

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

COMMONWEALTH EDISON COMPANY	:	
	:	No. 13-0318
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

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1 **I. INTRODUCTION**

2 **A. Witness Identification**

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

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

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

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

8 **B. Purpose of Direct Testimony**

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

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

14 • ComEd’s “2012 Reconciliation Revenue Requirement” is based upon actual costs  
15 incurred in 2012 inclusive of ratemaking adjustments. This revenue requirement  
16 is used to “reconcile” the 2012 actual costs to the revenue requirements in effect  
17 during 2012 pursuant to the orders of the Illinois Commerce Commission  
18 (“Commission” or “ICC”) in Docket Nos. 10-0467 (Order May 24, 2011) and 11-  
19 0721 (Order May 29, 2012; Order on Rehearing October 3, 2012) weighted by the  
20 time the charges set by each such order were in effect during 2012, in accordance  
21 with Section 16-108.5(d)(1) of the Public Utilities Act (“PUA”). The difference  
22 between the 2012 Reconciliation Revenue Requirement and the weighted average

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

26 • I also provide the calculation of the “2014 Initial Rate Year Revenue  
27 Requirement” which includes ComEd’s 2012 actual costs plus 2013 projected  
28 plant additions, associated depreciation reserve and Accumulated Deferred  
29 Income Tax (“ADIT”) roll-forward and projected depreciation expense  
30 adjustments.

31 • Finally, the reconciliation amount and an adjustment for the Return on Equity  
32 (“ROE”) Collar as described by Ms. Brinkman (ComEd Ex. 2.0) is added to (or  
33 subtracted from) the 2014 Initial Rate Year Revenue Requirement to determine  
34 the “2014 Rate Year Net Revenue Requirement” to go into effect in January 2014.

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

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

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

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

56 **C. Summary of Conclusions**

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

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

63 **(1) 2012 Reconciliation Revenue Requirement.** The 2012 Reconciliation Revenue  
64 Requirement of \$2,126,321,000 is based on the following components:

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

67                   **Operating Expenses and Other Revenues** - ComEd's 2012 actual  
68                   operating expenses before income taxes were \$1,657,626,000, and after  
69                   income taxes were \$1,896,326,000, and its Other Revenues were  
70                   \$126,582,000, reflecting adjustments (and the exclusion of costs recovered  
71                   under other tariff mechanisms and costs disallowed in past ICC orders for  
72                   reasons other than timing or in certain cases insufficiency of evidence) in  
73                   ComEd's revenue requirement formula as referred to in Schedule ("Sch")  
74                   C-1 RY, attached to my direct testimony in ComEd Ex. 3.03.

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

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

84                   **(3) 2014 Initial Rate Year Revenue Requirement.** The 2014 Initial Rate Year  
85                   Revenue Requirement of \$2,198,914,000 is based on the following components:

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

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

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

102           **(4) 2014 Rate Year Net Revenue Requirement** - ComEd’s 2014 Rate Year Net  
103           Revenue Requirement is \$2,334,330,000 and is comprised of ComEd’s 2014  
104           Initial Rate Year Revenue Requirement of \$2,198,914,000, the 2012  
105           reconciliation amount of \$142,546,000 (with interest) and the ROE Collar of  
106           (\$7,130,000). These calculations are further discussed by Ms. Brinkman (ComEd  
107           Ex. 2.0).

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

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

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

113 **A.** The attachments to my direct testimony are:

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

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

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

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

- 128 • Part 285 Schedule As: A-2 RY, A-2.1, A-4 RY, and A-5 RY;
- 129 • Part 285 Schedule Bs: B-1 RY, B-2 RY, B-2.1, B-2.2, B-2.3, B-2.6,  
130 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-  
131 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;

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<sup>1</sup> 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.

- 132                   • Part 285 Schedule Cs: C-1 RY, C-2 RY, C-2.2, C-2.3, C-2.4, C-2.5,  
133                   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-  
134                   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,  
135                   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-  
136                   21, C-22, C-23, C-24, C-25, C-26, C-27, C-28, C-29, C-30, C-31, C-32,  
137                   and C-33; and
- 138                   • Part 285 Schedule Ds: D-1 RY, D-2, D-3, D-4, D-5, D-6 RY, D-7, D-8,  
139                   D-9, D-10, D-11, and D-12.

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

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

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

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

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

- 155           **(8) ComEd Ex. 3.08** provides support for ComEd’s 2012 pension and other  
156 post-employment benefits (“OPEB”) expense and the 2012 actuarial valuation  
157 reports from Exelon Corporation’s consultant, Towers Watson.
- 158           **(9) ComEd Ex. 3.09** provides support for ComEd’s 2011 rate case expenses related  
159 to ICC Docket No. 11-0721 and ComEd’s 2012 rate case expenses related to ICC  
160 Docket No. 11-0721 and ICC Docket No. 12-0321.
- 161           **(10) ComEd Ex. 3.10** contains the same schedules and appendices listed in ComEd  
162 Ex. 3.01, but revised to include recovery of issues ComEd currently may pursue  
163 on appeal in ICC Docket Nos. 11-0721 and 12-0321.
- 164                   • Revenue Requirement Formula Schedule (“Sch”) FR A-1 UA, Sch FR A-  
165 1- REC UA, Sch FR A-2 UA, Sch FR A-3 UA, Sch FR A-4 UA, Sch FR  
166 B-1 UA, Sch FR B-2 UA, Sch FR C-1 UA, Sch FR C-2 UA, Sch FR C-3  
167 UA, Sch FR C-4 UA, Sch FR D-1 UA, Sch FR D-2 UA, Appendix  
168 (“App”) 1 UA, App 2 UA, App 3 UA, App 4 UA, App 5 UA, App 6 UA,  
169 App 7 UA, App 8 UA, App 9 UA, App 10 UA, and App 11 UA; and
  - 170                   • A summary of the revenue requirement impacts of the issues on appeal.
- 171           **(11) ComEd Ex. 3.11** contains workpapers that support the schedules and appendices  
172 in ComEd Ex. 3.10 to the extent that they are different from those presented in  
173 ComEd Ex. 3.02.
- 174           **(12) ComEd Ex. 3.12** contains the following Part 285 schedules that differ from those  
175 included in ComEd 3.03 and 3.05 due to the inclusion of the items potentially on  
176 appeal:

- 177                   • Part 285 Schedule As: A-2 RY UA, A-2 FY UA, A-4 RY UA, A-4 FY  
178                   UA;
- 179                   • Part 285 Schedule Bs: B-1 RY UA, B-1 FY UA, B-2 RY UA, B2 FY UA,  
180                   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-  
181                   9 UA, B-10 UA;
- 182                   • Part 285 Schedule Cs: C-1 RY UA, C-1 FY UA, C-2 RY UA, C-2 FY UA,  
183                   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-  
184                   5 RY UA, C-5.2 UA, C-5.4 RY UA, C-5.4 FY UA, C-12 UA, C-18 UA,  
185                   C-19 UA, C-23 UA; and
- 186                   • Part 285 Schedule Ds: D-1 UA, D-3 UA.

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

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

192           **(15) ComEd Ex. 3.15** is ComEd’s 2012 Facilities Allocation Study

193           **(16) ComEd Ex. 3.16** contains a summary of the differing allocation methods the ICC  
194           and the Federal Energy Regulatory Commission (“FERC”) use to allocate General  
195           and Intangible plant between delivery services and transmission.

196           **(17) ComEd Ex. 3.17** contains adjusted schedules and work papers B-2.4 FY ADJ,  
197           WPB.2.4 ADJ, WBP-2.4 ADJ (Confidential), WP-19 ADJ, and WP-19 ADJ  
198           (Confidential). These schedules and work papers reflect the adjustments to

199 ComEd's projected plant additions as described by other ComEd witnesses but  
200 are not used in the calculation of ComEd's rate base as presented in ComEd Ex.  
201 3.01.

202 Unless otherwise noted, the schedules, appendices, and work papers in ComEd Exs. 3.01  
203 through 3.17 have been prepared by me or under my direct supervision.

204 **E. Background and Qualifications**

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

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

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

211 A. I have been employed by ComEd since 1992. I held the position of Account  
212 Representative from 1992 to 1997, in which I serviced the accounts of many of ComEd's  
213 large commercial, industrial and governmental customers. In 1998, I was promoted to  
214 the Strategic Analysis Department as an Economic Analyst, where I was responsible for  
215 supporting the capital budgeting process by evaluating the economic performance of  
216 major discretionary investments and performing other operational financial analyses. In  
217 2003, I was promoted to the Regulatory Services and Strategy Department as a Senior  
218 Regulatory Analyst. In that position, I was responsible for the strategic and financial  
219 evaluation of post-2006 regulatory strategies, including power procurement and  
220 associated cost recovery. In 2006, I transferred to the Revenue Policy Department, where

221 I was responsible for assisting in the determination of ComEd's revenue requirements  
222 and preparation of regulatory filings with both the ICC and FERC. In 2007, I was named  
223 Manager - Rates in the Revenue Policy Department. My title has subsequently changed  
224 to Manager, Revenue Policy.

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

226 A. I received a Bachelor of Science Degree in Marketing from Northern Illinois University  
227 and a Masters of Business Administration with a concentration in Finance from DePaul  
228 University's Kellstadt Graduate School of Business.

