ComEd Ex. 3.0

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY	:	
	:	No. 13-____
Annual formula rate update and revenue	:	
requirement reconciliation under	:	
Section 16-108.5 of the Public Utilities Act	:	

Direct Testimony of

MARTIN G. FRUEHE

Manager,

Revenue Policy

Commonwealth Edison Company

TABLE OF CONTENTS

Section **Page**

I. INTRODUCTION 1
A. Witness Identification 1
B. Purpose of Direct Testimony 1
C. Summary of Conclusions 3
D. Itemized Attachments to Direct Testimony 6
E. Background and Qualifications 10

II. DELIVERY SERVICE REVENUE REQUIREMENT 11
A. 2012 Revenue Requirements 11
B. 2014 Rate Year Net Revenue Requirement 13

III. Allocation of General and Intangible Plant 14

IV. RATE BASE 20
A. Total Rate Base 20
B. Electric Plant in Service at Original Cost 22
C. Energy Infrastructure Modernization Act ("EIMA") 23
D. Accumulated Provisions for Depreciation and Amortization 25
E. Net Plant Included in Delivery Service Rate Base 25
F. Construction Work In Progress 25
G. Property Held for Future Use 26
H. Cash Working Capital 26
I. Accumulated Deferred Income Taxes 27
J. Materials and Supplies 28
K. Other Assets and Liabilities 29
L. Customer Deposits 33
M. Customer Advances 33
N. Projected Plant Additions, Accumulated Reserve, and Accumulated Deferred Income Taxes 34

V. OPERATING EXPENSES 35
A. Total Operating Expenses 35
B. Distribution O&M Expenses 36
C. Customer-Related O&M Expenses 36
D. Incentive Compensation Expenses 38
1. Annual Incentive Plan 38
2. Long-Term Performance Share Awards Program 41
E. Other Compensation: Key Manager and Executive Restricted Stock Awards and Stock Option Awards Programs 43
F. Administrative and General Expenses 44
G. Return on Pension Asset 49
H. Sales and Marketing Expense 50
I. Depreciation and Amortization of Electric Utility Plant 50
J. Taxes Other than Income 50

K. Income Taxes 52
L. Regulatory Asset Amortization 53
M. Rate Case Expenses 54
1. Rate Case Expenses Related to ICC Docket No. 11-0721 55
2. Rate Case Expenses Related to ICC Docket No. 12-0321 57
N. Energy Infrastructure Modernization Act Credits 57

VI. MISCELLANEOUS REVENUES 57

VII. ADJUSTMENTS, INCLUDING PROJECTED PLANT ADDITIONS 59
A. Adjustments to Rate Base 59
B. Adjustments to Operating Expenses and Other Revenues 60

VIII. GROSS REVENUE CONVERSION FACTOR 62

IX. OVERALL WEIGHTED COST OF CAPITAL (RATE OF RETURN) 62

X. COMPARISON TO 2013 RATE YEAR NET REVENUE REQUIREMENT 64

XI. CONCLUSION 66

I. INTRODUCTION

A. Witness Identification

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

A. My name is Martin G. Fruehe. My business address is Three Lincoln Centre, Oakbrook Terrace, Illinois 60181.

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

A. I am the Manager, Revenue Policy, of Commonwealth Edison Company ("ComEd").

B. Purpose of Direct Testimony

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

A. My direct testimony has two principal purposes. First, I present the details underlying the calculation of the three revenue requirements to be determined in this case: (1) the 2012 Reconciliation Revenue Requirement, (2) the 2014 Initial Rate Year Revenue Requirement, and (3) the 2014 Rate Year Net Revenue Requirement.

- ComEd's "2012 Reconciliation Revenue Requirement" is based upon actual costs incurred in 2012 inclusive of ratemaking adjustments. This revenue requirement is used to "reconcile" the 2012 actual costs to the revenue requirements in effect during 2012 pursuant to the orders of the Illinois Commerce Commission ("Commission" or "ICC") in Docket Nos. 10-0467 (Order May 24, 2011) and 11-0721 (Order May 29, 2012; Order on Rehearing October 3, 2012) weighted by the time the charges set by each such order were in effect during 2012, in accordance with Section 16-108.5(d)(1) of the Public Utilities Act ("PUA"). The difference between the 2012 Reconciliation Revenue Requirement and the weighted average

of the revenue requirements in effect in 2012 is the 2012 reconciliation adjustment, before interest is applied. The 2012 reconciliation is also discussed by Ms. Brinkman (ComEd Exhibit "Ex." 2.0).

- I also provide the calculation of the "2014 Initial Rate Year Revenue Requirement" which includes ComEd's 2012 actual costs plus 2013 projected plant additions, associated depreciation reserve and Accumulated Deferred Income Tax ("ADIT") roll-forward and projected depreciation expense adjustments.
- Finally, the reconciliation amount and an adjustment for the Return on Equity ("ROE") Collar as described by Ms. Brinkman (ComEd Ex. 2.0) is added to (or subtracted from) the 2014 Initial Rate Year Revenue Requirement to determine the "2014 Rate Year Net Revenue Requirement" to go into effect in January 2014.

Second, I present and support the specific data that "populate" the Schedules and Appendices that comprise the "revenue requirement formula" for purposes of determining the 2014 Rate Year Net Revenue Requirement to be used in setting delivery service charges for the 2014 Rate Year under ComEd's Rate DSPP - Delivery Service Pricing and Performance. This is the support for my calculations previously referenced. These Schedules and Appendices include most of the data provided for under Part 285 of the Commission's rules, although they are different from those schedules. I also present additional schedules and workpapers consistent with the schedules and workpapers required to support a delivery service revenue requirement in a general rate case under Part 285.

Support for the delivery service revenue requirement components is provided in my direct testimony and that of Mr. Trpik (ComEd Ex. 4.0), Ms. Blaise (ComEd Ex. 5.0), Mr. Donovan (ComEd Ex. 6.0), Ms. O'Brien (ComEd Ex. 8.0), and Mr. Born (ComEd Ex. 9.0).

Q. **Are any other schedules presented with your direct testimony?**

A. Yes. In order to quantify the effect of its positions on appeal from the orders in ICC Docket Nos. 11-0721 and 12-0321, ComEd has developed a second set of schedules that calculate the 2012 Reconciliation Revenue Requirement, the 2014 Initial Rate Year Revenue Requirement, and the 2014 Rate Year Net Revenue Requirement, applicable if ComEd's appeals on certain issues are successful. These issues are discussed by Dr. Hemphill (ComEd Ex. 1.0) and Ms. Brinkman (ComEd Ex. 2.0).

C. <u>Summary of Conclusions</u>

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

A. The conclusions of my direct testimony are: (1) ComEd's 2012 Reconciliation Revenue Requirement based upon actual 2012 costs is $2,126,321,000; (2) ComEd's 2014 Initial Rate Year Revenue Requirement is $2,198,914,000; and (3) ComEd's 2014 Rate Year Net Revenue Requirement, to go into effect in January 2014 is $2,334,330,000. More specifically:

(1) 2012 Reconciliation Revenue Requirement. The 2012 Reconciliation Revenue Requirement of $2,126,321,000 is based on the following components:

Rate Base – ComEd's 2012 actual rate base was $6,214,635,000, reflecting adjustments.

Operating Expenses and Other Revenues - ComEd's 2012 actual operating expenses before income taxes were $1,657,626,000, and after income taxes were $1,896,326,000, and its Other Revenues were $126,582,000, reflecting adjustments (and the exclusion of costs recovered under other tariff mechanisms and costs disallowed in past ICC orders for reasons other than timing or in certain cases insufficiency of evidence) in ComEd's revenue requirement formula as referred to in Schedule ("Sch") C-1 RY, attached to my direct testimony in ComEd Ex. 3.03.

ComEd's Overall Weighted Average Cost of Capital – ComEd's overall weighted average cost of capital (its rate of return on its rate base) is 7.01% for the reconciliation calculation, the key components of which are further discussed by Mr. Trpik (ComEd Ex. 4.0).

(2) Reconciliation of Delivery Service Revenue Requirement for 2012. The reconciliation of the 2012 Reconciliation Revenue Requirement and the weighted average of the revenue requirements in effect in 2012 (*i.e.*, the former minus the latter) is $141,173,000, before interest, and $142,546,000 with interest. These calculations are further discussed by Ms. Brinkman (ComEd Ex. 2.0).

(3) 2014 Initial Rate Year Revenue Requirement. The 2014 Initial Rate Year Revenue Requirement of $2,198,914,000 is based on the following components:

Rate Base – ComEd's rate base is $6,730,757,000, reflecting adjustments. ComEd's projected plant additions for 2013 (discussed in more detail by ComEd witnesses Mr. Donovan and Ms. Blaise (ComEd Exs. 6.0, 5.0)) are $772,892,000 (gross amount).

Operating Expenses and Other Revenues – ComEd's operating expenses before income taxes are $1,681,696,000, and after income taxes are $1,940,375,000, and its Other Revenues are $126,582,000, reflecting adjustments (and the exclusion of costs recovered under other tariff mechanisms and costs disallowed in past ICC Orders for reasons other than timing or insufficiency of evidence) and are shown in ComEd's revenue requirement in Sch. C-1 FY, attached to my direct testimony in ComEd Ex. 3.05.

ComEd's Overall Weighted Average Cost of Capital - ComEd's overall weighted average cost of capital for the 2014 Initial Rate Year Revenue Requirement is 6.99%, the key components of which are further discussed by Mr. Trpik (ComEd Ex. 4.0).

(4) **2014 Rate Year Net Revenue Requirement -** ComEd's 2014 Rate Year Net Revenue Requirement is $2,334,330,000 and is comprised of ComEd's 2014 Initial Rate Year Revenue Requirement of $2,198,914,000, the 2012 reconciliation amount of $142,546,000 (with interest) and the ROE Collar of ($7,130,000). These calculations are further discussed by Ms. Brinkman (ComEd Ex. 2.0).

(5) **Gross Revenue Conversion Factor –** ComEd's gross revenue conversion factor is 1.7000 for the 2012 Reconciliation Revenue Requirement, the 2014 Initial Rate Year Revenue Requirement, and the 2014 Rate Year Net Revenue Requirement.

D. Itemized Attachments to Direct Testimony

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

A. The attachments to my direct testimony are:

(1) **ComEd Ex. 3.01**[1] contains the applicable schedules and appendices of ComEd's revenue requirement formula, populated with data reflecting ComEd's 2014 Rate Year Net Revenue Requirement and its components for charges to become effective with the January 2014 monthly billing period:

- Revenue Requirement Formula Schedule ("Sch") FR A-1, Sch FR A-1 - REC, Sch FR A-2, Sch FR A-3, Sch FR A-4, Sch FR B-1, Sch FR B-2, Sch FR C-1, Sch FR C-2, Sch FR C-3, Sch FR C-4, Sch FR D-1, Sch FR D-2, Appendix ("App") 1, App 2, App 3, App 4, App 5, App 6, App 7, App 8, App 9, App 10, and App 11.

(2) **ComEd Ex. 3.02** contains the workpapers that support the schedules and appendices in ComEd Ex. 3.01.

(3) **ComEd Ex. 3.03** contains the following "Part 285" schedules that are required to be submitted in a general rate case under Part 285 and support the revenue requirement calculations associated with Sch FR A-1 - REC:

- Part 285 Schedule As: A-2 RY, A-2.1, A-4 RY, and A-5 RY;
- Part 285 Schedule Bs: B-1 RY, B-2 RY, B-2.1, B-2.2, B-2.3, B-2.6, B-2.7, B-2.8, B2.9, 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, B-9, B-9.1, B-10, B-11, B-12, B-13, B-14, and B-15;

[1] The schedules and appendices included in ComEd Ex. 3.01 are reflective of minor reference changes that ComEd will address in a 45 day filing.

- Part 285 Schedule Cs: C-1 RY, C-2 RY, C-2.2, C-2.3, C-2.4, C-2.5, C-2.6, C-2.7, C-2.8, 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, 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, C-13, C-14, C-15, C-16, C-17, C-18, C-19, C-20, C-21, C-22, C-23, C-24, C-25, C-26, C-27, C-28, C-29, C-30, C-31, C-32, and C-33; and
- Part 285 Schedule Ds: D-1 RY, D-2, D-3, D-4, D-5, D-6 RY, D-7, D-8, D-9, D-10, D-11, and D-12.

(4) **ComEd Ex. 3.04** contains workpapers that support the Part 285 schedules included in ComEd Ex. 3.03.

