

ICC Docket No. 13-0318**Commonwealth Edison Company's Response to
The People of the State of Illinois ("AG") Data Requests****AG 4.01 – 4.08****Date Received: June 27, 2013****Date Served: July 12, 2013****REQUEST NO. AG 4.05:**

Ref: ComEd Ex. 3.18, Sch FR A-4 (Revenue Effect of Return 9.67%). Please provide the following additional information regarding the 9.67% return rate now being applied to reconciliation balances on Sch FR A-4:

- a. Confirm that the supporting calculations for the 9.67% rate on Schedule D-1 have assigned a "Gross Revenue Conversion Factor" of 1.7 to the Company's so-called "After Tax Cost of Capital" at line 23 of 5.69%
- b. Explain the Company's rationale for the application of a Gross Revenue Conversion Factor in the manner shown.
- c. Does ComEd believe that the Senate Bill 9 changes to the EIMA explicitly provides for or requires such an income tax factor up to the overall cost of capital?
- d. If your response to part (c) is affirmative, please explain and provide pinpoint citation to where such authority can be found.
- e. Does ComEd believe that the Senate Bill 9 changes to the EIMA implicitly provides for or requires such an income tax factor up to the overall cost of capital?
- f. If your response to part (e) is affirmative, please explain and provide pinpoint citation to where such authority can be found.
- g. Is it ComEd's belief that the reconciliation balances that it must finance until such amounts are recoverable from ratepayers impose an incremental financing cost upon the Company of 9.67%?
- h. Please explain and provide supporting calculations and source documents for any affirmative response to part (g).

RESPONSE:

- a. Yes. The gross revenue conversion factor of 1.7 has been applied to the company's after tax cost of capital.

- b. As discussed in ComEd Ex 3.0 REV at 68:1456 – 69:1463, the revenue ComEd receives is subject to income tax. If the gross revenue conversion factor is not applied to the after tax cost of capital, ComEd would not actually recover its allowed cost of capital on the reconciliation balance as provided for in Senate Bill 9 (“SB 9”). This is the same principle that applies to the income tax gross-up that is applied to ComEd’s after tax return on rate base (See ComEd Ex. 3.18, Sch FR A-1, lines 17 and 18).
- c. ComEd objects to this request on the ground that it requests a legal opinion. Subject to this foregoing objection and ComEd’s General Objections, ComEd believes that the SB 9 changes allow ComEd to recover an amount equivalent to its after tax weighted average cost of capital on its reconciliation balance. This is not possible without the application of the gross revenue conversion factor. This change was also included in ComEd’s May 29, 2013 SB 9 filing approved by the Commission on June 5, 2013.
- d. See ComEd’s response to subpart (c), above. See also Section 16-108.5(d)(1) of the Act which allows for recovery of the utility’s cost of capital.
- e. See ComEd’s response to subpart (c), above.
- f. See ComEd’s response to subpart (d), above.
- g. ComEd believes that the cost to finance its reconciliation balance is its after-tax weighted average cost of capital, which in the instant proceeding is 6.91% (5.69% after the income tax effects of debt are considered), but recovery of this amount is not possible without application of the gross revenue conversion factor.
- h. See ComEd’s response to subpart (g), above. See also the attachment labeled as AG 4.05_Attach 1 which provides an illustrative example of how not applying the gross revenue conversion factor will result in under recovery of costs.

Commonwealth Edison Company
Illustrative Example of the Rationale for Income Tax Gross Up on Reconciliation Balance

| | A | B | C | D |
|----|--|----------------------------|------------------------|------------------------------|
| | | <i>Apply Tax Gross Up</i> | <i>No Tax Gross Up</i> | <i>Over/(Under) Recovery</i> |
| 1 | Weighted Average Cost of Capital | 6.91% | 6.91% | |
| 2 | Tax Effect of Debt | 1.22% | | |
| 3 | After Tax Weighted Average Cost of Capital | 5.69% (line 1 - line 2) | | |
| 4 | Illustrative Reconciliation Balance | \$100 | \$100 | |
| 5 | Return Required | \$6.91 (line 1 * line 4) | | |
| 6 | Tax Effect of Debt | \$1.22 | | |
| 7 | Required after tax return | \$5.69 (line 5 - line 6) | | |
| 8 | Income Tax Rate | 41.18% | 41.18% | |
| 9 | Gross Revenue Conversion Factor | 1.700 = 1/(1 - line 8) | | |
| 10 | Pre-Tax Return | \$9.67 (line 7 * line 9) | \$6.91 | |
| 11 | Income Tax | \$3.98 (line 10 * line 8) | \$2.85 | |
| 12 | After Tax Return | \$5.69 (line 10 - line 11) | \$4.06 | (\$1.63) (Col D - Col B) |