

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY :
 :
Annual formula rate update and revenue requirement : No. 15-_____
reconciliation authorized by 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 2014
12 Reconciliation Revenue Requirement, (2) the 2016 Initial Rate Year Revenue
13 Requirement, and (3) the 2016 Rate Year Net Revenue Requirement.

14 • ComEd’s “2014 Reconciliation Revenue Requirement” is based upon actual
15 costs incurred in 2014 inclusive of ratemaking adjustments. This revenue
16 requirement is used to “reconcile” the 2014 actual costs to the revenue
17 requirement in effect during 2014, in accordance with Section 16-108.5(d)(1)
18 of the Public Utilities Act (“PUA”). The difference between the 2014
19 Reconciliation Revenue Requirement and the revenue requirement in effect in
20 2014 is the 2014 reconciliation adjustment, before interest is applied. The
21 2014 reconciliation is also discussed by Ms. Christine M. Brinkman (ComEd
22 Exhibit (“Ex.”) 1.0).

- 23 • I also provide the calculation of the “2016 Initial Rate Year Revenue
24 Requirement”, which includes ComEd’s 2014 actual costs plus 2015 projected
25 plant additions, and the associated Accumulated Reserve for Depreciation and
26 Amortization (“depreciation reserve”), Accumulated Deferred Income Tax
27 (“ADIT”) roll-forward, and depreciation expense adjustments.
- 28 • Finally, the reconciliation amount as described by Ms. Brinkman (ComEd
29 Ex. 1.0) is added to (or subtracted from) the 2016 Initial Rate Year Revenue
30 Requirement to determine the “2016 Rate Year Net Revenue Requirement,”
31 which will go into effect in January 2016.

32 Second, I present and support the specific data that “populate” the Schedules and
33 Appendices that comprise the revenue requirement formula for purposes of determining
34 the 2016 Rate Year Net Revenue Requirement to be used in setting delivery service
35 charges for the 2016 Rate Year under ComEd’s Rate DSPP - Delivery Service Pricing
36 and Performance (“Rate DSPP”). This provides the support for my calculations
37 referenced above. These Schedules and Appendices include most of the data provided
38 for under Part 285 of the Illinois Commerce Commission’s (“Commission” or “ICC”) rules,
39 83 Ill. Admin. Code 285 (“Part 285”), although the Schedules and Appendices may
40 differ from the Part 285 schedules. I also present additional schedules and workpapers
41 consistent with the schedules and workpapers required to support a delivery service
42 revenue requirement in a general rate case under Part 285.

43 Support for the delivery service revenue requirement components is provided in
44 my direct testimony and that of Ms. Brinkman (ComEd Ex. 1.0), Ms. Kristine Farkas

45 (ComEd Ex. 3.0), Mr. John Fitterer (ComEd Ex. 4.0) and Mr. Michael C. Moy (ComEd
46 Ex. 6.0).

47 **C. Summary of Conclusions**

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

49 **A.** The conclusions of my direct testimony are: (1) ComEd’s 2014 Reconciliation Revenue
50 Requirement based upon actual 2014 costs is \$2,267,166,000; (2) ComEd’s 2016 Initial
51 Rate Year Revenue Requirement is \$2,439,705,000; and (3) ComEd’s 2016 Rate Year
52 Net Revenue Requirement, to go into effect in January 2016, is \$2,531,558,000. More
53 specifically:

54 **(1) 2014 Reconciliation Revenue Requirement.** The 2014 Reconciliation Revenue
55 Requirement of \$2,267,166,000 is based on the following components:

56 **Rate Base** – ComEd’s 2014 actual rate base was \$7,095,036,000, reflecting
57 adjustments.

58 **Operating Expenses and Other Revenues** – ComEd’s 2014 actual operating
59 expenses before income taxes were \$1,711,137,000, after including income taxes
60 were \$1,982,476,000, and its Other Revenues were \$130,999,000, reflecting
61 adjustments (and the exclusion of costs recovered under other tariff mechanisms
62 and costs disallowed in past ICC orders for reasons other than timing, or in certain
63 cases, insufficiency of evidence) in ComEd’s revenue requirement formula as
64 referred to in Schedule (“Sch”) FR A-1 - REC, attached to my direct testimony in
65 ComEd Ex. 2.01.

66 **ComEd's Overall Weighted Average Cost of Capital** – ComEd's overall
67 weighted average cost of capital (its rate of return on its rate base) is 7.02% for
68 the reconciliation calculation, the key components of which are also discussed by
69 Ms. Farkas (ComEd Ex. 3.0).

70 **(2) Reconciliation of Delivery Service Revenue Requirement for 2014.** The
71 reconciliation of the 2014 Reconciliation Revenue Requirement and the revenue
72 requirement in effect in 2014 (i.e., the former minus the latter) is \$79,849,000,
73 before interest, and \$91,853,000 with interest. These calculations are further
74 discussed by Ms. Brinkman (ComEd Ex. 1.0).