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

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

232 **II. DELIVERY SERVICE REVENUE REQUIREMENT**

233 **A. 2012 Revenue Requirements**

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

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

241 In ComEd's case, three revenue requirements were in effect during 2012. The  
242 first was that established by the Commission's order in ICC Docket No. 10-0467, which

243 established a delivery service revenue requirement of \$2,084,072,000. *Commonwealth*  
244 *Edison Co.*, ICC Docket No. 10-0467 (Order May 24, 2011) at 316. For purposes of the  
245 2012 reconciliation, this revenue requirement is reduced by \$31,998,000 to  
246 \$2,052,074,000 in order to remove the amount of expense associated with uncollectibles,  
247 as this amount is not included in ComEd's 2012 Reconciliation Revenue Requirement as  
248 calculated in the revenue requirement formula. The charges established by that Order  
249 were in effect, in 2012, from January 1, through June 19, 2012. The second revenue  
250 requirement was established by the Commission's final order in ICC Docket No. 11-  
251 0721, which established a delivery service revenue requirement of \$1,915,440,000.  
252 *Commonwealth Edison Co.*, ICC Docket No. 11-0721 (Order May 29, 2012) at 178.  
253 Charges established by that order were in effect from June 20, 2012, through the October  
254 2012 monthly billing period. The third revenue requirement was established by the  
255 Commission's Order on Rehearing in ICC Docket No. 11-0721, which established a  
256 delivery service revenue requirement of \$1,950,664,000. *Commonwealth Edison Co.*,  
257 ICC Docket No. 11-0721 (Order on Rehearing October 3, 2012) at 37. Charges  
258 established by that Order on Rehearing were in effect for the November and December  
259 2012 monthly billing periods.

260 ComEd therefore established a weighted delivery service revenue requirement for  
261 2012 of \$1,985,148,000 as illustrated below:

262	\$2,052,074,000	x	171/366 days =	\$958,756,000
263	\$1,915,440,000	x	134/366 days =	\$701,281,000
264	\$1,950,664,000	x	61/366 days =	<u>\$325,111,000</u>
265			Sum =	\$1,985,148,000

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

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

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

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

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

279 A. As discussed earlier, the entries on Sch FR A-1 - REC provide the key inputs into  
280 ComEd’s revenue requirement calculation for the previous year (2012) now that the  
281 actual costs are known. The 2012 Reconciliation Revenue Requirement is shown on  
282 line 25. This amount is used as an input to Sch FR A-4 “Reconciliation Computation,”  
283 which calculates the 2012 reconciliation amount (with interest and net of the ROE Collar)  
284 to be included in the 2014 Rate Year Net Revenue Requirement to be effective January  
285 2014.

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

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

292 **B. 2014 Rate Year Net Revenue Requirement**

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

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

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

305 A. The “FR B,” “FR C,” and “FR D” schedules in ComEd Ex. 3.01, which relate to rate  
306 base, operating expenses and revenues, and cost of capital, respectively, are also involved  
307 in the development of the 2014 Rate Year Net Revenue Requirement. Additionally,  
308 several appendices included in ComEd Ex. 3.01 directly support the calculation of the

309 2014 Rate Year Net Revenue Requirement presented on Sch FR A-1. These schedules  
310 and the associated appendices are discussed in the remainder of my direct testimony.

311 **III. ALLOCATION OF GENERAL AND INTANGIBLE PLANT**

312 **Q. In the context of this formula rate matter, what does the term “functionalization”**  
313 **mean?**

314 A. ComEd is a “wires only” utility, meaning it has both distribution and transmission  
315 functions, but is not a generator of electricity. This formula rate matter involves setting  
316 the charges for ComEd’s Illinois jurisdictional distribution function, commonly referred  
317 to as delivery service. ComEd’s transmission service charges are regulated exclusively  
318 by FERC.

319 Most of ComEd’s costs of service are recorded in accounts in the Uniform System  
320 of Accounts (“USOA”) that identify the function the costs support, *i.e.*, they are recorded  
321 either in distribution (including customer) accounts or in transmission accounts.  
322 However, some of ComEd’s costs – most notably (1) the costs in its General and  
323 Intangible (“G&I”) Plant Accounts; (2) the costs in its Administrative and General  
324 (“A&G”) Accounts; and (3) Taxes Other Than Income – are recorded as common costs  
325 and, therefore, need to be split between distribution and transmission for purposes of  
326 setting charges. The process of determining that split is called functionalization or  
327 allocation.<sup>2</sup>

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<sup>2</sup> 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.

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

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

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

333 A. ComEd's filing allocates General Plant Account 397 (Communication Equipment) by  
334 direct assignment (the location of equipment) as was approved in its prior formula rate  
335 cases. This allocation method is consistent with how these costs are allocated in  
336 ComEd's transmission formula rate. ComEd's filing allocates the remaining G&I Plant  
337 accounts with either of several different allocators, depending upon the account. The  
338 Commission has approved use of the Wages & Salaries ("W&S") Allocator for certain  
339 accounts, but directed different methods of allocation for other accounts, including FERC  
340 Accounts 389 (Land and Land Rights) and 390 (Structures and Improvements).  
341 Specifically, for FERC Accounts 389 and 390, the Commission directed ComEd to use a  
342 facilities allocator, based upon a 2009 Facilities Allocation Study which allocated floor  
343 space between transmission and delivery service.

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

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

349 Facilities Allocation Study. I have included this updated Facilities Allocation Study with  
350 my testimony as ComEd Ex. 3.15.

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

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

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

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

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

361 A. Yes, for two main reasons. First, in the previous study, a significant portion of ComEd's  
362 office space located at Lincoln Centre 2 was subleased to a third party. That space is no  
363 longer subleased and is being used primarily by personnel associated with the delivery  
364 service function. Second, the previous study allocated space occupied by personnel who  
365 perform administrative duties (e.g., finance, accounting, regulatory, Information  
366 Technology) by an allocator based solely upon the allocation of space specifically  
367 designated as either transmission or distribution. In other words, it allocated the space  
368 occupied by administrative personal by the ratio of other space determined to be either  
369 transmission or distribution. After reviewing the data and comparing it to other costs that  
370 are administrative in nature, ComEd believed that allocating this space by using the W&S

371 allocator was most appropriate, as other similar costs were allocated in the same manner.  
372 For example, the costs of Exelon Business Services Company (“BSC”) services, pensions  
373 and benefits and most other A&G costs (including reductions to A&G) are functionalized  
374 via the W&S allocator.

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

377 A. In its FERC transmission formula rate, ComEd allocates the costs associated with its G&I  
378 plant, other than Account 397, by applying the W&S allocator. Applying the same  
379 allocator in the determination of Illinois jurisdictional delivery service charges assures  
380 that ComEd recovers its actual costs, no more, no less.<sup>3</sup>

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

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

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

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

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<sup>3</sup> 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.

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

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

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

398 A. Because the transmission formula rate applies a W&S allocator (based on the ratio of  
399 transmission wages to total wages) to functionalize these costs, the effect of using the  
400 facilities allocator in the Illinois jurisdictional delivery service revenue requirement  
401 formula results in an under-recovery of these costs. Specifically, \$340,000 in ComEd’s  
402 2012 Reconciliation Revenue Requirement, and \$322,000 in ComEd’s 2014 Initial Rate  
403 Year Revenue Requirement.

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

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

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

414 A. Yes. In particular, Account 392 (Transportation Equipment) is allocated to delivery  
415 service using the transportation study allocator, while Accounts 394 (Tools, Shop), 395  
416 (Lab Equipment), 396 (Power Equipment) are allocated to delivery service using the  
417 gross plant allocator. Also, certain amounts of Intangible Plant are allocated using either  
418 the gross plant allocator or are allocated 100% to delivery service. Finally, certain  
419 accounts, such as Accounts 391 (Office Furniture and Equipment), 393 (Stores  
420 Equipment), 398 (Miscellaneous Equipment) and 399 (Other Tangible Equipment) are  
421 allocated using the W&S allocator. Similarly, certain intangible plant is also allocated  
422 using the W&S allocator. For the transmission function, all of these accounts and costs  
423 are allocated using the W&S allocator. This mix-match of allocations virtually assures  
424 that ComEd will either under or over recover some of these costs. In ComEd Ex. 3.16, I  
425 provide a summary of how G&I plant is allocated between transmission and delivery  
426 services and the resulting amount, if any, of over or under recovery of costs.

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

429 A. No.

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

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

436 **IV. RATE BASE**

437 **A. Total Rate Base**

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

439 A. ComEd's rate base for purposes of determining the delivery service revenue requirement,  
440 as of December 31, 2012, is \$6,214,635,000, and for the purposes of determining the  
441 2014 Initial Rate Year Revenue Requirement is \$6,730,757,000, including 2013 net  
442 projected plant additions. As Ms. Blaise (ComEd Ex. 5.0), Mr. Donovan (ComEd Ex.  
443 6.0), and Mr. Born (ComEd Ex. 9.0) testify, the assets in rate base are used and useful  
444 and the related investment set forth in ComEd Ex. 3.01, Sch FR B-1, is prudent and  
445 reasonable, appropriately functionalized to delivery service, and appropriate for purposes  
446 of determining the revenue requirements at issue in this case.

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

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

- 449 (1) Costs recorded in Distribution Plant Accounts as of December 31, 2012, such as  
450 land, poles, cable, transformers, and meters;
- 451 (2) Costs recorded in G&I Plant Accounts as of December 31, 2012, that support the  
452 provision of distribution and customer service, such as office furniture, vehicles,  
453 stores equipment, and capitalized software;

- 454 (3) For the 2014 Initial Rate Year Revenue Requirement, costs of Distribution Plant  
455 and G&I Plant additions (such as those described above) that are projected to be  
456 placed in service by December 31, 2013, with a “roll forward” to December 31,  
457 2013, of the Accumulated Reserve for Depreciation and Amortization (the  
458 “depreciation reserve”) for plant existing as of December 31, 2012, and a  
459 corresponding adjustment to ADIT; and
- 460 (4) Other assets and liabilities that pertain to the appropriate level of capital  
461 investment necessary to provide distribution and customer service, as discussed  
462 below.

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

465 **A.** The three main differences are:

- 466 (1) The 2012 Reconciliation rate base includes Construction Work in Progress  
467 (“CWIP”) not accruing Allowance for Funds Used During Construction  
468 (“AFUDC”) (which I discuss more fully in Section IV.F.), and the 2014 Initial  
469 Rate Year rate base does not, consistent with the order in ICC Docket No. 11-  
470 0721;
- 471 (2) The 2012 Reconciliation rate base utilizes average rate base, while the 2014  
472 Initial Rate Year uses year-end rate base, consistent with the order in ICC Docket  
473 No. 11-0721; and
- 474 (3) The 2014 Initial Rate Year rate base includes 2013 projected plant additions and  
475 associated roll-forwards of the depreciation reserve and ADIT, the latter as

476 directed by the order in ICC Docket No. 11-0721, while the 2012 Reconciliation  
477 rate base reflects only actual plant additions placed into service through 2012.

