

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY	:	
	:	
Reconciliation of revenues collected under power	:	
procurement riders with actual costs associated	:	No. 12-0549
with power procurement expenditures.	:	
	:	

Direct Testimony of

GERALD J. KOZEL

Vice President and Controller
Commonwealth Edison Company

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1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Identification of Witness**

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

4 A. My name is Gerald J. Kozel. My business address is Commonwealth Edison Company
5 (“ComEd”), Three Lincoln Centre, Oakbrook Terrace, Illinois 60181.

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

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

8 **B. Purpose of Testimony**

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

10 A. The purpose of my testimony is to explain ComEd’s reconciliation of revenues during the
11 applicable period (the period involved in this proceeding under the applicable tariffs, *i.e.*,
12 June 1, 2010, through May 31, 2011) for: (1) its Purchased Electricity Adjustment
13 Factors (“PEAs”) under ComEd’s Rider PE – Purchased Electricity (“Rider PE”); and (2)
14 its Hourly Purchased Electricity Adjustment Factors (“HPEAs”) under ComEd’s Rate
15 BESH – Basic Electric Service Hourly Energy Pricing (“Rate BESH”).

16 **Q. What did the PEAs pertain to during the applicable period?**

17 A. The PEAs pertained to full requirements electric supply purchased by ComEd for
18 customers, as described in Rider PE, and for which the applicable period is June 1, 2010,
19 through May 31, 2011.

20 **Q. What did the HPEAs pertain to during the applicable period?**

21 A. The HPEAs, like the PEAs, pertained to electric power and energy directly procured by
22 ComEd for customers taking service under ComEd’s bundled service tariff with hourly
23 pricing. The applicable period for the HPEAs also is June 1, 2010, through May 31,
24 2011.

25 Q. **Is ComEd submitting any other direct testimony?**

26 A. Yes. ComEd is presenting:

27 ➤ Direct Testimony of Mr. William P. McNeil, ComEd Exhibit (“Ex.”) 2.0. That
28 testimony: (1) describes and supports the reasonableness of ComEd’s
29 administrative and operational costs associated with the procurement of electric
30 power and energy for retail customers served under Rider PE and under Rate
31 BESH for the period June 1, 2010, through May 31, 2011; and (2) explains how
32 ComEd complied during that period with the applicable procurement plan
33 approved by the Illinois Commerce Commission (“ICC” or “Commission”).

34 ➤ Direct Testimony of Mr. John Hengtgen, ComEd Ex. 3.0. That testimony
35 describes and supports the reasonableness of ComEd’s cash working capital
36 (“CWC”) costs associated with the procurement of electric power and energy for
37 retail customers served under Rider PE and under Rate BESH for the period June
38 1, 2010, through May 31, 2011. The June 1, 2010 through May 31, 2011
39 reconciliation period includes the first year that ComEd’s CWC costs will be
40 addressed.

41 C. **Summary of Conclusions**

42 Q. **Stated briefly, what are your conclusions?**

43 A. In brief, I conclude that: (1) ComEd correctly determined and recovered the applicable
44 costs through the PEAs during the applicable period and did not inappropriately recover
45 those costs through charges in any other tariffs; (2) ComEd correctly accounted for the
46 costs and revenues associated with the PEAs during the applicable period; (3) ComEd
47 correctly determined and recovered the applicable costs through the HPEAs during the

48 applicable period and did not inappropriately recover those costs through charges in any
49 other tariffs; and (4) ComEd correctly accounted for the costs and revenues associated
50 with the HPEAs during the applicable period.

51 Please note that, per the Supplemental Report Relating to the 2011 ComEd
52 Purchased Electricity Cost Recovery Review (described further below), ComEd has at
53 times identified appropriate adjustments during the course of preparing the monthly
54 filings for Rider PE and Rate BESH. As these items have been identified, they have been
55 corrected and filed in the next monthly filing made in accordance with the applicable
56 tariffs.

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

58 **Q. Are you sponsoring any attachments to your testimony?**

59 **A.** Yes. Attached hereto are the following exhibits:

- 60 • ComEd Ex. 1.1 is the 2011 ComEd Purchased Electricity Cost Recovery Review
61 prepared by the Internal Audit (“IA”) department of Exelon Corporation
62 (“Exelon”), ComEd’s parent corporation, along with the accompanying cover
63 letter and Company Officer Verification, which ComEd filed with the
64 Commission on November 17, 2011.
- 65 • ComEd Ex. 1.2 is the Supplemental Report Relating to 2011 ComEd Purchased
66 Electricity Cost Recovery Review contemporaneously filed with the Commission
67 on November 17, 2011.
- 68 • ComEd Ex. 1.3 is a schedule of ComEd’s Cumulative Totals of Incremental
69 Expenses, Revenues and Recoveries under Rider PE and Rate BESH for the June
70 1, 2010, through May 31, 2011, determination period, which is an updated version

71 of Appendix I to ComEd Ex. 1.2.

72 **Q. Who prepared the internal audit report included in ComEd Ex. 1.1, and what**
73 **information does the report provide?**

74 A. The internal audit was conducted by Exelon's IA department, which is a separate and
75 independent function within Exelon. The report provides background information,
76 identifies the objective and scope of the internal audit, describes the results of the internal
77 audit, and sets forth in an appendix further information on the procedures performed as
78 part of the audit.

