

Response to Attorney General's
First Set of Data Requests to Staff
Docket No. 13-0318
Response of Staff Witness Richard W. Bridal II

ICC Person Responsible: Richard W. Bridal II
Title: Accountant
Business Address: Illinois Commerce Commission
527 East Capitol Avenue
Springfield, IL 62701

AG>>Staff 1.4

Ref: ICC Staff Exhibit 7.0, lines 816-827 (ESPP Related A&G and Income Tax Expenses). Mr. Bridal states in his rebuttal, "I consider the A&G costs associated with the ESPP to be an appropriate item for recovery in formula rates" and "I consider the income tax expenses associated with the ESPP, including the one-time ESPP-related income tax adjustment which stems from an IRS qualified amended return ("QAR") adjustment provided to the auditor for the IRS for the period 2006-2010, to be appropriate for recovery in formula rates." Please provide the following additional information regarding these conclusions:

- a. Explain and provide complete copies of all analyses, workpapers, discovery responses and other information relied upon by Mr. Bridal to support each of these conclusions.
- b. Describe Mr. Bridal's understanding of how the amount of test year A&G expense arising from ComEd's participation in the ESPP was determined and reference or explain the basis for such understanding.
- c. Describe Mr. Bridal's understanding of how the \$440,000 Permanent Tax Difference amount for "Employees-Disposal of Stock" amount at ComEd Ex. 3.02, page 87, line 3, column B was determined and reference or explain the basis for such understanding.
- d. Describe Mr. Bridal's understanding of how the \$226,000 Permanent Tax Difference amount for "Disposition of Stock: Return to Accrual" amount at ComEd Ex. 3.02, page 87, line 16, column C was determined and reference or explain the basis for such understanding.
- e. Describe Mr. Bridal's understanding of how the \$932,000 Permanent Tax Difference amount for "Disposition of Stock: IRS QAR Adjustment" amount at ComEd Ex. 3.02, page 87, line 17, column C was determined and reference or explain the basis for such understanding.
- f. Does Mr. Bridal believe that all income tax expenses and benefits arising from ComEd employee ownership of Exelon stock should be consistently included within the Company's formula revenue requirement, even if certain of such benefits are recognized only on the consolidated income tax return of the parent company Exelon and arise from Exelon's payment of dividend on common stock held within employee benefit accounts (See AG Ex. 3.0, Brosch Rebuttal, page 28, lines 600-615)? Why or why not?

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Response:

- a. Mr. Bridal provided the reasoning for the statements in question within his rebuttal testimony, Staff Ex. 7.0, lines 808-815 and lines 821-827.

Mr. Bridal relied upon the Direct Testimony of AG Witness Mr. Brosch, AG Ex. 1.0 with schedules and attachments, and the Rebuttal Testimony of ComEd witness Ms. Brinkman, ComEd Ex. 13.0. These documents are already in the possession of the Attorney General ("AG") or are readily available on e-Docket.

Mr. Bridal also relied upon the Commonwealth Edison Company ("ComEd" or "Company") responses to AG data requests ("DR") AG 2.9(b) & (k), AG 4.1, and AG 6.6. These DR responses are already in the possession of the AG.

Further, Mr. Bridal relied upon his personal experience as a participant in an ESPP during his employment prior to the Commission.

Finally Mr. Bridal also relied on his understanding of Section 16-108.5 of the Public Utilities Act, and his knowledge and experience as a Certified Public Accountant. There are no additional analyses, workpapers, or other information on which Mr. Bridal relied.

- b. Mr. Bridal understands that the Company's ESPP costs are based, generally, on the difference between the price of Exelon stock at the end of a specific quarter and the lower of the stock price at the beginning of a particular quarter and the end of that particular quarter, less 10%. (ComEd DR response AG 4.01_Attach 1, 4). Mr. Bridal understands that the total 2012 ESPP cost were allocated based on the distribution of fringe benefits, and that part of that allocation was to 2012 A&G expense associated with ESPP (ComEd DR response AG 6.01_Attach 2.).

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- c. Mr. Bridal understands that the \$440,000 in question is the book/tax difference associated with measurement of employees' 2012 disqualifying disposition of stock purchased through the ESPP. Mr. Bridal understands that the total tax impact of the disqualifying dispositions is \$181,000, with \$160,000 allocated to ComEd distribution services. (ComEd Ex. 3.02 (PUBLIC), 87 (WP 9 p. 1 of 3), In. 3.) The basis for Mr. Bridal's understanding includes ComEd Ex. 3.02 (PUBLIC), and ComEd's DR Response AG 2.09(b) and DR Response AG 2.09_Attach 1.

- d. Mr. Bridal understands that the \$226,000 in question is the actual tax impact associated with employees' 2011 disqualifying disposition of stock purchased through the ESPP. Mr. Bridal understands that \$200,000 of the total tax impact for the 2011 disqualifying disposition was allocated to ComEd distribution services. (ComEd Ex. 3.02 (PUBLIC), 87 (WP 9 p. 1 of 3), In. 16.) Further, Mr. Bridal understands that this amount is associated with a one-time adjustment of 2011 taxes which occurred in 2012. The basis for Mr. Bridal's understanding includes ComEd Ex. 3.02 (PUBLIC), ComEd's DR Response AG 2.09(j), DR Response AG 2.09_Attach 1, and DR Response AG 4.01(d).

- e. Mr. Bridal understands that the \$932,000 in question is the actual tax impact associated with employees' 2006-2010 disqualifying disposition of stock purchased through the ESPP. Mr. Bridal understands that \$825,000 of the total tax impact for the 2006-2010 disqualifying disposition was allocated to ComEd distribution services. (ComEd Ex. 3.02 (PUBLIC), 87 (WP 9 p. 1 of 3), In. 17.) Further, Mr. Bridal understands that this adjustment is associated with a one-time adjustment representing a portion of an IRS Qualified Amended Return ("QAR") for the period 2006-2010 which occurred in 2012. The basis for Mr. Bridal's understanding includes ComEd Ex. 3.02 (PUBLIC), ComEd's DR Response AG 2.09(j), DR Response AG 2.09_Attach 1, and DR Responses AG 4.01(d) & (e).

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- f. As a preliminary matter, Staff interprets the phrase "all income tax expenses and benefits arising from ComEd employee ownership of Exelon stock" to mean those expenses and benefits related to the ESPP and employees' 401(k) accounts, as discussed in the parties' testimony to date.

Mr. Bridal believes that to the extent allowed by law, income tax expenses and benefits arising from employee participation in the ESPP and the 401(k) should be consistently included within the Company's formula revenue requirement. Mr. Bridal also understands that the Company's formula revenue requirement calculates taxes on a single-entity basis rather than a consolidated group, consistent with ICC practice.

With specific regards to benefits associated with the payment of dividends on common stock held within employee benefit accounts, Mr. Bridal has not performed extensive research on the issue. Mr. Bridal understands that, generally, employer contributions to an employee's 401(k) may be deducted by a company in determining its income taxes. Mr. Bridal also understands that, generally, dividends a company pays on company common stock held within an employee's 401(k) may be deducted by a company in determining its income taxes. Mr. Bridal has not performed a detailed examination of ComEd's formula rate treatment of the deduction for Company contributions to employees' 401(k) accounts; however, it stands to reason that 401(k) contribution deductions and 401(k) dividends deductions should be afforded similar treatment under formula rates.

General est.