(5) **ComEd Ex. 3.05** contains the following Part 285 schedules that support the 2014 Rate Year Net Revenue Requirement presented on Sch FR A-1 to the extent that they differ from the Part 285 schedules that support the 2012 Reconciliation Revenue Requirement presented in Sch FR A-1 - REC:

- Part 285 Schedule As: A-1 FY, A-2 FY, A-4 FY, and A-5 FY;
- Part 285 Schedule Bs: B-1 FY, B-2 FY, B-2.4 FY, and B-2.5 FY;
- Part 285 Schedule Cs: C-1 FY, C-2 FY, C-2.1 FY, C-5 FY, and C-5.4 FY; and
- Part 285 Schedule Ds: D-1 FY.

(6) **ComEd Ex. 3.06** contains workpapers that support the Part 285 schedules included in ComEd Ex. 3.05.

(7) **ComEd Ex. 3.07** provides a summary of ComEd's 2012 incentive compensation costs and the amount included in ComEd's revenue requirements.

(8) **ComEd Ex. 3.08** provides support for ComEd's 2012 pension and other post-employment benefits ("OPEB") expense and the 2012 actuarial valuation reports from Exelon Corporation's consultant, Towers Watson.

(9) **ComEd Ex. 3.09** provides support for ComEd's 2011 rate case expenses related to ICC Docket No. 11-0721 and ComEd's 2012 rate case expenses related to ICC Docket No. 11-0721 and ICC Docket No. 12-0321.

(10) **ComEd Ex. 3.10** contains the same schedules and appendices listed in ComEd Ex. 3.01, but revised to include recovery of issues ComEd currently may pursue on appeal in ICC Docket Nos. 11-0721 and 12-0321.

- Revenue Requirement Formula Schedule ("Sch") FR A-1 UA, Sch FR A-1- REC UA, Sch FR A-2 UA, Sch FR A-3 UA, Sch FR A-4 UA, Sch FR B-1 UA, Sch FR B-2 UA, Sch FR C-1 UA, Sch FR C-2 UA, Sch FR C-3 UA, Sch FR C-4 UA, Sch FR D-1 UA, Sch FR D-2 UA, Appendix ("App") 1 UA, App 2 UA, App 3 UA, App 4 UA, App 5 UA, App 6 UA, App 7 UA, App 8 UA, App 9 UA, App 10 UA, and App 11 UA.
- A summary of the revenue requirement impacts of the issues on appeal.

(11) **ComEd Ex. 3.11** contains workpapers that support the schedules and appendices in ComEd Ex. 3.10 to the extent that they are different from those presented in ComEd Ex. 3.02.

(12) **ComEd Ex. 3.12** contains the following Part 285 schedules that differ from those included in ComEd 3.03 and 3.05 due to the inclusion of the items potentially on appeal:

- Part 285 Schedule As: A-2 RY UA, A-2 FY UA, A-4 RY UA, A-4 FY UA,
- Part 285 Schedule Bs**:** B-1 RY UA, B-1 FY UA, B-2 RY UA, B2 FY UA, B-2.3 UA, B-2.4 FY UA, B-2.5 FY UA, B-2.6 UA, B-2.7 UA, B-8 UA, B-9 UA, B-10 UA,
- Part 285 Schedule Cs: C-1 RY UA, C-1 FY UA, C-2 RY UA, C-2 FY **UA,** C-2.1 FY UA, C-2.3 UA, C-2.4 UA, C-2.5 UA, C-2.6 UA, C-5 FY UA, C-5 RY UA, C-5.2 UA, C-5.4 RY UA, C-5.4 FY UA, C-12 UA, C-18 UA, C-19 UA, C-23 UA,
- Part 285 Schedule Ds: D-1 UA, D-3 UA.

(13) **ComEd Ex. 3.13** contains workpapers that support the Part 285 schedules included in ComEd Ex. 3.12, to the extent they are different from ComEd Ex. 3.04 and 3.06;

(14) **ComEd Ex. 3.14** contains workpapers that support the rate base and revenue requirement impacts of the merger-related costs to achieve;

(15) **ComEd Ex. 3.15** is ComEd's 2012 Facilities Allocation Study; and

(16) **ComEd Ex. 3.16** contains a summary of the differing allocation methods the ICC and the Federal Energy Regulatory Commission ("FERC") use to allocate General and Intangible plant between delivery services and transmission. Unless otherwise noted, the schedules, appendices, and workpapers in ComEd Exs. 3.01 through 3.16 have been prepared by me or under my direct supervision.

E. Background and Qualifications

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

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

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

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

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

A. I received a Bachelor of Science Degree in Marketing from Northern Illinois University

and a Masters of Business Administration with a concentration in Finance from DePaul University's Kellstadt Graduate School of Business.

Q. **Have you previously testified before the ICC?**

A. Yes. I have testified in several ComEd rate cases in regards to ComEd's revenue requirement, specifically ICC Docket Nos. 10-0467, 11-0721, and 12-0321.

II. DELIVERY SERVICE REVENUE REQUIREMENT

A. 2012 Revenue Requirements

Q. **What was ComEd's delivery service revenue requirement in effect in 2012?**

A. As I mentioned earlier, Section 16-108.5(d)(1) requires that for the reconciliation, ComEd calculate the difference between (1) the revenue requirement or requirements established by the Commission order or orders underlying rates in effect during the calendar year in question, in this case 2012, and (2) the actual costs of that year. If more than one order was in effect, the revenue requirements are to be "weighted." *See* 220 ILCS 5/16-108.5(d).

In ComEd's case, three revenue requirements were in effect during 2012. The first was that established by the Commission's order in ICC Docket No. 10-0467, which established a delivery service revenue requirement of $2,084,072,000. *Commonwealth Edison Co.*, ICC Docket No. 10-0467 (Order May 24, 2011) at 316. For purposes of the 2012 reconciliation, this revenue requirement is reduced by $31,998,000 to $2,052,074,000 in order to remove the amount of expense associated with uncollectibles, as this amount is not included in ComEd's 2012 Reconciliation Revenue Requirement as calculated in the revenue requirement formula. The charges established by that Order were in effect, in 2012, from January 1, through June 19, 2012. The second revenue

requirement was established by the Commission's final order in ICC Docket No. 11-0721, which established a delivery service revenue requirement of $1,915,440,000. *Commonwealth Edison Co.*, ICC Docket No. 11-0721 (Order May 29, 2012) at 178. Charges established by that order were in effect from June 20, 2012, through the October 2012 monthly billing period. The third revenue requirement was established by the Commission's Order on Rehearing in ICC Docket No. 11-0721, which established a delivery service revenue requirement of $1,950,664,000. *Commonwealth Edison Co.*, ICC Docket No. 11-0721 (Order on Rehearing October 3, 2012) at 37. Charges established by that Order on Rehearing were in effect for the November and December 2012 monthly billing periods.

ComEd therefore established a weighted delivery service revenue requirement for 2012 of $1,985,148,000 as illustrated below:

$2,052,074,000	x	171/366 days =	$958,756,000
$1,915,440,000	x	134/366 days =	$701,281,000
$1,950,664,000	x	61/366 days =	$325,111,000
		Sum =	$1,985,148,000

Q. **How does this weighted 2012 revenue requirement based on rates in effect in 2012 compare to the revenue requirement that results from using 2012 actual costs as required for reconciliation purposes by Section 16-108.5(d)(1)?**

A. The weighted 2012 revenue requirement based on rates in effect in 2012 is $141,173,000 less than the revenue requirement based on 2012 actual costs (the 2012 Reconciliation Revenue Requirement, which is discussed in more detail in the following section and by Ms. Brinkman (ComEd Ex. 2.0)).

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

A. Sch FR A-1 – REC "Revenue Requirement Reconciliation Computation" provides the final calculation of the 2012 Reconciliation Revenue Requirement for reconciliation purposes, including the key revenue requirement components (operating expenses, rate base, return and taxes).

Q. **Please explain the entries on this schedule.**

A. As discussed earlier, the entries on Sch FR A-1 - REC provide the key inputs into ComEd's revenue requirement calculation for the previous year (2012) now that the actual costs are known. The 2012 Reconciliation Revenue Requirement is shown on line 25. This amount is used as an input to Sch FR A-4 "Reconciliation Computation," which calculates the 2012 reconciliation amount (with interest and net of the ROE Collar) to be included in the 2014 Rate Year Net Revenue Requirement to be effective January 2014.

Q. **Does the revenue requirement based on 2012 actual costs contain any costs previously disallowed by a prior Commission order based on a finding of imprudence or unreasonableness?**

A. No. The delivery service revenue requirement based on actual 2012 costs, the 2012 Reconciliation Revenue Requirement, includes only those costs that are prudently incurred and reasonable in amount for the provision of delivery service.

B. <u>2014 Rate Year Net Revenue Requirement</u>

Q. **How is ComEd's 2014 Rate Year Net Revenue Requirement shown in the populated revenue requirement formula schedules in ComEd Ex. 3.01?**

A. The key components of the revenue requirement to be effective with the January 2014 monthly billing period, the 2014 Rate Year Net Revenue Requirement, are shown on Sch FR A-1 "Net Revenue Requirement Computation." These include operating expenses, rate base, return on rate base, taxes, interest synchronization, other revenues, the reconciliation amount as calculated on Sch FR A-4 and the ROE Collar adjustment as calculated on Sch FR A-3 "Return on Equity (ROE) for Collar Computation." The inputs to these components and calculations are presented on other, supporting schedules discussed herein.

Q. **What other schedules are involved in the development of the 2014 Rate Year Net Revenue Requirement?**

A. The "FR B," "FR C," and "FR D" schedules in ComEd Ex. 3.01, which relate to rate base, operating expenses and revenues, and cost of capital, respectively, are also involved in the development of the 2014 Rate Year Net Revenue Requirement. Additionally, several appendices included in ComEd Ex. 3.01 directly support the calculation of the 2014 Rate Year Net Revenue Requirement presented on Sch FR A-1. These schedules and the associated appendices are discussed in the remainder of my direct testimony.

III. <u>ALLOCATION OF GENERAL AND INTANGIBLE PLANT</u>

Q. **In the context of this formula rate matter, what does the term "functionalization" mean?**

A. ComEd is a "wires only" utility, meaning it has both distribution and transmission functions, but is not a generator of electricity. This formula rate matter involves setting the charges for ComEd's Illinois jurisdictional distribution function, commonly referred

to as delivery service. ComEd's transmission service charges are regulated exclusively by FERC.

Most of ComEd's costs of service are recorded in accounts in the Uniform System of Accounts ("USOA") that identify the function the costs support, *i.e.*, they are recorded either in distribution (including customer) accounts or in transmission accounts. However, some of ComEd's costs – most notably (1) the costs in its General and Intangible ("G&I") Plant Accounts; (2) the costs in its Administrative and General ("A&G") Accounts; and (3) Taxes Other Than Income – are recorded as common costs and, therefore, need to be split between distribution and transmission for purposes of setting charges. The process of determining that split is called functionalization or allocation.[2]

Q. **In your professional opinion, is the manner in which the recent Commission orders have allocated these common costs reasonable or valid?**

A. No. The manner in which the Commission has recently allocated most of ComEd's G&I Plant costs is not, in my view, reasonable or supported by the data.

Q. **How does ComEd's filing allocate its G&I Plant costs?**

A. ComEd's filing allocates General Plant Account 397 (Communication Equipment) by direct assignment (the location of equipment) as was approved in its prior formula rate cases. This allocation method is consistent with how these costs are allocated in ComEd's transmission formula rate. ComEd's filing allocates the remaining G&I Plant

[2] ComEd also passes through electricity supply costs to those of its customers that purchase their supply through ComEd. ComEd's supply and supply-related costs are recovered through separate charges that are not set as part of its delivery service rates. The term functionalization also can refer to the identification of supply-related costs.

accounts with either of several different allocators, depending upon the account. The Commission has approved use of the Wages & Salaries ("W&S") Allocator for certain accounts, but directed different methods of allocation for other accounts, including FERC Accounts 389 (Land and Land Rights) and 390 (Structures and Improvements). Specifically, for FERC Accounts 389 and 390, the Commission directed ComEd to use a facilities allocator, based upon a 2009 Facilities Allocation Study which allocated floor space between transmission and delivery service.