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

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

481 A. The level of gross investment in electric utility plant in service at original cost included in  
482 ComEd's rate base as of December 31, 2012, before projected plant additions, is  
483 \$15,662,485,000, calculated by adding \$14,183,568,000 of Distribution Plant and  
484 \$1,478,917,000 of G&I Plant as shown in ComEd Ex. 3.01, Sch FR B-1, lines 1 and 5.  
485 Projected plant additions are discussed below.

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

487 A. Yes. ComEd requests that the Commission approve the original cost of plant in service  
488 as of December 31, 2012, before adjustments, of \$15,654,123,000. This amount is  
489 calculated by subtracting Asset Retirement costs, capitalized incentive compensation and  
490 sporting activity costs disallowed in prior ICC orders and such costs capitalized in 2012  
491 from the total of ComEd's Distribution gross plant and Illinois jurisdictional General and  
492 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	<b>Original Cost</b>	<b>\$15,654,123</b>	Line 4 - line 7

493

494 **C. Energy Infrastructure Modernization Act (“EIMA”)**

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

497 **A.** In 2012, ComEd incurred \$55.6 million of O&M expense related to EIMA. Of this,  
498 \$55.1 million is included in ComEd’s Illinois jurisdictional revenue requirements.  
499 Specifically, \$36.5 million was included in distribution O&M, \$14.9 million was  
500 included in customer O&M, and \$3.8 million was included in Administrative and General  
501 expenses.

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

504 **A.** ComEd’s 2012 and 2013 projected EIMA related plant additions included in its delivery  
505 services rate base are \$174.0 million and \$244.6 million, respectively. These plant  
506 additions, which total \$418.6 million (gross amount), are discussed further by Ms. Blaise,  
507 Mr. Donovan, and Mr. Siambekos (ComEd Exs. 5.0, 6.0, and 11.0, respectively).

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

510 A. After adjustments are made for accumulated depreciation and ADIT, the EIMA related  
511 net plant included in rate base is \$325.3 million. The impact to ComEd’s 2014 Initial  
512 Rate Year Revenue Requirement is \$37 million.

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

515 A. The table below provides a summary of how the EIMA 2012 plant additions, the EIMA  
516 2013 projected plant additions and 2012 EIMA O&M expenses have an impact on the  
517 2014 Net Revenue Requirement. The table includes the impacts to the 2012  
518 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	\$37	\$55	\$92
	2012 Reconciliation Rev Req	\$9	\$55	\$64
	2014 Net Rev Req Impact	\$46	\$110	\$156

520 **D. Accumulated Provisions for Depreciation and Amortization**

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

523 A. The total amount of accumulated depreciation as of December 31, 2012, related to  
524 ComEd’s rate base was \$6,114,827,000 comprised of \$5,424,789,000 related to  
525 Distribution Plant and \$690,038,000 related to G&I Plant. These amounts are

526 summarized on ComEd Ex. 3.01, Sch FR B-1 “Rate Base Summary Computation,”  
527 lines 7 through 12.

528 **E. Net Plant Included in Delivery Service Rate Base**

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

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

533 **F. Construction Work In Progress**

534 Q. **What is CWIP?**

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

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

541 A. Yes, in the 2012 Reconciliation rate base. Consistent with ComEd’s agreement with  
542 Staff in ICC Docket No. 11-0721, ComEd has included CWIP not accruing AFUDC in  
543 the calculation of its 2012 Reconciliation rate base (Sch FR A-1 - REC, line 12).  
544 ComEd’s 2012 Reconciliation rate base includes ComEd’s investments in small or short-  
545 term projects that support the distribution and customer functions, on which AFUDC is  
546 not being capitalized. The amount as of December 31, 2012, was \$14,876,000. ComEd  
547 Ex. 3.01, Sch FR B-1, line 14. Michelle Blaise testifies (ComEd Ex. 5.0) that the amount

548 of CWIP included is reasonable. ComEd's calculation of rate base for the 2014 Initial  
549 Rate Year Revenue Requirement does not include any amount for CWIP not accruing  
550 AFUDC, but CWIP not accruing AFUDC will be included in the reconciliation for 2013.

551 **G. Property Held for Future Use**

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

554 A. Not at this time.

555 **H. Cash Working Capital**

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

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

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

562 A. Yes. Rate base includes \$7,444,000 for cash working capital as shown on ComEd Ex.  
563 3.01, Sch FR B-1, line 16.

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

566 A. Yes. Consistent with the order in ICC Docket No. 11-0721, ComEd is using the lead/lag  
567 study as modified and approved in that Docket, except updated for changes in law.  
568 Specifically, ComEd has adjusted the leads associated with certain periodic tax payments  
569 due to the City of Chicago. In particular, the leads associated with the Gross Receipts

570 Tax/Municipal Utility Tax (“GRT/MUT”) and the Infrastructure Maintenance Fee  
571 (“IMF”) have been revised. Midway through 2011, the City of Chicago changed the due  
572 date of certain periodic tax payments from the end of the month to the 15<sup>th</sup> of the month.  
573 The 2011 GRT/MUT and IMF leads were calculated using the end of the month due date  
574 for the first half of the year and the 15<sup>th</sup> of the month due date for the second half of the  
575 year. Accordingly, the GRT/MUT and IMF leads have been revised to reflect that the  
576 payment due date was the 15<sup>th</sup> of the month for the entire year, rather than for half the  
577 year. The updated leads for the GRT and IMF are shown on ComEd Ex. 3.01, App 3  
578 “Cash Working Capital Information,” lines 33 and 35, respectively.

579 **I. Accumulated Deferred Income Taxes**

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

581 A. Generally speaking, ADIT reflects the temporary difference between when an expense  
582 (or revenue) is recognized in a company’s financial and accounting records, commonly  
583 referred to as a company’s “books,” versus when the company recognizes that expense  
584 (or revenue) on its tax return. Ms. Brinkman (ComEd Ex. 2.0) provides a more detailed  
585 explanation of ADIT.

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

587 A. The appropriate level of ADIT to be deducted from rate base as of December 31, 2012 is  
588 \$2,667,266,000, after adjustments, as shown in ComEd Ex. 3.01, Sch FR B-1, line 17.  
589 This level was derived through an analysis of the components of the deferred tax balances  
590 and then either directly assigning or allocating the items based on the assignment or  
591 allocation of the operating items to which they relate. The 2012 ADIT balance is  
592 reflective of the 50% bonus depreciation applicable to 2012 capital investments as well as

593 the current year deduction under the safe harbor method of tax accounting for repair  
594 costs. The jurisdictional amounts allocated to delivery service are presented in ComEd  
595 Ex. 3.01 App 4 “Accumulated Deferred Income Taxes Information.”

596 **J. Materials and Supplies**

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

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

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

604 A. ComEd included in its rate base the 13 month average balance of Materials and Supplies  
605 less the associated accounts payable in its rate base. The balance of Materials and  
606 Supplies related to distribution is \$40,835,000. ComEd Ex. 3.01, App 1, line 53. The  
607 accounts payable related to distribution was calculated by multiplying the distribution-  
608 related Materials and Supplies balance by the O&M factor included in cash working  
609 capital. The result of the calculation is an accounts payable balance of \$7,473,000.  
610 ComEd Ex. 3.01, App 1, line 54. The net amount of Materials and Supplies included in  
611 rate base is \$33,362,000. ComEd Ex. 3.01, Sch FR B-1, line 18.

612 **K. Other Assets and Liabilities**

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

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

616 The first, shown on ComEd Ex. 3.01, Sch FR B-1, line 19 are regulatory assets in  
617 the amount of \$19,941,000. These assets include a regulatory asset representing the  
618 unamortized balance (as of year-end 2012) of \$7,956,000 for capitalized incentive  
619 compensation costs that was approved by the Commission in its order in ComEd's 2001  
620 rate case, ICC Docket No. 01-0423. Additionally, unrecovered costs of \$5,327,000  
621 related to ComEd's Advanced Metering Infrastructure ("AMI") pilot approved by the  
622 Commission in ICC Docket No. 10-0467 are included. This amount consists of (1) the  
623 accelerated depreciation associated with the meters retired as a result of the AMI pilot of  
624 \$4,177,000 and (2) customer applications related costs of \$1,150,000. Finally, the  
625 unrecovered balance of the accelerated depreciation associated with ComEd's AMI  
626 investment (apart from the AMI pilot) of \$6,658,000 has also been included.

627 The second category of other assets included in rate base is deferred debits  
628 totaling \$28,521,000, shown on ComEd Ex. 3.01, Sch FR B-1, line 20. This sum  
629 includes (1) Cook County Forest Preserve Fees of \$1,983,000, which represent  
630 prepayments made to the Cook County Forest Preserve District related to licensing fees  
631 for distribution lines; (2) a Long Term Receivable From the Mutual Beneficial  
632 Association ("MBA") Plan of \$2,431,000, which relates to payments that ComEd has  
633 made to the trust on behalf of union employees for short term disability and for which it  
634 is awaiting reimbursement; (3) a deferred debit associated with ComEd's capitalized  
635 vacation pay not included in plant-in-service of \$20,753,000, and (4) expected recoveries  
636 from insurance on claims made by the public against ComEd of \$3,354,000.

637           The third category of other assets included in rate base is the unamortized  
638 balances of certain one-time, expenses in excess of \$10 million. ComEd has removed  
639 certain storm and merger expenses from its operating expenses and is amortizing them  
640 over a five year period, as required by Section 16-108.5(c)(4)(F). In particular, ComEd is  
641 amortizing over five years the expenses of three 2011 storms and two 2012 storms, each  
642 of which was in excess of \$10 million. In 2011 and 2012, these storms totaled  
643 \$68,201,000 and \$21,271,000, respectively. The unamortized balances of the 2011 and  
644 2012 storm expenses, \$40,783,000 and \$17,017,000, respectively, are included in rate  
645 base. Additionally, in 2012, ComEd also incurred merger expenses of \$31,912,000, and  
646 is amortizing this amount over five years as well. The unamortized merger expense  
647 balance of \$25,530,000 is included in ComEd's rate base. The total unamortized balance  
648 of \$83,329,000 related to these expenses is shown on ComEd Ex. 3.01, Sch FR B-1, line  
649 24, and additional detail is provided on App 5 "Deferred Charges Information", lines 31 –  
650 33. The merger expenses incurred by ComEd in 2012 are discussed in further detail by  
651 Mr. Jirovec (ComEd Ex. 7.0).

