

CORRECTED DIRECT TESTIMONY

of

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Accountant

Accounting Department
Financial Analysis Division
Illinois Commerce Commission

Commonwealth Edison Company
Annual formula rate update and revenue requirement
reconciliation under Section 16-108.5 of the Public Utilities Act

Docket No. 13-0318

July 19, 2013

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SCHEDULES

- Schedule 2.01 FY – Cash Working Capital Adjustment
- Schedule 2.01 RY – Cash Working Capital Adjustment

1 **Witness Identification**

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

3 A. My name is Daniel G. Kahle. My business address is 527 East Capitol Avenue,
4 Springfield, Illinois 62701.

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

6 A. I am employed as an Accountant in the Accounting Department of the Financial
7 Analysis Division of the Illinois Commerce Commission ("Commission").

8 **Q. Please describe your background and professional affiliations.**

9 A. I have a Bachelor of Science degree in Accountancy from the University of
10 Illinois. I am a Certified Public Accountant, licensed to practice in the State of
11 Illinois. My prior accounting experience includes seventeen years as an internal
12 auditor for the State of Illinois, including four years as Chief Auditor at the
13 Department of Commerce and Economic Opportunity ("DCEO"), five years as an
14 Accounting Office Manager at DCEO, as well as two years as an Assurance
15 Services Manager in a public accounting firm. I joined the Staff of the Illinois
16 Commerce Commission ("Staff") in April, 2006.

17 **Q. Have you previously testified before this Commission?**

18 A. Yes, I have testified before the Commission on several occasions.

19 **Q. What is the purpose of your testimony in this proceeding?**

20 A. The purpose of my testimony is to:

- 21 1. Discuss Commonwealth Edison Company's ("ComEd" or "Company")
22 progress towards meeting its commitments and obligations under
23 Section 16-108.5(b)(1) of the Public Utilities Act ("Act");
24 2. Recommend the Commission order an original cost finding for plant at
25 December 31, 2012; and
26 3. Present Staff's Cash Working Capital ("CWC").

27 **Schedule Identification**

28 **Q. Are you sponsoring any schedules as part of your testimony?**

29 A. Yes. I am sponsoring ICC Staff Ex. 2.01 RY and ICC Staff Ex. 2.01 FY.

30 **Q. Are you sponsoring any attachments as part of your testimony?**

31 A. No.

32 **Q. Please explain the FY and RY suffixes that appear with your adjustment**
33 **schedules.**

34 A. These suffixes indicate to which revenue requirement the respective schedule
35 pertains. The letters "FY" indicate the filing year revenue requirement on which
36 delivery service rates effective January 2014 will be based. The letters "RY"
37 indicate the reconciliation filing year revenue requirement, which is the actual
38 revenue requirement for 2012, as adjusted by Staff.

39 **Commitments and Obligations under Section 16-108.5(b) of the Act**

40 **Q. What is the Company's obligation under Section 16-108.5(b) of the Act?**

41 A. In the Company's previous formula rate proceeding, The Commission concluded
42 that:

43 ComEd is required by Section 16-108.5 to provide specific evidence, in
44 every Section 16-108.5 proceeding, in its case-in-chief, as to what it
45 intends to spend Section 16-108.5 money on and specific evidence
46 establishing what it has already spent Section 16-108.5 money on for
47 reconciliation purposes. It is also required to clearly segregate the
48 evidence regarding its projected plant additions from its evidence
49 regarding its reconciliation of the previous years' expenditures.¹

50 **Q. Did the Company meet its obligation in this proceeding?**

51 A. Yes. The Company provided direct testimony identifying incremental EIMA plant
52 additions of \$173,966,069² placed in service in 2012. The \$173,966,069 of plant
53 additions are approximately \$63 million less than the 2012 projected plant
54 additions of \$237,046,000 included in the revenue requirement to derive rates
55 charged in 2013.³

56 The Company projects \$244,597,002⁴ of incremental EIMA plant additions to be
57 placed in service in 2013. The actual and projected investments total \$418.6
58 million and are described and summarized in ComEd Ex. 11.0 CORR, pages 4 -
59 7 and ComEd Ex. 11.01 CORR.

60 A comparison of the Company's actual EIMA plant additions placed in service in
61 2012 versus projected plant additions included in the revenue requirement to
62 derive rates charged in 2013 produces the following variances.

¹ Order, Docket No. 12-0321, December 19, 2012, p. 98.

² ComEd Ex. 11.0 CORR., p. 6.

³ Order, Docket No. 12-0321, December 19, 2012, p. 107 as amended February 14, 2013.

⁴ ComEd Ex. 11.0 CORR., p. 7.