Q. **Has ComEd's filing provided an updated Facilities Allocation Study?**

A. Yes. ComEd believes the appropriate allocation method is the use of the W&S allocator for all G&I Accounts other than Account 397, and the issue currently is on appeal from ICC Docket No. 11-0721. Because the Commission ordered ComEd to use a Facilities Allocation Study, however, and because the 2009 study was outdated, ComEd updated its Facilities Allocation Study. I have included this updated Facilities Allocation Study with my testimony as ComEd Ex. 3.15.

Q. **What were the results of the updated Facilities Allocation Study?**

A. The updated study showed that 89.84% of ComEd owned facilities should be allocated to the Illinois jurisdictional delivery service function. The study also showed that 80.1% of ComEd's leasehold improvements should be allocated to delivery services.

Q. **How do the updated study's allocation results compare to the previous study's allocation?**

A. The previous study allocated 82.5% of ComEd facilities and 85.0% of ComEd's leasehold improvements to delivery services.

Q. **Can you provide an explanation as to why the updated Facilities Allocation Study resulted in different allocations to delivery service?**

A. Yes, for two main reasons. First, in the previous study, a significant portion of ComEd's office space located at Lincoln Centre 2 was subleased to a third party. That space is no longer subleased and is being used primarily by personnel associated with the delivery service function. Second, the previous study allocated space occupied by personnel who perform administrative duties (*e.g.*, finance, accounting, regulatory, Information Technology) by an allocator based solely upon the allocation of space specifically designated as either transmission or distribution. In other words, it allocated the space occupied by administrative personal by the ratio of other space determined to be either transmission or distribution. After reviewing the data and comparing it to other costs that are administrative in nature, ComEd believed that allocating this space by using the W&S allocator was most appropriate, as other similar costs were allocated in the same manner. For example, the costs of Exelon Business Services Company ("BSC") services, pensions and benefits and most other A&G costs (including reductions to A&G) are functionalized via the W&S allocator.

Q. **Why does ComEd believe the W&S allocator is appropriate for allocation of all G&I plant, other than Account 397?**

A. In its FERC transmission formula rate, ComEd allocates the costs associated with its G&I plant, other than Account 397, by applying the W&S allocator. Applying the same

allocator in the determination of Illinois jurisdictional delivery service charges assures that ComEd recovers its actual costs, no more, no less.[3]

Q. **What is ComEd's W&S allocator, applicable to delivery services, as calculated in the revenue requirement formula?**

A. Based upon the wages and salaries data identified in ComEd's 2012 FERC Form 1, the W&S allocator applicable to delivery service is 88.48%. ComEd Ex. 3.01, Sch FR A-2, lines 1 – 8.

Q. **How is the W&S allocator derived?**

A. As shown on Sch FR A-2 "Allocators Computation," lines 1 – 8, the ratio of ComEd's Illinois jurisdictional delivery service function (distribution, customer, and customer service) wages to ComEd's total wages (adjusted to remove A&G wages) is calculated. This ratio is the W&S allocator for jurisdictional delivery service.

Q. **Which allocator is more appropriate for this purpose – facilities or W&S?**

A. The updated Facilities Allocation Study and the W&S allocator both provide a reasonable representation of the underlying cost drivers. However, given that ComEd's transmission formula rate applies the W&S allocator, it would be more appropriate to use the W&S allocator, to ensure ComEd recovers its actual costs, no more and no less.

Q. **What are the ratemaking implications of using the facilities allocator in regards to recovery of the costs of ComEd facilities?**

[3] ComEd's annual FERC transmission formula rate is being filed contemporaneously and ComEd will provide a copy of that rate in this proceeding as soon as practicable.

A. Because the transmission formula rate applies a W&S allocator (based on the ratio of transmission wages to total wages) to functionalize these costs, the effect of using the facilities allocator in the Illinois jurisdictional delivery service revenue requirement formula results in an under-recovery of these costs. Specifically, $340,000 in ComEd's 2012 Reconciliation Revenue Requirement, and $322,000 in ComEd's 2014 Initial Rate Year Revenue Requirement.

Q. **How do you recommend alleviating the under-recovery of ComEd's facility costs?**

A. Moving forward, the W&S allocator should be used to allocate these costs. The Facilities Allocation Study performed by ComEd will likely vary from year-to-year as business conditions change, resulting in over or under recovery of these costs as it is very unlikely that it will be exactly equal to the W&S allocator. Applying a W&S allocator in both jurisdictions (transmission and delivery services) ensures that ComEd recovers its actual costs, no more, no less.

Q. **You discussed that other allocators are used in the allocation of G&I plant. Can you provide additional discussion of how use of these other allocators affects cost recovery?**

A. Yes. In particular, Account 392 (Transportation Equipment) is allocated to delivery service using the transportation study allocator, while Accounts 394 (Tools, Shop), 395 (Lab Equipment), 396 (Power Equipment) are allocated to delivery service using the gross plant allocator. Also, certain amounts of Intangible Plant are allocated using either the gross plant allocator or are allocated 100% to delivery service. Finally, certain accounts, such as Accounts 391 (Office Furniture and Equipment), 393 (Stores

Equipment), 398 (Miscellaneous Equipment) and 399 (Other Tangible Equipment) are allocated using the W&S allocator. Similarly, certain intangible plant is also allocated using the W&S allocator. For the transmission function, all of these accounts and costs are allocated using the W&S allocator. This mix-match of allocations virtually assures that ComEd will either under or over recover some of these costs. In ComEd Ex. 3.16, I provide a summary of how G&I plant is allocated between transmission and delivery services and the resulting amount, if any, of over or under recovery of costs.

Q. **Is the potential over or under recovery related to the prudence or reasonableness of these costs?**

A. No.

Q. **Is there a way to remedy the risk that reasonable and prudent costs of service will be left unrecovered as a result?**

A. Yes. As I previously recommended, using the W&S allocator to allocate ComEd's facilities costs between transmission and Illinois jurisdictional delivery services (plus direct assignment of Account 397) results in full recovery, no more, no less. The same logic applies to the other G&I plant accounts.

IV. RATE BASE

A. Total Rate Base

Q. **What is ComEd's Illinois-jurisdictional delivery service rate base?**

A. ComEd's rate base for purposes of determining the delivery service revenue requirement, as of December 31, 2012, is $6,214,635,000, and for the purposes of determining the 2014 Initial Rate Year Revenue Requirement is $6,730,757,000, including 2013 net

projected plant additions. As Ms. Blaise (ComEd Ex. 5.0), Mr. Donovan (ComEd Ex. 6.0), and Mr. Born (ComEd Ex. 9.0) testify, the assets in rate base are used and useful and the related investment set forth in ComEd Ex. 3.01, Sch FR B-1, is prudent and reasonable, appropriately functionalized to delivery service, and appropriate for purposes of determining the revenue requirements at issue in this case.

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

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

(1) Costs recorded in Distribution Plant Accounts as of December 31, 2012, such as land, poles, cable, transformers, and meters;

(2) Costs recorded in G&I Plant Accounts as of December 31, 2012, that support the provision of distribution and customer service, such as office furniture, vehicles, stores equipment, and capitalized software;

(3) For the 2014 Initial Rate Year Revenue Requirement, costs of Distribution Plant and G&I Plant additions (such as those described above) that are projected to be placed in service by December 31, 2013, with a "roll forward" to December 31, 2013, of the Accumulated Reserve for Depreciation and Amortization (the "depreciation reserve") for plant existing as of December 31, 2012, and a corresponding adjustment to ADIT; and

(4) Other assets and liabilities that pertain to the appropriate level of capital investment necessary to provide distribution and customer service, as discussed below.

Q. **What are the differences between the 2012 Reconciliation rate base and the 2014 Initial Rate Year rate base?**

A. The three main differences are:

(1) The 2012 Reconciliation rate base includes Construction Work in Progress ("CWIP") not accruing Allowance for Funds Used During Construction ("AFUDC") (which I discuss more fully in Section IV.F.), and the 2014 Initial Rate Year rate base does not, consistent with the order in ICC Docket No. 11-0721;

(2) The 2012 Reconciliation rate base utilizes average rate base, while the 2014 Initial Rate Year uses year-end rate base, consistent with the order in ICC Docket No. 11-0721; and

(3) The 2014 Initial Rate Year rate base includes 2013 projected plant additions and associated roll-forwards of the depreciation reserve and ADIT, the latter as directed by the order in ICC Docket No. 11-0721, while the 2012 Reconciliation rate base reflects only actual plant additions placed into service through 2012.

B. <u>Electric Plant in Service at Original Cost</u>

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

A. The level of gross investment in electric utility plant in service at original cost included in ComEd's rate base as of December 31, 2012, before projected plant additions, is $15,662,485,000, calculated by adding $14,183,568,000 of Distribution Plant and $1,478,917,000 of G&I Plant as shown in ComEd Ex. 3.01, Sch B-1, lines 1 and 5. Projected plant additions are discussed below.

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

A. Yes. ComEd requests that the Commission approve the original cost of plant in service as of December 31, 2012, before adjustments, of $15,654,123,000. This amount is calculated by subtracting Asset Retirement costs, capitalized incentive compensation and sporting activity costs disallowed in prior ICC orders and such costs capitalized in 2012 from the total of ComEd's Illinois jurisdictional General and Intangible gross plant. The original costs calculation is summarized below:

2012 Original Cost Calculation
(in 000s)

		Amount	Source
1	Distribution Gross Plant	$14,183,568	FR-B1, line 1
2	Distribution Asset Retirement Costs	$10,926	FR-B1, line 2
3	Jurisdictional G&I Plant Before Adjustments	$1,496,854	FR-B2, line 18
4	Line 1 - line 2 + line 3	$15,669,496	
5	Prior Docket Adjustments	$12,277	App 1, line 3
6	Capitalized Incentive Comp Related to Net Income	$3,096	App 1, line 4
7	Line 5 + line 6	$15,373	
8	**Original Cost**	**$15,654,123**	Line 4 - line 7

C. <u>Energy Infrastructure Modernization Act ("EIMA")</u>

Q. **In 2012, what amount of O&M expenses did ComEd incur as result of its election as a participating utility under EIMA?**

A. In 2012, ComEd incurred $55.6 million of O&M expense related to EIMA. Of this, $55.2 million is included in ComEd's Illinois jurisdictional revenue requirements. Specifically, $36.5 million was included in distribution O&M, $14.9 million was included in customer O&M, and $3.8million was included in Administrative and General expenses.

Q. **What plant additions included in the rate bases were incurred as result of ComEd being a participating utility under EIMA?**

A. ComEd's 2012 and 2013 projected EIMA related plant additions included in its delivery services rate base are $174.0 million and $242.6 million, respectively. These plant additions, which total $416.6 million (gross amount), are discussed further by Ms. Blaise, Mr. Donovan, and Mr. Siambekos (ComEd Exs. 5.0, 60, and 11.0, respectively).

Q. **What is the effect on the revenue requirement of the 2012 and 2013 EIMA related plant additions?**

A. After adjustments are made for accumulated depreciation and ADIT, the EIMA related net plant included in rate base is $321.9 million. The impact to ComEd's 2014 Initial Rate Year Revenue Requirement is $37 million.

Q. **What is the total impact to the 2014 Net Rate Year Revenue Requirement related to EIMA plant additions and O&M?**

A. The table below provides a summary of how the EIMA 2012 plant additions, the EIMA 2013 projected plant additions and 2012 EIMA O&M expenses have an impact on the 2014 Net Revenue Requirement. The table includes the impacts to the 2012 Reconciliation Revenue Requirement.

EIMA Plant Additions and O&M Expenses
Revenue Requirement Impact
In millions

		Plant Additions	O&M	Total
2013 Docket	2014 Initial Rate Year Rev Req	20	55	75
	2012 Reconciliation Rev Req	(4)	55	51
12-0321	2013 Initial Rate Year Rev Req	21	-	21
	2011 Reconciliation Rev Req	0	0	0
	2014 Net Rev Req Impact	37	110	147

D. Accumulated Provisions for Depreciation and Amortization

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

A. The total amount of accumulated depreciation as of December 31, 2012, related to ComEd's rate base was $6,114,827,000 comprised of $5,424,789,000 related to Distribution Plant and $690,038,000 related to G&I Plant. These amounts are summarized on ComEd Ex. 3.01, Sch FR B-1 "Rate Base Summary Computation," lines 7 through 12.

E. Net Plant Included in Delivery Service Rate Base

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

A. Net plant included in rate base as of December 31, 2012 is $9,518,090,000, and is calculated by subtracting the total amount of accumulated depreciation from the total amount of gross plant as shown on ComEd Ex. 3.01, Sch FR B-1, line 13.

