

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY :
 : No. 14-_____
Annual formula rate update and revenue :
requirement reconciliation under :
Section 16-108.5 of the Public Utilities Act :

Direct Testimony of
SANDEEP S. MENON
Manager,
Revenue Policy
Commonwealth Edison Company

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1 **I. INTRODUCTION**

2 **A. Witness Identification**

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

4 A. My name is Sandeep S. Menon. My business address is Three Lincoln Centre, Oakbrook
5 Terrace, Illinois 60181.

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

7 A. I am the Manager, Revenue Policy, of Commonwealth Edison Company (“ComEd”).

8 **B. Purpose of Direct Testimony**

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

10 A. My direct testimony has two principal purposes. First, I present the details underlying the
11 calculation of the three revenue requirements to be determined in this case: (1) the 2013
12 Reconciliation Revenue Requirement, (2) the 2015 Initial Rate Year Revenue
13 Requirement, and (3) the 2015 Rate Year Net Revenue Requirement.

- 14 • ComEd’s “2013 Reconciliation Revenue Requirement” is based upon actual costs
15 incurred in 2013 inclusive of ratemaking adjustments. This revenue requirement
16 is used to “reconcile” the 2013 actual costs to the revenue requirements in effect
17 during 2013, in accordance with Section 16-108.5(d)(1) of the Public Utilities Act
18 (“PUA”). The difference between the 2013 Reconciliation Revenue Requirement
19 and the revenue requirements in effect in 2013 is the 2013 reconciliation
20 adjustment, before interest is applied. The 2013 reconciliation is also discussed
21 by Ms. Christine M. Brinkman (ComEd Exhibit (“Ex.”) 2.0).

- 22 • I also provide the calculation of the “2015 Initial Rate Year Revenue
23 Requirement” which includes ComEd’s 2013 actual costs plus 2014 projected
24 plant additions, associated depreciation reserve and Accumulated Deferred
25 Income Tax (“ADIT”) roll-forward, and projected depreciation expense
26 adjustments.
- 27 • Finally, the reconciliation amount as described by Ms. Brinkman (ComEd Ex.
28 2.0) is added to (or subtracted from) the 2015 Initial Rate Year Revenue
29 Requirement to determine the “2015 Rate Year Net Revenue Requirement,”
30 which will go into effect in January 2015.

31 Second, I present and support the specific data that “populate” the Schedules and
32 Appendices that comprise the revenue requirement formula for purposes of determining
33 the 2015 Rate Year Net Revenue Requirement to be used in setting delivery service
34 charges for the 2015 Rate Year under ComEd’s Rate DSPP - Delivery Service Pricing
35 and Performance (“Rate DSPP”). This provides the support for my calculations
36 referenced above. These Schedules and Appendices include most of the data provided
37 for under Part 285 of the Illinois Commerce Commission’s (“Commission” or “ICC”)
38 rules, 83 Ill. Admin. Code § 285 (“Part 285”), although the Schedules and Appendices
39 differ from the Part 285 schedules. I also present additional schedules and workpapers
40 consistent with the schedules and workpapers required to support a delivery service
41 revenue requirement in a general rate case under Part 285.

42 Support for the delivery service revenue requirement components is provided in
43 my direct testimony and that of Ms. Brinkman (ComEd Ex. 2.0), Mr. John Hengtgen

44 (ComEd Ex. 4.0), Mr. Kevin H. Garrido (ComEd Ex. 5.0), Mr. Michael C. Moy (ComEd
45 Ex. 6.0) and Mr. Ronald E. Donovan (ComEd Ex. 7.0).

46 **C. Summary of Conclusions**

47 **Q. What are the conclusions of your direct testimony?**

48 **A.** The conclusions of my direct testimony are: (1) ComEd's 2013 Reconciliation Revenue
49 Requirement based upon actual 2013 costs is \$2,254,093,000; (2) ComEd's 2015 Initial
50 Rate Year Revenue Requirement is \$2,364,340,000; and (3) ComEd's 2015 Rate Year
51 Net Revenue Requirement, to go into effect in January 2015, is \$2,625,100,000. More
52 specifically:

53 **(1) 2013 Reconciliation Revenue Requirement.** The 2013 Reconciliation Revenue
54 Requirement of \$2,254,093,000 is based on the following components:

55 **Rate Base** – ComEd's 2013 actual rate base was \$6,615,916,000,
56 reflecting adjustments.

57 **Operating Expenses and Other Revenues** – ComEd's 2013 actual
58 operating expenses before income taxes were \$1,736,648,000, after
59 including income taxes were \$1,995,210,000, and its Other Revenues were
60 \$129,785,000, reflecting adjustments (and the exclusion of costs recovered
61 under other tariff mechanisms and costs disallowed in past ICC orders for
62 reasons other than timing or in certain cases insufficiency of evidence) in
63 ComEd's revenue requirement formula as referred to in Schedule ("Sch")
64 FR A-1 - REC, attached to my direct testimony in ComEd Ex. 3.01.

65 **ComEd's Overall Weighted Average Cost of Capital** – ComEd's
66 overall weighted average cost of capital (its rate of return on its rate base)

67 is 7.04% for the reconciliation calculation, the key components of which
68 are also discussed by Mr. Garrido (ComEd Ex. 5.0).

69 (2) **Reconciliation of Delivery Service Revenue Requirement for 2013.** The
70 reconciliation of the 2013 Reconciliation Revenue Requirement and the revenue
71 requirements in effect in 2013 (*i.e.*, the former minus the latter) is \$226,593,000,
72 before interest, and \$260,760,000 with interest. These calculations are further
73 discussed by Ms. Brinkman (ComEd Ex. 2.0).

74 (3) **2015 Initial Rate Year Revenue Requirement.** The 2015 Initial Rate Year
75 Revenue Requirement of \$2,364,340,000 is based on the following components:

76 **Rate Base** – ComEd’s rate base is \$7,389,024,000, reflecting adjustments.
77 ComEd’s projected plant additions for 2014 (discussed in more detail by
78 ComEd witnesses Mr. Moy, Mr. Donovan, and Mr. Born (ComEd Exs.
79 6.0, 7.0, and 9.0, respectively) are \$1,250,338,000 (gross amount).

80 **Operating Expenses and Other Revenues** – ComEd’s operating
81 expenses before income taxes are \$1,767,174,000, after income taxes are
82 \$2,058,561,000, and its Other Revenues are \$129,785,000, reflecting
83 adjustments (and the exclusion of costs recovered under other tariff
84 mechanisms and costs disallowed in past ICC Orders for reasons other
85 than timing or insufficiency of evidence) and are shown in ComEd’s
86 revenue requirement in Sch. FR A-1, attached to my direct testimony in
87 ComEd Ex. 3.01.

88 **ComEd’s Overall Weighted Average Cost of Capital** – ComEd’s
89 overall weighted average cost of capital for the 2015 Initial Rate Year

90 Revenue Requirement is 7.06%, the key components of which are also
91 discussed by Mr. Garrido (ComEd Ex. 5.0).

92 (4) **2015 Rate Year Net Revenue Requirement.** ComEd's 2015 Rate Year Net
93 Revenue Requirement is \$2,625,100,000 and is comprised of ComEd's 2015
94 Initial Rate Year Revenue Requirement of \$2,364,340,000 and the 2013
95 reconciliation amount of \$260,760,000 (with interest). These calculations are
96 further discussed by Ms. Brinkman (ComEd Ex. 2.0).

97 (5) **Gross Revenue Conversion Factor.** ComEd's gross revenue conversion factor
98 is 1.7000 for the 2013 Reconciliation Revenue Requirement, the 2015 Initial Rate
99 Year Revenue Requirement, and the 2015 Rate Year Net Revenue Requirement.

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

101 **Q. What are the attachments to your direct testimony?**

102 **A.** The attachments to my direct testimony are:

103 (1) **ComEd Ex. 3.01**¹ contains the applicable schedules and appendices of ComEd's
104 revenue requirement formula, populated with data reflecting ComEd's 2015 Rate
105 Year Net Revenue Requirement and its components for charges to become
106 effective with the January 2015 monthly billing period:

- 107 • Revenue Requirement Formula Sch FR A-1, Sch FR A-1 - REC, Sch FR
108 A-2, Sch FR A-3, Sch FR A-4, Sch FR B-1, Sch FR B-2, Sch FR C-1, Sch
109 FR C-2, Sch FR C-3, Sch FR C-4, Sch FR D-1, Sch FR D-2, Appendix

¹ The schedules and appendices included in ComEd Ex. 3.01 reflect minor reference changes that ComEd will address in a 45 day filing.

110 (“App”) 1, App 2, App 3, App 4, App 5, App 6, App 7, App 8, App 9,
111 App 10, and App 11.

112 (2) **ComEd Ex. 3.02** contains the workpapers that support the schedules and
113 appendices in ComEd Ex. 3.01.

114 (3) **ComEd Ex. 3.03** contains the following Part 285 schedules that are required to be
115 submitted in a general rate case under Part 285 and support the revenue
116 requirement calculations associated with Sch FR A-1 - REC:

- 117 • Part 285 Schedule As: A-2 RY, A-2.1, A-4 RY, and A-5 RY;
- 118 • Part 285 Schedule Bs: B-1 RY, B-2 RY, B-2.1, B-2.2, B-2.3, B-2.6,
119 B-2.7, B-2.8, B-2.9, B-3, B-4, B-5, B-5.1, B-5.2, B-5.3, B-6, B-7, B-7.1,
120 B-7.2, B-8 RY, B-8.1, B-9, B-9.1, B-10, B-11, B-12, B-13, B-14, and B-
121 15;
- 122 • Part 285 Schedule Cs: C-1 RY, C-2 RY, C-2.2, C-2.3, C-2.4, C-2.5,
123 C-2.6, C-2.7, C-3, C-4, C-5 RY, C-5.1, C-5.2, C-5.3, C-5.4 RY, C-5.5, C-
124 6, C-6.1, C-6.2, C-7, C-8, C-9, C-10, C-10.1, C-11.1, C-11.2, C-11.3,
125 C-11.4, C-12, C-13, C-14, C-15, C-16, C-17, C-18, C-19, C-20, C-21, C-
126 22, C-23, C-24, C-25, C-26, C-27, C-28, C-29, C-30, C-31, C-32, and C-
127 33; and
- 128 • Part 285 Schedule Ds: D-1 RY, D-2, D-3, D-4, D-5, D-6 RY, D-7, D-8,
129 D-9, D-10, D-11, and D-12.

130 (4) **ComEd Ex. 3.04** contains workpapers that support the Part 285 schedules
131 included in ComEd Ex. 3.03.

