

REBUTTAL TESTIMONY

of

SCOTT TOLSDORF  
Accountant

Accounting Department  
Financial Analysis Division  
Illinois Commerce Commission

Annual formula rate update and revenue requirement reconciliation authorized  
by Section 16-108.5 of the Public Utilities Act

Commonwealth Edison Company

Docket No. 13-0318

September 13, 2013

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1 **Witness Identification**

2 **Q. Please state your name and business address.**

3 A. My name is Scott Tolsdorf. My business address is 527 East Capitol  
4 Avenue, Springfield, Illinois 62701.

5 **Q. Are you the same Scott Tolsdorf who previously provided direct  
6 testimony in this proceeding?**

7 A. Yes. My direct testimony is Staff Exhibit 3.0.

8 **Purpose of Testimony**

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

10 A. The purpose of my rebuttal testimony is to:

- 11 1. Identify issues that are no longer contested;
- 12 2. Respond to the rebuttal testimony of Commonwealth Edison  
13 Company (“ComEd” or “the Company”) witness Mr. Fruehe  
14 regarding my direct testimony recommendations concerning Energy  
15 Efficiency Incentive Compensation;
- 16 3. Respond to recommendations set forth in the direct testimony of  
17 the People of the State of Illinois (“AG”) witness Mr. Brosch  
18 regarding the functional allocation of Late Payment Revenues; and
- 19 4. Respond to the rebuttal testimony of ComEd witness Mr. Fruehe  
20 regarding the allocators and methodologies to be used in setting  
21 Rider PE rates.

22 **Schedule Identification**

23 **Q. Are you sponsoring any schedules as part of ICC Staff Exhibit 9.0?**

24 A. Yes. I am sponsoring the following schedule that shows data as of, or for  
25 the year ending December 31, 2012 that impacts: 1) the pro forma 2013  
26 revenue requirement; 2) the reconciliation of the 2012 revenue  
27 requirement; and 3) the return on equity (“ROE”) collar calculation:

28 Schedule 9.01 Energy Efficiency Incentive Compensation

29 **Uncontested Issues**

30 **Q. Did the Company accept any of the adjustments proposed in your**  
31 **direct testimony?**

32 A. Yes. ComEd has accepted or otherwise not objected to the following  
33 adjustments from my direct testimony: (1) Charitable Contributions  
34 Adjustment; (2) Chicago Forward Sponsorship; (3) Adjustment to Correct  
35 the Removal of 2012 Storm Costs; (4) Adjustment to Correct the Removal  
36 of 2012 Merger Costs; (5) Outside Services Employed; and (6)  
37 Transmission Legal Fees. (ComEd Ex. 14.0, 19 – 22).

38 **Q. Is there any clarification necessary regarding the Adjustment to**  
39 **Charitable Contributions?**

40 A. Yes. As discussed in ComEd Ex. 14.0, ComEd does not object to my  
41 adjustment; however, Mr. Fruehe identifies the correction of an error the  
42 Company made in the recording of its donation to the Science and  
43 Technology Fund required by Section 16-108.6(f) of EIMA in the Public

44 Utilities Act (“Act”). The Company is allowed to recover 70% of the  
45 donation through rates but because it was initially recorded as an  
46 administrative and general (“A&G”) expense, the recoverable amount was  
47 reduced by the Wages and Salaries allocator. To correct this, the  
48 Company has removed the recoverable amount of the required donation  
49 from A&G and included it as a Customer Accounts expense.

50 **Q. Is the Company’s proposed treatment of the Science and Technology**  
51 **Fund donation appropriate?**

52 A. Yes. Section 16-108.6(f) of the Act allows the Company to recover 70% of  
53 the required donation through rates and the Company’s proposed  
54 treatment allows it to do so.

55 **Q. Have you withdrawn any adjustments from your direct testimony?**

56 A. Yes. I have withdrawn my adjustment to Interest on Customer Deposits.  
57 The difference between the Company’s treatment of customer deposit  
58 interest and my proposed treatment is simply a timing issue which does  
59 not necessitate an adjustment.

60 **Energy Efficiency Incentive Compensation**

61 **Q. Please explain Schedule 9.01 Energy Efficiency Incentive**  
62 **Compensation.**

63 A. Schedule 9.01 presents my proposed adjustment to remove from  
64 operating expenses incentive compensation costs paid to incremental  
65 energy efficiency employees. This is the same adjustment as Schedule  
66 3.03 presented in my direct testimony.