75 **(3) 2016 Initial Rate Year Revenue Requirement.** The 2016 Initial Rate Year
76 Revenue Requirement of \$2,439,705,000 is based on the following components:

77 **Rate Base** – ComEd's rate base is \$8,286,130,000, reflecting adjustments.
78 ComEd's projected plant additions for 2015 (discussed in more detail by ComEd
79 witnesses Mr. Moy, Mr. Fitterer, and Mr. Born (ComEd Exs. 6.0, 4.0, and 5.0,
80 respectively) are \$1,690,668,000 (gross amount).

81 **Operating Expenses and Other Revenues** – ComEd's operating expenses
82 before income taxes are \$1,760,820,000, after income taxes are \$2,082,745,000,
83 and its Other Revenues are \$130,999,000, reflecting adjustments (and the
84 exclusion of costs recovered under other tariff mechanisms and costs disallowed
85 in past ICC Orders for reasons other than timing or insufficiency of evidence) and
86 are shown in ComEd's revenue requirement in Sch. FR A-1, attached to my direct
87 testimony in ComEd Ex. 2.01.

88 **ComEd's Overall Weighted Average Cost of Capital** – ComEd's overall
89 weighted average cost of capital for the 2016 Initial Rate Year Revenue
90 Requirement is 7.05%, the key components of which are also discussed by Ms.
91 Farkas (ComEd Ex. 3.0).

92 **(4) 2016 Rate Year Net Revenue Requirement.** ComEd's 2016 Rate Year Net
93 Revenue Requirement is \$2,531,558,000 and is comprised of ComEd's 2016
94 Initial Rate Year Revenue Requirement of \$2,439,705,000 and the 2014
95 reconciliation amount of \$91,853,000 (with interest). These calculations are
96 further discussed by Ms. Brinkman (ComEd Ex. 1.0).

97 **(5) Gross Revenue Conversion Factor.** ComEd's gross revenue conversion factor
98 is 1.7000 for the 2014 Reconciliation Revenue Requirement, the 2016 Initial Rate
99 Year Revenue Requirement, and the 2016 Rate Year Net Revenue Requirement.

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

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

102 **(1) ComEd Ex. 2.01** contains the revenue requirement formula, populated with data
103 reflecting ComEd's 2016 Rate Year Net Revenue Requirement and its
104 components for charges to become effective with the January 2016 monthly
105 billing period:

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

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

111 (2) **ComEd Ex. 2.02** contains the workpapers that support the schedules and
112 appendices in ComEd Ex. 2.01.

113 (3) **ComEd Ex. 2.03** contains the following Part 285 schedules that are required to be
114 submitted in a general rate case under Part 285 and support the revenue
115 requirement calculations associated with Sch FR A-1 - REC:

- 116 • Part 285 Schedule As: A-2 RY, A-2.1, A-4 RY, and A-5 RY;
- 117 • Part 285 Schedule Bs: B-1 RY, B-2 RY, B-2.1, B-2.2, B-2.3, B-2.6,
118 B-2.7, B-2.8, B-2.9, B-2.10, B-3, B-4, B-5, B-5.1, B-5.2, B-5.3, B-6, B-7,
119 B-7.1, B-7.2, B-8 RY, B-8.1, B-9, B-9.1, B-10, B-11, B-12, B-13, B-14,
120 and B-15;
- 121 • Part 285 Schedule Cs: C-1 RY, C-2 RY, C-2.2, C-2.3, C-2.4, C-2.5,
122 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,
123 C-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,
124 C-11.4, C-12, C-13, C-14, C-15, C-16, C-17, C-18, C-19, C-20, C-21,
125 C-22, C-23, C-24, C-25, C-26, C-27, C-28, C-29, C-30, C-31, C-32, and
126 C-33; and
- 127 • Part 285 Schedule Ds: D-1 RY, D-2, D-3, D-4, D-5, D-6 RY, D-7, D-8,
128 D-9, D-10, D-11, and D-12.

129 (4) **ComEd Ex. 2.04** contains workpapers that support the Part 285 schedules
130 included in ComEd Ex. 2.03.

131 (5) **ComEd Ex. 2.05** contains the following Part 285 schedules that support the 2016
132 Rate Year Net Revenue Requirement presented on Sch FR A-1 to the extent that
133 they differ from the Part 285 schedules that support the 2014 Reconciliation
134 Revenue Requirement presented in Sch FR A-1 - REC:

- 135 • Part 285 Schedule As: A-1 FY, A-2 FY, A-4 FY, and A-5 FY;
- 136 • Part 285 Schedule Bs: B-1 FY, B-2 FY, B-2.4 FY, B-2.5 FY and B-8 FY;
- 137 • Part 285 Schedule Cs: C-1 FY, C-2 FY, C-2.1 FY, C-5 FY, and C-5.4 FY;
- 138 and
- 139 • Part 285 Schedule Ds: D-1 FY and D-6 FY.

140 (6) **ComEd Ex. 2.06** contains workpapers that support the Part 285 schedules
141 included in ComEd Ex. 2.05.

142 (7) **ComEd Ex. 2.07** provides support for ComEd's 2014 pension and other
143 post-employment benefits ("OPEB") expense and the 2014 actuarial valuation
144 reports from ComEd's independent actuarial consultant, Towers Watson.

145 (8) **ComEd Ex. 2.08** contains work papers that support the rate base and revenue
146 requirement impacts of the merger-related costs to achieve ("CTA").