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

653 **A.** Other liabilities typically refer to costs that ComEd has not yet incurred, but has  
654 recovered some amounts associated with these costs through delivery service charges,  
655 and are a reduction to rate base. The other liabilities, after adjustments, included in rate  
656 base are Operating Reserves of \$337,247,000, Asset Retirement Obligations of  
657 \$22,257,000, and Deferred Credits of \$74,454,000. These amounts, described further  
658 below, are summarized on ComEd Ex. 3.01, Sch FR B-1, lines 21 through 23.

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

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

- 663 (1) OPEB cost of \$280,739,000;
- 664 (2) Injuries and damages of \$47,683,000 related to workers compensation and public  
665 claims;
- 666 (3) Other miscellaneous environmental liabilities of \$6,791,000, primarily related to  
667 the reserve for the remediation of Superfund sites; and
- 668 (4) Management retention and incentive liabilities of \$2,034,000.

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

671 A. The delivery service jurisdictional amount of Asset Retirement Obligations of  
672 \$22,257,000 recorded in Account 230 represents asset removal costs recovered through  
673 depreciation expense (these costs were previously recorded in Account 108-  
674 Accumulated Depreciation and were reclassified in 2005 in accordance with the USOA).  
675 ComEd Ex. 3.01, Sch FR B-1, line 22.

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

677 A. ComEd has included the deferred credits recorded in FERC Account 253 and two  
678 deferred credits recorded in FERC Account 242, which reduce rate base by a total of  
679 \$74,454,000. ComEd Ex. 3.01, Sch FR B-1, line 23.

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

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

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

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

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

693 A. While ComEd does not agree with the Commission’s decision in ICC Docket No. 11-  
694 0721 regarding the reduction to rate base for the liabilities associated with the accrued  
695 vacation pay and accrued annual incentive compensation, ComEd has included these  
696 liabilities with its deferred credits. The reductions to rate base for the accrued vacation  
697 pay and accrued annual incentive compensation are \$46,756,000 and \$18,689,000,  
698 respectively, and are included on Sch FR B-1, line 23. These issues, and as noted below,  
699 issues related to the Key Manager Restricted Stock Program and certain incentive  
700 compensation paid to BSC employees, may currently be on appeal and ComEd reserves  
701 its rights with respect to such issues.

702 **L. Customer Deposits**

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

704 A. Yes. ComEd receives refundable deposits from certain new customers as a condition of  
705 initiating electric service. ComEd's rate base is reduced by \$137,297,000 for customer  
706 deposits, as shown on ComEd Ex. 3.01, Sch FR B-1, line 25. ComEd calculated this  
707 amount in a manner consistent with the Commission's decision in ICC Docket No. 10-  
708 0467, by including the thirteen month average of total customer deposits (not only those  
709 associated with delivery service). *See* ComEd Ex. 3.01, App 2 "Customer Deposits  
710 Information."

711 **M. Customer Advances**

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

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

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

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

722 A. Yes. The 2014 Initial Rate Year rate base includes ComEd's 2013 projected plant  
723 additions of \$917,762,000. This amount consists of \$772,892,000 of Distribution Plant  
724 additions and \$144,870,000 of G&I Plant additions. These amounts are shown on

725 ComEd Ex. 3.01, Sch FR B-1, lines 29 and 31, respectively. Additional detail is  
726 provided in ComEd Ex. 3.01, App 1, lines 31 through 39.

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

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

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

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

742 Q. **In their respective corrected direct testimonies, Ms. Brinkman, Mr. Siambekos and**  
743 **Ms. Blaise discuss some minor adjustments to ComEd’s projected plant additions.**  
744 **Have these adjustments been reflected in ComEd’s rate base?**

745 A. No. As discussed by Ms. Brinkman (ComEd Ex. 2.0 CORR.), as part of ComEd’s  
746 routine final verification of our revenue requirement calculations, we found inadvertent

747 errors in the calculation of ComEd's projected 2013 plant additions and related balances,  
748 but ComEd has not changed its proposed revenue requirements for these errors. The total  
749 net effect of these errors is to understate the 2014 Initial Rate Year Revenue Requirement  
750 by approximately \$75,000. The testimony of Ms. Blaise and Mr. Siambekos (ComEd  
751 Exs. 5.0 CORR and 11.0 CORR) reflect the corrected plant and related balances. *These*  
752 *adjusted amounts are shown on ComEd Ex. 3.17 as Sch B 2.4 ADJ, WPB 2.4 ADJ,*  
753 *WPB 2.4 ADJ (Confidential), WP-19 ADJ and WP-19 ADJ (Confidential).*

754 **V. OPERATING EXPENSES**

755 **A. Total Operating Expenses**

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

759 A. For the year ending December 31, 2012, ComEd's delivery service operating expenses  
760 before income taxes were \$1,657,626,000, reflecting adjustments (and the exclusion of  
761 costs recovered under other tariff mechanisms and costs disallowed in past ICC orders for  
762 reasons other than timing). ComEd Ex. 3.01, Sch FR-A3, line 16. After accounting for  
763 income taxes, for both the 2012 Reconciliation and the 2014 Initial Rate Year, and the  
764 change in depreciation expense related to the projected plant additions (2014 Initial Rate  
765 Year only), ComEd's Illinois jurisdictional delivery service operating expenses were  
766 \$1,896,326,000 and \$1,940,375,000, respectively. These delivery service operating  
767 expenses consist of two broad categories of expense: distribution-related and customer-  
768 related.

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

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

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

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

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

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

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

789 **C. Customer-Related O&M Expenses**

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

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

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

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

- 799 (1) \$142,457,000 reduction to remove the costs associated with ComEd's energy  
800 efficiency and demand response program recovered under Rider EDA;
- 801 (2) \$42,320,000 reduction to reflect the total amount of uncollectible accounts  
802 expense recorded in FERC Account 904, costs recovered through Rider UF;
- 803 (3) \$1,077,000 reduction to remove the non-jurisdictional amount of Outside  
804 Agency Collection Fees related to uncollectibles;
- 805 (4) \$77,000 increase to include interest on customer deposits in operating expenses;
- 806 (5) \$1,350,000 reduction to remove costs recovered under Rider PORCB;
- 807 (6) \$594,000 reduction to remove customer assistance costs incurred as part of the  
808 \$10,000,000 EIMA customer assistance program;
- 809 (7) \$134,000 reduction to remove certain customer communications costs recorded  
810 in FERC Account 908; and
- 811 (8) \$500,000 increase to remove the reversal of a previously recorded accrual related  
812 to ComEd's photovoltaic program. This accrual was initially recorded in 2010

813 and ComEd removed it from its revenue requirement in its rebuttal testimony in  
814 ICC Docket No. 11-0721. See Fruehe Reb., ComEd Ex.13.0, 41:888-42:897).  
815 The amount removed from 2010 expenses, \$580,000, included an expense  
816 accrual of \$500,000 which was reversed in 2012.

817 Adjustments 1 - 8 can be found on ComEd Ex. 3.01, App 7, page 1, lines 4 through 22,  
818 and additional detail is provided on ComEd Ex. 3.02, WP 7, page 2. After these  
819 adjustments, \$206,831,000 of FERC Accounts 901-910 directly relate to and support the  
820 delivery service function and are included in the revenue requirements as shown in  
821 ComEd Ex. 3.01, Sch FR A-1, lines 2 and 3 and Sch FR A-1 - REC, lines 2 and 3. The  
822 prudence, reasonableness and need to incur these expenses are addressed by Mr.  
823 Donovan (ComEd Ex. 6.0).

824 **D. Incentive Compensation Expenses**

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

827 A. No.

828 **1. Annual Incentive Plan**

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

830 A. Yes.

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

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

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

837 A. No.

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

839 A. Yes, the 2012 ComEd AIP included a new KPI dependent upon ComEd's completion of  
840 work plans in support of EIMA. This KPI, along with the other KPIs, is further discussed  
841 by Mr. Trpik, Ms. Blaise and Mr. Donovan (ComEd Exs. 4.0, Ex. 5.0 and Ex. 6.0,  
842 respectively).

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

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

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

853 A. Yes. ComEd's 2012 performance relative to its KPIs would have resulted in a payout of  
854 148% of target, but due to the Shareholder Protection Feature, the payout was limited to  
855 115%. Additional detail regarding ComEd's AIP is provided in ComEd Ex. 3.07.

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

857 A. Per the Commission's order in ICC Docket No. 11-0721, (*see Commonwealth Edison*  
858 *Co.*, ICC Docket No. 11-0721 (Order May 29, 2012) at 90), ComEd reduced its actual  
859 amount of AIP incurred in 2012 to conform with the incentive compensation cap of  
860 102.9%. The amount of AIP paid to ComEd employees in 2012 was \$60,589,000  
861 (\$50,554,000 functionalized to delivery service), but the jurisdictional amount was  
862 reduced to \$45,235,000 (\$28,467,000 O&M expense and \$16,768,000 capital) in  
863 ComEd's revenue requirements to reflect the 102.9% cap. *See* ComEd Ex. 3.01, App 7,  
864 line 21 and ComEd Ex. 3.02, WP 7, page 14. As further discussed by Ms. Brinkman  
865 (ComEd Ex. 2.0), ComEd may currently be appealing this issue.

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

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

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

870 A. Yes.

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

873 A. Yes. While ComEd does not agree with the ICC's decision in ICC Docket No. 11-0721  
874 related to this matter (potentially on appeal), ComEd has removed \$5,724,000  
875 (\$5,064,000 jurisdictional to delivery service) of expense related to BSC AIP dependent  
876 upon EPS. *See* ComEd Ex. 3.01, App 7, line 21, and ComEd Ex. 3.02 WP 7, page 11.  
877 To be consistent with that decision, ComEd removed 71.30% of BSC AIP allocated to  
878 ComEd.

