10.9
664 million dollars compared to 2010 jurisdictional pension expense included in ComEd's
665 revenue requirement in ICC Docket. No. 11-0721.

666 Q. **What accounts for this decrease?**

667 A. Since 2009, ComEd has made several contributions to its pension plans that serve to meet
668 minimum contribution requirements and improve the funded status of the pension plans
669 in which ComEd employees participate. ComEd made pension contributions of \$249
670 million and \$871 million in 2010 and 2011, respectively. These contributions reduced
671 net periodic pension benefit cost in 2011 by \$82 million (before allocation to expense and
672 jurisdictional allocation) relative to 2010 pension costs. On a jurisdictional expense
673 basis, in the absence of these contributions, ComEd's 2011 pension expense would have
674 been approximately \$100 million, all else being equal. These reductions were partially
675 offset by other actuarial factors, most notably a decrease in the assumed investment
676 return on plan assets and a decrease in the discount rate, both of which are used to
677 measure pension cost.

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

679 A. As shown on ComEd Ex. 3.8, page 1, ComEd's total 2011 OPEB cost was \$105,055,000,
680 of which \$59,684,000 was expensed. The jurisdictional amount included in ComEd's

681 Administrative and General expenses was \$53,829,000. These amounts are supported by,
682 and reconciled to, the Towers Watson actuarial studies also included in ComEd Ex. 3.8.

683 Q. **Please describe the documents included in ComEd Ex. 3.8.**

684 A. Page 1 provides a summary of ComEd's 2011 pension and OPEB expenses reconciled to
685 the 2011 Towers Watson actuarial reports. It also includes a calculation of the
686 jurisdictional amounts included in ComEd's revenue requirement. Pages 2 through 5 are
687 the March 2011 Towers Watson actuarial report that allocates Exelon's 2011 pension and
688 OPEB costs across the subsidiary companies. Pages 6 through 14 provide Towers
689 Watson's valuation of the Deferred Compensation Unit (DCU) plan.

690 Q. **What method was used to determine the A&G expenses to be included in the**
691 **delivery service revenue requirement?**

692 A. The functionalization of the appropriate total A&G expense amount is largely based on
693 the 2011 relationship of total ComEd delivery service (distribution and customer-related)
694 wages and salaries included in O&M expenses to the total ComEd wages and salaries
695 included in O&M expenses, *i.e.*, the wages and salaries allocator. In certain instances,
696 costs are allocated based on a direct assignment.

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

698 A. \$351,662,000. This amount has increased only slightly (3.5%) from the amount allowed
699 in ICC Docket No. 10-0467 (\$339,624,000) which was based on a 2009 test year, and the
700 amount included in the initial formula rate filing in ICC Docket No. 11-0721 (3.0%, or
701 \$341,550,000). *See* ICC Docket No. 11-0721, ComEd Ex. 4.1, Sch FR A-1, line 4.

702 These expenses are discussed in large part by Ms. Blaise (ComEd Ex. 6.0) and Mr.
703 Donovan (ComEd Ex. 7.0 Revised).

704 **F. Return on Pension Asset**

705 Q. **What amount is included for the cost associated with funding ComEd's pension**
706 **asset?**

707 A. A debt-only return is calculated on the jurisdictional portion of the pension asset net of
708 ADIT. See ComEd Ex. 3.1, Schedule FR C-3. This amount totaled \$71,461,000.

709 Q. **How does the pension funding amount requested in this docket compare to the**
710 **amount requested in ICC Docket No. 11-0721?**

711 A. In ICC Docket No. 11-0721, ComEd requested \$34,871,000 in pension funding costs.
712 ICC Docket No. 11-0721, ComEd Ex. 22.1, FR C-3, line 7. The increase in funding cost
713 is due to the contributions ComEd made to the pension fund in 2011 as described above.
714 The increase in pension funding cost is more than offset by the pension expense benefit
715 associated with the 2011 contribution.

716 **G. Sales and Marketing Expense**

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

719 A. No sales and marketing expenses are included in the revenue requirement.

720 **H. Depreciation and Amortization of Electric Utility Plant**

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

723 A. \$435,246,000. The level of 2011 depreciation and amortization expenses included in the
724 revenue requirement is \$414,153,000, comprised of \$327,474,000 related to Distribution
725 Plant and \$86,679,000 related to G&I Plant. Additionally, the revenue requirement
726 includes \$21,093,000 of depreciation expense associated with the 2012 projected plant
727 additions. See ComEd Ex. 3.1, Schedule FR C-2 for calculations of both the actual 2011
728 and projected 2012 jurisdictional depreciation expense.