- 132 (5) **ComEd Ex. 3.05** contains the following Part 285 schedules that support the 2015
133 Rate Year Net Revenue Requirement presented on Sch FR A-1 to the extent that
134 they differ from the Part 285 schedules that support the 2013 Reconciliation
135 Revenue Requirement presented in Sch FR A-1 - REC:
- 136 • Part 285 Schedule As: A-1 FY, A-2 FY, A-4 FY, and A-5 FY;
 - 137 • Part 285 Schedule Bs: B-1 FY, B-2 FY, B-2.4 FY, B-2.5 FY and B-8 FY;
 - 138 • Part 285 Schedule Cs: C-1 FY, C-2 FY, C-2.1 FY, C-5 FY, and C-5.4 FY;
 - 139 and
 - 140 • Part 285 Schedule Ds: D-1 FY and D-6 FY.
- 141 (6) **ComEd Ex. 3.06** contains workpapers that support the Part 285 schedules
142 included in ComEd Ex. 3.05.
- 143 (7) **ComEd Ex. 3.07** provides support for ComEd’s 2013 pension and other
144 post-employment benefits (“OPEB”) expense and the 2013 actuarial valuation
145 reports from Exelon Corporation’s consultant, Towers Watson.
- 146 (8) **ComEd Ex. 3.08** contains work papers that support the rate base and revenue
147 requirement impacts of the merger-related costs to achieve (“CTA”).
- 148 (9) **ComEd Ex. 3.09** is ComEd’s 2013 Facilities Allocation Study.
- 149 (10) **ComEd Ex. 3.10** is ComEd’s compliance filing for ICC Docket No. 13-0386.
- 150 (11) **ComEd Ex. 3.11** provides a summary of the Advanced Metering Infrastructure
151 (“AMI”) Acceleration Plan and its impact to the revenue requirement.
- 152 (12) **ComEd Ex. 3.12** contains a copy of the updated depreciation study submitted to
153 the ICC on January 29, 2014.

154 (13) **ComEd Ex. 3.13** contains schedules for Exelon Business Services Company
155 (“BSC”) costs per the final Order in ICC Docket No. 13-0318.

156 Unless otherwise noted, the schedules, appendices, and work papers in ComEd Exs. 3.01
157 through 3.13 have been prepared by me or under my direct supervision.

158 **E. Background and Qualifications**

159 **Q. What are your responsibilities at ComEd?**

160 A. As Manager, Revenue Policy, I am responsible for the review and evaluation of potential
161 regulatory alternatives for ComEd, with a focus on financial issues. I am also responsible
162 for the oversight and coordination of activities related to the development of ComEd’s
163 revenue requirements at both the State and Federal levels.

164 **Q. What is your professional experience?**

165 A. I have been employed in various positions since 2002 with either Exelon Corporation
166 (“Exelon”), ComEd’s parent company, or ComEd, including roles as Senior and Principal
167 Financial Analysts of ComEd Financial Planning & Analysis, Corporate Planning,
168 Treasury and Investor Relations. In January 2014, I was promoted to my current
169 position, Manager of Revenue Policy for ComEd.

170 **Q. What is your educational background?**

171 A. I received a Bachelor of Commerce Degree in Financial and Cost Accounting from
172 University of Mumbai, India and a Masters of Business Administration with a
173 concentration in Finance from Drexel University’s LeBow Graduate School of Business.

174 **II. DELIVERY SERVICE REVENUE REQUIREMENT**

175 **A. 2013 Revenue Requirements**

176 **Q. What was ComEd’s delivery service Initial Rate Year revenue requirement in effect**
177 **in 2013?**

178 A. As described by Ms. Brinkman (ComEd Ex. 2.0), the revenue requirement in effect for
179 2013 was \$2,027,500,000. This amount was based on ComEd’s compliance filing in ICC
180 Docket No. 13-0386. *See* ComEd Ex. 3.10.

181 **Q. What does Sch FR A-1 - REC show?**

182 A. Sch FR A-1 – REC “Revenue Requirement Reconciliation Computation” provides the
183 final calculation of the 2013 Reconciliation Revenue Requirement for reconciliation
184 purposes, including the key revenue requirement components (operating expenses, rate
185 base, return and taxes).

186 **Q. Please explain the entries on this schedule.**

187 A. As discussed earlier, the entries on Sch FR A-1 - REC provide the key inputs into
188 ComEd’s revenue requirement calculation for the previous year (2013) now that the
189 actual costs are known. The 2013 Reconciliation Revenue Requirement is shown on
190 line 23. This amount is used as an input to Sch FR A-4 “Reconciliation Computation,”
191 which calculates the 2013 reconciliation amount (with interest and net of the ROE Collar)
192 to be included in the 2015 Rate Year Net Revenue Requirement to be effective January
193 2015.

194 **B. 2015 Rate Year Net Revenue Requirement**

195 Q. **How is ComEd’s 2015 Rate Year Net Revenue Requirement shown in the populated**
196 **revenue requirement formula schedules in ComEd Ex. 3.01?**

197 A. The key components of the 2015 Rate Year Net Revenue Requirement to be effective
198 with the January 2015 monthly billing period are shown on Sch FR A-1 “Net Revenue
199 Requirement Computation.” These include operating expenses, rate base, return on rate
200 base, taxes, interest synchronization, other revenues and the reconciliation amount as
201 calculated on Sch FR A-4. The inputs to these components and calculations are
202 presented in supporting schedules discussed herein.

203 Q. **What other schedules are involved in the development of the 2015 Rate Year Net**
204 **Revenue Requirement?**

205 A. The “FR B,” “FR C,” and “FR D” schedules in ComEd Ex. 3.01, which relate to rate
206 base, operating expenses and revenues, and cost of capital, respectively, are also involved
207 in the development of the 2015 Rate Year Net Revenue Requirement. Additionally,
208 several appendices included in ComEd Ex. 3.01 directly support the calculation of the
209 2015 Rate Year Net Revenue Requirement presented on Sch FR A-1. These schedules
210 and the associated appendices are discussed in the remainder of my direct testimony.

211 **III. ALLOCATION OF GENERAL AND INTANGIBLE PLANT**

212 Q. **In the context of this formula rate matter, what does the term “functionalization”**
213 **mean?**

214 A. ComEd is a “wires only” utility, meaning it has both distribution and transmission
215 functions, but is not a generator of electricity. This formula rate matter involves setting
216 the charges for ComEd’s Illinois jurisdictional distribution function, commonly referred

217 to as delivery service. ComEd's transmission service charges are regulated exclusively
218 by the Federal Energy Regulatory Commission ("FERC").

219 Most of ComEd's costs of service are recorded in accounts in the Uniform System
220 of Accounts ("USOA") that identify the function the costs support, *i.e.*, they are recorded
221 either in distribution (including customer) accounts or in transmission accounts.
222 However, some of ComEd's costs – most notably (1) the costs in its General and
223 Intangible ("G&I") Plant Accounts; (2) the costs in its Administrative and General
224 ("A&G") Accounts; and (3) Taxes Other Than Income – are recorded as common costs
225 and, therefore, need to be split between distribution and transmission for purposes of
226 setting charges. The process of determining that split is called functionalization or
227 allocation.²

228 **Q. How does ComEd's filing allocate its G&I Plant costs?**

229 ComEd's filing allocates General Plant Account 397 (Communication Equipment) by
230 direct assignment (the location of equipment) as was approved in its prior formula rate
231 cases. This allocation method is consistent with how these costs are allocated in
232 ComEd's transmission formula rate. ComEd's filing allocates the remaining G&I Plant
233 accounts with either of several different allocators, depending upon the account. The
234 Commission has approved use of the Wages & Salaries ("W&S") Allocator for certain
235 accounts, but directed different methods of allocation for other accounts, including FERC
236 Accounts 389 (Land and Land Rights) and 390 (Structures and Improvements).

² ComEd also passes through electricity supply costs to those of its customers that purchase their supply through ComEd. ComEd's supply and supply-related costs are recovered through separate charges that are not set as part of its delivery service rates. The term functionalization also can refer to the identification of supply-related costs.

237 Specifically, for FERC Accounts 389 and 390, the Commission directed ComEd to use a
238 facilities allocator, based upon a 2009 Facilities Allocation Study which allocated floor
239 space between transmission and delivery service. ComEd has updated its Facilities
240 Allocation Study for 2013 and it can be found at ComEd Ex. 3.09. ComEd has allocated
241 its G&I Plant costs consistent with the final Order entered in ICC Docket No. 13-0318.

242 **Q. What are the results of the updated Facilities Allocation Study?**

243 A. The updated study shows that 89.23% of ComEd owned facilities should be allocated to
244 the Illinois jurisdictional delivery service function. This is a decrease in the amount
245 applied in the final Order in ICC Docket No. 13-0318 of 89.84%. The study also shows
246 that 87.21% of ComEd's leasehold improvements should be allocated to delivery
247 services. This is an increase in the percentage applied in the final Order of ICC Docket
248 No. 13-0318 of 80.09%. The overall revenue requirement impact from the updated
249 Facilities Allocation Study is a reduction of \$0.4 million.

250 **IV. RATE BASE**

251 **A. Total Rate Base**

252 **Q. What is ComEd's Illinois-jurisdictional delivery service rate base?**

253 A. ComEd's rate base for purposes of determining the 2013 Reconciliation Revenue
254 Requirement, as of December 31, 2013, is \$6,615,916,000, and for the purposes of
255 determining the 2015 Initial Rate Year Revenue Requirement is \$7,389,024,000,
256 including 2014 net projected plant additions. As Mr. Moy (ComEd Ex. 6.0) and Mr.
257 Donovan (ComEd Ex. 7.0) testify, the assets in rate base are used and useful and the
258 related investment set forth in ComEd Ex. 3.01, Sch FR B-1, is prudent and reasonable,

259 appropriately functionalized to delivery service, and appropriate for purposes of
260 determining the revenue requirements at issue in this case.

261 **Q. What is included in ComEd’s rate base in this filing?**

262 **A.** In brief, ComEd’s rate base includes:

- 263 (1) Costs recorded in Distribution Plant Accounts as of December 31, 2013, such as
264 land, poles, cable, transformers, and meters;
- 265 (2) Costs recorded in G&I Plant Accounts as of December 31, 2013, that support the
266 provision of distribution and customer service, such as office furniture, vehicles,
267 stores equipment, and capitalized software;
- 268 (3) For the 2015 Initial Rate Year Revenue Requirement, costs of Distribution Plant
269 and G&I Plant additions (such as those described above) that are projected to be
270 placed in service by December 31, 2014, with a roll-forward to December 31,
271 2014 of the Accumulated Reserve for Depreciation and Amortization (the
272 “depreciation reserve”) for plant existing as of December 31, 2013, and a
273 corresponding adjustment to ADIT; and
- 274 (4) Other assets and liabilities that pertain to the appropriate level of capital
275 investment necessary to provide distribution and customer service, as discussed
276 below.

277 **Q. What are the differences between the 2013 Reconciliation rate base and the 2015**
278 **Initial Rate Year rate base?**

279 **A.** The two main differences are:

- 280 (1) The 2013 Reconciliation rate base includes Construction Work in Progress
281 (“CWIP”) not accruing Allowance for Funds Used During Construction
282 (“AFUDC”) (which I discuss more fully in Section IV.F.), and the 2015 Initial
283 Rate Year rate base does not, consistent with the final Order in ICC Docket No.
284 11-0721; and
- 285 (2) The 2015 Initial Rate Year rate base includes 2014 projected plant additions as of
286 March 31, 2014, and associated roll-forwards of the depreciation reserve and
287 ADIT, the latter as directed by the final Order in ICC Docket No. 11-0721, while
288 the 2013 Reconciliation rate base reflects only actual plant additions placed into
289 service through 2013.