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

880 A. Yes, as it did in ICC Docket No. 12-0321, ComEd removed the AIP of its embedded  
881 BSC employees related to the EPS KPI. This amount was \$98,000 in 2012. ComEd Ex.  
882 3.01, App 7, line 12.

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

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

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

895 A. Yes. The full amount included in the revenue requirements is \$981,000, \$268,000 of  
896 which was incurred in 2012 and is included in ComEd's 2012 Illinois jurisdictional AIP  
897 of \$45,235,000. The remaining amount of \$713,000 was incurred in 2009, 2010 and  
898 2011, and was expensed in 2012 as the Commission determined that these costs were not  
899 recoverable under Rider EDA.

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

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

903 **2. Long-Term Performance Share Awards Program**

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

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

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

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

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

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

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

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

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

929 A. No.

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

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

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

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

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

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

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

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

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

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

953 A. The 2012 Stock Option Awards Program provides for awards of Exelon stock options to  
954 senior vice presidents and above selected by the Compensation Committee of the Exelon  
955 Board of Directors. A description of the program and the costs incurred by ComEd in  
956 2012 are included in ComEd Ex. 3.07

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

959 A. Yes. ComEd has excluded 100% of the expenses it incurred in 2012 and removed  
960 \$5,598,000 related to these programs from its revenue requirements. *See* ComEd Ex.  
961 3.01, App 7, line 12 and ComEd Ex. 3.02, WP 7, page 12. By so doing ComEd does not  
962 intend to waive its rights to pursue this issue on appeal and as Dr. Hemphill explains,  
963 ComEd is formally requesting that this amount be included in the revenue requirements if  
964 ComEd prevails on appeal.

965 **F. Administrative and General Expenses**

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

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

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

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

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

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

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

996 A. \$402,138,000. This amount is calculated by subtracting the \$25,530,000 of deferred  
997 merger related costs to achieve (*see* ComEd Ex. 3.01, App 5, line 32 and ComEd Ex.  
998 3.02, WP 8) from the total amount of A&G costs of \$427,668,000 shown on ComEd Ex.  
999 3.01, Sch FR A-1, line 4. These expenses are discussed in large part by Ms. Blaise  
1000 (ComEd Ex. 5.0) and Mr. Donovan (ComEd Ex. 6.0), though I discuss certain A&G  
1001 expenses – pension, other post-employment benefits and merger costs to achieve – below.

1002 Q. **What amount of pension expense is included in A&G expenses?**

1003 A. As shown on ComEd Ex. 3.08, page 1, ComEd's total 2012 pension cost was  
1004 \$169,180,000, of which \$100,642,000 was expensed. The jurisdictional amount included  
1005 in ComEd's Administrative and General expenses is \$89,049,000. These amounts are  
1006 supported by, and reconciled to, the Towers Watson actuarial studies also included in  
1007 ComEd Ex. 3.08.

1008 Q. **Can you describe the change in jurisdictional pension expense from 2011 to 2012?**

1009 A. ComEd's delivery service jurisdictional pension expense in 2012 of \$89,049,000  
1010 represents an increase of \$31 million dollars compared to 2011 jurisdictional pension  
1011 expense included in ComEd's revenue requirements in ICC Docket No. 12-0321.

1012 Q. **What accounts for this increase?**

1013 A. There were two primary drivers of the increase. First, the continuing decline in long term  
1014 interest rates in 2012 resulted in a discount rate that was roughly 50 basis points lower in  
1015 2012 than in 2011. This lower discount rate increases ComEd's pension obligation,  
1016 which results in a higher net periodic benefit cost. Secondly, the expected return on  
1017 pension assets assumption, which under GAAP reduces pension cost if all other things  
1018 are held equal, decreased from 8.0% to 7.5% from 2011 to 2012. This decrease is the  
1019 result of a multiyear effort to change the pension trust investment strategy to reduce the  
1020 volatility of asset returns and to reduce the impact on the funded status of the plans to  
1021 movements in interest rates.

1022 Q. **What amount of OPEB cost is included in A&G?**

1023 A. OPEB costs mainly consist of retiree healthcare costs and are accounted for separately  
1024 from pension costs. As shown on ComEd Ex. 3.08, page 1, ComEd's total 2012 OPEB  
1025 cost was \$117,164,000, of which \$67,626,000 was expensed. The jurisdictional amount  
1026 included in ComEd's Administrative and General expenses was \$59,836,000. These  
1027 amounts are supported by, and reconciled to, the Towers Watson actuarial studies also  
1028 included in ComEd Ex. 3.08.

1029 Q. **Please describe the documents included in ComEd Ex. 3.08.**

1030 A. ComEd Ex. 3.08 consists of documents produced by Towers Watson, ComEd’s actuarial  
1031 consultant, that show the total actuarially determined net periodic benefit costs incurred  
1032 by ComEd for the pension and postretirement welfare plans in which ComEd employees  
1033 and retirees participate. The exhibit also shows the derivation of jurisdictional pension  
1034 and postretirement welfare expenses from the actuarially determined costs.

1035 Q. **Are any merger-related costs to achieve included in ComEd’s operating expenses?**

1036 A. Yes. As discussed by Mr. Jirovec (ComEd Ex. 7.0), ComEd incurred \$36 million of  
1037 merger related expenses (costs to achieve or “CTA”). The Illinois jurisdictional delivery  
1038 service amount was \$31,912,000, and is reflected in ComEd’s total A&G as shown in  
1039 ComEd Ex. 3.01, Sch FR A-1, line 4 and Sch FR A-1 - REC, line 4. This expense meets  
1040 the criteria under Section 16-108.5(c)(4)(F) as it is in excess of \$10,000,000 and is  
1041 related to a workforce reduction program; thus ComEd has amortized this expense over  
1042 five years. In order to include only one year of amortization in operating expenses,  
1043 ComEd removed four fifths of the \$31,912,000 (\$25,530,000) from operating expenses  
1044 on line 10 of ComEd Ex. 3.01, Sch FR A-1 and Sch FR-A1 - REC. *See also* ComEd Ex.  
1045 3.01, Sch FR C-1, line 20 and App 7, line 25.

1046 Q. **How is the remaining four fifths of the merger related expenses treated for rate  
1047 making purposes?**

1048 A. As I discussed in Section V.K. above, the remaining four fifths, or \$25,530,000, is  
1049 recorded as a regulatory asset and included in Other Deferred Charges on ComEd Ex.  
1050 3.01, App 5, line 32, and included in ComEd’s rate base.

1051 Q. **Are there any other merger-related costs included in the revenue requirements?**

1052 A. Yes. In 2012 \$2.4 million of CTA capital expenditures were closed to plant in service,  
1053 and \$17.4 million of CTA capital expenditures are included in ComEd's 2013 projected  
1054 plant additions. ComEd's 2012 Reconciliation rate base includes the amount closed to  
1055 plant in service in 2012 (net of accumulated depreciation and ADIT) and ComEd's 2014  
1056 Initial Rate Year rate base includes the amount closed to plant in service in 2012 and the  
1057 amount included in 2013 projected plant additions (both net of accumulated depreciation  
1058 and ADIT).

1059 Q. **What are the overall impacts of the CTA on ComEd's revenue requirements?**

1060 A. ComEd 2014 Net Revenue Requirement is increased by \$20.1 million. ComEd's 2014  
1061 Initial Rate Year Revenue Requirement is increased by \$11.8 million and the 2012  
1062 Reconciliation is increased by \$8.3 million. The calculations supporting these amounts  
1063 are included in ComEd Ex. 3.14.

1064 G. **Return on Pension Asset**

1065 Q. **What amount is included for the cost associated with funding ComEd's pension**  
1066 **asset?**

1067 A. A debt-only return is calculated on the jurisdictional portion of the pension asset net of  
1068 ADIT. *See* ComEd Ex. 3.01, Sch FR C-3. This amount totaled \$60,770,000.

1069 Q. **How does the pension funding amount identified in this docket compare to the**  
1070 **amount allowed by the Commission in ICC Docket No. 12-0321?**

1071 A. In its final order in ICC Docket No. 12-0321, the Commission allowed a return on  
1072 ComEd's pension asset of \$71,576,000. The decrease of almost \$11 million is due to (1)  
1073 a reduction in ComEd's cost of long term debt from 5.78% to 5.52%, (2) a reduction in

1074 the size of the pension asset net of ADIT, and (3) a change in the W&S allocator from  
1075 89.71% to 88.48% jurisdictional to delivery service.

1076 **H. Sales and Marketing Expense**

1077 Q. **How much sales and marketing O&M expense is included in the revenue**  
1078 **requirements?**

1079 A. No sales and marketing expenses are included in the revenue requirements.

1080 **I. Depreciation and Amortization of Electric Utility Plant**

1081 Q. **How much depreciation and amortization expense of electric utility plant is included**  
1082 **in the revenue requirements?**

1083 A. \$460,728,000. The level of 2012 depreciation and amortization expenses included in the  
1084 revenue requirements is \$436,658,000, comprised of \$340,642,000 related to Distribution  
1085 Plant and \$96,016,000 related to G&I Plant. Additionally, the 2014 Initial Rate Year  
1086 Revenue Requirement and 2014 Rate Year Net Revenue Requirement include  
1087 \$24,070,000 of depreciation expense associated with the 2013 projected plant additions.  
1088 *See ComEd Ex. 3.01, Sch FR C-2 for calculations of both the actual 2012 and projected*  
1089 *2013 jurisdictional depreciation expense.*

1090 **J. Taxes Other than Income**

1091 Q. **What taxes other than income are included in the revenue requirements?**

1092 A. The level of taxes other than income included in the revenue requirements is  
1093 \$142,871,000. In general, these include real estate taxes, the Illinois Electricity  
1094 Distribution Tax (“IEDT”), payroll taxes and several other taxes. A detailed analysis of  
1095 the taxes other than income included in the revenue requirements is provided on ComEd

1096 Ex. 3.01, App 7, page 2, lines 41 through 62. The amounts on line 62 represent the taxes  
1097 prior to final jurisdictional amounts, which can be found on ComEd Ex. 3.01, Sch FR  
1098 C-1, line 10.