147 (9) **ComEd Ex. 2.09** is ComEd's 2014 Facilities Allocation Study.

148 (10) **ComEd Ex. 2.10** contains schedules for Exelon Business Services Company
149 ("BSC") costs per the final Order in ICC Docket No. 13-0318.

150 Unless otherwise noted, the schedules, appendices, and work papers in ComEd Exs. 2.01
151 through 2.10 have been prepared by me or under my direct supervision.

152 **E. Background and Qualifications**

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

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

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

159 A. I have been employed in various positions since 2002 with either Exelon Corporation
160 ("Exelon"), ComEd's parent company, or ComEd, including roles as Senior and Principal
161 Financial Analysts of ComEd Financial Planning & Analysis, Corporate Planning,
162 Treasury and Investor Relations. In January 2014, I was promoted to my current
163 position, Manager of Revenue Policy for ComEd.

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

165 A. I received a Bachelor of Commerce Degree in Financial and Cost Accounting from
166 University of Mumbai, India, and a Masters of Business Administration with a
167 concentration in Finance from Drexel University's LeBow Graduate School of Business.

168 **II. DELIVERY SERVICE REVENUE REQUIREMENT**

169 **A. 2014 Revenue Requirement**

170 Q. **What was ComEd's delivery service Initial Rate Year revenue requirement in effect**
171 **in 2014?**

172 A. The revenue requirement in effect for 2014 was \$2,187,317,000. This amount was based
173 on ComEd's compliance filing in ICC Docket No. 13-0318.

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

175 A. Sch FR A-1 – REC “Revenue Requirement Reconciliation Computation” provides the
176 final calculation of the 2014 Reconciliation Revenue Requirement for reconciliation
177 purposes, including the key revenue requirement components (operating expenses, rate
178 base, return on rate base, taxes, interest synchronization, and other revenues).

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

180 A. As discussed earlier, the entries on Sch FR A-1 - REC provide the key inputs into
181 ComEd's revenue requirement calculation for the previous year (2014) now that the
182 actual costs are known. The 2014 Reconciliation Revenue Requirement is shown on
183 line 23. This amount is used as an input to Sch FR A-4 “Reconciliation Computation,”
184 which calculates the 2014 reconciliation amount (with interest and net of the ROE Collar)
185 to be included in the 2016 Rate Year Net Revenue Requirement to be effective in January
186 2016.

187 **B. 2016 Rate Year Net Revenue Requirement**

188 Q. **How is ComEd's 2016 Rate Year Net Revenue Requirement shown in the populated
189 revenue requirement formula schedules in ComEd Ex. 2.01?**

190 A. The key components of the 2016 Rate Year Net Revenue Requirement to be effective
191 with the January 2016 monthly billing period are shown on Sch FR A-1 “Net Revenue
192 Requirement Computation.” These include operating expenses, rate base, return on rate

193 base, taxes, interest synchronization, other revenues and the reconciliation amount as
194 calculated on Sch FR A-4. The inputs to these components and calculations are
195 presented in supporting schedules discussed herein.

196 Q. **What other schedules are involved in the development of the 2016 Rate Year Net**
197 **Revenue Requirement?**

198 A. The “FR B,” “FR C,” and “FR D” schedules in ComEd Ex. 2.01, which relate to rate
199 base, operating expenses and revenues, and cost of capital, respectively, are also involved
200 in the development of the 2016 Rate Year Net Revenue Requirement. Additionally,
201 several appendices included in ComEd Ex. 2.01 directly support the calculation of the
202 2016 Rate Year Net Revenue Requirement presented on Sch FR A-1. These schedules
203 and the associated appendices are discussed in the remainder of my direct testimony.

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

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

207 A. ComEd is a “wires only” utility, meaning it has both distribution and transmission
208 functions, but is not a generator of electricity. This formula rate matter involves setting
209 the charges for ComEd’s Illinois jurisdictional distribution function, commonly referred
210 to as delivery service. ComEd’s transmission service charges are regulated exclusively
211 by the Federal Energy Regulatory Commission (“FERC”).

212 Most of ComEd’s costs of service are recorded in accounts in the Uniform System
213 of Accounts (“USOA”) that identify the function the costs support, *i.e.*, they are recorded
214 either in distribution (including customer) accounts or in transmission accounts.

215 However, some of ComEd's costs – most notably (1) the costs in its General and
216 Intangible (“G&I”) Plant Accounts; (2) the costs in its Administrative and General
217 (“A&G”) Accounts; and (3) Taxes Other Than Income – are recorded as common costs
218 and, therefore, need to be split mainly between distribution and transmission for purposes
219 of setting charges. A small amount of these costs also get allocated to the supply
220 function. The process of determining that split is called functionalization or allocation.