F. Construction Work In Progress

Q. **What is CWIP?**

A. CWIP is the amount of money, at any given time, which has been spent on infrastructure that has not yet gone into service. There are always projects under construction; thus, investment costs include CWIP at any given time. For projects in excess of $25,000 with construction periods greater than 30 days, a carrying cost is calculated and added to the overall cost of the project and capitalized. This carrying cost is referred to as AFUDC.

Q. **Is any CWIP included in rate base?**

A. Yes, in the 2012 Reconciliation rate base. Consistent with ComEd's agreement with Staff in ICC Docket No. 11-0721, ComEd has included CWIP not accruing AFUDC in the calculation of its 2012 Reconciliation rate base (Sch FR A-1 - REC, line 12). ComEd's 2012 Reconciliation rate base includes ComEd's investments in small or short-term projects that support the distribution and customer functions, on which AFUDC is not being capitalized. The amount as of December 31, 2012, was $14,876,000. ComEd Ex. 3.01, Sch FR B-1, line 14. Michelle Blaise testifies (ComEd Ex. 5.0) that the amount of CWIP included is reasonable. ComEd's calculation of rate base for the 2014 Initial Rate Year Revenue Requirement does not include any amount for CWIP not accruing AFUDC, but CWIP not accruing AFUDC will be included in the reconciliation for 2013.

G. <u>Property Held for Future Use</u>

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

A. Not at this time.

H. <u>Cash Working Capital</u>

Q. **What is cash working capital as it relates to ComEd?**

A. Cash working capital is the amount of cash that is appropriate for ComEd to maintain in order to meet its expenses and other cash outflow obligations. ComEd determines the appropriate amount of cash working capital based on a lead/lag study, which is a specific analysis of the timing of applicable cash inflows to and cash outflows from a utility.

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

A. Yes. Rate base includes $7,444,000 for cash working capital as shown on ComEd Ex. 3.01, Sch FR B-1, line 16.

Q. **Has ComEd made any adjustments to the cash working capital leads and/or lags approved in ICC Docket No. 12-0321?**

A. Yes. Consistent with the order in ICC Docket No. 11-0721, ComEd is using the lead/lag study as modified and approved in that Docket, except updated for changes in law. Specifically, ComEd has adjusted the leads associated with certain periodic tax payments due to the City of Chicago. In particular, the leads associated with the Gross Receipts Tax/Municipal Utility Tax ("GRT/MUT") and the Infrastructure Maintenance Fee ("IMF") have been revised. Midway through 2011, the City of Chicago changed the due date of certain periodic tax payments from the end of the month to the 15th of the month. The 2011 GRT/MUT and IMF leads were calculated using the end of the month due date for the first half of the year and the 15th of the month due date for the second half of the year. Accordingly, the GRT/MUT and IMF leads have been revised to reflect that the payment due date was the 15th of the month for the entire year, rather than for half the year. The updated leads for the GRT and IMF are shown on ComEd Ex. 3.01, App 3 "Cash Working Capital Information," lines 33 and 35, respectively.

I. <u>Accumulated Deferred Income Taxes</u>

Q. **What are Accumulated Deferred Income Taxes (ADIT)**

A. Generally speaking, ADIT reflects the <u>temporary difference</u> between when an expense (or revenue) is recognized in a company's financial and accounting records, commonly referred to as a company's "books", versus when the company recognizes that expense

(or revenue) on its tax return. Ms. Brinkman (ComEd Ex. 2.0) provides a more detailed explanation of ADIT.

Q. **What amount of ADIT was deducted from rate base?**

A. The appropriate level of ADIT to be deducted from rate base as of December 31, 2012 is $2,667,266,000, after adjustments, as shown in ComEd Ex. 3.01, Sch FR B-1, line 17. This level was derived through an analysis of the components of the deferred tax balances and then either directly assigning or allocating the items based on the assignment or allocation of the operating items to which they relate. The 2012 ADIT balance is reflective of the 50% bonus depreciation applicable to 2012 capital investments as well as the current year deduction under the safe harbor method of tax accounting for repair costs. The jurisdictional amounts allocated to delivery service are presented in ComEd Ex. 3.01 App 4 "Accumulated Deferred Income Taxes Information."

J. <u>Materials and Supplies</u>

Q. **What is included in Materials and Supplies?**

A. Materials and Supplies include items purchased primarily for use in the construction and maintenance of utility property. These items are kept in inventory until needed, and include, for example, building and construction materials, hand tools, and paints and adhesives.

Q. **How did ComEd determine the level of Materials and Supplies to be included in rate base?**

A. ComEd included in its rate base the 13 month average balance of Materials and Supplies less the associated accounts payable in its rate base. The balance of Materials and

Supplies related to distribution is $40,835,000. ComEd Ex. 3.01, App 1, line 53. The accounts payable related to distribution was calculated by multiplying the distribution-related Materials and Supplies balance by the O&M factor included in cash working capital. The result of the calculation is an accounts payable balance of $7,473,000. ComEd Ex. 3.01, App 1, line 54. The net amount of Materials and Supplies included in rate base is $33,362,000. ComEd Ex. 3.01, Sch FR B-1, line 18.

K. <u>Other Assets and Liabilities</u>

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

A. Other assets typically represent costs ComEd has incurred, but has not yet recovered, and increase rate base. Three categories of other assets are included in rate base.

The first, shown on ComEd Ex. 3.01, Sch FR B-1, line 19 are regulatory assets in the amount of $19,941,000. These assets include a regulatory asset representing the unamortized balance (as of year-end 2012) of $7,956,000 for capitalized incentive compensation costs that was approved by the Commission in its order in ComEd's 2001 rate case, ICC Docket No. 01-0423. Additionally, unrecovered costs of $5,327,000 related to ComEd's Advanced Metering Infrastructure ("AMI") pilot approved by the Commission in ICC Docket No. 10-0467 are included. This amount consists of (1) the accelerated depreciation associated with the meters retired as a result of the AMI pilot of $4,177,000 and (2) customer applications related costs of $1,150,000. Finally, the unrecovered balance of the accelerated depreciation associated with ComEd's AMI investment (apart from the AMI pilot) of $6,658,000 has also been included.

The second category of other assets included in rate base is deferred debits totaling $28,521,000, shown on ComEd Ex. 3.01, Sch FR B-1, line 20. This sum

includes (1) Cook County Forest Preserve Fees of $1,983,000, which represent prepayments made to the Cook County Forest Preserve District related to licensing fees for distribution lines; (2) a Long Term Receivable From the Mutual Beneficial Association ("MBA") Plan of $2,431,000, which relates to payments that ComEd has made to the trust on behalf of union employees for short term disability and for which it is awaiting reimbursement; (3) a deferred debit associated with ComEd's capitalized vacation pay not included in plant-in-service of $20,753,000, and (4) expected recoveries from insurance on claims made by the public against ComEd of $3,354,000.

The third category of other assets included in rate base is the unamortized balances of certain one-time, expenses in excess of $10 million. ComEd has removed certain storm and merger expenses from its operating expenses and is amortizing them over a five year period, as required by Section 16-108.5(c)(4)(F). In particular, ComEd is amortizing over five years the expenses of three 2011 storms and two 2012 storms, each of which was in excess of $10 million. In 2011 and 2012, these storms totaled $68,201,000 and $21,271,000, respectively. The unamortized balances of the 2011 and 2012 storm expenses, $40,783,000 and $17,017,000, respectively, are included in rate base. Additionally, in 2012, ComEd also incurred merger expenses of $31,912,000, and is amortizing this amount over five years as well. The unamortized merger expense balance of $25,530,000 is included in ComEd's rate base. The total unamortized balance of $83,329,000 related to these expenses is shown on ComEd Ex. 3.01, Sch FR B-1, line 24, and additional detail is provided on App 5 "Deferred Charges Information", lines 31 – 33. The merger expenses incurred by ComEd in 2012 are discussed in further detail by Mr. Jirovec (ComEd Ex. 7.0).

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

A. Other liabilities typically refer to costs that ComEd has not yet incurred, but has recovered some amounts associated with these costs through delivery service charges, and are a reduction to rate base. The other liabilities, after adjustments, included in rate base are Operating Reserves of $337,247,000, Asset Retirement Obligations of $22,257,000, and Deferred Credits of $74,454,000. These amounts, described further below, are summarized on ComEd Ex. 3.01, Sch FR B-1, lines 21 through 23.

Q. **Please describe the Operating Reserves ComEd has included as a reduction to rate base.**

A. Operating Reserves are recorded in FERC account 228. The jurisdictional amounts reducing ComEd's rate base total $337,247,000 and consist of the following:

(1) OPEB cost of $280,739,000;

(2) Injuries and damages of $47,683,000 related to workers compensation and public claims;

(3) Other miscellaneous environmental liabilities of $6,791,000, primarily related to the reserve for the remediation of Superfund sites; and

(4) Management retention and incentive liabilities of $2,034,000.

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

A. The delivery service jurisdictional amount of Asset Retirement Obligations of $22,257,000 recorded in Account 230 represents asset removal costs recovered through depreciation expense (these costs were previously recorded in Account 108-

Accumulated Depreciation and were reclassified in 2005 in accordance with the USOA). ComEd Ex. 3.01, Sch FR B-1, line 22.

Q. **Please describe the Deferred Credits included as a reduction to ComEd's rate base.**

A. ComEd has included the deferred credits recorded in FERC Account 253 and two deferred credits recorded in FERC Account 242, which reduce rate base by a total of $74,454,000. ComEd Ex. 3.01, Sch FR B-1, line 23.

Q. **Please describe the deferred credits ComEd has included in rate base that are recorded in FERC Account 253.**

A. ComEd has included jurisdictional amounts of the deferred credits recorded in FERC Account 253, totaling $9,009,000. This amount is comprised of $5,754,000 of deferred rents, and $3,255,000 of deferred revenues associated with the lease of fiber optic cable.

Q. **In previous filings, ComEd had included a deferred credit associated with the unamortized balance of the Accelerated Costs Recovery System ("ACRS") tax benefits sold in 1981. Is any amount included in the 2012 Reconciliation or 2014 Initial Rate Year rate base?**

A. No. As of December 31, 2012, the balance was fully amortized.

Q. **In the revenue requirement formula's rate base, how has ComEd treated the liabilities associated with accrued vacation pay and accrued annual incentive compensation?**

A. While ComEd does not agree with the Commission's decision in ICC Docket No. 11-0721 regarding the reduction to rate base for the liabilities associated with the accrued vacation pay and accrued annual incentive compensation, ComEd has included these

liabilities with its deferred credits. The reductions to rate base for the accrued vacation pay and accrued annual incentive compensation are $46,756,000 and $18,689,000, respectively, and are included on Sch FR B-1, line 23. These issues, and as noted below, issues related to the Key Manager Restricted Stock Program and certain incentive compensation paid to BSC employees, may currently be on appeal and ComEd reserves its rights with respect to such issues.

L. Customer Deposits

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

A. Yes. ComEd receives refundable deposits from certain new customers as a condition of initiating electric service. ComEd's rate base is reduced by $137,297,000 for customer deposits, as shown on ComEd Ex. 3.01, Sch FR B-1, line 25. ComEd calculated this amount in a manner consistent with the Commission's decision in ICC Docket No. 10-0467, by including the thirteen month average of total customer deposits (not only those associated with delivery service). *See* ComEd Ex. 3.01, App 2 "Customer Deposits Information."

M. Customer Advances

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

A. Yes. ComEd receives refundable distribution system extension deposits from customers under the terms of Rider DE - Distribution System Extensions, and for customer advances to begin construction. ComEd has reduced rate base for these deposits and advances related to projects included in rate base as of December 31, 2012 or in its 2013 projected plant additions in the amount of $63,444,000. *See* ComEd Ex. 3.01, Sch FR B-1, line 26 and App 1 "Capital Information," lines 23 through 30.

N. Projected Plant Additions, Accumulated Reserve, and Accumulated Deferred Income Taxes

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

A. Yes. The 2014 Initial Rate Year rate base includes ComEd's 2013 projected plant additions of $917,762,000. This amount consists of $772,892,000 of Distribution Plant additions and $144,870,000 of G&I Plant additions. These amounts are shown on ComEd Ex. 3.01, Sch FR B-1, lines 29 and 31, respectively. Additional detail is provided in ComEd Ex. 3.01, App 1, lines 31 through 39.