290 **B. Electric Plant in Service at Original Cost**

291 **Q. How did ComEd calculate the appropriate level of electric utility plant in service at**
292 **original cost included in rate base?**

293 A. The level of gross investment in electric utility plant in service at original cost included in
294 ComEd’s rate base as of December 31, 2013, before projected plant additions, is
295 \$16,315,141,000. This is calculated by adding \$14,749,679,000 of Distribution Plant and
296 \$1,576,152,000 of G&I Plant and subtracting \$10,690,000 of Distribution Asset
297 Retirement Costs.

298 **Q. Is ComEd requesting an original cost finding in this proceeding?**

299 A. Yes. ComEd requests that the Commission approve the original cost of plant in service
300 as of December 31, 2013, before adjustments, of \$16,299,131,000. This amount is
301 calculated by subtracting Asset Retirement costs, capitalized incentive compensation,
302 other costs disallowed in prior ICC orders, and such costs capitalized in 2013, from the

303 total of ComEd’s Distribution gross plant and Illinois jurisdictional General and
304 Intangible gross plant. The original costs calculation is summarized below:

2013 Original Cost Calculation
(in 000s)

		Amount	Source
1	Distribution Gross Plant	\$ 14,749,679	FR B-1, Line 1
2	Distribution Asset Retirement Costs	10,690	FR B-1, Line 2
3	Jurisdictional G&I Plant Before Adjustments	<u>1,576,152</u>	FR B-2, Line 18
4	Line 1 - Line 2 + Line 3	\$ 16,315,141	
5	Prior Docket Adjustments	\$ 15,631	App 1, Line 3
6	2013 Test Year Adjustments	<u>378</u>	App 1, Line 4
7	Line 5 + Line 6	\$ 16,009	
305	8	Original Cost \$ 16,299,132	Line 4 - Line 7

306 **C. Energy Infrastructure Modernization Act (“EIMA”)**

307 **Q. In 2013, what amount of operating and maintenance (“O&M”) expenses did ComEd**
308 **incur as result of its election as a participating utility under EIMA?**

309 **A.** In 2013, ComEd incurred \$76.9 million of O&M expense related to EIMA. Of this,
310 \$75.9 million is included in ComEd’s Illinois jurisdictional revenue requirements.
311 Specifically, \$50.4 million was included in distribution O&M, \$21.1 million was
312 included in customer O&M, and \$4.4 million was included in A&G expenses.

313 **Q. What plant additions included in the rate bases were incurred as a result of ComEd**
314 **being a participating utility under EIMA?**

315 **A.** ComEd’s 2012 (actual), 2013 (actual) and 2014 (projected) EIMA related plant additions
316 included in its delivery services rate base are \$174 million, \$258 million and \$449
317 million, respectively, and total to a gross amount of \$881 million. The 2013 actual and
318 2014 projected amounts are discussed further by Mr. Garrido (ComEd Ex. 5.0).

319 Q. **What is the effect on the revenue requirement of the 2013 and 2014 EIMA related**
320 **plant additions?**

321 A. After adjustments are made for accumulated depreciation and ADIT, the EIMA related
322 net plant included in rate base is \$758.7 million. The impact to ComEd’s 2015 Rate Year
323 Net Revenue Requirement is \$115 million.

324 Q. **What is the total impact of EIMA plant additions, depreciation, and O&M to the**
325 **2015 Rate Year Net Revenue Requirement?**

326 A. The table below provides a summary of how the EIMA plant additions (including the
327 EIMA 2014 projected plant additions) and EIMA expenses have an impact on the 2015
328 Net Revenue Requirement. The table includes the impacts to the 2013 Reconciliation
329 Revenue Requirement.

EIMA Plant Additions and O&M Expenses
Revenue Requirement Impact
In Millions

		Plant		
		Additions	Expense	Total
2014 Docket	2015 Initial Rate Year Rev Req	\$ 77	\$ 90	\$ 167
	2013 Reconciliation Rev Req	38	97	135
	2015 Net Rev Req Impact	\$ 115	\$ 187	\$ 302

331 Q. **ComEd has recently filed a request seeking to accelerate its AMI deployment plan**
332 **(ICC Docket Nos. 14-0212, 13-0285, 12-0298 (Cons.)). If approved, is the projected**
333 **increase in meter installations in 2014 reflected in the revenue requirement in this**
334 **filing?**

335 A. Yes. ComEd has included \$67.9 million in its projected plant for 2014, after adjustments
336 for accumulated depreciation and ADIT, related to ComEd's accelerated AMI
337 deployment plan. The impact to ComEd's 2015 Initial Rate Year Revenue Requirement
338 is \$8.0 million. *See* ComEd Ex. 3.11. If the accelerated deployment plan is not approved
339 in ICC Docket Nos. 14-0212, 13-0285, 12-0298 (Cons.), ComEd will remove these
340 additions from the 2015 Rate Year Net Revenue Requirement.

341 **D. Accumulated Provisions for Depreciation and Amortization**

342 Q. **What is the total amount of ComEd's accumulated provisions for depreciation and**
343 **amortization?**

344 A. The total amount of accumulated depreciation as of December 31, 2013, related to
345 ComEd's rate base, was \$6,328,820,000, comprised of \$5,570,463,000 related to
346 Distribution Plant and \$758,357,000 related to G&I Plant. These amounts are
347 summarized on ComEd Ex. 3.01, Sch FR B-1 "Rate Base Summary Computation,"
348 lines 7 through 12.

349 **E. Net Plant Included in Delivery Service Rate Base**

350 Q. **How was the level of net plant included in delivery service rate base calculated?**

351 A. Net plant included in rate base as of December 31, 2013 is \$9,949,161,000, and is
352 calculated by subtracting the total amount of accumulated depreciation from the total
353 amount of gross plant as shown on ComEd Ex. 3.01, Sch FR B-1, line 13.

354 **F. Construction Work In Progress**

355 Q. **What is CWIP?**

356 A. CWIP is the amount of money, at any given time, which has been spent on infrastructure
357 that has not yet gone into service. There are always projects under construction; thus,
358 investment costs include CWIP at any given time. For projects in excess of \$25,000 with
359 construction periods greater than 30 days, a carrying cost is calculated and added to the
360 overall cost of the project and capitalized. This carrying cost is referred to as AFUDC.

361 **Q. Is any CWIP included in rate base?**

362 A. Yes, CWIP is included in the 2013 Reconciliation rate base. Consistent with ComEd's
363 agreement with Staff in ICC Docket No. 11-0721, ComEd has included CWIP not
364 accruing AFUDC in the calculation of its 2013 Reconciliation rate base (Sch FR A-1 -
365 REC, line 12). ComEd's 2013 Reconciliation rate base includes ComEd's investments in
366 small or short term projects that support the distribution and customer functions, on
367 which AFUDC is not being capitalized. The amount as of December 31, 2013, was
368 \$11,219,000. ComEd Ex. 3.01, Sch FR B-1, line 14. Mr. Moy testifies (ComEd Ex. 6.0)
369 that the amount of CWIP included is reasonable.

370 **G. Property Held for Future Use**

371 **Q. Has ComEd included any Property Held for Future Use in its delivery service rate**
372 **base?**

373 A. Not at this time.

374 **H. Cash Working Capital**

375 **Q. What is cash working capital as it relates to ComEd?**

376 A. Cash working capital ("CWC") is the amount of cash that is appropriate for ComEd to
377 maintain in order to meet its expenses and other cash outflow obligations. ComEd

378 determines the appropriate amount of CWC based on a lead/lag study, which is a specific
379 analysis of the timing of applicable cash inflows to and cash outflows from a utility.

380 Q. **Has ComEd included any CWC in its delivery service rate base?**

381 A. Yes. Rate base includes a deduction of \$5,947,000 for CWC for the rate year as shown
382 on ComEd Ex. 3.01, Sch FR B-1, line 16.

383 Q. **Has ComEd made changes to the CWC calculation in the Revenue Requirement
384 Formula in the Filing Year?**

385 A. Yes. In accordance with the final Order in ICC Docket No. 13-0318, *Commonwealth
386 Edison Co.*, ICC Docket No. 13-0318 (final Order Dec. 18, 2013), at 18, ComEd has
387 adjusted the formula rate App 3 to include a calculation of CWC specifically for the
388 filing year based on the revenue requirement for the filing year. The filing year rate base
389 includes a deduction of \$1,716,000 as shown on ComEd Ex. 3.01, Sch FR B-1, line 34a.

390 Q. **Has ComEd made a separate filing regarding this adjustment to the formula?**

391 A. Yes. ComEd has also filed a revised formula rate template under Section 9-250, or what
392 has been referred to in the past as a “housekeeping filing”.

393 Q. **Has ComEd updated any of the leads and lags associated with its CWC calculation?**

394 A. Yes. The Commission’s final Order in ICC Docket No. 11-0721 directed ComEd to
395 provide an updated lead/lag study once every three years. The study presenting the
396 updated leads and lags is included in the direct testimony of Mr. Hengtgen (ComEd Ex.
397 4.0).

398 **I. Accumulated Deferred Income Taxes**

399 Q. **What is ADIT?**

400 A. Generally speaking, ADIT reflects the temporary difference between when an expense
401 (or revenue) is recognized in a company's financial and accounting records, commonly
402 referred to as a company's "books," versus when the company recognizes that expense
403 (or revenue) on its tax return.

404 Q. **What amount of ADIT was deducted from rate base?**

405 A. The appropriate level of ADIT to be deducted from rate base as of December 31, 2013 is
406 \$2,805,100,000, after adjustments, as shown in ComEd Ex. 3.01, Sch FR B-1, line 17.
407 This level was derived through an analysis of the components of the deferred tax balances
408 which then either directly assigned or allocated the items based on the assignment or
409 allocation of the operating items to which they relate. The 2013 ADIT balance is
410 reflective of the 50% bonus depreciation applicable to 2013 capital investments as well as
411 of the current year deduction under the safe harbor method of tax accounting for repair
412 costs. The jurisdictional amounts allocated to delivery service are presented in ComEd
413 Ex. 3.01 App 4 "Accumulated Deferred Income Taxes Information."

414 **J. Net Operating Loss ("NOL")**

415 Q. **What is the NOL in this case?**

416 A. During 2013, ComEd reflected a NOL carryforward. The NOL carryforward was
417 generated primarily by the 50% bonus depreciation deduction allowed under the Tax
418 Relief Act of 2010 ("Tax Relief Act"). Among other things, the Tax Relief Act allowed
419 companies to accelerate depreciation expense treatment on their tax returns – hence the
420 phrase "bonus depreciation" – which led to lower taxes for those companies and the

421 expectation that they would then use their tax savings to stimulate the economy. Without
422 the 50% bonus depreciation in 2013, ComEd would have reflected taxable income.
423 Because it will reduce taxes in a future period, the NOL carryforward is a deferred tax
424 asset. In accordance with the Generally Accepted Accounting Principles (“GAAP”)
425 Accounting Standards Codification (“ASC”), specifically ASC 740, ComEd has reflected
426 a deferred tax asset of \$37 million (jurisdictional portion) for the NOL on ComEd Ex.
427 3.02, Workpaper (“WP”) 4, line 22.