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

222 A. ComEd's filing allocates General Plant Account 397 (Communication Equipment) by
223 direct assignment (the location of equipment) as was approved in its prior formula rate
224 cases. This allocation method is consistent with how these costs are allocated in
225 ComEd's transmission formula rate. ComEd's filing allocates the remaining G&I Plant
226 accounts with either of several different allocators, depending upon the account. The
227 Commission has approved use of the Wages & Salaries (“W&S”) Allocator for certain
228 accounts, but directed different methods of allocation for other accounts, including FERC
229 Accounts 389 (Land and Land Rights) and 390 (Structures and Improvements).
230 Specifically, for FERC Accounts 389 and 390, the Commission directed ComEd to use a
231 facilities allocator, based upon a 2009 Facilities Allocation Study which allocated floor
232 space between transmission and delivery service. In its 2014 formula rate update,
233 ComEd presented and used an updated 2013 Facilities Allocation study. In the current
234 filing, ComEd has updated its Facilities Allocation Study for 2014; it can be found at
235 ComEd Ex. 2.09. The updated study shows that 89.68% of ComEd owned facilities
236 should be allocated to the Illinois jurisdictional delivery service function. The study also

237 shows that 86.32% of ComEd's leasehold improvements should be allocated to delivery
238 services. ComEd has allocated its G&I Plant costs consistent with the final Order entered
239 in ICC Docket No. 14-0312.

240 **IV. RATE BASE**

241 **A. Total Rate Base**

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

243 A. ComEd's rate base for purposes of determining the 2014 Reconciliation Revenue
244 Requirement, as of December 31, 2014, is \$7,095,036,000, and for the purposes of
245 determining the 2016 Initial Rate Year Revenue Requirement is \$8,286,130,000,
246 including 2015 net projected plant additions. As Mr. Moy (ComEd Ex. 6.0) and
247 Mr. Fitterer (ComEd Ex. 4.0) testify, the assets in rate base are used and useful and the
248 related investment set forth in ComEd Ex. 2.01, Sch FR B-1, is prudent and reasonable,
249 appropriately functionalized to delivery service, and appropriate for purposes of
250 determining the revenue requirements at issue in this case.

251 **Q. What is included in ComEd's rate base in this filing?**

252 A. In brief, ComEd's rate base includes:

- 253 (1) Costs recorded in Distribution Plant Accounts as of December 31, 2014, such as
254 land, poles, cable, transformers, and meters;
- 255 (2) Costs recorded in G&I Plant Accounts as of December 31, 2014, that support the
256 provision of distribution and customer service, such as office furniture, vehicles,
257 stores equipment, and capitalized software;

- 258 (3) For the 2016 Initial Rate Year Revenue Requirement, costs of Distribution Plant
259 and G&I Plant additions (such as those described above) that are projected to be
260 placed in service by December 31, 2015, with a roll-forward to December 31,
261 2015 of the depreciation reserve for plant existing as of December 31, 2014, and a
262 corresponding adjustment to ADIT; and
- 263 (4) Other assets and liabilities that pertain to the appropriate level of capital
264 investment necessary to provide distribution and customer service, as discussed
265 below.

266 Q. **What are the differences between the 2014 Reconciliation rate base and the 2016**
267 **Initial Rate Year rate base?**

268 A. The two main differences are:

- 269 (1) The 2014 Reconciliation rate base includes Construction Work in Progress
270 (“CWIP”) not accruing Allowance for Funds Used During Construction
271 (“AFUDC”) (which I discuss more fully in Section IV.F.), and the 2016 Initial
272 Rate Year rate base does not, consistent with the final Order in ICC Docket
273 No. 11-0721; and
- 274 (2) The 2016 Initial Rate Year rate base includes 2015 projected plant additions as of
275 March 31, 2015, and associated roll-forwards of the depreciation reserve and
276 ADIT, the latter as directed by the final Order in ICC Docket No. 11-0721, while
277 the 2014 Reconciliation rate base reflects only actual plant additions placed into
278 service through 2014.

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

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

282 A. The level of gross investment in electric utility plant in service at original cost included in
283 ComEd's rate base as of December 31, 2014, before projected plant additions, is
284 \$17,244,257,000. This is calculated by adding \$15,508,575,000 of Distribution Plant and
285 \$1,748,013,000 of G&I Plant and subtracting \$12,331,000 of Distribution Asset
286 Retirement Costs.

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

288 A. Yes. ComEd requests that the Commission approve the original cost of plant in service
289 as of December 31, 2014, before adjustments, of \$17,199,997,000. This amount is
290 calculated by subtracting Asset Retirement costs, capitalized incentive compensation,
291 costs recovered in riders, other costs disallowed in prior ICC orders, and such costs
292 capitalized in 2014, from the total of ComEd's Distribution gross plant and Illinois
293 jurisdictional General and Intangible gross plant. The original costs calculation is
294 summarized in the table below:

2014 Original Cost Calculation
(in 000s)

		<u>Amount</u>	<u>Source</u>
1	Distribution Gross Plant	\$ 15,508,575	FR B-1, Line 1
2	Distribution Asset Retirement Costs	\$12,331	FR B-1, Line 2
3	Jurisdictional G&I Plant Before Adjustments	\$1,748,013	FR B-2, Line 18
4	Line 1 - Line 2 + Line 3	<u>\$ 17,244,257</u>	

5	Prior Docket Adjustments	\$20,136	App 1, Line 3
6	Adjustments - Assets Base Recovered in	\$23,543	App 1, Lines 2,
7	2014 Test Year Adjustments	\$581	App 1, Line 4
8	Line 5 + Line 6 + Line 7	\$44,260	
9	Original Cost	\$ 17,199,997	Line 4 - Line 8

295

296 **Q. Is the original cost calculation for 2014 in compliance with the Commission’s final**
 297 **Order in ICC Docket No. 14-0312?**

298 A. Yes. The original cost calculation in this formula rate update excludes assets that are
 299 recovered through Rider Energy Efficiency and Demand Response Adjustment (“Rider
 300 EDA”), Rider Purchased Electricity (“Rider PE”) and Rider Purchase of Receivables
 301 Combined Billing (“Rider PORCB”). As stated in the Commission’s final Order in ICC
 302 Docket No. 14-0312 ((final Order Dec. 10, 2014) at 106), for these assets excluded from
 303 original cost, the Commission will make separate original cost findings.