729 **I. Taxes Other than Income**

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

731 A. The level of taxes other than income included in the revenue requirement is
732 \$150,895,000. In general, these include real estate taxes, the Illinois Electric Distribution
733 Tax (IEDT), payroll taxes and several other taxes. A detailed analysis of the taxes other
734 than income included in the revenue requirement is provided on ComEd Ex. 3.1,
735 Appendix 7, page 2, lines 44 through 62. The amounts on line 62 represent the taxes
736 prior to final jurisdictional amounts, which can be found on ComEd Ex. 3.1, Schedule FR
737 C-1, line 12.

738 Q. **Does the revenue requirement in this filing include an IEDT credit?**

739 A. Yes. ComEd recorded an accrual in 2011 for an estimated IEDT credit of \$11,376,000
740 related to its actual 2011 IEDT of \$117,576,000 and included the net amount of
741 \$106,200,000 in operating expense, as referenced in my attached testimony, ComEd Ex.
742 3.1, line 54.

743 **J. Income Taxes**

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

745 A. The amount of income taxes included in the 2011 Reconciliation Year revenue
746 requirement is \$149,322,000 (see ComEd Ex. 3.1 FR A-1 REC lines 15, 18 and 19). The
747 amount of income taxes included in the 2012 Filing Year revenue requirement, which
748 includes the impact of the projected 2012 plant additions is \$163,832,000 (see ComEd
749 Ex. 3.1, Schedule FR A-1, lines 15, 18 and 19). Income taxes have been calculated based
750 on the expenses and miscellaneous revenues assigned or allocated to the delivery service
751 function. Likewise ComEd has analyzed differences in book and tax treatment of 2011
752 revenues and expenses and assigned or allocated those differences to the delivery service
753 function as described in ComEd Ex. 3.1, Schedule FR C-4 and App 9.

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

756 A. Schedule FR C-4 provides the calculations of ComEd's effective income tax rate, gross-
757 up factor for income taxes, interest synchronization deduction, and gross revenue
758 conversion factor. Schedule FR C-4 also summarizes the permanent tax differences and
759 amortization of permanent tax differences. These amounts, after application of the gross
760 revenue conversion factor, reduce the revenue requirement by \$34,019,000.

761 Q. **How is App 9 used in developing ComEd's delivery service revenue requirement?**

762 A. App 9 provides a detailed analysis of ComEd's Permanent Tax Differences by presenting
763 each tax difference on a line-by-line basis and applying a jurisdictional allocator. App 9
764 also identifies ComEd's Investment Tax Credits and a jurisdictional calculation of each.

765 Q. **How did the increase in the Illinois income tax rate in 2011 impact the revenue**
766 **requirement?**

767 A. The passage of Illinois Senate Bill 2505 on January 13, 2011 increased the previous
768 corporate income tax rate of 7.3% to 9.50% for the years 2011 through 2014, with
769 reductions to 7.75% in 2015 and 7.3% in 2025. This change impacts the revenue
770 requirement in several ways.

771 First, the statutory state income tax rate used to calculate the overall total income
772 tax rate on Schedule FR C-4 has been revised to reflect the 9.5% statutory state income
773 tax rate.

774 Second, as a result of the change in the rate, previously recorded accumulated
775 deferred income tax balances, i.e. balances as of December 31, 2010, were required to be
776 remeasured to reflect the deferred tax balances calculated by applying the new tax rates
777 noted above. The remeasurement of ADIT resulted in a required increase to jurisdictional
778 ADIT as of January 1, 2011 of \$13.1 million. Consistent with prior ICC guidance (ICC
779 Docket No. 83-0309, addressing the manner in which deferred tax impacts resulting from
780 tax rate changes should be addressed), this shortfall in ADIT is offset by a regulatory
781 asset and is being amortized prospectively over the remaining life of the underlying
782 assets by applying a weighted-average rate method for future reversals. Amortization of
783 the remeasurement balance was a credit of \$1.9 million in 2011.

784 Finally, in 2011, ComEd recognized a significant benefit due to the difference
785 between the current income tax rate of 9.50% and the rate at which the related deferred
786 tax expense is recorded. The deferred tax rate is lower because, as described above, the
787 state income tax rate is scheduled to decline in 2015 and again in 2025, which means that
788 some of the deferred taxes recorded in 2011 will reverse in later years when the state
789 income tax rate is scheduled to be lower. This difference in current and deferred tax rates,

790 combined with the fact that during 2011 ComEd had two notable and significant tax
791 deductions (100% bonus depreciation and the expense related to the adoption of the T&D
792 repairs safe harbor methodology) resulted in a 2011 tax benefit of \$16,960,000
793 (jurisdictional), which is included in the tax adjustments shown on Schedule FR C-4.

