

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
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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.

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.