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

305 **Q. In 2014, what amount of operating and maintenance (“O&M”) expenses did ComEd**
 306 **incur as result of its election as a participating utility under EIMA?**

307 A. In 2014, ComEd incurred \$96.1 million of O&M expense related to EIMA. Of this,
 308 \$95.2 million is included in ComEd’s Illinois jurisdictional revenue requirements.
 309 Specifically, \$56.1 million was included in distribution O&M, \$33.7 million was
 310 included in customer O&M, and \$5.4 million was included in A&G expenses.

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

313 A. ComEd's 2012 (actual), 2013 (actual), 2014 (actual) and 2015 (projected) EIMA related
314 plant additions included in its delivery services rate base are \$174 million, \$258 million,
315 \$463 million and \$655 million, respectively, and total to a gross amount of \$1,550
316 million. The 2014 actual and 2015 projected amounts are discussed further by Ms. Farkas
317 (ComEd Ex. 3.0).

318 Q. **What is the effect on the revenue requirement of the 2014 and 2015 EIMA related**
319 **plant additions?**

320 A. After adjustments are made for accumulated depreciation and ADIT, the EIMA related
321 net plant included in rate base is \$1,307 million. The impact to ComEd's 2016 Rate Year
322 Net Revenue Requirement is \$172 million.

323 Q. **What is the total impact of EIMA plant additions, depreciation, and O&M to the**
324 **2016 Rate Year Net Revenue Requirement?**

325 A. The table below provides a summary of how the EIMA plant additions (including the
326 EIMA 2015 projected plant additions) and EIMA expenses have an impact on the 2016
327 Net Rate Year Revenue Requirement. The table includes the impacts to the 2014
328 Reconciliation Revenue Requirement.

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

		Plant Additions	Expense	Total
2015 Docket	2016 Initial Rate Year Rev Req	131	130	261
	2014 Reconciliation Rev Req	41	67	108
	2016 Net Rev Req Impact	172	197	369
2016 Net Rev Req Impact				369

329

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

331 Q. **What is the total amount of ComEd’s accumulated provisions for depreciation and**
332 **amortization?**

333 A. The total amount of accumulated depreciation as of December 31, 2014, related to
334 ComEd’s rate base, was \$6,537,169,000, comprised of \$5,721,893,000 related to
335 Distribution Plant and \$815,276,000 related to G&I Plant. These amounts are
336 summarized on ComEd Ex. 2.01, Sch FR B-1 “Rate Base Summary Computation,”
337 lines 7 through 12.

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

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

340 A. Net plant included in rate base as of December 31, 2014, is \$10,665,314,000, and is
341 calculated by subtracting the total amount of accumulated depreciation from the total
342 amount of gross plant as shown on ComEd Ex. 2.01, Sch FR B-1, line 13.

343 **F. Construction Work In Progress**

344 Q. **What is CWIP?**

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

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

351 A. Yes, some CWIP is included in the 2014 Reconciliation rate base. Consistent with
352 ComEd's agreement with Staff in ICC Docket No. 11-0721, ComEd has included CWIP
353 not accruing AFUDC in the calculation of its 2014 Reconciliation rate base (Sch FR A-1
354 - REC, line 12). ComEd's 2014 Reconciliation rate base includes ComEd's investments
355 in small or short term projects that support the distribution and customer functions, on
356 which AFUDC is not being capitalized. The amount as of December 31, 2014, was
357 \$20,166,000. ComEd Ex. 2.01, Sch FR B-1, line 14. Mr. Moy testifies (ComEd Ex. 6.0)
358 that the amount of CWIP included is reasonable.

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

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

362 A. Not at this time.

363 **H. Cash Working Capital**

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

365 A. Cash working capital (“CWC”) is the amount of cash that is appropriate for ComEd to
366 maintain in order to meet its expenses and other cash outflow obligations. ComEd
367 determines the appropriate amount of CWC based on a lead/lag study, which is a specific
368 analysis of the timing of applicable cash inflows to and cash outflows from a utility.

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

370 A. Yes. Rate base includes a deduction of \$47,239,000 for CWC for the rate year as shown
371 on ComEd Ex. 2.01, Sch FR B-1, line 16.

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

374 A. Yes. In accordance with the final Order in *Commonwealth Edison Co.*, ICC Docket No.
375 13-0318 (final Order Dec. 18, 2013), at 18, ComEd has adjusted the formula rate App 3
376 to include a calculation of CWC specifically for the filing year based on the revenue
377 requirement for the filing year. The filing year rate base includes a deduction of
378 \$2,631,000 as shown on ComEd Ex. 2.01, Sch FR B-1, line 34a.