794 **K. Regulatory Asset Amortization**

795 Q. **Does the revenue requirement in this filing include any amortization of regulatory**
796 **assets?**

797 A. Yes. As shown on ComEd Ex. 3.1, Schedule FR C-1, line 20, ComEd included in its
798 revenue requirement \$8,656,000 of regulatory asset amortization. This amount includes
799 the effects of the Commission's Order (entered in 2011) in ICC Docket No. 10-0467,
800 which revised the amount of amortization of several existing regulatory assets, authorized
801 amortization of new regulatory assets, and eliminated amortization of others. Regulatory
802 asset amortization also includes \$524,000 for rate case expenses incurred in 2011 related
803 to ICC Docket No. 11-0721, the initial formula rate proceeding, as referred to in ComEd
804 Ex. 3.9 attached to my testimony. Section 16-108.5(c)(4)(E) of the PUA provides that
805 these costs be amortized over a three-year period. Rate case expenses are further
806 discussed in Section L below.

807 **L. Rate Case Expenses related to ICC Docket No. 11-0721**

808 Q. **Are ComEd's rate case expenses for ICC Docket No. 11-0721 included in the**
809 **revenue requirement in this proceeding?**

810 A. Yes, in part. Most of ComEd's rate case expenses for ICC Docket No. 11-0721 that were
811 incurred in 2011 are included in the revenue requirement in this proceeding.

812 Q. **Can you explain how the amount of rate case expense amortization related to ICC**
813 **Docket No. 11-0721 was calculated?**

814 A. Yes. The amount included in operating expense represents one-third of the \$1,570,000 of
815 rate case expenses, most of which had been paid as of the end of the year. These amounts
816 exclude a year-end accrual of \$410,000, which will be amortized and reflected in
817 ComEd's 2012 reconciliation. ComEd Ex. 3.9 provides detail supporting ComEd's rate
818 case expenses incurred in 2011.

819 Q. **Did ComEd include in the revenue requirements s any amount related to the costs**
820 **incurred in 2012 related to ICC Docket No. 11-0721?**

821 A. No. Because the Act allows the filing to include only actual costs incurred in the year
822 prior to filing, rate costs incurred in 2012 will be included in the 2013 formula rate and
823 reconciliation filing.

824 Q. **Does ComEd review each invoice that it receives for the amounts listed on Exhibit**
825 **3.9?**

826 A. Yes. ComEd has various levels of internal review for these invoices, and each one is
827 reviewed for accuracy and reasonableness.

828 Q. **Do you have an opinion on whether ComEd's rate case expenses are prudent and**
829 **reasonable?**

830 A. Yes. I am personally familiar with ComEd's rate case expenses for the past several rate
831 cases. In addition, I am familiar with the flat fee agreements utilized in ICC Docket No.
832 11-0721, as well as the other rate case expenses incurred by ComEd. I have also worked
833 closely with the Exelon BSC attorneys who are responsible for negotiating all of these fee

834 arrangements, and who are always looking for innovative proposals and methods to
835 reduce costs and who ensure that outside counsel and other service providers are
836 responsive to that goal. Based on this experience and knowledge, I conclude that
837 ComEd's rate case expenses were prudently incurred and reasonable in amount.

838 **V. Miscellaneous Revenues**

839 **Q. What miscellaneous revenues are reflected in the revenue requirement?**

840 **A.** Based on a detailed analysis of these revenues, \$145,683,000, after adjustments, was
841 directly assigned or allocated to the delivery service function and was therefore deducted
842 from the revenue requirement. See ComEd Ex. 3.1, App 10 for detailed calculations.
843 This aggregate amount consist of: miscellaneous revenues of \$34,880,000 received in
844 connection with late payment fees and earned finance charges allocated to the delivery
845 service function based on the methodology approved by the Commission in ICC Docket
846 No. 10-0467; \$9,216,000 of miscellaneous service revenues (for example meter service
847 fees); \$68,442,000 of rental payments for facilities recorded in distribution accounts and
848 included in the delivery service rate base (equipment and meter rentals, pole attachments,
849 office space subleases, etc.); other Electric Revenues of \$2,268,000 (fees earned from a
850 telephone referral program and reimbursements for customer requested studies); an
851 adjustment of \$4,299,000 to reflect annualized revenues to be collected from reselling
852 municipalities as compensation for their usage of a portion of the ComEd distribution
853 system; and other adjustments totaling \$26,578,000 (including cost of delivery service
854 recovered under Rider FCA - Franchise Cost Additions (detailed in ComEd Ex. 3.1, App
855 11) and amounts recovered for facility lighting).