67 **Q. The Company’s argument concerning the recovery of incentive**  
68 **compensation costs paid to incremental energy efficiency**  
69 **employees is that they were disallowed for recovery through Rider**  
70 **EDA so they must be recovered through distribution formula rates,**  
71 **otherwise recovery of these costs becomes a “Catch-22” (ComEd Ex.**  
72 **14.0, 16, 18). How do you respond?**

73 A. The Company’s argument is misguided. In Docket No. 10-0537, the  
74 Commission disallowed incentive compensation costs for energy  
75 efficiency employees because the Company could not meet the long  
76 standing Commission requirement of showing a benefit to customers  
77 before incentive compensation is allowed for recovery. The Order states,  
78 in part, “...ComEd is unable to meet the customer benefit standard set  
79 forth in past Commission orders.” Commonwealth Edison Co., ICC Order  
80 Docket No. 10-0537, 25 (October 17, 2012). The Commission gave no  
81 indication that the costs were simply not recovered via the correct tariff.

82 **Q. Referring to Docket No. 10-0537 in his rebuttal testimony, Mr. Fruehe**  
83 **stated, “The Commission’s Order did not discuss the prudence of**  
84 **these costs and no party has ever suggested they are either**  
85 **imprudent or unreasonable.” (ComEd Ex. 14.0, 17:360-362) Is this**  
86 **correct?**

87 A. No. While I am not an attorney, the Commission Order very clearly stated  
88 that the Company had not met the necessary standard for recovery. “This  
89 Commission has long required a showing of benefit to ratepayers due to

90 AIP [Annual Incentive Program] to recover incentive compensation cost.  
91 In this Docket, the Company had failed to show how the incentive cost it  
92 sought to recover relate to energy efficiency or how the AIP had been  
93 tailored for ComEd's EE employees." Commonwealth Edison Co., ICC  
94 Order Docket No. 10-0537, 24 (October 17, 2012). The Commission did  
95 not disallow the incentive compensation costs, as the Company suggests,  
96 simply because Rider EDA was not the correct venue for recovery. The  
97 Commission gave specific reasons why the incentive compensation costs  
98 paid to the energy efficiency employees were not a recoverable expense.  
99 The Company was not able to meet the customer benefit standard for  
100 recovery of these costs.

101 **Q. In rebuttal testimony, Mr. Fruehe states, "The incremental energy**  
102 **efficiency employees are ComEd employees who make substantial**  
103 **contributions to the achievement of the AIP metrics." (ComEd Ex.**  
104 **14.0, 17: 374-375) How do you respond?**

105 A. The Commission has already stated otherwise. In Docket No. 10-0537,  
106 the Commission specifically disallowed incentive compensation costs for  
107 energy efficiency employees stating that, "...the efforts of the incremental  
108 EE employees have very little to do with the incentive compensation which  
109 the Company seeks to recover from ratepayers through Rider EDA."  
110 Commonwealth Edison Co., ICC Order Docket No. 10-0537, 25 (October  
111 17, 2012). The nature of these costs does not change simply because the  
112 Company seeks recovery through a different tariffed rate.

113 **Q. The Company argues that since the pre-2012 costs were initially**  
114 **recorded as a regulatory asset, but then expensed in 2012 and**  
115 **appears in the Company's FERC Form 1, they are properly**  
116 **recoverable in formula rates. (ComEd Ex. 14.0, 18: 388-397) Is this**  
117 **correct?**

118 A. No. As I pointed out in my direct testimony, the Company had no prior  
119 Commission approval or approval in the EIMA legislation to record these  
120 regulatory assets and recover the costs through formula rates. (ICC Staff  
121 Ex. 3.0, 8: 176-185)

122 **Q. Why is Rider EDA the appropriate tariff through which the Company**  
123 **should seek recovery of incentive compensation costs for energy**  
124 **efficiency employees?**

125 A. Rider EDA states that, "...an Energy Efficiency and Demand Response  
126 Adjustment (EDA) is computed by the Company each year to recover *all*  
127 Incremental Costs incurred by the Company in association with Energy  
128 Efficiency and Demand Response Measures... ." ILL. C.C. No. 10, 1<sup>st</sup>  
129 Revised Sheet No. 245 (*emphasis added*). Rider EDA defines  
130 Incremental Costs in part as, "...expenses for *wages, salaries, and*  
131 *benefits* of Company employees, including direct and indirect incremental  
132 costs associated with such Company employees, who are hired for  
133 positions that are specifically related to the Measures and that were  
134 created after August 28, 2007." ILL. C.C. No. 10, 1<sup>st</sup> Revised Sheet No.  
135 246 (*emphasis added*). The Commission's prior disallowance of these

136 costs in Rider EDA is not an invitation for the Company to seek recovery  
137 elsewhere but rather a statement that these costs are not a recoverable  
138 expense.

139 **Late Payment Revenues**

140 **Q. Do you agree with AG witness Brosch's first proposed adjustment**  
141 **for late payment revenues/charges ("LPCs") related to the**  
142 **transmission jurisdiction (AG Ex. 1.0, 9-11)?**

143 A. No. The Company has allocated approximately \$2,526,000 in LPCs to its  
144 transmission function with the remaining \$29,205,000 (92%) allocated to  
145 delivery service. The approximately \$29,205,000 is included in the  
146 delivery service formula rate as an Other Revenue and ultimately reduces  
147 the calculated revenue requirement. This treatment is consistent with past  
148 Commission orders. In the Company's last Article IX rate case, Docket  
149 No. 10-0467, and in each of the first two formula rate cases, Docket Nos.  
150 11-0721 and 12-0321, the Commission has allowed the functionalized  
151 treatment of LPCs as has been proposed by the Company in this  
152 proceeding.