1099 **Q. Do the revenue requirements in this filing include an IEDT credit?**

1100 A. Yes. ComEd recorded an accrual in 2012 for an estimated IEDT credit of \$14,455,000  
1101 related to its actual 2012 IEDT of \$119,155,000 and included the net amount of  
1102 \$104,700,000 in operating expense. *See* ComEd Ex. 3.03, C-18, p. 1 Ln 6.

1103 **Q. Did ComEd include any IEDT credits or charges related to years prior to 2012?**

1104 A. Yes. Similar to 2012, in 2010 and 2011, ComEd estimated the amount of IEDT credit it  
1105 would receive for those years and accrued the estimated credits. During 2012, ComEd  
1106 received its actual IEDT credit for 2010, and determined that it had over estimated the  
1107 credit by \$911,000. ComEd also adjusted its initial estimate of its 2011 IEDT credit,  
1108 increasing it by \$3,525,000. The net adjustment for 2010 and 2011 is \$2,614,000.

1109 **Q. Is the net adjustment for prior years of \$2,614,000 fully reflected in the revenue**  
1110 **requirements?**

1111 A. No. ComEd only included the adjustment for 2011 of \$3,525,000 as a reduction to its  
1112 revenue requirements. ComEd did not include the charge of \$911,000 in its revenue  
1113 requirements as this amount was related to 2010 and neither the 2010 IEDT nor the  
1114 estimated 2010 IEDT credit were reflected in ComEd's prior formula rate case  
1115 reconciliations. The adjustment to remove the \$911,000 IEDT charge can be found on  
1116 ComEd Ex. 3.01, App 7, line 61.

1117 **K. Income Taxes**

1118 **Q. What level of income taxes is included in the revenue requirements?**

1119 A. The amount of income taxes included in the 2012 Reconciliation Revenue Requirement is  
1120 \$159,631,000. ComEd Ex. 3.01, Sch FR A-1- REC, lines 17, 20 and 21. The amount of  
1121 income taxes included in the 2014 Initial Rate Year Revenue Requirement, which  
1122 includes the impact of the projected 2013 plant additions is \$173,320,000. ComEd Ex.  
1123 3.01, Sch FR A-1, lines 15, 18 and 19. Income taxes have been calculated based on the  
1124 expenses and miscellaneous revenues assigned or allocated to the delivery service  
1125 function. Likewise, ComEd has analyzed differences in book and tax treatment of 2012  
1126 revenues and expenses and assigned or allocated those differences to the delivery service  
1127 function as described in ComEd Ex. 3.01, Sch FR C-4 “Taxes Computation” and App 9  
1128 “Permanent Tax Impacts Information.”

1129 **Q. How is Sch FR C-4 used in developing ComEd’s delivery service revenue**  
1130 **requirements?**

1131 A. Sch FR C-4 provides the calculations of ComEd’s effective income tax rate, gross-up  
1132 factor for income taxes, interest synchronization deduction, and gross revenue conversion  
1133 factor. Sch FR C-4 also summarizes the permanent tax differences and amortization of  
1134 permanent tax differences. These amounts, after application of the gross revenue  
1135 conversion factor, reduce the revenue requirements by \$10,890,000, and are included in  
1136 ComEd’s total income taxes described previously.

1137 **Q. How is App 9 used in developing ComEd’s delivery service revenue requirements?**

1138 A. App 9 provides a detailed analysis of ComEd's Permanent Tax Differences by presenting  
1139 each tax difference on a line-by-line basis and applying a jurisdictional allocator. App 9  
1140 also identifies ComEd's Investment Tax Credits and a jurisdictional calculation of each.

1141 Q. **In ComEd's 2012 formula rate update filing, ComEd included a large credit**  
1142 **associated with the Illinois state income tax change. Is the credit the same for this**  
1143 **year's filing?**

1144 A. No. The credit is not as large in this year's filing. In 2011, ComEd realized income tax  
1145 benefits due to the Tax Repairs Allowance and 100% bonus depreciation. In 2012,  
1146 ComEd's tax benefits for the Tax Repairs Allowance and bonus depreciation were  
1147 significantly reduced, thus the permanent tax difference is also reduced. This topic is  
1148 further discussed by Ms. Brinkman (ComEd Ex. 2.0).

1149 **L. Regulatory Asset Amortization**

1150 Q. **Do the revenue requirements in this filing include any amortization of regulatory**  
1151 **assets?**

1152 A. Yes. As shown on ComEd Ex. 3.01, Sch FR C-1, line 18, ComEd included in its revenue  
1153 requirements \$24,405,000 of regulatory asset amortization. This amount includes the  
1154 effects of the Commission's order in ICC Docket No. 10-0467, which revised the amount  
1155 of amortization of several existing regulatory assets, authorized amortization of new  
1156 regulatory assets, and eliminated amortization of others. Regulatory asset amortization  
1157 also includes \$67,000 of the \$200,000 filing fee paid in 2011 and \$724,000 of the  
1158 \$2,171,000 in formula rate case expenses incurred in 2012 related to ICC Docket No. 11-  
1159 0721, the initial formula rate proceeding. Section 16-108.5(c)(4)(E) of the PUA provides

1160 that these costs be amortized over a three-year period. Rate case expenses are further  
1161 discussed in Section V.M.

1162 **M. Rate Case Expenses**

1163 **Q. Does ComEd have controls in place to ensure that only those expenses that were**  
1164 **incurred in furtherance of formula rate cases in the year at issue are included in**  
1165 **rate case expense?**

1166 A. Yes. In addition to the controls utilized by the legal department as discussed by  
1167 Ms. O'Brien (ComEd Ex. 8.0), the Revenue Policy Department reviews and tracks each  
1168 invoice related to rate case expense. This is the department that I manage.

1169 **Q. What exactly does your department do to track these invoices?**

1170 A. As we prepare for a rate case filing, we create a unique Project ID in our general ledger  
1171 system for each proceeding and time period for which we wish to track costs. For  
1172 example, ComEd has three Project ID numbers for rate case expenses related to ICC  
1173 Docket No. 11-0721 so that we can track costs related to that Docket that were incurred  
1174 in 2011 and 2012, and that are being incurred in 2013, such as costs of the appeal. The  
1175 Project ID is one of 10 codeblock elements available in our ledger system for purposes of  
1176 identifying charges.

1177 **Q. Does your department review any invoices?**

1178 A. Yes. After the Legal Department reviews and approves invoices from outside counsel,  
1179 the Legal Department electronically submits those invoices to the Revenue Policy  
1180 Department. We review the invoices to determine whether they are appropriately  
1181 charged and then provide the appropriate codeblock and return the invoice to the Legal

1182 Department for payment processing. We maintain these invoice copies electronically in  
1183 our department files. We also collect and review the support for other charges, those paid  
1184 directly through ComEd's accounts payable system and those processed on company  
1185 supply or travel credit cards ("P cards") to determine whether they are in fact  
1186 appropriately charged. If they are not appropriately charged, we process correcting  
1187 journal entries in a timely manner.

1188 Q. **Has ComEd reviewed and paid each invoice for the amounts listed on ComEd Ex.**  
1189 **3.09?**

1190 A. Yes.

1191 **1. Rate Case Expenses Related to ICC Docket No. 11-0721**

1192 Q. **What is the amount of rate case expenses related to ICC Docket No. 11-0721**  
1193 **included in the revenue requirements in this proceeding?**

1194 A. As stated above, ComEd included amortization of certain costs it incurred in 2011 and  
1195 2012 related to ICC Docket No. 11-0721. The total amount of amortization, \$791,000,  
1196 consists of 1/3 of the one-time filing fee of \$200,000 (\$67,000) that ComEd incurred in  
1197 2011, and 1/3 of the costs ComEd incurred in 2012 of \$2,171,000 (\$724,000). This is the  
1198 second year of the amortization for the filing fee costs incurred in 2011 and the first year  
1199 of amortization for the costs incurred in 2012.

1200 Q. **Other than the \$200,000 filing fee, did ComEd include amortization of the rate case**  
1201 **expenses it incurred in 2011 related to ICC Docket No. 11-0721?**

1202 A. No. In its final order in ICC Docket No. 12-0321, the Commission ruled that ComEd had  
1203 not provided sufficient evidence for it to make a decision on the reasonableness of the

1204 2011 rate case expenses, other than the \$200,000 filing fee. *Commonwealth Edison Co.*,  
1205 ICC Docket No. 11-0721 (Order December 19, 2012) at 57. ComEd believes the  
1206 Commission erred in reaching that conclusion and is appealing that Order to the Illinois  
1207 Appellate Court. If the Appellate Court agrees with ComEd and reverses the  
1208 Commission's decision, ComEd believes that the previously disallowed amount should  
1209 be recovered over the remaining two years of the amortization period, but ComEd is also  
1210 willing to begin the three-year amortization period now.

1211 **Q. Apart from the one-time filing fee, how much expense did ComEd incur in 2011**  
1212 **related to ICC Docket No. 11-0721?**

1213 A. \$1,980,000. None of this amount is included in the revenue requirements in this case. A  
1214 detailed breakdown of these costs is included in ComEd Ex. 3.09, page 1.

1215 **Q. Did ComEd incur any rate case expenses in 2012 related to ICC Docket No. 11-**  
1216 **0721?**

1217 A. Yes. ComEd incurred \$2,171,000 of rate case expenses in 2012 related to ICC Docket  
1218 No. 11-0721. This issue is further discussed by Ms. O'Brien (ComEd Ex. 8.0).

1219 **Q. Has ComEd included any of this amount in its revenue requirements?**

1220 A. Yes. ComEd has included 1/3 of this amount (\$724,000) in its revenue requirements as  
1221 Sec. 16-108.5(c)(4)(E) requires that the costs associated with the initial formula rate case  
1222 be amortized over three years. A detailed breakdown of these costs is included in ComEd  
1223 Ex. 3.09, page 2. Further support for these costs, along with the costs incurred in 2011, is  
1224 presented by Ms. O'Brien (ComEd Ex. 8.0).