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

380 A. The Commission’s final Order in ICC Docket No. 11-0721 directed ComEd to provide an
381 updated lead/lag study once every three years. The leads and lags were last updated in
382 ICC Docket No. 14-0312. ComEd Ex. 2.01, App 3 reflects the leads and lags approved
383 in that Docket.

384 **I. Accumulated Deferred Income Taxes**

385 Q. **What is ADIT?**

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

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

391 A. The appropriate level of ADIT to be deducted from rate base as of December 31, 2014 is
392 \$3,156,317,000, after adjustments, as shown in ComEd Ex. 2.01, Sch FR B-1, line 17.
393 This level was derived through an analysis of the components of the deferred tax balances
394 which then either directly assigned or allocated the items based on the assignment or
395 allocation of the operating items to which they relate. The 2014 ADIT balance is
396 reflective of the 50% bonus depreciation applicable to 2014 capital investments as well as
397 of the current year deduction under the safe harbor method of tax accounting for repair
398 costs. The jurisdictional amounts allocated to delivery service are presented in ComEd
399 Ex. 2.01 App 4 "Accumulated Deferred Income Taxes Information."

400 **J. Materials and Supplies**

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

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

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

408 A. ComEd included in its rate base the year-end balance of Materials and Supplies less the
409 associated accounts payable. The balance of Materials and Supplies related to
410 distribution is \$69,264,000. ComEd Ex. 2.01, App 1, line 53. The accounts payable
411 related to distribution was calculated by multiplying the distribution-related Materials and
412 Supplies balance by the O&M factor included in cash working capital. The result of the
413 calculation is an accounts payable balance of \$16,572,000. ComEd Ex. 2.01, App 1, line
414 54. The net amount of Materials and Supplies included in rate base is \$52,692,000.
415 ComEd Ex. 2.01, Sch FR B-1, line 18. Materials and Supplies also are discussed by
416 Mr. Moy (ComEd Ex. 6.0).

417 **K. Other Assets and Liabilities**

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

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

421 The first category, shown on ComEd Ex. 2.01, Sch FR B-1, line 19, are regulatory
422 assets in the amount of \$98,816,000. These assets include a regulatory asset representing
423 the unamortized balance (as of year-end 2014) of \$7,459,000 for capitalized incentive
424 compensation costs that was approved by the Commission in its final Order in ComEd's
425 2001 rate case, ICC Docket No. 01-0423. Additionally, unrecovered costs of \$3,070,000
426 related to ComEd's Advanced Metering Infrastructure ("AMI") pilot approved by the
427 Commission in ICC Docket No. 10-0467 are included. Finally, the unrecovered balance

428 of the accelerated depreciation associated with ComEd's AMI investment (apart from the
429 AMI Pilot) of \$88,287,000 has been included.

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

431 A. The second category of other assets included in rate base is deferred debits totaling
432 \$33,496,000, shown on ComEd Ex. 2.01, Sch FR B-1, line 20. This sum includes (1)
433 Cook County Forest Preserve Fees of \$2,677,000, which represent pre-payments made to
434 the Cook County Forest Preserve District related to licensing fees for distribution lines;
435 (2) a Long Term Receivable From the Mutual Beneficial Association ("MBA") Plan of
436 \$1,916,000, which relates to payments that ComEd has made to the trust on behalf of
437 union employees for short term disability and for which it is awaiting reimbursement; (3)
438 a deferred debit associated with ComEd's capitalized vacation pay not included in plant-
439 in-service of \$24,603,000; (4) expected recoveries from insurance on claims made by the
440 public against ComEd of \$2,580,000; and (5) payments to the Commission of \$1,720,000
441 for authorization fees related to future long-term debt issuances.

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

443 A. The third category of other assets included in rate base is the unamortized balances of
444 certain one-time expenses in excess of \$10 million. ComEd has removed certain storm
445 and merger expenses from its operating expenses and is amortizing them over a five-year
446 period, as required by Section 16-108.5(c)(4)(F). In particular, ComEd is amortizing
447 over five years the expenses of three 2011 storms, two 2012 storms, two 2013 storms,
448 and two 2014 storms, each of which was in excess of \$10 million. In 2011, 2012, 2013,
449 and 2014, these storms resulted in expenses of \$68,201,000, \$21,271,000, \$21,987,000,

450 and \$38,139,000, respectively. The unamortized balances of the 2011, 2012, 2013, and
451 2014 storm expenses, \$13,594,000, \$8,499,000, \$13,192,000, and \$30,511,000,
452 respectively, are included in rate base. Additionally, in 2012 and 2013, ComEd incurred
453 merger expenses of \$31,912,000 and \$11,432,000, respectively, and is amortizing these
454 amounts over five years as well. The unamortized merger expense balances for 2012 and
455 2013 of \$12,582,000 and \$6,850,000 respectively, are included in ComEd's rate base.
456 The total unamortized balance of \$85,228,000 related to these expenses is shown on
457 ComEd Ex. 2.01, Sch FR B-1, line 24, and additional detail is provided on App 5
458 "Deferred Charges Information," lines 31-33.