856 Q. **Does the revenue requirement include a revenue credit for revenues received under**
857 **Rider AMP?**

858 A. Yes. Because Rider AMP was in effect for almost the entire year 2010, ComEd's filing
859 in ICC Docket No. 11-0721, which was based on 2010 costs, excluded AMI pilot costs
860 from rate base and operating expenses and thus a revenue credit for Rider AMP revenues
861 was not necessary. By contrast, in 2011, upon which this filing is based, Rider AMP was
862 in effect (and recovering costs) for only five months (January through May), therefore a
863 revenue credit was made to reduce the revenue requirement for amounts recovered under
864 the rider.

865 **VI. Adjustments, Including Projected Plant Additions**

866 **A. Adjustments to Rate Base**

867 Q. **What is the net change to the delivery service rate base attributable to the 2012**
868 **projected plant additions and the increase in the depreciation reserve?**

869 A. As discussed in Section III above, ComEd has included both the 2012 projected plant
870 additions and the estimated increase in, or the "roll-forward" of, the depreciation reserve
871 relating to plant in service as of December 31, 2011. These amounts increased rate base
872 by a net amount of \$559,426,000. The projected plant additions are reasonably expected
873 to be placed in service by December 2012. These additions and amounts are supported in
874 the direct testimony of Ms. Blaise (ComEd Ex. 6.0). The increase in the depreciation
875 reserve is calculated by adding the estimated 2012 depreciation expense to the reserve.
876 This amount reflects the estimated 2012 depreciation expense on both plant existing as of
877 December 31, 2011 and the 2012 projected plant additions. These calculations are
878 presented on ComEd Ex. 3.1, App 1, lines 38 through 55.

879 Q. **Does the revenue requirement reflect any other adjustments to rate base?**

880 A. Yes. ComEd has reduced its delivery service rate base for costs recovered through other
881 tariffs (for example, costs incurred for Rider PORCB – Purchase of Receivables With
882 Consolidated Billing, and costs recovered through Rider EDA - Energy Efficiency and
883 Demand Response Adjustment). Additionally, ComEd reduced rate base for amounts
884 disallowed in prior ICC rate proceedings for reasons other than timing (for example,
885 capitalized incentive costs disallowed). These amounts are presented on ComEd Ex. 3.1,
886 App 1, lines 1 through 29).

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

888 Q. **What types of adjustments are made to 2011 operating expenses?**

889 A. The costs removed from operating expenses on Schedule FR C-1 and App 7, include rate-
890 making adjustments, costs recovered through other tariffs, and voluntary exclusions.
891 Some of these adjustments have already been described above and include (among
892 others) bank fees accounted for in the cost of credit facilities and non-delivery service
893 regulatory costs. Operating expenses are also reduced for costs recovered through other
894 tariffs (for example, supply administration costs and residential real-time pricing).
895 Finally, in an attempt to narrow the potential issues in dispute, ComEd has voluntarily
896 reduced its operating expenses by a portion of compensation costs of certain executives,
897 half of its corporate jet costs, and certain lease expenses. These amounts are presented on
898 ComEd Ex. 3.1, App 7, page 1.

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

900 A. Other Revenues are reduced by removing amounts applicable to transmission services, in
901 particular, the amounts reflected in Accounts 450 and 451. See ComEd Ex. 3.1 App 10.

902 **VII. Gross Revenue Conversion Factor**

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

904 A. ComEd's GRCF is 1.700, the development of which is shown on Schedule FR C-4, line
905 13 in ComEd Ex. 3.1.

906 **VIII. Overall Weighted Cost of Capital (Rate of Return)**

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

908 A. ComEd's 2011 overall weighted cost of capital (rate of return) is 7.59% for the 2011
909 reconciliation and 7.55% for the filing year 2012. The difference, described in further
910 detail by Mr. Trpik, results from a Return on Equity base of 590 basis points being
911 applicable to the reconciliation year and 580 basis points being applicable to the filing
912 year (ComEd Ex. 4.0). The cost of capital figures are derived from the following capital
913 structure and costs, which reflect the full removal of good will from the capital structure.