79 **Q. What is provided in the supplemental report included in ComEd Ex. 1.2?**

80 A. The supplemental report provides additional background information.

81 **Q. What information is provided in the schedule included in ComEd Ex. 1.3?**

82 A. This schedule provides the cumulative totals of incremental expenses, revenues and
83 recoveries under Rider PE and Rate BESH for the June 1, 2010, through May 31, 2011,
84 determination period and was prepared consistent with the Appendices to the
85 Commission's final Orders in Docket Nos. 10-0275 and 11-0357. The schedule reflects
86 an adjustment included by ComEd in its December 20, 2011, informational filing
87 (September 2011 determination period effective January 2012). The adjustment relates to
88 the change in characterization of the cost of energy purchased from a certain qualifying
89 facility during January 2010 through October 2011. This adjustment reflects a decrease
90 in purchased power expense of \$949,264 and a decrease in interest expense of \$4,643 for
91 the June 2010 through May 2011 determination period.

92 **E. Background and Experience**

93 **Q. What is your educational background and qualifications?**

94 A. I graduated from the University of Illinois at Urbana-Champaign in 1994 with a
95 Bachelor's degree in Accounting and Business Administration. I am a Certified Public
96 Accountant in the State of Illinois and a member of the American Institute of Certified
97 Public Accountants.

98 Q. **What is your past and present employment history?**

99 A. I began my career at Arthur Andersen, LLP in 1994 as a staff auditor in the audit practice
100 of the company's Chicago office. Over the next eight years, my responsibilities
101 increased and I was eventually promoted to Manager. In June 2002, I joined Deloitte &
102 Touche LLP, where I continued my career as an auditor and was promoted to Senior
103 Manager. During my time at both companies, a significant portion of my time was
104 focused on the energy and utility industries. In 2005, I joined Exelon and held roles as
105 Manager and Director. I was promoted to my current role as Vice President and
106 Controller in March 2013. As Controller for ComEd, I am responsible for ComEd's
107 accounting operations and associated internal controls as well as external financial
108 reporting requirements and associated filings with the Securities and Exchange
109 Commission, the Federal Energy Regulatory Commission and the ICC.

110 **II. SUMMARY OF RELEVANT OPERATIONS UNDER**
111 **RIDER PE AND RATE BESH**

112 Q. **Generally, how would you describe the operations relating to PEAs under Rider PE**
113 **and HPEAs under Rate BESH?**

114 A. In brief, the PEAs and HPEAs were designed as part of Rider PE and Rate BESH so that
115 the expenses that ComEd incurred for the procurement of full requirements electric
116 supply and directly procured electric power and energy, as applicable, required by retail
117 customers for which ComEd was providing such supply, would equal the revenues from

118 such retail customers for such supply based on changes in those customers' actual usage
119 and demands on ComEd's system. The expenses included in the PEAs and HPEAs also
120 include certain transmission expenses as well as certain supply administration costs
121 associated with the provision of service under Rider PE and Rate BESH, including cash
122 working capital costs. Those supply administrative and operational costs are addressed in
123 the direct testimony of ComEd's Vice President - Energy Acquisition, William P. McNeil
124 (ComEd Ex. 2.0). The cash working capital costs are addressed in the direct testimony of
125 John Hengtgen (ComEd Ex. 3.0). As provided in the tariff language of Rider PE and
126 Rate BESH, an internal audit was required to be conducted related to the PEAs and
127 HPEAs for the applicable period, and a report that summarized the results of that internal
128 audit was prepared and then submitted to the Commission as an informational filing. The
129 internal audit was conducted, and the report was prepared. ComEd Ex. 1.1 is a copy of
130 that required submission.

131 **Q. How did ComEd determine the underlying data and calculate PEAs and HPEAs**
132 **under Rider PE and Rate BESH during the applicable period?**

133 **A.** In brief, on a monthly basis, ComEd calculated the difference between revenues and
134 expenses recognized associated with each product. ComEd's general ledger contains the
135 revenue and expense data necessary to calculate the PEA and HPEA. ComEd's
136 wholesale procurement management system, payables system and retail billing system
137 are the sources of the information that support the general ledger. These sources were
138 used to validate the wholesale electric supply costs and accrued retail electric supply
139 revenue used in the calculations. At the direction of my predecessor, Kevin J. Waden,
140 the calculations and filings during the applicable period were prepared by accounting

141 staff and either Christine Brinkman, Director, Rates & Revenue Policy (formerly
142 Manager, Accounting), or Kevin J. Waden approved them prior to filing with the
143 Commission each month. Any amounts that were over/under recovered in a given period
144 were reflected in a subsequent period on our customers' bills, as applicable. Any
145 amounts that were credited to or recovered from customers were incorporated into the
146 next applicable monthly calculation of the PEAs and HPEAs. At the end of any
147 accounting period, ComEd recorded a cumulative regulatory asset (under-recovery) or
148 regulatory liability (over-recovery) for each product offering.

149 **Q. Did ComEd correctly determine and recover the applicable costs through the PEAs**
150 **and HPEAs during the applicable period?**

151 A. Yes. The internal audit report states in part: "The cost recovery process performed by
152 Revenue Accounting, including the controls there in such as the supporting GL (General
153 Ledger) reconciliation used to calculate PEA/HPEA, is consistent with the requirements
154 of Rider PE and Rate BESH. IA verified that each of the five requirements [under Rider
155 PE and Rate BESH] ... were met."

156 **Q. Did ComEd inappropriately also recover any of the same costs through charges in**
157 **any other tariffs?**

158 A. No. The accounting and the process related to the PEAs and HPEAs, as well as the tariff
159 provisions, prevented any such double-recovery, as the Internal Audit report confirms.

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

161 A. Yes.