428 The bonus depreciation itself, however, creates a deferred tax liability because
429 there is a temporary difference related to accelerated depreciation under the bonus
430 depreciation rules, as shown on ComEd Ex. 3.02, WP 4, line 53. For book purposes,
431 therefore, ComEd is recording depreciation expense at a slower rate than for tax
432 purposes. Thus, ComEd is receiving a benefit on its tax return before reflecting the full
433 expense on its books. In sum, the NOL deferred tax asset nets against the bonus
434 depreciation deferred tax liability.

435 **Q. ComEd stated in ICC Docket No. 13-0318 that the NOL would be fully utilized in**
436 **2013. Why does ComEd still have an ADIT asset related to the NOL?**

437 A. ComEd files its taxes as part of Exelon’s consolidated federal income tax return. At the
438 time of ICC Docket No. 13-0318, ComEd expected its NOL to be fully utilized in 2013.
439 While the NOL belongs to ComEd, filing as part of a consolidated tax return allows
440 ComEd the ability to utilize its NOL if sufficient taxable income in the consolidated
441 group exists in which to use the NOL. Subsequent to ICC Docket No. 13-0318, taxable
442 income for the consolidated group decreased such that ComEd’s NOL carryover from
443 2012 could no longer be utilized in 2013. In addition, ComEd’s NOL increased in 2013

444 due to additional federal tax losses generated in 2013. ComEd's cumulative NOL as of
445 December 31, 2013 will be carried forward until it is fully utilized or until it expires.

446 **Q. How does this impact ComEd's revenue requirement?**

447 A. The deferred tax asset related to this item is included as a \$37 million increase to
448 ComEd's rate base. The ultimate impact of this item is an increase to the 2015 Rate Year
449 Net Revenue Requirement of approximately \$3.7 million.

450 **K. Materials and Supplies**

451 **Q. What is included in Materials and Supplies?**

452 A. Materials and Supplies include items purchased primarily for use in the construction and
453 maintenance of utility property. These items are kept in inventory until needed, and
454 include, for example, building and construction materials, hand tools, and paints and
455 adhesives.

456 **Q. How did ComEd determine the level of Materials and Supplies to be included in rate
457 base?**

458 A. ComEd included in its rate base the year-end balance of Materials and Supplies less the
459 associated accounts payable. The balance of Materials and Supplies related to
460 distribution is \$53,970,000. ComEd Ex. 3.01, App 1, line 53. The accounts payable
461 related to distribution was calculated by multiplying the distribution-related Materials and
462 Supplies balance by the O&M factor included in cash working capital. The result of the
463 calculation is an accounts payable balance of \$12,913,000. ComEd Ex. 3.01, App 1, line
464 54. The net amount of Materials and Supplies included in rate base is \$41,057,000.
465 ComEd Ex. 3.01, Sch FR B-1, line 18.

466 **L. Other Assets and Liabilities**

467 **Q. What are the other assets included in ComEd's rate base?**

468 A. Other assets typically represent costs ComEd has incurred, but has not yet recovered, and
469 which increase rate base. Three categories of other assets are included in rate base.

470 The first category, shown on ComEd Ex. 3.01, Sch FR B-1, line 19, are regulatory assets
471 in the amount of \$46,877,000. These assets include a regulatory asset representing the
472 unamortized balance (as of year-end 2013) of \$7,715,000 for capitalized incentive
473 compensation costs that was approved by the Commission in its final Order in ComEd's
474 2001 rate case, ICC Docket No. 01-0423. Additionally, unrecovered costs of \$3,921,000
475 related to ComEd's AMI pilot approved by the Commission in ICC Docket No. 10-0467
476 are included. This amount consists of (1) the accelerated depreciation associated with the
477 meters retired as a result of the AMI pilot of \$3,674,000; and (2) customer applications
478 related costs of \$247,000. Finally, the unrecovered balance of the accelerated
479 depreciation associated with ComEd's AMI investment (apart from the AMI pilot) of
480 \$35,241,000 has also been included.

481 **Q. What is the second category of other assets?**

482 A. The second category of other assets included in rate base is deferred debits totaling
483 \$32,762,000, shown on ComEd Ex. 3.01, Sch FR B-1, line 20. This sum includes (1)
484 Cook County Forest Preserve Fees of \$2,403,000, which represent pre-payments made to
485 the Cook County Forest Preserve District related to licensing fees for distribution lines;
486 (2) a Long Term Receivable From the Mutual Beneficial Association ("MBA") Plan of
487 \$2,398,000, which relates to payments that ComEd has made to the trust on behalf of
488 union employees for short term disability and for which it is awaiting reimbursement; (3)

489 a deferred debit associated with ComEd's capitalized vacation pay not included in plant-
490 in-service of \$22,457,000; (4) expected recoveries from insurance on claims made by the
491 public against ComEd of \$3,215,000; and (5) payments to the Commission of \$2,289,000
492 for fees related to purchasing new money as part of future long-term debt issuances.

493 **Q. What is the third category of other assets?**

494 A. The third category of other assets included in rate base is the unamortized balances of
495 certain one-time expenses in excess of \$10 million. ComEd has removed certain storm
496 and merger expenses from its operating expenses and is amortizing them over a five-year
497 period, as required by Section 16-108.5(c)(4)(F). In particular, ComEd is amortizing
498 over five years the expenses of three 2011 storms, two 2012 storms and two 2013 storms,
499 each of which was in excess of \$10 million. In 2011, 2012 and 2013, these storms
500 resulted in expenses of \$68,201,000, \$21,271,000 and \$21,987,000, respectively. The
501 unamortized balances of the 2011, 2012 and 2013 storm expenses, \$27,188,000,
502 \$12,748,000 and \$17,589,000, respectively, are included in rate base. Additionally, in
503 2012 and 2013, ComEd incurred merger expenses of \$31,912,000 and \$11,432,000,
504 respectively, and is amortizing these amounts over five years as well. The unamortized
505 merger expense balances for 2012 and 2013 of \$19,147,000 and \$9,145,000, respectively,
506 are included in ComEd's rate base. The total unamortized balance of \$85,817,000 related
507 to these expenses is shown on ComEd Ex. 3.01, Sch FR B-1, line 24, and additional
508 detail is provided on App 5 "Deferred Charges Information," lines 31-33.

509 **Q. What are the other liabilities included in ComEd's rate base?**

510 A. Other liabilities typically refer to costs that ComEd has not yet incurred, but that ComEd
511 has recovered some amounts associated with these costs through delivery service charges,

512 and are a reduction to rate base. The other liabilities, after adjustments, included in rate
513 base are Operating Reserves of \$429,569,000, Asset Retirement Obligations of
514 \$21,832,000, and Deferred Credits of \$94,401,000. These amounts, described further
515 below, are summarized on ComEd Ex. 3.01, Sch FR B-1, lines 21 through 23.

516 **Q. Please describe the Operating Reserves ComEd has included as a reduction to rate**
517 **base.**

518 A. Operating Reserves are recorded in FERC account 228. The jurisdictional amounts
519 reducing ComEd's rate base total \$429,569,000 and consist of the following:

- 520 (1) OPEB cost of \$373,440,000;
- 521 (2) Injuries and damages of \$49,436,000 related to workers compensation and public
522 claims;
- 523 (3) Other miscellaneous environmental liabilities of \$5,484,000, primarily related to
524 the reserve for the remediation of Superfund sites; and
- 525 (4) Management retention and incentive liabilities of \$1,209,000.

526 **Q. Please describe the Asset Retirement Obligations included as a reduction to**
527 **ComEd's rate base.**

528 A. The delivery service jurisdictional amount of Asset Retirement Obligations of
529 \$21,832,000 recorded in Account 230 represents asset removal costs recovered through
530 depreciation expense (these costs were previously recorded in Account 108-
531 Accumulated Depreciation and were reclassified in 2005 in accordance with the USOA).
532 ComEd Ex. 3.01, Sch FR B-1, line 22.

533 **Q. Please describe the Deferred Credits included as a reduction to ComEd's rate base.**

534 A. ComEd has included the deferred credits recorded in FERC Account 253 and two
535 deferred credits recorded in FERC Account 242, which reduce rate base by a total of
536 \$94,401,000. ComEd Ex. 3.01, Sch FR B-1, line 23; ComEd Ex. 3.02, WP 5.

537 Q. **Please describe the deferred credits ComEd has included in rate base that are**
538 **recorded in FERC Account 253.**

539 A. ComEd has included jurisdictional amounts of the deferred credits recorded in FERC
540 Account 253, totaling \$7,393,000. This amount is comprised of \$4,260,000 of deferred
541 rents, and \$3,133,000 of deferred revenues associated with the lease of fiber optic cable.

542 **M. Customer Deposits**

543 Q. **Has ComEd accounted for Customer Deposits in its delivery service rate base?**

544 A. Yes. ComEd receives refundable deposits from certain new customers as a condition of
545 initiating electric service. ComEd's rate base is reduced by \$133,094,000 for customer
546 deposits, as shown on ComEd Ex. 3.01, Sch FR B-1, line 25. As described above,
547 ComEd applied its year-end balance of customer deposits as a reduction to rate base. *See*
548 ComEd Ex. 3.01, App 2 "Customer Deposits Information."

549 **N. Customer Advances**

550 Q. **Has ComEd accounted for Customer Advances in its delivery service rate base?**

551 A. Yes. ComEd receives refundable distribution system extension deposits from customers
552 under the terms of Rider DE - Distribution System Extensions as customer advances to
553 begin construction. ComEd has reduced rate base for these deposits and advances related
554 to projects included in rate base as of December 31, 2013 or in its 2014 projected plant

555 additions in the amount of \$61,034,000. *See* ComEd Ex. 3.01, Sch FR B-1, line 26 and
556 App 1, lines 23 through 30.

557 **O. Projected Plant Additions, Accumulated Depreciation Reserve, and ADIT**

558 **Q. Are projected plant additions included in rate base?**

559 A. Yes. The 2015 Initial Rate Year rate base includes ComEd's 2014 projected plant
560 additions as of March 3, 2014 of \$1,214,362,000. This amount consists of
561 \$1,005,094,000, of Distribution Plant additions and \$209,268,000 of G&I Plant additions.
562 These amounts are shown on ComEd Ex. 3.01, Sch FR B-1, lines 29 and 31, respectively.
563 Additional detail is provided in ComEd Ex. 3.01, App 1, lines 31 through 39.