153 **Q. Has the AG presented sufficient evidence in this proceeding that**  
154 **would justify deviating from past Commission practice regarding the**  
155 **functionalization of LPCs?**

156 A. No. The Company correctly points out that as long as LPCs are set to be  
157 allocated properly through both transmission and delivery rates,  
158 ratepayers will not be harmed. (ComEd Ex. 14.0, 28:602-606) The AG

159 has not shown that the Company is over-recovering, and the risk of errors  
160 either in the Company or ratepayers' favor grows if the rate treatment of  
161 LPCs changes from year to year.

162 **Q. Do you agree with AG witness Brosch's second proposed**  
163 **adjustment for LPCs related to the Company's Purchase of**  
164 **Receivables with Consolidated Billing ("PORCB") program (AG Ex.**  
165 **1.0, 12-13)?**

166 A. Yes, as does the Company. (ComEd Ex. 14.0, 27) In direct testimony,  
167 the Company had proposed the LPCs associated with the Company's  
168 PORCB program be excluded from the calculation of the delivery services  
169 revenue requirement. In rebuttal testimony, the Company, in response to  
170 the AG, has included the LPCs associated with the PORCB program in  
171 the calculation of delivery service rates.

172 **Rider PE**

173 **Q. In direct testimony you recommended that the Commission adopt**  
174 **language in the Final Order describing the necessary information**  
175 **used in setting rates for Rider PE. Has your recommendation**  
176 **changed?**

177 A. Yes. In direct testimony, I recommended language that included listing  
178 the individual lead lag days used for determining the working capital  
179 component of Rider PE. That recommendation was based upon a  
180 misinterpretation of the language in the Rider PE tariff. The individual lead  
181 lag days used for determining the working capital component of Rider PE

182 do not come from the formula rate annual update but rather from an  
183 annually updated lead lag study. Therefore, my recommendation to  
184 include the individual lead lag days was incorrect and unnecessary.

185 **Q. Has your recommendation concerning the wages and salaries**  
186 **allocators changed?**

187 A. Yes. In direct testimony, I recommended that the Commission's final  
188 order include language stating that the wages and salaries allocator of  
189 88.48% should be used in setting rates for Rider PE. However, the  
190 allocator used in setting rates for Rider PE is not 88.48% but rather  
191 derived from that amount. As pointed out in the Company's rebuttal  
192 testimony, the Company's common costs are allocated between delivery  
193 service, transmission, and procurement. (ComEd Ex. 14.0, 30:657-667)  
194 The 88.48% is the allocation to delivery services. Another 11.05% is  
195 allocated to transmission. The remainder of 0.47% is allocated to  
196 procurement. Thus, I recommend that the order entered by the  
197 Commission in this proceeding state the following:

198 The Commission finds that the wages and salaries allocator of  
199 0.47% should be used to develop rates charged under Rider PE  
200 in conformance with the Rider PE tariff approved by the  
201 Commission to be effective with the next monthly filing under  
202 Rider PE filed after an order in this proceeding is entered.

203 **Q. Do you have any other recommendations concerning Rider PE?**

204 A. Yes. The changes to my recommendations concerning Rider PE are  
205 necessary because there has been much confusion between Staff and the  
206 Company regarding the interpretation of language used in the Rider PE

207 tariff. The issue regarding the individual lead lag days used for  
208 determining the working capital component of Rider PE is one such  
209 example. Thus, I recommend that the Commission direct the Company to  
210 revise the language in Rider PE to clarify what information is to be  
211 obtained from the formula rate annual update when setting rates under  
212 Rider PE. The Company should file the proposed revisions with the Chief  
213 Clerk's Office and provide a copy to the Manager of Accounting within 120  
214 days from the date of the Final Order in this proceeding.

215 **Conclusion**

216 **Q. Does this end your prepared rebuttal testimony?**

217 A. Yes.

**Commonwealth Edison Company**  
**Energy Efficiency Incentive Compensation**  
 For the Year Ending December 31, 2012  
 (In Thousands)

Line No.	Description (a)	Amount (b)	Source (c)
1	EE Employees Incentive Compensation per Staff	\$ -	
2	EE Employees Incentive Compensation per ComEd (2009-2011)	713	ComEd ComEd Ex. 3.0 REV, p. 47, Lines 989-995
3	EE Employees Incentive Compensation per ComEd (2012)	<u>268</u>	ComEd ComEd Ex. 3.0 REV, p. 47, Lines 989-995
4	Staff Adjustment to Formula Rate/ Revenue Requirement	<u>\$ (981)</u>	Line 1 - Line 2 - Line 3