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

460 A. Other liabilities typically refer to costs that ComEd has not yet incurred, but that ComEd
461 has recovered some amounts associated with these costs through delivery service charges,
462 and are a reduction to rate base. The other liabilities, after adjustments, included in rate
463 base are Operating Reserves of \$319,522,000, Asset Retirement Obligations of
464 \$19,057,000, and Deferred Credits of \$104,720,000. These amounts, described further
465 below, are summarized on ComEd Ex. 2.01, Sch FR B-1, lines 21 through 23.

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

468 A. Operating Reserves are recorded in FERC Account 228. The jurisdictional amounts
469 reducing ComEd's rate base total \$319,522,000 and consist of the following:

470 (1) OPEB and other benefits of \$267,847,000;

- 471 (2) Injuries and damages of \$47,081,000 related to workers compensation and public
472 claims;
- 473 (3) Other miscellaneous environmental liabilities of \$2,992,000, primarily related to
474 the reserve for the remediation of Superfund sites; and
- 475 (4) Management retention and incentive liabilities of \$1,602,000.

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

478 A. The delivery service jurisdictional amount of Asset Retirement Obligations of
479 \$19,057,000 recorded in Account 230 represents asset removal costs recovered through
480 depreciation expense (these costs were previously recorded in Account
481 108 - Accumulated Depreciation and were reclassified in 2005 in accordance with the
482 USOA). ComEd Ex. 2.01, Sch FR B-1, line 22.

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

484 A. ComEd has included the deferred credits recorded in FERC Account 253 and two
485 deferred credits recorded in FERC Account 242, which reduce rate base by a total of
486 \$104,720,000. ComEd Ex. 2.01, Sch FR B-1, line 23; ComEd Ex. 3.02, WP 5.

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

489 A. ComEd has included jurisdictional amounts of the deferred credits recorded in FERC
490 Account 253 of \$4,328,000 for deferred rents, and \$3,124,000 for deferred revenues
491 associated with the lease of fiber optic cable.

492 **L. Customer Deposits**

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

494 A. Yes. ComEd receives refundable deposits from certain new customers as a condition of
495 initiating electric service. ComEd's rate base is reduced by \$127,836,000 for customer
496 deposits, as shown on ComEd Ex. 2.01, Sch FR B-1, line 25. As described above,
497 ComEd applied its year-end balance of customer deposits as a reduction to rate base. *See*
498 ComEd Ex. 2.01, App 2 "Customer Deposits Information."

499 **M. Customer Advances**

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

501 A. Yes. ComEd receives refundable distribution system extension deposits from customers
502 under the terms of Rider DE - Distribution System Extensions as customer advances to
503 begin construction. ComEd has reduced rate base for these deposits and advances related
504 to projects included in rate base as of December 31, 2014, or in its 2015 projected plant
505 additions in the amount of \$85,985,000. *See* ComEd Ex. 2.01, Sch FR B-1, line 26 and
506 App 1, lines 23 through 30.

507 **N. Projected Plant Additions, Accumulated Depreciation Reserve, and ADIT**

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

509 A. Yes. The 2016 Initial Rate Year rate base includes ComEd's 2015 projected plant
510 additions as of March 31, 2015 of \$1,637,533,000. This amount consists of
511 \$1,389,318,000 of Distribution Plant additions and \$248,215,000 of G&I Plant additions.
512 These amounts are shown on ComEd Ex. 2.01, Sch FR B-1, lines 29 and 31, respectively.
513 Additional detail is provided in ComEd Ex. 2.01, App 1, lines 31 through 39.

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

516 A. Yes. ComEd has rolled forward its accumulated reserve for depreciation by increasing
517 the 2014 accumulated reserve by the estimated amount of depreciation expense for 2015,
518 which is \$406,882,000. This change to the accumulated reserve is accounted for on
519 ComEd Ex. 2.01, Sch FR B-1, lines 30 plus 32. Essentially, the reserve is increased by
520 the estimated 2015 Distribution Plant depreciation expense of \$298,810,000 and the
521 estimated 2015 G&I Plant depreciation expense of \$108,072,000. All amounts described
522 here are net of projected removal costs. Detailed calculations are provided on ComEd
523 Ex. 2.01, App 1, lines 40 through 48.

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

526 A. Yes. Similar to the change to the accumulated reserve, ComEd has also rolled-forward
527 ADIT. The total amount of the ADIT roll-forward is \$16,760,000 and is presented on
528 ComEd Ex. 2.01, Sch FR B-1, line 33.

529 **V. OPERATING EXPENSES**

530 **A. Total Operating Expenses**

531 Q. **What are ComEd's delivery service operating expenses supporting the 2014**
532 **Reconciliation Revenue Requirement and the 2016 Initial Rate Year Revenue**
533 **Requirement?**

534 A. For the year ending December 31, 2014, ComEd's delivery service operating expenses
535 before income taxes were \$1,711,137,000, reflecting adjustments (and the exclusion of

536 costs recovered under other tariff mechanisms and costs disallowed in past ICC orders for
537 reasons other than timing). ComEd Ex. 2.01, Sch FR A-3, line 16. After accounting for
538 income taxes for both the 2014 Reconciliation and the 2016 Initial Rate Year, and the
539 change in depreciation expense related to the projected plant additions (2016 Initial Rate
540 Year only), ComEd's Illinois jurisdictional delivery service operating expenses were
541 \$1,982,476,000 and \$2,082,745,000, respectively. These delivery service operating
542 expenses consist of two broad categories of expense: distribution-related and customer-
543 related.