1225                   **2.       Rate Case Expenses Related to ICC Docket No. 12-0321**

1226    **Q.       Did ComEd include any rate cases expenses associated with ICC Docket No. 12-0321**  
1227                   **in its revenue requirements?**

1228    A.       Yes. ComEd included \$2,292,000 in its revenue requirements. Because Section 16-  
1229                   108.5(c)(4)(E) requires that only the costs associated with the initial formula rate case be  
1230                   amortized over three years, ComEd has included the total amount of 2012 costs  
1231                   associated with ICC Docket No. 12-0321 in its 2012 operating expenses. A detailed  
1232                   breakdown of these costs is included in ComEd Ex. 3.09, page 3. Further support for  
1233                   these costs is provided by Ms. O'Brien (ComEd Ex. 8.0).

1234                   **N.       Energy Infrastructure Modernization Act Credits**

1235    **Q.       Did ComEd include any expenses related to the \$10 million of Energy Infrastructure**  
1236                   **Modernization Act Credits it incurred in 2012 in its revenue requirements?**

1237    A.       No. The vast majority of the credits (\$9,063,000) was recorded as customer bill credits  
1238                   and was not included in operating expenses. \$594,000 of customer assistance expense  
1239                   recorded in FERC Account 908 and \$281,000 of advertising expenses recorded in FERC  
1240                   Account 930.1 were removed from operating expenses. See ComEd Ex. 3.02, WP 7,  
1241                   page 15. In addition, \$65,000 was recorded in FERC Account 426.1 (Donations) and was  
1242                   not included in the revenue requirements.

1243    **VI.       MISCELLANEOUS REVENUES**

1244    **Q.       What miscellaneous revenues are reflected in the revenue requirements?**

1245    A.       Based on a detailed analysis of these revenues, \$126,582,000, after adjustments, was  
1246                   directly assigned or allocated to the delivery service or distribution function (as  
1247                   applicable) and was therefore deducted from the revenue requirements. See ComEd Ex.

1248 3.01, App 10 “Other Revenues Information” for detailed calculations. This aggregate  
1249 amount consists of: miscellaneous revenues of \$26,515,000 received in connection with  
1250 late payment fees and earned finance charges allocated to the delivery service function  
1251 based on the methodology approved by the Commission in ICC Docket No. 10-0467;  
1252 \$9,744,000 of miscellaneous service revenues (for example meter service fees);  
1253 \$61,822,000 of rental payments for facilities recorded in distribution accounts and  
1254 included in the distribution rate base (*e.g.*, equipment and meter rentals, pole attachments,  
1255 3<sup>rd</sup> party use of fiber optic cable and rent from affiliates); other Electric Revenues of  
1256 \$2,557,000 (fees earned from a telephone referral program and reimbursements for  
1257 customer requested studies); an adjustment of \$4,299,000 to reflect annualized revenues  
1258 to be collected from reselling municipalities as compensation for their usage of a portion  
1259 of the ComEd distribution system; and other adjustments totaling \$21,645,000 (including  
1260 cost of delivery service recovered under Rider FCA - Franchise Cost Additions, detailed  
1261 in ComEd Ex. 3.01, App 11 “Franchise Delivery Service Value Information,” and  
1262 amounts recovered for facility lighting.

1263 **Q. Do the revenue requirements include a revenue credit for revenues received under**  
1264 **Rider AMP?**

1265 **A.** Yes. Similar to ComEd’s adjustment for Rider AMP revenues in Docket 12-0321,  
1266 ComEd is including a revenue credit equal to the Rider AMP revenues it received in  
1267 2012. Rider AMP reconciliation adjustments were collected from July through  
1268 December 2012 and the amount of revenues collected was \$426,000. This amount is  
1269 included in the other adjustments of \$21,645,000 discussed above.

1270 **VII. ADJUSTMENTS, INCLUDING PROJECTED PLANT ADDITIONS**

1271 **A. Adjustments to Rate Base**

1272 **Q. What is the net change to the delivery service rate base attributable to the 2013**  
1273 **projected plant additions and the increase in the depreciation reserve and ADIT?**

1274 A. As discussed in Section IV above, ComEd has included both the 2013 projected plant  
1275 additions and the estimated increase in, or the “roll-forward” of, the depreciation reserve  
1276 relating to plant in service and ADIT as of December 31, 2012. These amounts increased  
1277 rate base by a net amount of \$342,035,000. The projected plant additions are reasonably  
1278 expected to be placed in service by December 2013. These additions and amounts are  
1279 supported by Ms. Blaise (ComEd Ex. 5.0) and Mr. Donovan (ComEd Ex. 6.0). The  
1280 increase in the depreciation reserve is calculated by adding the estimated 2013  
1281 depreciation expense to the reserve. This amount reflects the estimated 2013  
1282 depreciation expense on both plant existing as of December 31, 2012 and the 2013  
1283 projected plant additions. These calculations are presented on ComEd Ex. 3.01, App 1,  
1284 lines 38 through 55. The change in ADIT related to the projected plant additions of  
1285 \$178,937,000 is shown on ComEd Ex. 3.01, Sch FR B-1, line 33 and App 1, line 39, and  
1286 is calculated on WP 19.

1287 **Q. Do the revenue requirements reflect any other adjustments to rate base?**

1288 A. Yes. ComEd has reduced its delivery service rate base for costs recovered through other  
1289 tariffs (for example, costs recovered through Rider PORCB – Purchase of Receivables  
1290 With Consolidated Billing, and costs recovered through Rider EDA - Energy Efficiency  
1291 and Demand Response Adjustment). Additionally, ComEd reduced rate base for  
1292 amounts disallowed in prior ICC rate proceedings for reasons other than timing (for

1293 example, capitalized incentive compensation costs). These amounts are presented on  
1294 ComEd Ex. 3.01, App 1, lines 1 through 30.

1295 **B. Adjustments to Operating Expenses and Other Revenues**

1296 **Q. What types of adjustments are made to 2012 operating expenses?**

1297 A. The costs removed from operating expenses on Sch FR C-1 and App 7 included  
1298 ratemaking adjustments, costs recovered through other tariffs, and voluntary exclusions.  
1299 Some of these adjustments have already been described above and include (among  
1300 others) bank fees accounted for in the cost of credit facilities and non-delivery service  
1301 regulatory costs. Operating expenses are also reduced for costs recovered through other  
1302 tariffs (for example, supply administration costs and residential real-time pricing).  
1303 Finally, in an attempt to narrow the potential issues in dispute, ComEd has voluntarily  
1304 reduced its operating expenses by a portion of compensation costs of certain executives,  
1305 and half of its corporate jet costs. These amounts are presented on ComEd Ex. 3.01, App  
1306 7, page 1.

1307 **Q. Did ComEd make any adjustments to include charitable contributions in its**  
1308 **operating expenses?**

1309 A. Yes. As allowed by Section 9-227, ComEd adjusted its operating expenses to include  
1310 charitable contributions. These costs are recorded “below the line” and for ratemaking  
1311 purposes, ComEd has included in its operating expenses a jurisdictional amount, based on  
1312 the W&S allocator of \$7,654,000. ComEd has provided a description of each charitable  
1313 organization, the purpose of each donation, and how the donation meets the requirements  
1314 set by Section 9-227 in ComEd Ex. 3.02, WP 7, page 4 of 17, subpages 1-34.

1315 Q. **Did ComEd include the full jurisdictional amount of all its charitable contributions**  
1316 **in operating expenses?**

1317 A. No. Although ComEd does not agree with the Commission's decision in ICC Docket No.  
1318 12-0321, ComEd has not included \$163,000 of donations made to out-of-state  
1319 organizations.

1320 Q. **Did ComEd include donations made to organizations outside of its service territory?**

1321 A. Yes. In 2012, ComEd made a donation of \$5,000 to Southern Illinois University (SIU)  
1322 Foundation, which provides support for internships. ComEd believes this donation is  
1323 recoverable under Section 9-227 first and foremost, because it was made to support  
1324 education. Secondly, although this donation was made to an out-of-service territory  
1325 organization, it is still within the State of Illinois and students from the Chicagoland area  
1326 and ComEd service territory attend the university, and thus benefit from such a donation.  
1327 In fact, the university's 2012-2013 fact book shows that approximately half of SIU's  
1328 214,000 alumni currently reside in Illinois, and of those, over 40,000 reside in counties  
1329 served by ComEd. The 2012-2013 SIU Fact Book can be found at  
1330 [http://www.irs.siu.edu/quickfacts/pdf\\_factbooks/factbook13.pdf](http://www.irs.siu.edu/quickfacts/pdf_factbooks/factbook13.pdf). Although current  
1331 enrollment statistics by county were not available, the fact that such a large number of  
1332 alumni reside in Illinois indicates that SIU has had a long history of serving the needs of  
1333 students who reside in Illinois.

1334 Q. **Do you have any other examples of an out of service territory donation?**

1335 A. Yes. ComEd also made a \$5,000 donation to the Abraham Lincoln Presidential Library  
1336 and Museum Foundation to support the Taper Collection exhibit, which includes over

1337 1,500 artifacts and manuscripts than span Lincoln's entire life. ComEd believes this is a  
1338 recoverable donation as the museum and the exhibit are enjoyed by people throughout  
1339 Illinois, including those who reside in ComEd's service territory.

1340 **Q. Did ComEd include any amount related to its required donation to the Illinois**  
1341 **Science and Energy Innovation Foundation?**

1342 A. Yes. Section 16-108.6(f) of the Act requires that a participating utility shall pay a pro  
1343 rata share, based upon number of customers, of a \$5 million donation to the Illinois  
1344 Science and Energy Innovation Foundation, 70 percent of which is recoverable. In 2012,  
1345 ComEd paid \$3.8 million to the Foundation and has included \$2,662,000 in its charitable  
1346 contributions.

1347 **Q. What types of adjustments has ComEd made to its Other Revenues?**

1348 A. Other Revenues are reduced by removing amounts applicable to transmission services, in  
1349 particular, the amounts reflected in Accounts 450 and 451. *See* ComEd Ex. 3.01, App 10.