Q. **Have adjustments been made for the projected growth in the accumulated depreciation reserve and accumulated deferred income taxes?**

A. Yes. ComEd has "rolled forward" its accumulated reserve for depreciation by increasing the 2012 accumulated reserve by the estimated amount of depreciation expense for 2013, which is $396,790,000. This change to the accumulated reserve is accounted for on ComEd Ex. 3.01, Sch FR B-1, lines 30 plus 32. Essentially, the reserve is increased by the estimated 2013 Distribution Plant depreciation expense of $295,477,000 and the estimated 2013 G&I Plant depreciation expense of $101,313,000. All amounts described here are net of projected removal costs. Detailed calculations are provided on ComEd Ex. 3.01, App 1, lines 40 through 48.

Q. **Have any adjustments been made to account for the change in ADIT associated with the projected plant additions?**

A. Yes. Similar to the change to the accumulated reserve, ComEd has also rolled forward ADIT. The total amount of the ADIT roll forward is $178,937,000 and is presented on ComEd Ex. 3.01, Sch FR B-1, line 33.

V. OPERATING EXPENSES

A. Total Operating Expenses

Q. **What are ComEd's delivery service operating expenses supporting the 2012 Reconciliation Revenue Requirement and the 2014 Initial Rate Year Revenue Requirement?**

A. For the year ending December 31, 2012, ComEd's delivery service operating expenses before income taxes were $1,657,626,000, reflecting adjustments (and the exclusion of costs recovered under other tariff mechanisms and costs disallowed in past ICC orders for reasons other than timing). ComEd Ex. 3.01, Sch FR-A3, line 16. After accounting for income taxes, for both the 2012 Reconciliation and the 2014 Initial Rate Year, and the change in depreciation expense related to the projected plant additions (2014 Initial Rate Year only), ComEd's Illinois jurisdictional delivery service operating expenses were $1,896,326,000 and $1,940,375,000, respectively. These delivery service operating expenses consist of two broad categories of expense: distribution-related and customer-related.

Q. **Where are ComEd's delivery service operating expenses set forth in the supporting schedules and workpapers?**

A. Sch FR C-1 "Expenses Computation," Sch FR C-2 "Depreciation and Amortization Expense Computation," and Sch FR C-3 "Pension Funding Costs Computation," App 7 "Expense Information," and App 8 "Depreciation Information" in ComEd Ex. 3.01 support ComEd's operating expenses. Their components are also reflected in the related Part 285 schedules and Part 285 workpapers. In addition, operating expenses are reflected in ComEd Ex. 3.01, Sch FR A-1 as indicated earlier.

B. Distribution O&M Expenses

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

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

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

A. ComEd's 2012 Distribution O&M expenses were $409,805,000. After reflecting adjustments, a total of $400,970,000 in distribution O&M expenses recorded in FERC Accounts 580-598 is included in the revenue requirements. *See* ComEd Ex. 3.01, Sch FR A-1, line 1; Sch FR A-1 – REC, line 1; and Sch FR C-1, lines 1-3. The prudence, reasonableness and need to incur these expenses are addressed by Ms. Blaise (ComEd Ex. 5.0).

C. Customer-Related O&M Expenses

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

A. Customer-related O&M expenses are expenses recorded in FERC Accounts 901-910, which include the costs of maintaining and servicing customer accounts, *e.g.*, meter reading, customer service, and billing and credit activities. These activities and related expenses are explained in detail by Mr. Donovan (ComEd Ex. 6.0).

Q. **What amount of customer-related O&M expenses is appropriately included in the revenue requirements?**

A. In determining the revenue requirements, ComEd has adjusted its $394,186,000 of customer-related O&M expenses for the following:

(1) $142,457,000 reduction to remove the costs associated with ComEd's energy efficiency and demand response program recovered under Rider EDA;

(2) $42,320,000 reduction to reflect the total amount of uncollectible accounts expense recorded in FERC Account 904, costs recovered through Rider UF;

(3) $1,077,000 reduction to remove the non-jurisdictional amount of Outside Agency Collection Fees related to uncollectibles;

(4) $77,000 increase to include interest on customer deposits in operating expenses;

(5) $1,350,000 reduction to remove costs recovered under Rider PORCB;

(6) $594,000 reduction to remove customer assistance costs incurred as part of the $10,000,000 EIMA customer assistance program;

(7) $134,000 reduction to remove certain customer communications costs recorded in FERC Account 908; and

(8) $500,000 increase to remove the reversal of a previously recorded accrual related to ComEd's photovoltaic program. This accrual was initially recorded in 2010 and ComEd removed it from its revenue requirement in its rebuttal testimony in ICC Docket No. 11-0721. See Fruehe Reb., ComEd Ex.13.0, 41:888-42:897). The amount removed from 2010 expenses, $580,000, included an expense accrual of $500,000 which was reversed in 2012.

Adjustments 1 - 8 can be found on ComEd Ex. 3.01, App 7, page 1, lines 4 through 22, and additional detail is provided on ComEd Ex. 3.02, WP 7, page 2. After these adjustments, $206,831,000 of FERC Accounts 901-910 directly relate to and support the delivery service function and are included in the revenue requirements as shown in

ComEd Ex. 3.01, Sch FR A-1, lines 2 and 3 and Sch FR A-1 - REC, lines 2 and 3. The prudence, reasonableness and need to incur these expenses are addressed by Mr. Donovan (ComEd Ex. 6.0) and Mr. Trpik (ComEd Ex. 4.0).

D. Incentive Compensation Expenses

Q. **Do ComEd's revenue requirements include any incentive compensation expenses recovered through other recovery mechanisms or riders?**

A. No.

1. Annual Incentive Plan

Q. **In 2012, did ComEd offer an Annual Incentive Plan ("AIP") to its employees?**

A. Yes.

Q. **Did the 2012 ComEd AIP include key performance indicators ("KPIs") similar to those approved by the ICC in previous rate decisions?**

A. Yes. The 2012 ComEd AIP included KPIs related to total O&M and total capital expenditures, safety, outage frequency and duration, and customer satisfaction.

Q. **Did the 2012 ComEd AIP include any KPIs based upon net income or Earnings per Share?**

A. No.

Q. **Did the 2012 ComEd AIP include any new KPIs?**

A. Yes, the 2012 ComEd AIP included a new KPI dependent upon ComEd's completion of work plans in support of EIMA. This KPI, along with the other KPIs, is further discussed

by Mr. Trpik, Ms. Blaise and Mr. Donovan (ComEd Exs. 4.0, Ex. 5.0 and Ex. 6.0, respectively).

Q. **Did the 2012 ComEd AIP include a net income limiter component, similar to previous plans?**

A. In 2012, the net income limiter component was changed to the Shareholder Protection Feature to be in-line with other Exelon AIP plans. The Shareholder Protection Feature, like the net income limiter, is designed to limit the payout to employees if certain financial goals are not met. The key difference is that the net income limiter component limited the ComEd AIP payout if certain levels of ComEd net income were not achieved, while the Shareholder Protection Feature limits AIP payouts if certain levels of Exelon Corporation Earnings Per Share ("EPS") are not met.

Q. **Was ComEd's 2012 AIP reduced due to the Shareholder Protection Feature?**

A. Yes. ComEd's 2012 performance relative to its KPIs would have resulted in a payout of 148% of target, but due to the Shareholder Protection Feature, the payout was limited to 115%. Additional detail regarding ComEd's AIP is provided in ComEd Ex. 3.07.

Q. **What amount of ComEd AIP is included in the revenue requirements?**

A. Per the Commission's order in ICC Docket No. 11-0721, (*see Commonwealth Edison Co.*, ICC Docket No. 11-0721 (Order May 29, 2012) at 90), ComEd reduced its actual amount of AIP incurred in 2012 to conform with the incentive compensation cap of 102.9%. The amount of AIP paid to ComEd employees in 2012 was $60,589,000 ($50,554,000 functionalized to delivery service), but the jurisdictional amount was reduced to $45,235,000 ($28,467,000 O&M expense and $16,768,000 capital) in

ComEd's revenue requirements to reflect the 102.9% cap. *See* ComEd Ex. 3.01, App 7, line 21 and ComEd Ex. 3.02, WP 7, page 14. As further discussed by Ms. Brinkman (ComEd Ex. 2.0), ComEd may currently be appealing this issue.

Q. **Did ComEd incur any AIP costs allocated from BSC in 2012?**

A. Yes. ComEd incurred $8,029,000 ($7,104,000 jurisdictional to delivery service) of AIP allocations from BSC.

Q. **Did the 2012 BSC AIP include a KPI based upon Exelon Earnings Per Share?**

A. Yes.

Q. **Did ComEd remove from its revenue requirements the portion of the BSC AIP expense allocated to ComEd related to the EPS KPI?**

A. Yes. While ComEd does not agree with the ICC's decision in ICC Docket No. 11-0721 related to this matter (potentially on appeal), ComEd has removed $5,724,000 ($5,064,000 jurisdictional to delivery service) of expense related to BSC AIP dependent upon EPS. *See* ComEd Ex. 3.01, App 7, line 21, and ComEd Ex. 3.02 WP 7, page 11. To be consistent with that decision, ComEd removed 71.30% of BSC AIP allocated to ComEd.

Q. **Did ComEd remove any other expenses related to AIP?**

A. Yes, as it did in ICC Docket No. 12-0321, ComEd removed the AIP of its embedded BSC employees related to the EPS KPI. This amount was $98,000 in 2012. ComEd Ex. 3.01, App 7, line 12.

Q. **Has ComEd included in its revenue requirements any incentive compensation associated with employees who perform energy efficiency activities?**

A. Yes. In ComEd's Rider EDA reconciliation, ICC Docket No. 10-0537, the Commission found that the incentive compensation paid to employees under the AIP who support energy efficiency activities was not related to specific energy efficiency goals and recoverable through Rider EDA. *Commonwealth Edison Co.*, ICC Docket No. 10-0537 (Order October 17, 2012) at 24-25. The incentive compensation plan (Annual Incentive Plan, or "AIP"), under which the energy efficiency employees participate is the same one applicable to all other ComEd employees. Because their AIP is not recoverable under Rider EDA, ComEd has included these costs in its revenue requirements.

Q. **Can you provide additional detail regarding the amount of AIP included in the revenue requirements and associated with energy efficiency employees?**

A. Yes. The full amount included in the revenue requirements is $981,000, $268,000 of which was incurred in 2012 and is included in ComEd's 2012 Illinois jurisdictional AIP of $45,235,000. The remaining amount of $713,000 was incurred in 2009, 2010 and 2011, and was expensed in 2012 as the Commission determined that these costs were not recoverable under Rider EDA.

Q. **Has ComEd made any adjustments to its incentive compensation expenses?**

A. Yes. ComEd has made several adjustments to its incentive compensation expenses. These are further discussed below.

2. <u>Long-Term Performance Share Awards Program</u>

Q. **In 2012, did ComEd provide an incentive plan for its executives (vice president and above) similar to the 2011 Long Term Incentive Plan ("LTIP")**

A. Yes, but in 2012, the LTIP was changed to the Long Term Performance Share Awards Program ("LTPSAP").

Q. **How is the LTPSAP different from the LTIP?**

A. It differs in two ways. First, the LTIP was based solely upon ComEd performance metrics, such as outage duration and O&M cost containment. The LTPSAP, on the other hand, is based upon a broader perspective, and includes goals based upon the operational and financial performance of other Exelon subsidiaries as well as ComEd. The second difference is that the LTIP was paid only in cash, while the LTPSAP is awarded 50% in cash and 50% in Exelon stock.

Q. **Has ComEd excluded any of its 2012 LTPSAP costs from its revenue requirements?**

A. Yes. As shown in ComEd Ex. 3.01, App 7, line 21 and ComEd Ex. 3.02, WP 7, page 12, ComEd has removed 50% of the 2012 LTPSAP costs it incurred in 2012 ($1,751,000 total, $1,573,000 jurisdictional to delivery service). As further discussed by Mr. Trpik (ComEd Ex. 4.0), ComEd's position is that because the LTPSAP is awarded 50% in stock and 50% in cash, and includes metrics related to Earnings per Share and other Exelon subsidiaries, that a 50/50 sharing of the costs between customers and shareholders is reasonable.

Q. **Do the revenue requirements include any LTIP costs associated with amounts awarded in prior years?**

A. Yes. In general, the LTIP awards typically vest over three years. A portion of the 2011 LTIP awards vested in, and was expensed in, 2012. No LTIP was awarded in 2010.