	<u>CATEGORY</u>	<u>ACTUAL 2012 (In Millions)⁵</u>	<u>2012 REVENUE REQUIREMENT (In Millions)⁶</u>	<u>VARIANCE 2012 (In Millions)</u>
(A) (i)	Distribution Infrastructure Improvements	\$92.8	\$128.9	(\$36.1)
(A) (ii)	Training Facility Construction or Upgrade Projects	2.4	2.6	(0.2)
(A) (iii)	Wood Pole Inspection, Treatment, and Replacement	9.4	11.1	(1.7)
(A) (iv)	Reducing the susceptibility of certain circuits to storm-related damage	<u>24.6</u>	<u>23.4</u>	1.2
	Total Electric System Upgrades, Modernization Projects, and Training Facilities	<u>\$129.2</u>	<u>\$166.0</u>	<u>(\$36.8)</u>
(B) (i)	Additional Smart Meters	\$0.1	\$19.8	(\$19.7)
(B) (ii)	Distribution Automation	37.8	51.0	(13.2)
(B) (iii)	Associated Cyber Secure Data Communications Network	0.0	0.0	0.0
(B) (iv)	Substation Micro-processor Relay Upgrades	<u>7.0</u>	<u>0.3</u>	6.7
	Total Upgrade and Modernization of Transmission and Distribution Infrastructure and Smart Grid Electric System Upgrades	<u>\$44.8</u>	<u>\$71.1</u>	<u>\$26.2</u>
	Total Plant Additions in Compliance with Section 16-108.5(b)(1) of the Act	<u>\$174.0</u>	<u>\$237.0</u>	<u>(\$63.0)</u>

63 The Company's response to DLH-19.02 indicates that the \$237,046,000
 64 projected additions included in the revenue requirement include removal
 65 spending and a small amount of jurisdictional adjustments while the actual
 66 incremental EIMA investments include only plant additions. Without the amounts
 67 for removal spending and adjustments, the 2012 projected EIMA plant additions
 68 would be \$219,827,000. Compared to this adjusted projection, the \$173,966,069

⁵ ComEd Ex. 11.0 CORR., p. 6.

⁶ Order, Docket No. 12-0321, December 19, 2012, p. 107 as amended February 14, 2013.

69 EIMA plant additions placed in service in 2012 are approximately \$46 million less
70 than this modified projection.

71 **Q. Do you have any recommendations for reporting in future formula rate**
72 **proceeding?**

73 A. Yes. I have two recommendations which would allow the Commission to assess
74 the Company's compliance with the investment requirements under the Act.⁷

75 1. Beginning with the next formula rate update, the Company's filing should
76 include cumulative actual investments by category made under Section
77 16-108.5(b)(1) of the Act in addition to the annual actual investments for
78 each year. Cumulative reporting would allow the Commission to assess
79 the Company's compliance with the investment requirements for total
80 investments to be made under the Act.

81 2. Beginning with the current proceeding, the Company should file an
82 investment summary by category of cumulative actual and projected
83 investments for each of the 10 years of EIMA. A report with actual and
84 projected investments accumulated for each year would allow the
85 Commission to assess the Company's ability to comply with the
86 investment requirements for total investments made throughout the life of
87 the Act.

88 **Q. Do you have a recommendation regarding the need for the Commission to**
89 **identify in its order the amount of incremental plant investment that is**

⁷ 220 ILCS 5/16-108.5(b)(1).

90 included in the revenue requirement in compliance with Section 16-
 91 108.5(b)(1) of the Act?

92 A. Yes. To provide transparency to the Commission and to ratepayers, I
 93 recommend the Commission include in its order in this proceeding the following
 94 conclusion:

95 The Commission is setting a revenue requirement in this
 96 proceeding for the recovery of \$174.0 million in actual 2012
 97 plant additions and \$244.6 million of projected 2013 plant
 98 additions in compliance with EIMA. The detail of these actual
 99 and projected plant additions by categories as required by
 100 Section 108.5(b)(1) are as follows:

	CATEGORY	ACTUAL 2012 (In Millions) ⁸	PROJECTED 2013 (In Millions) ⁹	CUMULATIVE 2013 (In Millions)
(A) (i)	Distribution Infrastructure Improvements	\$92.8	\$126.5	\$219.3
(A) (ii)	Training Facility Construction or Upgrade Projects	2.4	0.0	2.4
(A) (iii)	Wood Pole Inspection, Treatment, and Replacement	9.4	20.9	30.3
(A) (iv)	Reducing the susceptibility of certain circuits to storm-related damage	<u>24.6</u>	<u>19.7</u>	44.3
	Total Electric System Upgrades, Modernization Projects, and Training Facilities	<u>\$129.2</u>	<u>\$167.1</u>	<u>\$296.3</u>
(B) (i)	Additional Smart Meters	\$0.1	\$0.0	\$0.1
(B) (ii)	Distribution Automation	37.8	61.7	99.5
(B) (iii)	Associated Cyber Secure Data Communications Network	0.0	0.0	0.0
(B) (iv)	Substation Micro-processor Relay Upgrades	<u>7.0</u>	<u>15.8</u>	22.8
	Total Upgrade and Modernization of Transmission and Distribution Infrastructure and Smart Grid Electric System Upgrades	<u>\$44.8</u>	<u>\$77.5</u>	<u>\$122.4</u>

⁸ ComEd Ex. 11.0 CORR., p. 6.