1350 **VIII. GROSS REVENUE CONVERSION FACTOR**

1351 **Q. What is ComEd's Gross Revenue Conversion Factor ("GRCF")?**

1352 A. ComEd's GRCF is 1.700, the development of which is shown on ComEd Ex. 3.01, Sch  
1353 FR C-4, line 13.

1354 **IX. OVERALL WEIGHTED COST OF CAPITAL (RATE OF RETURN)**

1355 **Q. What is ComEd's overall weighted cost of capital (rate of return)?**

1356 A. ComEd's overall weighted cost of capital (rate of return) is 7.01% for the 2012  
1357 Reconciliation Year and 6.99% for the 2014 Initial Rate Year. The cost of capital figures  
1358 are derived from the following capital structure and costs, which reflect the full removal

1359 of goodwill from the capital structure. The derivation of the capital structure and the  
1360 rationale for the removal of short term debt from the capital structure for the 2012  
1361 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%
<b>Total weighted average</b>	<b>100%</b>		<b>7.01%</b>

1362

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%
<b>Total weighted average</b>	<b>100%</b>		<b>6.99%</b>

1363

1364 Q. **Which schedules in ComEd Ex. 3.01 support ComEd’s rate of return?**

1365 A. Sch FR D-1 “Cost of Capital Computation” and Sch FR D-2 “Average Yield on Treasury  
1366 Securities” support ComEd’s rate of return.

1367 Q. **Please explain Sch FR D-1.**

1368 A. Sch FR D-1 summarizes ComEd’s overall weighted cost of capital, and provides  
1369 calculations of ComEd’s capital structure, weighted costs of each capital structure  
1370 component and the overall weighted average cost of capital for both the 2012  
1371 Reconciliation Revenue Requirement and the 2014 Initial Rate Year Revenue  
1372 Requirement.

1373 Q. **Please explain Sch FR D-2.**

1374 A. Sch FR D-2 calculates the average monthly market yields on 30-year treasury bonds.  
1375 This amount is added to the return on equity base of 580 basis points to determine  
1376 ComEd's cost of equity on ComEd Ex. 3.01, Sch FR D-1.

1377 **X. COMPARISON TO 2013 RATE YEAR NET REVENUE REQUIREMENT**

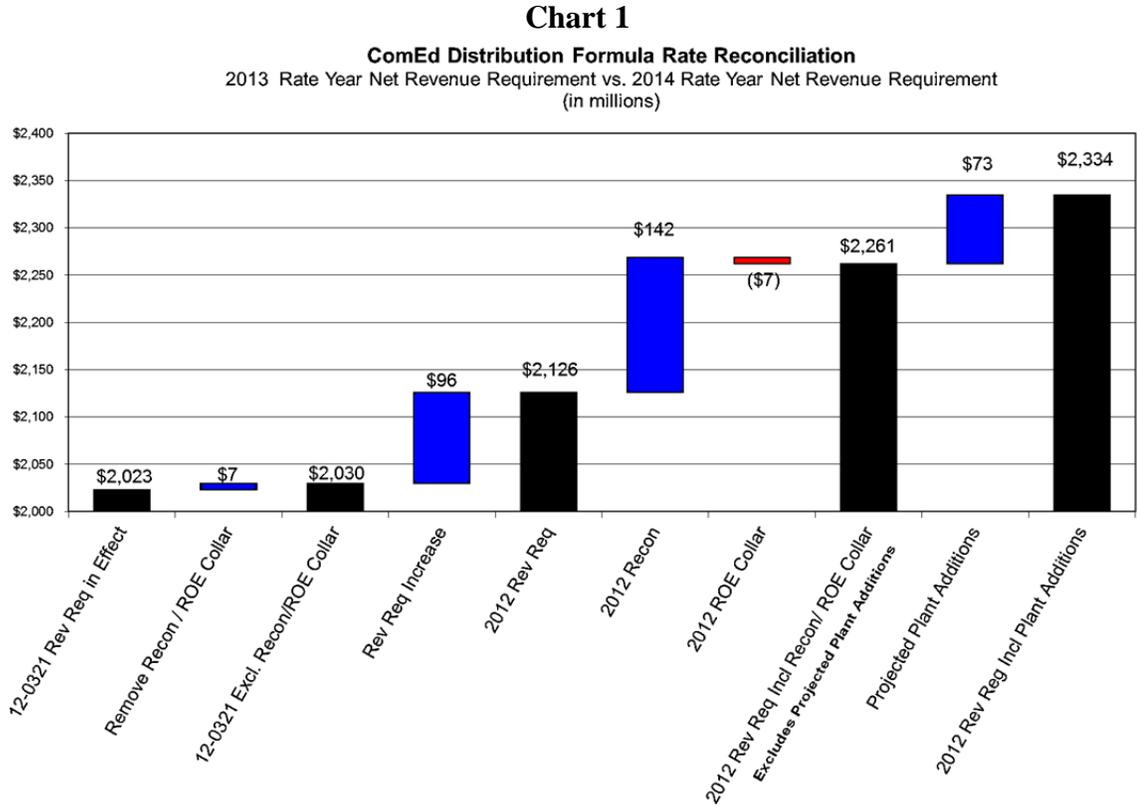
1378 **Q. How does ComEd's 2014 Rate Year Net Revenue Requirement presented in your**  
1379 **direct testimony compare with the delivery service revenue requirement approved**  
1380 **by the Commission in ICC Docket No. 12-0321?**

1381 A. ComEd's formula derived 2014 Rate Year Net Revenue Requirement is \$2,334,330,000,  
1382 \$311,062,000 more than the \$2,023,268,000 2013 Rate Year Net Revenue Requirement  
1383 approved by the Commission in its final order in ICC Docket No. 12-0321.  
1384 *Commonwealth Edison Co.*, ICC Docket 12-0321 (Order December 19, 2012) at 106.

1385 **Q. What factors account for the differences between these two revenue requirements?**

1386 A. As shown in Chart 1, below, the majority of the difference is related to three components.  
1387 The first is an increase in ComEd's costs in 2012 over 2011. The second is the  
1388 reconciliation of the 2012 Reconciliation Revenue Requirement to the weighted average  
1389 of the revenue requirements in effect in 2012 (*see* Section II.A.). The third is the  
1390 inclusion of the 2013 projected plant additions, net of the change in the accumulated  
1391 reserve and ADIT.

1392



1393

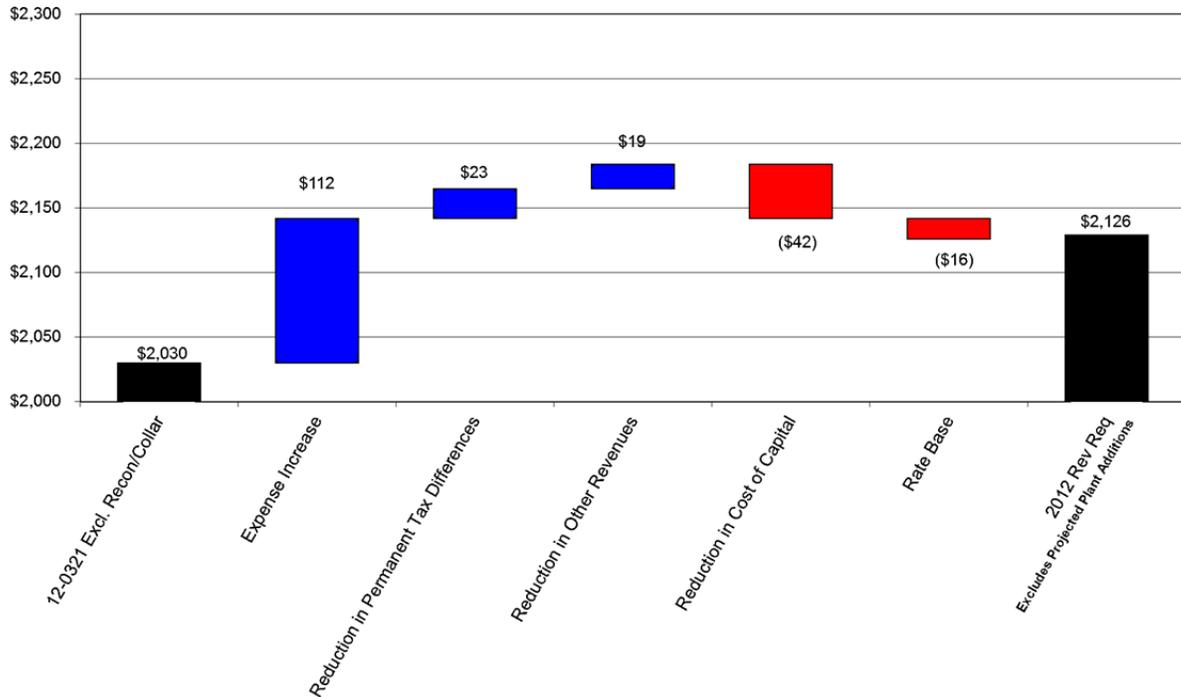
1394 Q. **Can you summarize the key drivers behind the increase in 2012 costs over 2011?**

1395 A. Yes. The key expense increases are primarily related to increased A&G costs, including  
 1396 pension and OPEB, AMI costs, vegetation management, and increased training.  
 1397 Additionally, there was a reduction in both permanent taxes differences and other  
 1398 revenues, the effect of which increased the 2014 Rate Year Net Revenue Requirement.  
 1399 These increases were offset by reductions in the cost of capital and rate base  
 1400 (reconciliation year only). These changes are shown in Chart 2.

1401

**Chart 2**

**ComEd Distribution Formula Rate Reconciliation**  
2013 Initial Rate Year Revenue Requirement vs. 2012 Reconciliation Revenue Requirement  
Excludes Reconciliation and ROE Collar Adjustments  
(in millions)



1402

1403 **XI. CONCLUSION**

1404 Q. **What is your overall conclusion regarding the 2014 Rate Year Net Revenue Requirement determined pursuant to the revenue requirement formula?**

1405

1406 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.

1407

1408

1409 Q. **Does this complete your direct testimony?**

1410 A. Yes.