Q. **Did the 2011 LTIP award expensed in 2012 reflect any KPIs related to EPS or net income?**

A. No.

E. Other Compensation: Key Manager and Executive Restricted Stock Awards and Stock Option Awards Programs

Q. **Are the Key Manager and Executive Restricted Stock and Stock Options programs part of ComEd's incentive compensation plans in 2012?**

A. No. In 2012, the Key Manager and Executive Restricted Stock and Stock Option Awards programs were considered to be *deferred* compensation programs and not *incentive* compensation plans.

Q. **What is the Key Manager and Executive Restricted Stock Award Program?**

A. The 2012 Key Manager and Executive Restricted Stock Award Program grants restricted Exelon stock units to employees who play key roles in supporting the operation and financial success of ComEd or the other businesses in the Exelon corporate family and whose retention is critical to long-term success. Awards are received over a three-year period. This program was new to ComEd executives for 2012. A description of the program and the costs incurred by ComEd in 2012 are included in ComEd Ex. 3.07.

Q. **Who is eligible for an award under this program?**

A. Vice presidents and other executives below the level of senior vice president, key managers, and select other employees are eligible to be considered for awards under this program.

Q. **How are awards determined under this program?**

A. Awards under this program are determined through an annual compensation study conducted at the direction of the Compensation Committee of the Exelon Board of Directors.

Q. **What is the 2012 Stock Option Awards Program?**

A. The 2012 Stock Option Awards Program provides for awards of Exelon stock options to senior vice presidents and above selected by the Compensation Committee of the Exelon Board of Directors. A description of the program and the costs incurred by ComEd in 2012 are included in ComEd Ex. 3.07

Q. **Did ComEd exclude any costs related to these programs from its revenue requirements?**

A. Yes. ComEd has excluded 100% of the expenses it incurred in 2012 and removed $5,598,000 related to these programs from its revenue requirements. *See* ComEd Ex. 3.01, App 7, line 12 and ComEd Ex. 3.02, WP 7, page 12. By so doing ComEd does not intend to waive its rights to pursue this issue on appeal and as Dr. Hemphill explains, ComEd is formally requesting that this amount be included in the revenue requirements if ComEd prevails on appeal.

F. <u>Administrative and General Expenses</u>

Q. **What types of expenses are included in the A&G expenses category?**

A. Under the USOA, A&G Expenses are recorded in Accounts 920-935. Costs included in those Accounts generally represent a wide variety of corporate support and overhead costs that benefit or derive from more than one business function. Major A&G support areas include the Human Resources, Finance, Legal, Supply Management, Information Technology, and Corporate Governance functions. Additionally, the costs of employee pensions and benefits, including health care for active and retired employees, as well as rents, injuries and damages expenses, and regulatory expenses are included in these A&G Accounts. Finally, as I mentioned earlier, certain other non-operational costs are recorded in other accounts. All these types of costs represent expenses ComEd incurs in providing delivery services to its retail customers. They are managed carefully and with systems of cost control and review similar to those applied to distribution and customer operational expenses. A&G expenses that support operations are also discussed by Ms. Blaise (ComEd Ex. 5.0) and Mr. Donovan (ComEd Ex. 6.0), and Mr. Trpik (ComEd Ex. 4.0) discusses the A&G costs that support non-operational functions.

Q. **Who provides the services included within A&G expenses?**

A. In general, services are provided either internally by ComEd employees or by other service providers, including BSC. BSC provides corporate governance, technical, and numerous other support services to the Exelon companies. These services are provided to ComEd under the terms of the General Services Agreement approved by the ICC and the Securities and Exchange Commission.

Q. **How is ComEd charged for applicable BSC costs?**

A. Costs for these services are directly charged to ComEd where possible, and if costs cannot be directly charged, they are allocated to ComEd and the other Exelon affiliates utilizing cost-causative allocation factors, largely the W&S allocator. In all cases, services provided by BSC are billed to ComEd at cost (*i.e.*, with no mark-up). The process by which ComEd acquires services from BSC is a transparent one that assures that ComEd, and in turn ComEd's customers, receive good value. This is described in more detail by Mr. Trpik (ComEd Ex. 4.0).

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

A. $402,138,000. This amount is calculated by subtracting the $25,530,000 of deferred merger related costs to achieve (*see* ComEd Ex. 3.01, App 5, line 32 and ComEd Ex. 3.02, WP 8) from the total amount of A&G costs of $427,668,000 shown on ComEd Ex. 3.01, Sch FR A-1, line 4. These expenses are discussed in large part by Ms. Blaise (ComEd Ex. 5.0) and Mr. Donovan (ComEd Ex. 6.0), though I discuss certain A&G expenses – pension, other post-employment benefits and merger costs to achieve below.

Q. **What amount of pension expense is included in A&G expenses?**

A. As shown on ComEd Ex. 3.08, page 1, ComEd's total 2012 pension cost was $169,180,000, of which $100,642,000 was expensed. The jurisdictional amount included in ComEd's Administrative and General expenses is $89,049,000. These amounts are supported by, and reconciled to, the Towers Watson actuarial studies also included in ComEd Ex. 3.08.

Q. **Can you describe the change in jurisdictional pension expense from 2011 to 2012?**

A. ComEd's delivery service jurisdictional pension expense in 2012 of $89,049,000 represents an increase of $31 million dollars compared to 2011 jurisdictional pension expense included in ComEd's revenue requirements in ICC Docket No. 12-0321.

Q. **What accounts for this increase?**

A. There were two primary drivers of the increase. First, the continuing decline in long term interest rates in 2012 resulted in a discount rate that was roughly 50 basis points lower in 2012 than in 2011. This lower discount rate increases ComEd's pension obligation, which results in a higher net periodic benefit cost. Secondly, the expected return on pension assets assumption, which under GAAP reduces pension cost if all other things are held equal, decreased from 8.0% to 7.5% from 2011 to 2012. This decrease is the result of a multiyear effort to change the pension trust investment strategy to reduce the volatility of asset returns and to reduce the impact on the funded status of the plans to movements in interest rates.

Q. **What amount of OPEB cost is included in A&G?**

A. OPEB costs mainly consist of retiree healthcare costs and are accounted for separately from pension costs. As shown on ComEd Ex. 3.08, page 1, ComEd's total 2012 OPEB cost was $117,164,000, of which $67,626,000 was expensed. The jurisdictional amount included in ComEd's Administrative and General expenses was $59,836,000. These amounts are supported by, and reconciled to, the Towers Watson actuarial studies also included in ComEd Ex. 3.08.

Q. **Please describe the documents included in ComEd Ex. 3.08.**

A. ComEd Ex. 3.08 consists of documents produced by Towers Watson, ComEd's actuarial consultant, that show the total actuarially determined net periodic benefit costs incurred by ComEd for the pension and postretirement welfare plans in which ComEd employees and retirees participate. The exhibit also shows the derivation of jurisdictional pension and postretirement welfare expenses from the actuarially determined costs.

Q. **Are any merger-related costs to achieve included in ComEd's operating expenses?**

A. Yes. As discussed by Mr. Jirovec (ComEd Ex. 7.0), ComEd incurred $36 million of merger related expenses (costs to achieve or "CTA"). The Illinois jurisdictional delivery service amount was $31,912,000, and is reflected in ComEd's total A&G as shown in ComEd Ex. 3.01, Sch FR A-1, line 4 and Sch FR A-1 - REC, line 4. This expense meets the criteria under Section 16-108.5(c)(4)(F) as it is in excess of $10,000,000 and is related to a workforce reduction program; thus ComEd has amortized this expense over five years. In order to include only one year of amortization in operating expenses, ComEd removed four fifths of the $31,912,000 ($25,530,000) from operating expenses on line 10 of ComEd Ex. 3.01, Sch FR A-1 and Sch FR-A1 - REC. *See also* ComEd Ex. 3.01, Sch FR C-1, line 20 and App 7, line 25.

Q. **How is the remaining four fifths of the merger related expenses treated for rate making purposes?**

A. As I discussed in Section V.K. above, the remaining four fifths, or $25,530,000, is recorded as a regulatory asset and included in Other Deferred Charges on ComEd Ex. 3.01, App 5, line 32, and included in ComEd's rate base.

Q. **Are there any other merger-related costs included in the revenue requirements?**

A. Yes. In 2012 $2.4 million of CTA capital expenditures were closed to plant in service, and $17.4 million of CTA capital expenditures are included in ComEd's 2013 projected plant additions. ComEd's 2012 Reconciliation rate base includes the amount closed to plant in service in 2012 (net of accumulated depreciation and ADIT) and ComEd's 2014 Initial Rate Year rate base includes the amount closed to plant in service in 2012 and the amount included in 2013 projected plant additions (both net of accumulated depreciation and ADIT).

Q. **What are the overall impacts of the CTA on ComEd's revenue requirements?**

A. ComEd 2014 Net Revenue Requirement is increased by $20.1 million. ComEd's 2014 Initial Rate Year Revenue Requirement is increased by $11.8 million and the 2012 Reconciliation is increased by $8.3 million. The calculations supporting these amounts are included in ComEd Ex. 3.14.

G. <u>Return on Pension Asset</u>

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

A. A debt-only return is calculated on the jurisdictional portion of the pension asset net of ADIT. *See* ComEd Ex. 3.01, Sch FR C-3. This amount totaled $60,770,000.

Q. **How does the pension funding amount identified in this docket compare to the amount allowed by the Commission in ICC Docket No. 12-0321?**

A. In its final order in ICC Docket No. 12-0321, the Commission allowed a return on ComEd's pension asset of $71,576,000. The decrease of almost $11 million is due to (1) a reduction in ComEd's cost of long term debt from 5.78% to 5.52%, (2) a reduction in

the size of the pension asset net of ADIT, and (3) a change in the W&S allocator from 89.71% to 88.48% jurisdictional to delivery service.

H. Sales and Marketing Expense

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

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

I. Depreciation and Amortization of Electric Utility Plant

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

A. $460,728,000. The level of 2012 depreciation and amortization expenses included in the revenue requirements is $436,658,000, comprised of $340,642,000 related to Distribution Plant and $96,016,000 related to G&I Plant. Additionally, the 2014 Initial Rate Year Revenue Requirement and 2014 Rate Year Net Revenue Requirement include $24,070,000 of depreciation expense associated with the 2013 projected plant additions. *See* ComEd Ex. 3.01, Sch FR C-2 for calculations of both the actual 2012 and projected 2013 jurisdictional depreciation expense.

J. Taxes Other than Income

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

A. The level of taxes other than income included in the revenue requirements is $142,871,000. In general, these include real estate taxes, the Illinois Electricity Distribution Tax ("IEDT"), payroll taxes and several other taxes. A detailed analysis of the taxes other than income included in the revenue requirements is provided on ComEd

Ex. 3.01, App 7, page 2, lines 41 through 62. The amounts on line 62 represent the taxes prior to final jurisdictional amounts, which can be found on ComEd Ex. 3.01, Sch FR C-1, line 10.

Q. **Do the revenue requirements in this filing include an IEDT credit?**

A. Yes. ComEd recorded an accrual in 2012 for an estimated IEDT credit of $14,455,000 related to its actual 2012 IEDT of $119,155,000 and included the net amount of $104,700,000 in operating expense. *See* ComEd Ex. 3.03, C-18, p. 1 Ln 6.

Q. **Did ComEd include any IEDT credits or charges related to years prior to 2012?**

A. Yes. Similar to 2012, in 2010 and 2011, ComEd estimated the amount of IEDT credit it would receive for those years and accrued the estimated credits. During 2012, ComEd received its actual IEDT credit for 2010, and determined that it had over estimated the credit by $911,000. ComEd also adjusted its initial estimate of its 2011 IEDT credit, increasing it by $3,525,000. The net adjustment for 2010 and 2011 is $2,614,000.

Q. **Is the net adjustment for prior years of $2,614,000 fully reflected in the revenue requirements?**

A. No. ComEd only included the adjustment for 2011 of $3,525,000 as a reduction to its revenue requirements. ComEd did not include the charge of $911,000 in its revenue requirements as this amount was related to 2010 and neither the 2010 IEDT nor the estimated 2010 IEDT credit were reflected in ComEd's prior formula rate case reconciliations. The adjustment to remove the $911,000 IEDT charge can be found on ComEd Ex. 3.01, App 7, line 61.