564 **Q. Have adjustments been made for the projected growth in the accumulated**
565 **depreciation reserve and ADIT?**

566 A. Yes. ComEd has rolled-forward its accumulated reserve for depreciation by increasing
567 the 2013 accumulated reserve by the estimated amount of depreciation expense for 2014,
568 which is \$412,042,000. This change to the accumulated reserve is accounted for on
569 ComEd Ex. 3.01, Sch FR B-1, lines 30 plus 32. Essentially, the reserve is increased by
570 the estimated 2014 Distribution Plant depreciation expense of \$307,113,000 and the
571 estimated 2014 G&I Plant depreciation expense of \$104,929,000. All amounts described
572 here are net of projected removal costs. Detailed calculations are provided on ComEd
573 Ex. 3.01, App 1, lines 40 through 48.

574 **Q. Have any adjustments been made to account for the change in ADIT associated with**
575 **the projected plant additions?**

576 A. Yes. Similar to the change to the accumulated reserve, ComEd has also rolled-forward
577 ADIT. The total amount of the ADIT roll-forward is \$16,277,000 and is presented on
578 ComEd Ex. 3.01, Sch FR B-1, line 33.

579 **V. OPERATING EXPENSES**

580 **A. Total Operating Expenses**

581 **Q. What are ComEd’s delivery service operating expenses supporting the 2013**
582 **Reconciliation Revenue Requirement and the 2015 Initial Rate Year Revenue**
583 **Requirement?**

584 A. For the year ending December 31, 2013, ComEd’s delivery service operating expenses
585 before income taxes were \$1,736,648,000, reflecting adjustments (and the exclusion of
586 costs recovered under other tariff mechanisms and costs disallowed in past ICC orders for
587 reasons other than timing). ComEd Ex. 3.01, Sch FR-A3, line 16. After accounting for
588 income taxes for both the 2013 Reconciliation and the 2015 Initial Rate Year, and the
589 change in depreciation expense related to the projected plant additions (2015 Initial Rate
590 Year only), ComEd’s Illinois jurisdictional delivery service operating expenses were
591 \$1,995,210,000 and \$2,058,561,000, respectively. These delivery service operating
592 expenses consist of two broad categories of expense: distribution-related and customer-
593 related.

594 **Q. Where are ComEd’s delivery service operating expenses set forth in the supporting**
595 **schedules and work papers?**

596 A. Sch FR C-1 “Expenses Computation,” Sch FR C-2 “Depreciation and Amortization
597 Expense Computation,” and Sch FR C-3 “Pension Funding Costs Computation,” App 7
598 “Expense Information,” and App 8 “Depreciation Information” in ComEd Ex. 3.01

599 support ComEd's operating expenses. Their components are also reflected in the related
600 Part 285 schedules and Part 285 workpapers. In addition, operating expenses are
601 reflected in ComEd Ex. 3.01, Sch FR A-1 as indicated earlier.

602 **B. Distribution O&M Expenses**

603 Q. **Generally, what do you mean when you refer to distribution O&M expenses?**

604 A. Distribution O&M expenses are expenses recorded in FERC Accounts 580 through 598,
605 which directly relate to the distribution function.

606 Q. **What amount of distribution O&M expense is included in the revenue
607 requirements?**

608 A. ComEd's 2013 Distribution O&M expenses were \$438,781,000. After reflecting
609 adjustments, a total of \$433,128,000 in distribution O&M expenses recorded in FERC
610 Accounts 580-598 is included in the revenue requirements. *See* ComEd Ex. 3.01, Sch FR
611 A-1, line 1; Sch FR A-1 – REC, line 1; and Sch FR C-1, lines 1-3. The prudence,
612 reasonableness and need to incur these expenses are addressed by Mr. Moy (ComEd Ex.
613 6.0).

614 **C. Customer-Related O&M Expenses**

615 Q. **What are customer-related O&M expenses?**

616 A. Customer-related O&M expenses are expenses recorded in FERC Accounts 901-910,
617 which include the costs of maintaining and servicing customer accounts, *e.g.*, meter
618 reading, customer service, and billing and credit activities. These activities and related
619 expenses are explained in detail by Mr. Donovan (ComEd Ex. 7.0).

620 Q. **What adjustments to customer-related O&M expenses are included in the revenue**
621 **requirements?**

622 A. The total customer-related O&M expense for 2013 is \$417,692,000. In determining the
623 revenue requirements, ComEd has adjusted its customer-related O&M expenses for the
624 following:

- 625 (1) \$162,780,000 reduction to remove the costs associated with ComEd's energy
626 efficiency and demand response program recovered under Rider EDA;
- 627 (2) \$33,132,000 reduction to reflect the total amount of uncollectible accounts
628 expense recorded in FERC Account 904, costs recovered through Rider UF;
- 629 (3) \$647,000 reduction to remove the non-jurisdictional amount of Outside Agency
630 Collection Fees related to uncollectibles;
- 631 (4) \$30,000 increase to include interest on customer deposits in operating expenses;
- 632 (5) \$2,618,000 reduction to remove costs recovered under Rider PORCB;
- 633 (6) \$860,000 reduction to remove customer assistance costs incurred as part of the
634 \$10,000,000 EIMA customer assistance program;
- 635 (7) \$1,970,000 reduction to remove certain customer communications costs recorded
636 in FERC Account 908;
- 637 (8) \$2,660,000 increase for a donation to the Illinois Science and Technology
638 Foundation; and
- 639 (9) \$106,000 reduction for Residential real-time pricing.

640 Adjustments 1 - 9 can be found on ComEd Ex. 3.01, App 7, page 1, lines 4 through 22,
641 and additional detail is provided on ComEd Ex. 3.02, WP 7, page 2. After these
642 adjustments, \$218,269,000 of FERC Accounts 901-910 directly relate to and support the

643 delivery service function and are included in the revenue requirements as shown in
644 ComEd Ex. 3.01, Sch FR A-1, lines 2 and 3 and Sch FR A-1 - REC, lines 2 and 3. The
645 prudence, reasonableness and need to incur these expenses are addressed by Mr.
646 Donovan (ComEd Ex. 7.0).

647 **Q. Has ComEd excluded any costs associated with providing Purchase of**
648 **Receivables/Combined Billing (“PORCB”) Services from its delivery service**
649 **revenue requirement?**

650 A. Yes. ComEd has excluded the capital and deferred O&M costs associated with the
651 PORCB program from its rate base, as these costs are recovered through Rider PORCB.
652 The adjustments to exclude these costs can be found on ComEd Ex. 3.02, WP 1, Page 1,
653 Column I and ComEd Ex. 3.02, WP 5, Page 1, line 17. ComEd has also excluded certain
654 on-going costs (such as EDI) associated with the program that are also recovered through
655 Rider PORCB. The adjustments to exclude these expenses can be found on ComEd Ex.
656 3.02, WP 7, Page 2, Line 22, Column D.

657 **Q. Are there any other costs related to PORCB costs that need to be identified and**
658 **discussed?**

659 A. Yes, collection agency costs.

660 **Q. What are collection agency costs?**

661 A. Collection agency costs are the amounts ComEd pays to collection agencies after such an
662 agency has successfully collected previously unpaid balances on customer accounts. Mr.
663 Donovan describes these costs in his direct testimony (ComEd Ex. 7.0).

664 **Q. Does ComEd incur these costs as a result of providing PORCB service?**

665 A. Yes.

666 Q. **Does ComEd recover these costs through Rider PORCB?**

667 A. No.

668 Q. **Does ComEd recover any collection agency costs elsewhere?**

669 A. Yes, in part. In the past, ComEd has recovered approximately 40-60% of its collection
670 agency costs through delivery service charges – the delivery-related portion of collection
671 agency costs. In the course of preparing this update filing, however, ComEd discovered
672 that the remaining 40-60% of collection agency costs were not being recovered.

673 Q. **Are these unrecovered collection agency costs related to ComEd supply or PORCB
674 service?**

675 A. Both. These unrecovered collection agency costs can be broken out further between
676 ComEd supply and PORCB service. ComEd believes that the subset of these costs that
677 are the PORCB specific portion of collection agency costs are properly categorized as
678 delivery service and should be recovered through ComEd's delivery service charges.
679 ComEd provides PORCB service as a delivery service company and thus should recover
680 these collection agency costs in its delivery service charges.

681 Q. **Are there any other PORCB related costs or revenues that have been included in
682 previous formula rate updates ("FRU")?**

683 A. Yes. A good example of this is the Late Payment Charges ("LPCs") associated with
684 PORCB. In ICC Docket No. 13-0318, ComEd asked that the Commission make an
685 affirmative finding as to the appropriate inclusion of the LPCs in the FRU (as a revenue
686 credit) or in Rider PORCB. In its final Order, the Commission affirmed that the PORCB-

687 related LPCs were appropriately included in ComEd's FRU. ICC Docket No. 13-0318,
688 (Order dated December 19, 2013) at 64.

689 Q. **Has ComEd included the 2013 PORCB LPCs as a revenue credit to the FRU?**

690 A. Yes. ComEd included a revenue credit of \$6,404,000 related to the 2013 PORCB LPCs.

691 Q. **How much, in total, were ComEd's outside collection agency fees in 2013?**

692 A. In total, ComEd's outside collection agency fees in 2013 were \$2,171,000. *See* ComEd
693 Ex. 3.02, WP 7, Page 5, Line 1, Column B.

694 Q. **Of the \$2,171,000, how much has ComEd included in its delivery service revenue
695 requirement?**

696 A. ComEd has included \$1,524,000 in its delivery service revenue requirement. Of this
697 amount, ComEd has identified \$1,019,000 as specifically related to delivery service and
698 \$505,000 related to providing PORCB service.

699 Q. **What mechanism does ComEd propose for recovery of the remaining collection
700 agency costs of \$647,000?**

701 A. The remaining amount can be attributed to ComEd supply and should be recovered
702 through Rider PE – Purchased Energy ("Rider PE").

703 Q. **Above, you discussed that in ICC Docket No. 13-0318, ComEd asked that the
704 Commission make an affirmative finding as to the proper allocation of the PORCB
705 LPCs. Are you requesting that the Commission make a similar, affirmative finding
706 in this docket regarding the proper recovery mechanism of the PORCB related
707 collection agency costs?**

708 A. Yes. As I mentioned above, ComEd believes that the appropriate mechanism to recover
709 these costs is its delivery service FRU; however, given that this is the first time ComEd
710 has sought recovery of these costs, ComEd is requesting that the Commission make an
711 affirmative finding that these costs should be recovered in the FRU, or if not, that they
712 should be recovered through Rider PORCB.

713 Q. **In February 2014, ComEd filed its reconciliation of the first PORCB application**
714 **period, and the Commission has not yet opened a proceeding. Will ComEd seek**
715 **recovery of these PORCB related collection agency costs in that proceeding?**

716 A. No, but in that proceeding ComEd will request that the Commission make an affirmative
717 finding that these costs are appropriately recoverable through delivery service charges, or
718 in the alternative, through Rider PORCB.