⁹ ComEd Ex. 11.0 CORR., p. 7.

	Total Plant Additions in Compliance with Section 16-108.5(b)(1) of the Act	<u>\$174.0</u>	<u>\$244.6</u>	<u>\$418.6</u>
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101 **Original Cost Determination**

102 **Q. Did the Company request an original cost determination in this**
103 **proceeding?**

104 A. Yes. The Company requested that the Commission approve the original cost of
105 plant in service as of December 31, 2012 of \$15,654,123,000.¹⁰

106 **Q. What is your recommendation for the original cost of plant in service as of**
107 **December 31, 2012?**

108 A. I recommend the Commission approve \$15,654,123,000 as the original cost of
109 plant as of December 31, 2012. If the Commission, however, makes any
110 additional adjustments to plant, commensurate adjustments should also be
111 reflected in the original cost determination. Further, I recommend that the
112 Commission include the following language in the Findings and Orderings
113 paragraphs of its Order in this proceeding:

114 (#) the Commission, based on ComEd's proposed original
115 cost of plant in service as of December 31, 2012,
116 before adjustments, of \$15,669,496,000, and reflecting
117 the Commission's determination adjusting that figure,
118 approves \$_____ as the composite original
119 cost of jurisdictional distribution services plant in service
120 as of December 31, 2012.

121 **Cash Working Capital Adjustment**

122 **Q. Please describe Schedule 2.01: Cash Working Capital Adjustment.**

¹⁰ ComEd Ex. 3.0 Rev., pp. 27-28.

123 A. Schedule 2.01 presents the adjustment to Cash Working Capital (“CWC”) to
124 reflect Staff’s proposed level of operating expenses. The final balance of CWC
125 should be calculated using the revenue requirement approved by the
126 Commission in this proceeding.

127 **Q. Please explain “Cash Working Capital.”**

128 A. Cash Working Capital is the amount of funds required from investors to finance
129 the day-to-day operations of the Company. In other words, CWC reflects the
130 amount of cash a company needs to keep on hand to pay its cash operating
131 expenses after taking into account its cash revenues. A company’s CWC
132 requirement may be positive or negative, depending on whether revenues are
133 received, on average, slower or faster than expenses are paid.

134 In this case, CWC to be included in rate base is based on a lead-lag study. A
135 lead-lag study analyzes the date of payments for goods and services compared
136 to the date the goods and services were received, as well as the date customers
137 were billed for utility services and the date that the company received payment
138 from the customers. In general, lag times are associated with the collection of
139 revenues owed to the Company (that is, the collection of cash from customers
140 lags behind the Company’s cash outlays for the provision of service). Lead times
141 are associated with the payments for goods and services received by the
142 Company (for example, vendors may allow the Company to pay for goods and
143 services after the goods and services were received).

144 **Q. What are the differences between your calculations of CWC and the**
145 **Company's calculation of CWC?**

146 A. There are no differences between the Company's method of calculating CWC for
147 the Reconciliation Year and my own. My Schedule 2.01 RY produces a different
148 result than the Company's CWC calculation because my schedule reflects Staff's
149 adjustments to the Company's initial position.

150 However, I am sponsoring a second CWC calculation for the Filing Year that is
151 different from the Company's method. The Company uses the same CWC in the
152 Filing Year that it calculated for the Reconciliation Year. This methodology is not
153 appropriate, though, because a second CWC calculation is necessary to present
154 CWC for the Filing Year using filing year inputs. As projected plant additions are
155 included in the Filing Year revenue requirement, derivatives of plant additions are
156 also included. The Company's filing includes projected plant additions and
157 derivative changes to accumulated depreciation, depreciation expense,
158 accumulated deferred income tax, federal and state income tax, but does not
159 include a CWC calculation to reflect these changes. CWC is another derivative
160 change resulting from the inclusion of filing year projected plant additions in the
161 revenue requirement which should be included in the revenue requirement.

162 **Other Outstanding Issues**

163 **Q. Are there any other issues on which you have not presented testimony, but**
164 **on which future testimony may be required?**

165 A. Yes. As of the writing of this testimony, I am awaiting the Company's responses
166 to a data request regarding 2012 plant additions. Depending on the information
167 presented in the Company's response to this data request, supplemental direct
168 testimony and further adjustments may be necessary.

169 **Conclusion**

170 **Q. Does this conclude your prepared direct testimony?**

171 A. Yes.