K. Income Taxes

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

A. The amount of income taxes included in the 2012 Reconciliation Revenue Requirement is $159,631,000. ComEd Ex. 3.01, Sch FR A-1- REC, lines 17, 20 and 21. The amount of income taxes included in the 2014 Initial Rate Year Revenue Requirement, which includes the impact of the projected 2013 plant additions is $173,320,000. ComEd Ex. 3.01, Sch FR A-1, lines 15, 18 and 19. Income taxes have been calculated based on the expenses and miscellaneous revenues assigned or allocated to the delivery service function. Likewise, ComEd has analyzed differences in book and tax treatment of 2012 revenues and expenses and assigned or allocated those differences to the delivery service function as described in ComEd Ex. 3.01, Sch FR C-4 "Taxes Computation" and App 9 "Permanent Tax Impacts Information."

Q. **How is Sch FR C-4 used in developing ComEd's delivery service revenue requirements?**

A. Sch FR C-4 provides the calculations of ComEd's effective income tax rate, gross-up factor for income taxes, interest synchronization deduction, and gross revenue conversion factor. Sch FR C-4 also summarizes the permanent tax differences and amortization of permanent tax differences. These amounts, after application of the gross revenue conversion factor, reduce the revenue requirements by $10,890,000, and are included in ComEd's total income taxes described previously.

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

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

Q. **In ComEd's 2012 formula rate update filing, ComEd included a large credit associated with the Illinois state income tax change. Is the credit the same for this year's filing?**

A. No. The credit is not as large in this year's filing. In 2011, ComEd realized income tax benefits due to the Tax Repairs Allowance and 100% bonus depreciation. In 2012, ComEd's tax benefits for the Tax Repairs Allowance and bonus depreciation were significantly reduced, thus the permanent tax difference is also reduced. This topic is further discussed by Ms. Brinkman (ComEd Ex. 2.0).

L. <u>Regulatory Asset Amortization</u>

Q. **Do the revenue requirements in this filing include any amortization of regulatory assets?**

A. Yes. As shown on ComEd Ex. 3.01, Sch FR C-1, line 18, ComEd included in its revenue requirements $24,405,000 of regulatory asset amortization. This amount includes the effects of the Commission's order in ICC Docket No. 10-0467, which revised the amount of amortization of several existing regulatory assets, authorized amortization of new regulatory assets, and eliminated amortization of others. Regulatory asset amortization also includes $67,000 of the $200,000 filing fee paid in 2011 and $724,000 of the $2,171,000 in formula rate case expenses incurred in 2012 related to ICC Docket No. 11-0721, the initial formula rate proceeding. Section 16-108.5(c)(4)(E) of the PUA provides

that these costs be amortized over a three-year period. Rate case expenses are further discussed in Section V.L.

M. <u>Rate Case Expenses</u>

Q. **Does ComEd have controls in place to ensure that only those expenses that were incurred in furtherance of formula rate cases in the year at issue are included in rate case expense?**

A. Yes. In addition to the controls utilized by the legal department as discussed by Ms. O'Brien (ComEd Ex. 8.0), the Revenue Policy Department reviews and tracks each invoice related to rate case expense. This is the department that I manage.

Q. **What exactly does your department do to track these invoices?**

A. As we prepare for a rate case filing, we create a unique Project ID in our general ledger system for each proceeding and time period for which we wish to track costs. For example, ComEd has three Project ID numbers for rate case expenses related to ICC Docket No. 11-0721 so that we can track costs related to that Docket that were incurred in 2011 and 2012, and that are being incurred in 2013, such as costs of the appeal. The Project ID is one of 10 codeblock elements available in our ledger system for purposes of identifying charges.

Q. **Does your department review any invoices?**

A. Yes. After the Legal Department reviews and approves invoices from outside counsel, the Legal Department electronically submits those invoices to the Revenue Policy Department. We review the invoices to determine whether they are appropriately charged and then provide the appropriate codeblock and return the invoice to the Legal

Department for payment processing. We maintain these invoice copies electronically in our department files. We also collect and review the support for other charges, those paid directly through ComEd's accounts payable system and those processed on company supply or travel credit cards ("P cards") to determine whether they are in fact appropriately charged. If they are not appropriately charged, we process correcting journal entries in a timely manner.

Q. **Has ComEd reviewed and paid each invoice for the amounts listed on ComEd Ex. 3.09?**

A. Yes.

1. Rate Case Expenses Related to ICC Docket No. 11-0721

Q. **What is the amount of rate case expenses related to ICC Docket No. 11-0721 included in the revenue requirements in this proceeding?**

A. As stated above, ComEd included amortization of certain costs it incurred in 2011 and 2012 related to ICC Docket No. 11-0721. The total amount of amortization, $791,000, consists of 1/3 of the one-time filing fee of $200,000 ($67,000) that ComEd incurred in 2011, and 1/3 of the costs ComEd incurred in 2012 of $2,171,000 ($724,000). This is the second year of the amortization for the filing fee costs incurred in 2011 and the first year of amortization for the costs incurred in 2012.

Q. **Other than the $200,000 filing fee, did ComEd include amortization of the rate case expenses it incurred in 2011 related to ICC Docket No. 11-0721?**

A. No. In its final order in ICC Docket No. 12-0321, the Commission ruled that ComEd had not provided sufficient evidence for it to make a decision on the reasonableness of the

2011 rate case expenses, other than the $200,000 filing fee. *Commonwealth Edison Co.*, ICC Docket No. 11-0721 (Order December 19, 2012) at 57. ComEd believes the Commission erred in reaching that conclusion and is appealing that Order to the Illinois Appellate Court. If the Appellate Court agrees with ComEd and reverses the Commission's decision, ComEd believes that the previously disallowed amount should be recovered over the remaining two years of the amortization period, but ComEd is also willing to begin the three-year amortization period now.

Q. **Apart from the one-time filing fee, how much expense did ComEd incur in 2011 related to ICC Docket No. 11-0721?**

A. $1,980,000. None of this amount is included in the revenue requirements in this case. A detailed breakdown of these costs is included in ComEd Ex. 3.09, page 1.

Q. **Did ComEd incur any rate case expenses in 2012 related to ICC Docket No. 11-0721?**

A. Yes. ComEd incurred $2,171,000 of rate case expenses in 2012 related to ICC Docket No. 11-0721. This issue is further discussed by Ms. O'Brien (ComEd x. 8.0).

Q. **Has ComEd included any of this amount in its revenue requirements?**

A. Yes. ComEd has included 1/3 of this amount ($724,000) in its revenue requirements as Sec. 16-108.5(c)(4)(E) requires that the costs associated with the initial formula rate case be amortized over three years. A detailed breakdown of these costs is included in ComEd Ex. 3.09, page 2. Further support for these costs, along with the costs incurred in 2011, is presented by Ms. O'Brien (ComEd Ex. 8.0).

2. Rate Case Expenses Related to ICC Docket No. 12-0321

Q. **Did ComEd include any rate cases expenses associated with ICC Docket No. 12-0321 in its revenue requirements?**

A. Yes. ComEd included $2,292,000 in its revenue requirements. Because Section 16-108.5(c)(4)(E) requires that only the costs associated with the initial formula rate case be amortized over three years, ComEd has included the total amount of 2012 costs associated with ICC Docket No. 12-0321 in its 2012 operating expenses. A detailed breakdown of these costs is included in ComEd Ex. 3.09, page 3. Further support for these costs is provided by Ms. O'Brien (ComEd Ex. 8.0).

N. Energy Infrastructure Modernization Act Credits

Q. **Did ComEd include any expenses related to the $10 million of Energy Infrastructure Modernization Act Credits it incurred in 2012 in its revenue requirements?**

A. No. The vast majority of the credits ($9,063,000) was recorded as customer bill credits and was not included in operating expenses. $594,000 of customer assistance expense recorded in FERC Account 908 and $281,000 of advertising expenses recorded in FERC Account 930.1 were removed from operating expenses. *See* ComEd Ex. 3.02, WP 7, page 15. In addition, $65,000 was recorded in FERC Account 426.1 (Donations) and was not included in the revenue requirements.

VI. MISCELLANEOUS REVENUES

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

A. Based on a detailed analysis of these revenues, $126,582,000, after adjustments, was directly assigned or allocated to the delivery services or distribution function (as applicable) and was therefore deducted from the revenue requirements. *See* ComEd Ex.

3.01, App 10 "Other Revenues Information" for detailed calculations. This aggregate amount consists of: miscellaneous revenues of $26,515,000 received in connection with late payment fees and earned finance charges allocated to the delivery service function based on the methodology approved by the Commission in ICC Docket No. 10-0467; $9,744,000 of miscellaneous service revenues (for example meter service fees); $61,822,000 of rental payments for facilities recorded in distribution accounts and included in the distribution rate base (*e.g.*, equipment and meter rentals, pole attachments, 3rd party use of fiber optic cable and rent from affiliates); other Electric Revenues of $2,557,000 (fees earned from a telephone referral program and reimbursements for customer requested studies); an adjustment of $4,299,000 to reflect annualized revenues to be collected from reselling municipalities as compensation for their usage of a portion of the ComEd distribution system; and other adjustments totaling $21,645,000 (including cost of delivery service recovered under Rider FCA - Franchise Cost Additions, detailed in ComEd Ex. 3.01, App 11 "Franchise Delivery Service Value Information," and amounts recovered for facility lighting.

Q. **Do the revenue requirements include a revenue credit for revenues received under Rider AMP?**

A. Yes. Similar to ComEd's adjustment for Rider AMP revenues in Docket 12-0321, ComEd is including a revenue credit equal to the Rider AMP revenues it received in 2012. Rider AMP reconciliation adjustments were collected from July through December 2012 and the amount of revenues collected was $426,000. This amount is included in the other adjustments of $21,645,000 discussed above.

VII. ADJUSTMENTS, INCLUDING PROJECTED PLANT ADDITIONS

A. Adjustments to Rate Base

Q. **What is the net change to the delivery service rate base attributable to the 2013 projected plant additions and the increase in the depreciation reserve and ADIT?**

A. As discussed in Section III above, ComEd has included both the 2013 projected plant additions and the estimated increase in, or the "roll-forward" of, the depreciation reserve relating to plant in service and ADIT as of December 31, 2012. These amounts increased rate base by a net amount of $342,035,000. The projected plant additions are reasonably expected to be placed in service by December 2013. These additions and amounts are supported by Ms. Blaise (ComEd Ex. 5.0) and Mr. Donovan (ComEd Ex. 6.0). The increase in the depreciation reserve is calculated by adding the estimated 2013 depreciation expense to the reserve. This amount reflects the estimated 2013 depreciation expense on both plant existing as of December 31, 2012 and the 2013 projected plant additions. These calculations are presented on ComEd Ex. 3.01, App 1, lines 38 through 55. The change in ADIT related to the projected plant additions of $178,937,000 is shown on Sch FR B-1, line 33 and App 1, line 39, and is calculated on WP 19.

Q. **Do the revenue requirements reflect any other adjustments to rate base?**

A. Yes. ComEd has reduced its delivery service rate base for costs recovered through other tariffs (for example, costs recovered through Rider PORCB – Purchase of Receivables With Consolidated Billing, and costs recovered through Rider EDA - Energy Efficiency and Demand Response Adjustment). Additionally, ComEd reduced rate base for amounts disallowed in prior ICC rate proceedings for reasons other than timing (for

example, capitalized incentive compensation costs). These amounts are presented on ComEd Ex. 3.01, App 1, lines 1 through 30.

B. <u>Adjustments to Operating Expenses and Other Revenues</u>

Q. **What types of adjustments are made to 2012 operating expenses?**

A. The costs removed from operating expenses on Sch FR C-1 and App 7 included ratemaking adjustments, costs recovered through other tariffs, and voluntary exclusions. Some of these adjustments have already been described above and include (among others) bank fees accounted for in the cost of credit facilities and non-delivery service regulatory costs. Operating expenses are also reduced for costs recovered through other tariffs (for example, supply administration costs and residential real-time pricing). Finally, in an attempt to narrow the potential issues in dispute, ComEd has voluntarily reduced its operating expenses by a portion of compensation costs of certain executives, half of its corporate jet costs, and certain lease expenses. These amounts are presented on ComEd Ex. 3.01, App 7, page 1.

Q. **Did ComEd make any adjustments to include charitable contributions in its operating expenses?**

A. Yes. As allowed by Section 9-227, ComEd adjusted its operating expenses to include charitable contributions. These costs are recorded "below the line" and for ratemaking purposes, ComEd has included in its operating expenses a jurisdictional amount, based on the W&S allocator of $7,654,000. ComEd has provided a description of each charitable organization, the purpose of each donation, and how the donation meets the requirements set by Section 9-227 in ComEd Ex. 3.02, WP 7, page 4 of 17, subpages 1-34.