719 **D. Administrative and General Expenses**

720 Q. **What types of expenses are included in the A&G expenses category?**

721 A. Under the USOA, A&G Expenses are recorded in Accounts 920-935. Costs included in
722 those Accounts generally represent a wide variety of corporate support and overhead
723 costs that benefit or derive from more than one business function. Major A&G support
724 areas include the Human Resources, Finance, Legal, Supply Management, Information
725 Technology, and Corporate Governance functions. Additionally, the costs of employee
726 pensions and benefits, including health care for active and retired employees, as well as
727 rents, injuries and damages expenses, and regulatory expenses are included in these A&G
728 Accounts. Finally, as I mentioned earlier, certain other non-operational costs are
729 recorded in other accounts. All of these types of costs represent expenses ComEd incurs
730 in providing delivery services to its retail customers. They are managed carefully and

731 with systems of cost control and review similar to those applied to distribution and
732 customer operational expenses. A&G expenses that support operations are also discussed
733 by Mr. Moy (ComEd Ex. 6.0) and Mr. Donovan (ComEd Ex. 7.0), and Mr. Garrido
734 (ComEd Ex. 5.0) discusses the A&G costs that support non-operational functions.

735 **Q. Who provides the services included within A&G expenses?**

736 A. In general, services are provided either internally by ComEd employees or by other
737 service providers, including BSC. BSC provides corporate governance, technical, and
738 numerous other support services to the Exelon companies. These services are provided to
739 ComEd under the terms of the General Services Agreement approved by the ICC and the
740 Securities and Exchange Commission (“SEC”).

741 **Q. How is ComEd charged for applicable BSC costs?**

742 A. Costs for these services are directly charged to ComEd where possible; if costs cannot be
743 directly charged, they are allocated to ComEd and the other Exelon affiliates utilizing
744 several allocation factors, which are set forth in the General Services Agreement
745 approved by the Commission in ICC Docket No. 00-0295 and which have also been
746 accepted by the SEC. In all cases, services provided by BSC are billed to ComEd at cost
747 (*i.e.*, with no mark-up). The process by which ComEd acquires services from BSC is a
748 transparent one that assures that ComEd, and in turn ComEd’s customers, receive good
749 value. This is described in more detail by Mr. Garrido (ComEd Ex. 5.0).

750 **Q. What amount of A&G expenses is included in the revenue requirements?**

751 A. The amount of A&G expenses included in the revenue requirements is \$412,356,000.
752 This amount is calculated by subtracting the \$9,146,000 of deferred merger related CTA

753 (see ComEd Ex. 3.01, App 7, line 25) from the total amount of A&G costs of
754 \$421,502,000 shown on ComEd Ex. 3.01, Sch FR A-1, line 4. These expenses are
755 discussed in large part by Mr. Garrido (ComEd Ex. 5.0), Mr. Moy (ComEd Ex. 6.0) and
756 Mr. Donovan (ComEd Ex. 7.0), though I discuss certain A&G expenses – pension, other
757 post-employment benefits and merger CTA – below.

758 **Q. What amount of pension expense is included in A&G expenses?**

759 A. As shown on ComEd Ex. 3.07, page 1, ComEd’s total 2013 pension cost was
760 \$198,480,000, of which \$111,104,000 was expensed. The jurisdictional amount included
761 in ComEd’s A&G expenses is \$98,005,000. These amounts are supported by, and
762 reconciled to, the Towers Watson actuarial studies also included in ComEd Ex. 3.07.

763 **Q. Can you describe the change in jurisdictional pension expense from 2012 to 2013?**

764 A. ComEd’s delivery service jurisdictional pension expense in 2013 of \$98,005,000
765 represents an increase of \$9 million dollars compared to 2012 jurisdictional pension
766 expense included in ComEd’s revenue requirements in ICC Docket No. 13-0318.

767 **Q. What accounts for this increase?**

768 A. The primary driver of the increase was the continuing decline in long term interest rates
769 in 2013 resulting in a discount rate that was roughly 80 basis points lower in 2013 than in
770 2012. This lower discount rate increases ComEd’s pension obligation, which results in a
771 higher net periodic benefit cost.

772 **Q. What amount of OPEB cost is included in A&G?**

773 A. OPEB costs mainly consist of retiree healthcare costs and are accounted for separately
774 from pension costs. As shown on ComEd Ex. 3.07, page 1, ComEd’s total 2013 OPEB

775 cost was \$112,284,000, of which \$62,863,000 was expensed. The jurisdictional amount
776 included in ComEd's A&G expenses was \$55,451,000. These amounts are supported by,
777 and reconciled to, the Towers Watson actuarial studies also included in ComEd Ex. 3.07.

778 **Q. Please describe the documents included in ComEd Ex. 3.07.**

779 A. ComEd Ex. 3.07 consists of documents produced by Towers Watson, ComEd's actuarial
780 consultant, that show the total actuarially determined net periodic benefit costs incurred
781 by ComEd for the pension and postretirement welfare plans in which ComEd employees
782 and retirees participate. The exhibit also shows the derivation of jurisdictional pension
783 and postretirement welfare expenses from the actuarially determined costs.

784 **Q. Are any merger-related CTA included in ComEd's operating expenses?**

785 A. Yes. ComEd incurred \$12,893,000 of merger related expenses (CTA). The Illinois
786 jurisdictional delivery service amount was \$11,432,000, and is included in ComEd's
787 total A&G as shown in ComEd Ex. 3.01, Sch FR A-1, line 4 and Sch FR A-1 - REC, line
788 4. This expense meets the criteria under Section 16-108.5(c)(4)(F) as it is in excess of
789 \$10,000,000 and is related to a workforce reduction program; thus, ComEd has amortized
790 this expense over five years. In order to include only one year of amortization in
791 operating expenses, ComEd removed four-fifths of the \$11,432,000, (\$9,146,000) from
792 operating expenses on line 10 of ComEd Ex. 3.01, Sch FR A-1 and Sch FR-A1 - REC.
793 *See also* ComEd Ex. 3.01, Sch FR C-1, line 20 and App 7, line 25.

794 **Q. How is the remaining four-fifths of the merger related expenses treated for rate**
795 **making purposes?**

796 A. As I discussed in Section IV.L above, the remaining four-fifths, or \$9,146,000, is
797 recorded as a regulatory asset and included in Other Deferred Charges on ComEd Ex.
798 3.01, App 5, line 32, and included in ComEd's rate base.

799 Q. **Are any other merger-related costs included in the revenue requirements?**

800 A. Yes. \$17.5 million of CTA capital expenditures were closed to plant in service through
801 2013, and \$2.4 million of CTA projected plant in service are included in ComEd's 2014
802 projected plant additions. ComEd's 2013 Reconciliation rate base includes the amount
803 closed to plant in service through 2013 (net of accumulated depreciation and ADIT) and
804 ComEd's 2015 Initial Rate Year rate base includes the amount closed to plant in service
805 through 2013 and the amount included in 2014 projected plant additions (both net of
806 accumulated depreciation and ADIT).

807 Q. **What are the overall impacts of the CTA on ComEd's revenue requirements?**

808 A. ComEd's 2015 Net Revenue Requirement is increased by \$30.9 million. ComEd's 2015
809 Initial Rate Year Revenue Requirement is increased by \$14.6 million and the 2013
810 Reconciliation is increased by \$16.4 million. These amounts include the amortization of
811 merger-related costs approved in ICC Docket No. 13-0318. The calculations supporting
812 these amounts are included in ComEd Ex. 3.08.

813 **E. Return on Pension Asset**

814 Q. **What amount is included for the cost associated with funding ComEd's pension**
815 **asset?**

816 A. A debt-only return is calculated on the jurisdictional portion of the pension asset net of
817 ADIT. *See* ComEd Ex. 3.01, Sch FR C-3. This amount totaled \$53,473,000.

818 Q. **How does the pension funding amount identified in this filing compare to the**
819 **amount allowed by the Commission in ICC Docket No. 13-0318?**

820 A. In its final Order in ICC Docket No. 13-0318, the Commission allowed a (debt only)
821 return on ComEd's pension asset of \$59,339,000. The decrease of almost \$6 million is
822 due to (1) a reduction in ComEd's cost of long term debt from 5.39% to 5.16%; and (2) a
823 reduction in the size of the pension asset net of ADIT.

824 **F. Sales and Marketing Expense**

825 Q. **How much sales and marketing O&M expense is included in the revenue**
826 **requirements?**

827 A. No sales and marketing expenses are included in the revenue requirements.

828 **G. Depreciation and Amortization of Electric Utility Plant**

829 Q. **How much depreciation and amortization expense of electric utility plant is included**
830 **in the revenue requirements?**

831 A. The amount of depreciation and amortization expense of electric utility plant included in
832 the revenue requirements is \$482,114,000. The level of 2013 depreciation and
833 amortization expenses included in the revenue requirements is \$451,588,000, comprised
834 of \$353,607,000 related to Distribution Plant and \$97,981,000 related to G&I Plant.
835 Additionally, the 2015 Initial Rate Year Revenue Requirement and 2015 Rate Year Net
836 Revenue Requirement include an additional \$30,526,000 of depreciation expense
837 associated with the 2014 projected plant additions. *See* ComEd Ex. 3.01, Sch FR C-2 for
838 calculations of both the actual 2013 and projected 2014 jurisdictional depreciation
839 expense.

840 Q. **Has ComEd performed a depreciation study and submitted the results to the ICC in**
841 **2014?**

842 A. Yes. On January 29, 2014, ComEd provided to the Commission a verified statement
843 concerning accounting changes for plant depreciation rates. The document, which
844 provides updated depreciation rates to be placed into effect on January 1, 2014, is
845 included in ComEd Ex. 3.12.

846 Q. **Do the updated depreciation rates impact the formula rate?**

847 A. Yes. In the formula rate, App 8, lines 22 through 42, column (D), the depreciation rates
848 reflected are those found in the 2013 FERC Form 1, page 337. App 8 also discusses an
849 exception to this general rule, stating: “If ComEd’s FERC Form 1 does not reflect the
850 most recent depreciation study, ComEd will update the formula with the most recent rates
851 submitted to the ICC.” App 8, footnote (6). As a result of this exception, the updated
852 depreciation rates provided in the study in ComEd Ex. 3.12 are used in App 8, as opposed
853 to using the amounts provided in the 2013 FERC Form 1, page 337.

854 **H. Taxes Other than Income**

855 Q. **What taxes other than income are included in the revenue requirements?**

856 A. The amount of taxes other than income included in the revenue requirements is
857 \$147,968,000. In general, these include real estate taxes, the Illinois Electricity
858 Distribution Tax (“IEDT”), payroll taxes and several other taxes. A detailed analysis of
859 the taxes other than income included in the revenue requirements is provided on ComEd
860 Ex. 3.01, App 7, page 2, lines 41 through 62. The amounts on line 62 represent the taxes
861 prior to final jurisdictional amounts, which can be found on ComEd Ex. 3.01, Sch FR
862 C-1, line 10.

863 Q. **Have you excluded payroll taxes related to disallowed incentive compensation?**

864 A. Yes. In compliance with the Commission’s final Order in ICC Docket No. 13-0318,
865 ComEd has excluded \$888,000 of payroll taxes related to incentive compensation (for
866 example, restricted stock, stock options and BSC Annual Incentive Plan (“AIP”) related
867 to net income) removed in accordance with prior Commission orders. *See* ComEd Ex.
868 3.03, Sch. C-2 RY, line 14.