2011 Reconciliation			
Capital Structure Component	Weighting	Cost	Weighted Cost
Common equity	43.32%	9.81%	4.25%
Long-term debt	56.50%	5.74%	3.24%
Short-term debt	0.18%	0.71%	0.00%
Credit Facility Cost			0.10%
Total weighted average	100%		7.59%

914

2012 Filing Year			
Capital Structure Component	Weighting	Cost	Weighted Cost
Common equity	43.32%	9.71%	4.21%
Long-term debt	56.50%	5.74%	3.24%
Short-term debt	0.18%	0.71%	0.00%
Credit Facility Cost			0.10%
Total weighted average	100%		7.55%

915

916 The capital structure, costs of debt, and the formula components of the rate of return on
917 common equity are discussed in the direct testimony of Joe Trpik (ComEd Ex. 4.0).

918 Q. **Which Schedules and Appendices in ComEd Ex. 3.1 support ComEd's rate of**
919 **return?**

920 A. Schedules FR D-1 and FR D-2 and Appendices 12 and 13 in ComEd Ex. 3.1 support
921 ComEd's rate of return.

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

923 A. Schedule FR D-1 summarizes ComEd's overall weighted cost of capital, and provides
924 calculations of ComEd's capital structure, weighted costs of each capital structure
925 component and the overall weighted average cost of capital for both the 2011
926 reconciliation and the 2012 filing year.

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

928 A. Schedule FR D-2 calculates the average monthly market yields on 30-year treasury
929 bonds. This amount is added to the return on equity base of 580 basis points to determine
930 ComEd's cost of equity. For purposes of the 2011 reconciliation the equity base is 590
931 basis points, as discussed in the direct testimony of Joseph Trpik (ComEd Ex. 4.0).

932 Q. **How is App 12 used in developing ComEd's delivery service revenue requirement?**

933 A. App 12 shows the calculation of ComEd's cost and balance of short-term debt, net of
934 CWIP, along with ComEd's costs to maintain its credit facilities.

935 Q. **How is App 13 used in developing ComEd's delivery service revenue requirement?**

936 A. App 13 contains the calculation of ComEd's cost and balance of long-term debt and lists
937 ComEd's existing first mortgage bonds, sinking fund debentures, notes and subordinated
938 deferrable interest debt.

939 **IX. Comparison to ComEd's Revenue Requirement in ICC Docket No. 11-0721**

940 **Q. How does ComEd's delivery service revenue requirement presented in your**
941 **testimony compare with the delivery service revenue requirement requested by**
942 **ComEd in ICC Docket No. 11-0721?**

943 **A. ComEd's formula derived delivery service revenue requirement presented here is**
944 **\$2,131,121,000, \$106,189,000 more than the \$2,024,932,000 requested by ComEd in its**
945 **surrebuttal testimony in ICC Docket No. 11-0721.**

946 **Q. What factors account for the differences between ComEd's delivery service revenue**
947 **requirement presented here and the delivery service revenue requirement requested**
948 **by ComEd in ICC Docket 11-0721?**

949 **A. The drivers of the differences are illustrated by table 2 below:**

Table 2	(in millions)
Surrebuttal Revenue Requirement - ICC Docket No. 11-0721	\$ 2,025
Updated to 2011 Actual	11
Revenue Requirement - 2011 Reconciliation Year	\$ 2,036
Projected Plant Additions Net of Depr Reserve - 2012 Plan	58
Projected Depreciation Expense Forecast - 2012 Plan	21
Decrease in Cost of Equity Base from 5.9% to 5.8%	(4)
Revenue Requirement - 2012 Filing Year	\$ 2,111
Collar Adjustment	16
Reconciliation (to 2011 rev reqs in effect)	4
Net Revenue Requirement - 2013 Rate Year	\$ 2,131

950

951 As shown in the table above, the majority of the difference is related to the

952 inclusion of 2012 projected plant additions and corresponding 2012 depreciation expense.

953 Additionally, a portion of the difference is driven by the Return on Equity Collar
954 adjustment and the reconciliation of 2011 actual costs to the revenue requirements in
955 effect in 2011. The 2011 increase reflects higher operating costs, largely due to storm
956 activity, partially offset by a decrease in the cost of capital (lower calculated ROE, lower
957 cost of debt and a more highly levered capital structure) and the impacts of the tax benefit
958 associated with the state of Illinois income tax rate change and the ADIT associated with
959 bonus depreciation and the adoption of new tax repair methodology.

960 **X. Conclusion**

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

963 **A.** It will produce rates authorized by the statute, are correctly calculated, and are just and
964 reasonable.

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

966 **A.** Yes.