Q. **Did ComEd include the full jurisdictional amount of all its charitable contributions in operating expenses?**

A. No. Although ComEd does not agree with the Commission's decision in ICC Docket No. 12-0321, ComEd has not included $163,000 of donations made to out-of-state organizations.

Q. **Did ComEd include donations made to organizations outside of its service territory?**

A. Yes. In 2012, ComEd made a donation of $5,000 to Southern Illinois University (SIU) Foundation, which provides support for internships. ComEd believes this donation is recoverable under Section 9-227 first and foremost, because it was made to support education. Secondly, although this donation was made to an out-of-service territory organization, it is still within the State of Illinois and students from the Chicagoland area and ComEd service territory attend the university, and thus benefit from such a donation. In fact, the university's 2012-2013 fact book shows that approximately half of SIU's 214,000 alumni currently reside in Illinois, and of those, over 40,000 reside in counties served by ComEd. The 2012-2013 SIU Fact Book can be found at http://www.irs.siu.edu/quickfacts/pdf_factbooks/factbook13.pdf. Although current enrollment statistics by county were not available, the fact that such a large number of alumni reside in Illinois indicates that SIU has had a long history of serving the needs of students who reside in Illinois.

Q. **Do you have any other examples of an out of service territory donation?**

A. Yes. ComEd also made a $5,000 donation to the Abraham Lincoln Presidential Library and Museum Foundation to support the Taper Collection exhibit, which includes over

1,500 artifacts and manuscripts than span Lincoln's entire life. ComEd believes this is a recoverable donation as the museum and the exhibit are enjoyed by people throughout Illinois, including those who reside in ComEd's service territory.

Q. **Did ComEd include any amount related to its required donation to the Illinois Science and Energy Innovation Foundation?**

A. Yes. Section 16-108.6(f) of the Act requires that a participating utility shall pay a pro rata share, based upon number of customers, of a $5 million donation to the Illinois Science and Energy Innovation Foundation, 70 percent of which is a recoverable. In 2012, ComEd paid $3.8 million to the Foundation and has included $2,662,000 in its charitable contributions.

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

A. Other Revenues are reduced by removing amounts applicable to transmission services, in particular, the amounts reflected in Accounts 450 and 451. *See* ComEd Ex. 3.01, App 10.

VIII. GROSS REVENUE CONVERSION FACTOR

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

A. ComEd's GRCF is 1.700, the development of which is shown on ComEd Ex. 3.01, Sch FR C-4, line 13.

IX. OVERALL WEIGHTED COST OF CAPITAL (RATE OF RETURN)

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

A. ComEd's overall weighted cost of capital (rate of return) is 7.01% for the 2012 Reconciliation Year and 6.99% for the 2014 Initial Rate Year. The cost of capital figures are derived from the following capital structure and costs, which reflect the full removal

of goodwill from the capital structure. The derivation of the capital structure and the rationale for the removal of short term debt from the capital structure for the 2012 Reconciliation Year is discussed by Mr. Trpik (ComEd Ex. 4.0).

2012 Reconciliation Year			
Capital Structure Component	Weighting	Cost	Weighted Cost
Common equity	44.99%	8.72%	3.92%
Long-term debt	55.01%	5.52%	3.04%
Short-term debt	0.0%	0.50%	0.00%
Credit Facility Cost			0.05%
Total weighted average	**100%**		**7.01%**

2014 Initial Rate Year			
Capital Structure Component	Weighting	Cost	Weighted Cost
Common equity	44.89%	8.72%	3.91%
Long-term debt	54.89%	5.52%	3.03%
Short-term debt	0.22%	0.50%	0.00%
Credit Facility Cost			0.05%
Total weighted average	**100%**		**6.99%**

Q. **Which schedules in ComEd Ex. 3.01 support ComEd's rate of return?**

A. Sch FR D-1 "Cost of Capital Computation" and Sch FR D-2 "Average Yield on Treasury Securities" support ComEd's rate of return.

Q. **Please explain Sch FR D-1.**

A. Sch FR D-1 summarizes ComEd's overall weighted cost of capital, and provides calculations of ComEd's capital structure, weighted costs of each capital structure component and the overall weighted average cost of capital for both the 2012 Reconciliation Revenue Requirement and the 2014 Initial Rate Year Revenue Requirement.

Q. **Please explain Sch FR D-2.**

A. Sch FR D-2 calculates the average monthly market yields on 30-year treasury bonds. This amount is added to the return on equity base of 580 basis points to determine ComEd's cost of equity on ComEd Ex. 3.01, Sch FR D-1.

X. COMPARISON TO 2013 RATE YEAR NET REVENUE REQUIREMENT

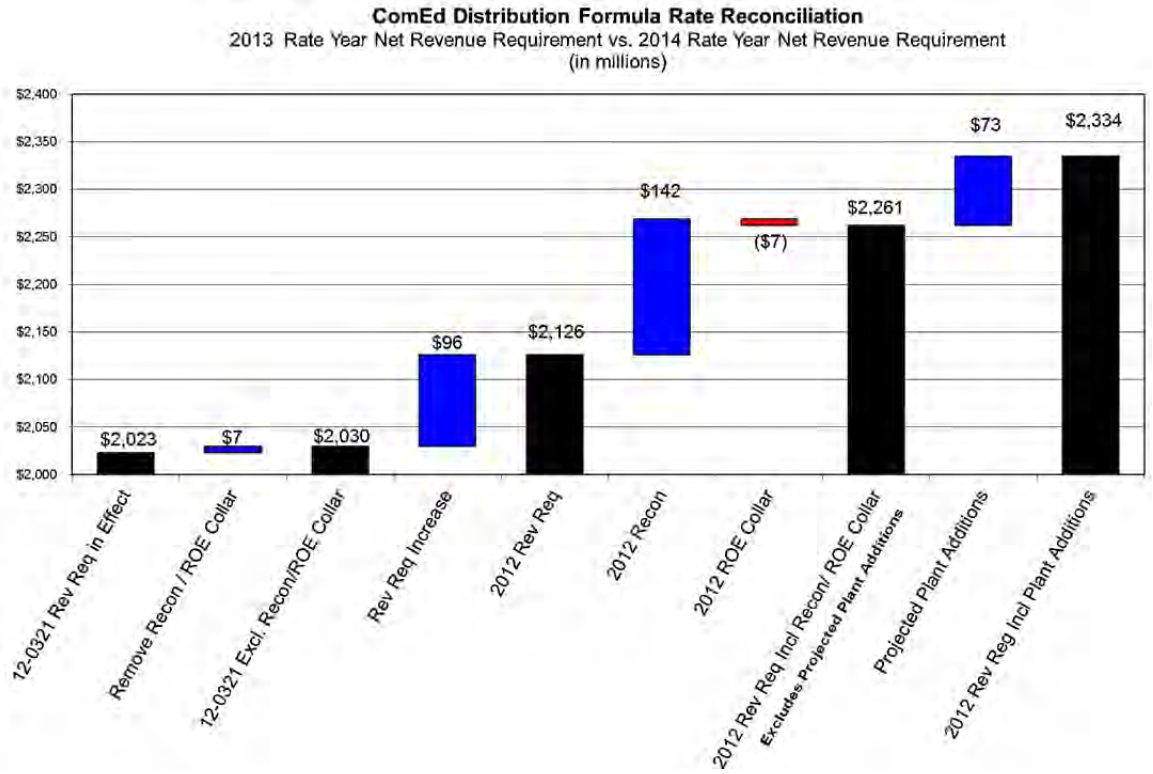
Q. **How does ComEd's 2014 Rate Year Net Revenue Requirement presented in your direct testimony compare with the delivery service revenue requirement approved by the Commission in ICC Docket No. 12-0321?**

A. ComEd's formula derived 2014 Rate Year Net Revenue Requirement is $2,334,330,000, $311,062,000 more than the $2,023,268,000 2013 Rate Year Net Revenue Requirement approved by the Commission in its final order in ICC Docket No. 12-0321. *Commonwealth Edison Co.*, ICC Docket 12-0321 (Order December 19, 2012) at 106.

Q. **What factors account for the differences between these two revenue requirements?**

A. As shown in Chart 1, below, the majority of the difference is related to three components. The first is an increase in ComEd's costs in 2012 over 2011. The second is the reconciliation of the 2012 Reconciliation Revenue Requirement to the weighted average of the revenue requirements in effect in 2012 (*see* Section II. A.). The third is the inclusion of the 2013 projected plant additions, net of the change in the accumulated reserve and ADIT.

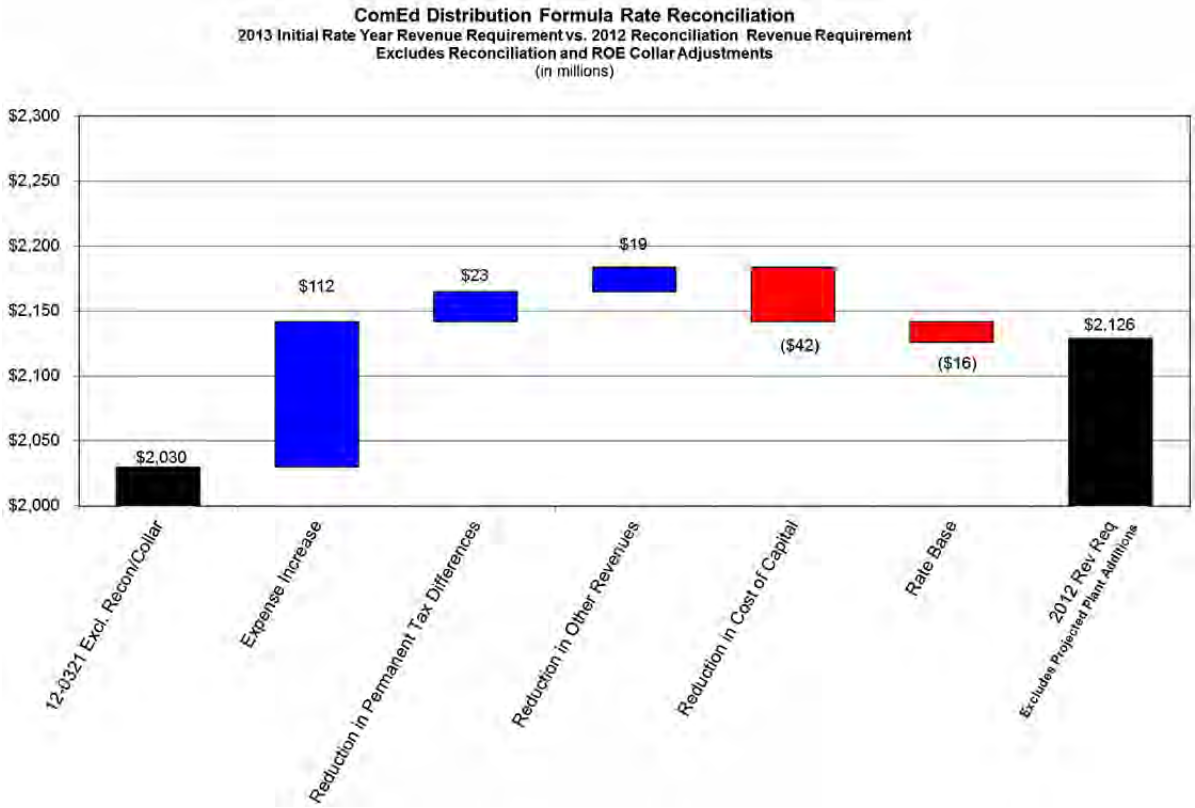
Chart 1



Q. **Can you summarize the key drivers behind the increase in 2012 costs over 2011?**

A. Yes. The key expense increases are primarily related to increased A&G costs, including pension and OPEB, AMI costs, vegetation management, and increased training. Additionally, there was a reduction in both permanent taxes differences and other revenues, the effect of which increased the 2014 Rate Year Net Revenue Requirement. These increases were offset by reductions in the cost of capital and rate base (reconciliation year only). These changes are shown in Chart 2.

Chart 2



XI. CONCLUSION

Q. **What is your overall conclusion regarding the 2014 Rate Year Net Revenue Requirement determined pursuant to the revenue requirement formula?**

A. Apart from the issues that are or may be on appeal, it will produce delivery service charges that are authorized by the statute, are correctly calculated, and are just and reasonable.

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

A. Yes.