869 Q. **Do the revenue requirements in this filing include an IEDT credit?**

870 A. Yes. ComEd recorded an accrual in 2013 for an estimated IEDT credit of \$14,168,000
871 related to its actual 2013 IEDT of \$118,064,000, adjustments of \$1,062,000 to the
872 estimated IEDT credits for the years 2011 and 2012, reflecting the net amount of
873 \$104,958,000 in operating expense. This adjustment is shown as follows:

Illinois Electricity Distribution Tax (IEDT)
2013 Actual Amount Included in the Revenue Requirement

2013 Accrual	\$	118,064,000
2013 Estimated IEDT Credit		(14,168,000)
Adjustments for 2011 and 2012 IEDT Credits Received in 2013		<u>1,062,000</u>
Net Amount of 2013 IEDT Taxes Included in Operating Expense	<u>\$</u>	<u>104,958,000</u>

874

875 **I. Income Taxes**

876 Q. **What level of income taxes is included in the revenue requirements?**

877 A. The amount of income taxes included in the 2013 Reconciliation Revenue Requirement is
878 \$181,470,000. ComEd Ex. 3.01, Sch FR A-1- REC, lines 15, 18 and 19. The amount of
879 income taxes included in the 2015 Initial Rate Year Revenue Requirement, which
880 includes the impact of the projected 2014 plant additions, is \$205,286,000. *See* ComEd
881 Ex. 3.01, Sch FR A-1, lines 15, 18 and 19. Income taxes have been calculated based on

882 the expenses and miscellaneous revenues assigned or allocated to the delivery service
883 function. Likewise, ComEd has analyzed differences in book and tax treatment of 2013
884 revenues and expenses and assigned or allocated those differences to the delivery service
885 function as described in ComEd Ex. 3.01, Sch FR C-4 “Taxes Computation” and App 9
886 “Permanent Tax Impacts Information.”

887 **Q. How is Sch FR C-4 used in developing ComEd’s delivery service revenue**
888 **requirements?**

889 A. Sch FR C-4 provides the calculations of ComEd’s effective income tax rate, gross-up
890 factor for income taxes, interest synchronization deduction, and gross revenue conversion
891 factor. Sch FR C-4 also summarizes the permanent tax differences and amortization of
892 permanent tax differences. These amounts, after application of the gross revenue
893 conversion factor, reduce the revenue requirements by \$13,490,000 (*see* ComEd Ex.
894 3.01, Sch FR C-4, line 14), and are included in ComEd’s total income taxes described
895 previously.

896 **Q. How is App 9 used in developing ComEd’s delivery service revenue requirements?**

897 A. App 9 provides a detailed analysis of ComEd’s Permanent Tax Differences by presenting
898 each tax difference on a line-by-line basis and applying a jurisdictional allocator. App 9
899 also identifies ComEd’s Investment Tax Credits and a jurisdictional calculation of each.

900 **J. Regulatory Asset Amortization**

901 **Q. Do the revenue requirements in this filing include any amortization of regulatory**
902 **assets?**

903 A. Yes. As shown on ComEd Ex. 3.01, Sch FR C-1, line 18, ComEd included in its revenue
904 requirements \$37,456,000 of regulatory asset amortization. This amount includes the
905 effects of the Commission's final Order in ICC Docket No. 10-0467, which revised the
906 amount of amortization of several existing regulatory assets, authorized amortization of
907 new regulatory assets, and eliminated amortization of others. Regulatory asset
908 amortization also includes (1) \$67,000 of the \$200,000 filing fee paid in 2011; (2)
909 \$694,000 of the \$2,083,000 in formula rate case expenses incurred in 2012 related to ICC
910 Docket No. 11-0721 and allowed for recovery in the final Order in ICC Docket No. 13-
911 0318; and (3) \$72,000 of the \$215,000 in formula rate case expenses incurred in 2013
912 related to ICC Docket No. 11-0721. Section 16-108.5(c)(4)(E) of the PUA provides that
913 these costs be amortized over a three-year period.

914 **K. Energy Infrastructure Modernization Act Credits**

915 **Q. Did ComEd include any expenses related to the \$10 million of EIMA Credits it**
916 **incurred in 2013 in its revenue requirements?**

917 A. No. The vast majority of the \$10 million program credits (\$8,897,000) was recorded as
918 customer bill credits and was not included in operating expenses. Additionally, \$860,000
919 of customer assistance expense recorded in FERC Account 908 and \$245,000 of
920 advertising expenses recorded in FERC Account 930.1 were also removed from operating
921 expenses. See ComEd Ex. 3.02, WP 7, page 14.

922 **VI. MISCELLANEOUS REVENUES**

923 **Q. What miscellaneous revenues are reflected in the revenue requirements?**

924 A. Based on a detailed analysis of these revenues, \$129,785,000, after adjustments, was
925 directly assigned or allocated to the delivery service or distribution function (as

926 applicable) and was therefore deducted from the revenue requirements. *See* ComEd Ex.
927 3.01, App 10 “Other Revenues Information” for detailed calculations. This aggregate
928 amount consists of: miscellaneous revenues of \$25,412,000 (which includes \$6,404,000
929 of late payment charges related to PORCB) received in connection with late payment fees
930 and earned finance charges allocated to the delivery service function based on the
931 methodology approved by the Commission in ICC Docket No. 10-0467; \$9,133,000 of
932 miscellaneous service revenues (*i.e.*, meter service fees); \$65,593,000 of rental payments
933 for facilities recorded in distribution accounts and included in the distribution rate base
934 (*e.g.*, equipment and meter rentals, pole attachments, third party use of fiber optic cable
935 and rent from affiliates); other Electric Revenues of \$4,365,000 (fees earned from a
936 telephone referral program and reimbursements for customer requested studies); an
937 adjustment of \$4,299,000 to reflect annualized revenues to be collected from reselling
938 municipalities as compensation for their usage of a portion of the ComEd distribution
939 system; and other adjustments totaling \$20,983,000 (including cost of delivery service
940 recovered under Rider FCA - Franchise Cost Additions, detailed in ComEd Ex. 3.01, App
941 11 “Franchise Delivery Service Value Information,” and amounts recovered for facility
942 lighting.

943 **VII. ADJUSTMENTS, INCLUDING PROJECTED PLANT ADDITIONS**

944 **A. Adjustments to Rate Base**

945 **Q. What is the net change to the delivery service rate base attributable to the 2014**
946 **projected plant additions and the increase in the depreciation reserve and ADIT?**

947 **A.** As discussed in Section IV above, ComEd has included both the 2014 projected plant
948 additions as of March 31, 2014 and the estimated increase in, or the roll-forward of, the

949 depreciation reserve relating to plant in service and ADIT as of December 31, 2013.
950 These amounts increased rate base by a net amount of \$786,043,000. The projected plant
951 additions are reasonably expected to be placed in service by December 2014. These
952 additions and amounts are supported by Mr. Moy (ComEd Ex. 6.0) and Mr. Donovan
953 (ComEd Ex. 7.0). The increase in the depreciation reserve is calculated by adding the
954 estimated 2014 depreciation expense to the reserve. This amount reflects the estimated
955 2014 depreciation expense on both plant existing as of December 31, 2013 and the 2014
956 projected plant additions. These calculations are presented on ComEd Ex. 3.01, App 1,
957 lines 38 through 55. The change in ADIT related to the projected plant additions of
958 \$16,277,000 is shown on ComEd Ex. 3.01, Sch FR B-1, line 33 and App 1, line 39, and is
959 calculated on ComEd Ex. 3.02, WP 19.

960 **Q. Do the revenue requirements reflect any other adjustments to rate base?**

961 **A.** Yes. ComEd has reduced its delivery service rate base for costs recovered through other
962 tariffs (for example, costs recovered through Rider PORCB – Purchase of Receivables
963 With Consolidated Billing, and costs recovered through Rider EDA – Energy Efficiency
964 and Demand Response Adjustment). Additionally, ComEd reduced rate base for
965 amounts disallowed in prior ICC rate proceedings for reasons other than timing (for
966 example, capitalized incentive compensation costs). These amounts are presented on
967 ComEd Ex. 3.01, App 1, lines 1 through 30.

968 **B. Adjustments to Operating Expenses and Other Revenues**

969 **Q. What types of adjustments are made to 2013 operating expenses?**

970 **A.** The costs removed from operating expenses on Sch FR C-1 and App 7 included
971 ratemaking adjustments, costs recovered through other tariffs, and voluntary exclusions.

972 Some of these adjustments have already been described above and include (among
973 others) bank fees accounted for in the cost of credit facilities and non-delivery service
974 regulatory costs. Operating expenses are also reduced for costs recovered through other
975 tariffs (for example, supply administration costs and residential real-time pricing).
976 Finally, similar to ComEd's adjustments in its last FRU case, ICC Docket No. 13-0318,
977 ComEd has voluntarily reduced its operating expenses by a portion of compensation costs
978 of certain executives, and half of its corporate jet costs. These amounts are presented on
979 ComEd Ex. 3.01, App 7, page 1.

980 **Q. Did ComEd make any adjustments to include charitable contributions in its**
981 **operating expenses?**

982 A. Yes. As allowed by Section 9-227 of the PUA, ComEd adjusted its operating expenses to
983 include charitable contributions. These costs are recorded "below the line," and for
984 ratemaking purposes, ComEd has included in its operating expenses a jurisdictional
985 amount based on the W&S allocator of \$7,332,000. Of this amount, \$2,660,000 is
986 included in customer accounts and \$4,672,000 in A&G accounts. ComEd has provided a
987 description of each charitable organization, the purpose of each donation, and how the
988 donation meets the requirements set by Section 9-227 in ComEd Ex. 3.02, WP 7, page 4
989 of 18, subpages 1-23.

990 **Q. Did ComEd include donations made to organizations outside of its service territory?**

991 A. Yes. ComEd made a \$25,000 donation to the Abraham Lincoln Presidential Library and
992 Museum Foundation to support the Lincoln Leadership exhibit. ComEd believes this is a
993 recoverable donation as the museum and its programs are enjoyed by people throughout
994 Illinois, including by those who reside in ComEd's service territory.

995 Q. **Did ComEd include any amount related to its required donation to the Illinois**
996 **Science and Energy Innovation Foundation?**

997 A. Yes. Section 16-108.6(f) of the PUA requires that a participating utility shall pay a pro
998 rata share, based upon number of customers, of a \$5 million donation to the Illinois
999 Science and Energy Innovation Foundation, 70 percent of which is recoverable. In 2013,
1000 ComEd paid \$3.8 million to the Foundation and has included \$2,660,000 in its charitable
1001 contributions.

1002 Q. **What types of adjustments has ComEd made to its Other Revenues?**

1003 A. Other Revenues are reduced by removing amounts applicable to transmission services; in
1004 particular, ComEd has removed the amounts reflected in Accounts 450 and 451. *See*
1005 ComEd Ex. 3.01, App 10.

1006 **VIII. OTHER**

1007 Q. **Has ComEd included any schedules for the BSC costs allocated to ComEd?**

1008 A. Yes. In accordance with the final Order in ICC Docket No. 13-0318, ComEd has
1009 included a set of schedules showing the total BSC costs allocated to ComEd and the
1010 amount included in its revenue requirement. *See* ComEd Ex. 3.13.

1011 **IX. GROSS REVENUE CONVERSION FACTOR**

1012 Q. **What is ComEd's Gross Revenue Conversion Factor ("GRCF")?**

1013 A. ComEd's GRCF is 1.700, the development of which is shown on ComEd Ex. 3.01, Sch
1014 FR C-4, line 13.

1015 **X. OVERALL WEIGHTED COST OF CAPITAL (RATE OF RETURN)**

1016 Q. **What is ComEd's overall weighted cost of capital (rate of return)?**

1017 A. ComEd’s overall weighted cost of capital (rate of return) is 7.04% for the 2013
1018 Reconciliation Year and 7.06% for the 2015 Initial Rate Year. The cost of capital figures
1019 are derived from the following capital structure and costs, which reflect the full removal
1020 of goodwill from the capital structure. ComEd’s capital structure is also addressed by
1021 Mr. Garrido (ComEd Ex. 5.0).

2013 Reconciliation Year

Capital Structure Component

Common Equity

Long Term Debt

Short Term Debt

Credit Facility Cost

Total Weighted Average

<i>Weighting</i>	<i>Cost</i>	<i>Weighted Cost</i>
45.77%	9.20% ⁽¹⁾	4.21%
54.01%	5.16%	2.79%
0.22%	0.40%	0.00%
		0.04%
100.00%		7.04%

2015 Initial Filing Year

Capital Structure Component

Common Equity

Long Term Debt

Short Term Debt

Credit Facility Cost

Total Weighted Average

<i>Weighting</i>	<i>Cost</i>	<i>Weighted Cost</i>
45.77%	9.25%	4.23%
54.01%	5.16%	2.79%
0.22%	0.40%	0.00%
		0.04%
100.00%		7.06%

1022 (1) Incorporates 5 basis points penalty for missing EIMA reliability metric in 2013

1023 Q. **Which schedules in ComEd Ex. 3.01 support ComEd’s rate of return?**

1024 A. Sch FR D-1 “Cost of Capital Computation” and Sch FR D-2 “Average Yield on Treasury
1025 Securities” support ComEd’s rate of return.

1026 Q. **Please explain Sch FR D-1.**

1027 A. Sch FR D-1 summarizes ComEd’s overall weighted cost of capital, and provides
1028 calculations of ComEd’s capital structure, weighted costs of each capital structure
1029 component, and the overall weighted average cost of capital for both the 2013

1030 Reconciliation Revenue Requirement and the 2015 Initial Rate Year Revenue
1031 Requirement.

1032 Q. **What is the interest rate that is applied to the 2013 reconciliation balance?**

1033 A. Per Public Act (“PA”) 98-0015, ComEd has applied its pre-tax weighted average cost of
1034 capital of 7.04%

1035 Q. **Please explain Sch FR D-2.**

1036 A. Sch FR D-2 calculates the average monthly market yields on 30-year treasury bonds.
1037 This amount is added to the return on equity base of 580 basis points to determine
1038 ComEd’s cost of equity on ComEd Ex. 3.01, Sch FR D-1.

1039 **XI. COMPARISON TO 2014 RATE YEAR NET REVENUE REQUIREMENT**

1040 Q. **How does ComEd’s 2015 Rate Year Net Revenue Requirement presented in your**
1041 **direct testimony compare with the delivery service revenue requirement approved**
1042 **by the Commission in ICC Docket No. 13-0318?**

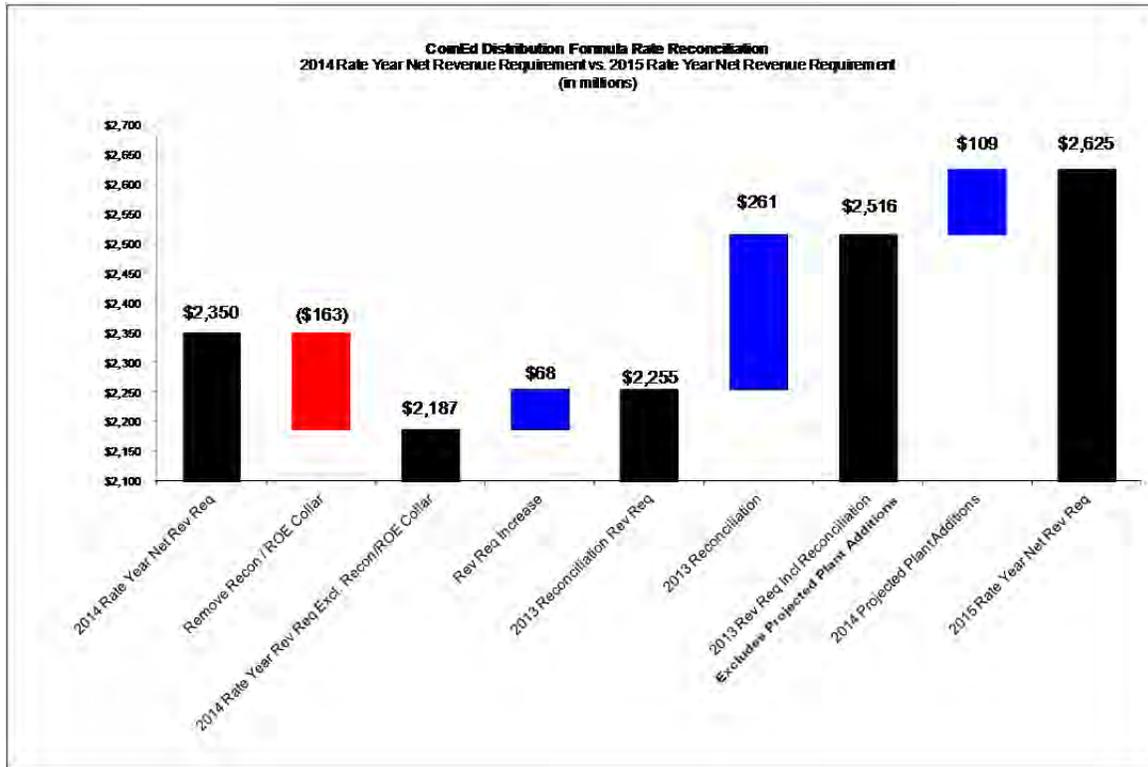
1043 A. ComEd’s formula-derived 2015 Rate Year Net Revenue Requirement is \$2,625,100,000,
1044 \$275,358,000 more than the \$2,349,742,000 2014 Rate Year Net Revenue Requirement
1045 approved by the Commission in its final Order in ICC Docket No. 13-0318
1046 (*Commonwealth Edison Co.*, ICC Docket No. 13-0318 (Order Dec. 18, 2013), at 88),
1047 adjusted for PA 98-0015.

1048 Q. **What factors account for the differences between these two revenue requirements?**

1049 A. As shown in Chart 1, below, the majority of the difference is related to three components.
1050 The first is an increase in ComEd’s costs in 2013 over 2012. The second is the
1051 reconciliation of the 2013 Reconciliation Revenue Requirement to the revenue

1052 requirements in effect in 2013. The third is the inclusion of the 2014 projected plant
1053 additions, net of the change in the accumulated reserve and ADIT.

1054 **Chart 1**



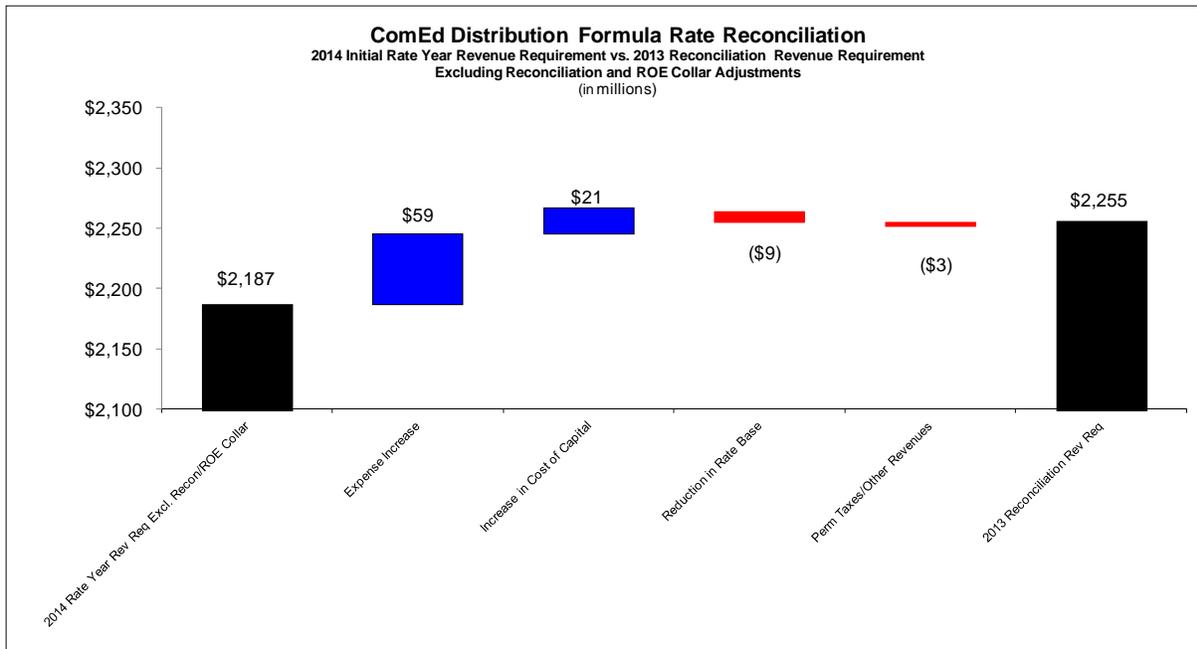
1055

1056 **Q. Can you summarize the key drivers behind the increase in 2013 costs over 2012?**

1057 **A.** Yes. The key expense increases are primarily related to increased A&G costs, including
1058 pension, OPEB, and increased training costs. Additionally, there was an increase in the
1059 cost of capital. These changes are shown in Chart 2.

1060

Chart 2



1061

1062 **XII. CONCLUSION**

1063 **Q. What is your overall conclusion regarding the 2015 Rate Year Net Revenue**
1064 **Requirement determined pursuant to the revenue requirement formula?**

1065 **A.** Apart from the issues that are or may be on appeal, the 2015 Rate Year Net Revenue
1066 Requirement will produce delivery service charges that are authorized by the statute, are
1067 correctly calculated, and are just and reasonable.

1068 **Q. What action should the Commission take in this proceeding?**

1069 **A.** The Commission should approve the updated cost data provided in this filing, the revenue
1070 requirement and reconciliation calculations described in this filing, and the associated
1071 update of ComEd's delivery services charges. ComEd also requests that the Commission
1072 make a finding as to the original cost of ComEd's electric utility plant in service as of
1073 December 31, 2013.

1074 **Q. Does this complete your direct testimony?**

1075 A. Yes.