544 **Q. Where are ComEd's delivery service operating expenses set forth in the supporting**
545 **schedules and work papers?**

546 A. Sch FR C-1 "Expenses Computation," Sch FR C-2 "Depreciation and Amortization
547 Expense Computation," and Sch FR C-3 "Pension Funding Costs Computation," App 7
548 "Expense Information," and App 8 "Depreciation Information" in ComEd Ex. 2.01
549 support ComEd's operating expenses. Their components are also reflected in the related
550 Part 285 schedules and Part 285 workpapers. In addition, operating expenses are
551 reflected in ComEd Ex. 2.01, Sch FR A-1 as indicated earlier.

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

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

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

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

558 A. ComEd's 2014 Distribution O&M expenses were \$466,699,000. After reflecting
559 adjustments, a total of \$461,398,000 in distribution O&M expenses recorded in FERC
560 Accounts 580-598 is included in the revenue requirements. *See* ComEd Ex. 2.01, Sch FR
561 A-1, line 1; Sch FR A-1 – REC, line 1; and Sch FR C-1, lines 1-3. The prudence,
562 reasonableness, and need to incur these expenses are addressed by Mr. Moy (ComEd
563 Ex. 6.0).

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

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

566 A. Customer-related O&M expenses are expenses recorded in FERC Accounts 901-910,
567 which include the costs of maintaining and servicing customer accounts, *e.g.*, meter
568 reading, customer service, and billing and credit activities. These activities and related
569 expenses are explained in detail by Mr. Fitterer (ComEd Ex. 4.0).

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

572 A. The total customer-related O&M expense for 2014 is \$496,534,000. In determining the
573 revenue requirements, ComEd has adjusted its customer-related O&M expenses for the
574 following:

575 (1) \$214,606,000 reduction to remove the costs associated with ComEd's energy
576 efficiency and demand response program recovered under Rider EDA;

- 577 (2) \$45,131,000 reduction to reflect the total amount of uncollectible accounts
578 expense recorded in FERC Account 904, costs recovered through Rider UF;
- 579 (3) \$12,239,000 reduction to remove customer care costs related to supply, which
580 are addressed by Mr. Fitterer (ComEd Ex. 4.0);
- 581 (4) \$584,000 reduction to remove the non-jurisdictional amount of Outside Agency
582 Collection Fees related to uncollectibles;
- 583 (5) \$171,000 increase to include interest on customer deposits in operating expenses;
- 584 (6) \$1,760,000 reduction to remove costs recovered under Rider PORCB;
- 585 (7) \$936,000 reduction to remove customer assistance expense incurred as part of
586 the \$10,000,000 EIMA customer assistance program (the assistance costs are not
587 included in the revenue requirement; *see* Section V.K);
- 588 (8) \$875,000 reduction to remove certain customer communications costs recorded
589 in FERC Account 908;
- 590 (9) \$125,000 reduction for company credit card costs;
- 591 (10) \$15,000 increase related to Rider MSS;
- 592 (11) \$2,658,000 increase for the statutorily recoverable portion of an EIMA required
593 donation to the Illinois Science and Technology Foundation; and
- 594 (12) \$27,000 reduction for Residential real-time pricing.

595 Adjustments 1 - 12 can be found on ComEd Ex. 2.01, App 7, page 1, lines 4
596 through 22, and additional detail is provided on ComEd Ex. 2.02, WP 7, page 2. After
597 these adjustments, \$223,095,000 of FERC Accounts 901-910 directly relate to and

598 support the delivery service function and are included in the revenue requirements as
599 shown in ComEd Ex. 2.01, Sch FR A-1, lines 2 and 3 and Sch FR A-1 - REC, lines 2 and
600 3. The prudence, reasonableness and need to incur these expenses are addressed by
601 Mr. Fitterer (ComEd Ex. 4.0).

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

605 A. Yes. ComEd has excluded the capital and deferred O&M costs associated with the
606 PORCB program from its rate base, as these costs are recovered through Rider PORCB.
607 The adjustments to exclude these costs can be found on ComEd Ex. 2.02, WP 1, Page 1,
608 Column K and ComEd Ex. 2.02, WP 5, Page 1, line 13. ComEd has also excluded
609 certain on-going costs (such as electronic data interchange (“EDI”)) associated with the
610 program that are also recovered through Rider PORCB. The adjustments to exclude
611 these expenses can be found on ComEd Ex. 2.02, WP 7, Page 2, Line 21, Column D. It
612 should be noted that the first Rider PORCB reconciliation proceeding is currently under
613 way (ICC Docket No. 14-0313), and based upon the Commission’s decision in that
614 docket, ComEd may revise the amount of certain EDI and IT labor costs removed from
615 the revenue requirement in this proceeding.

616 **D. Administrative and General Expenses**

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

618 A. Under the USOA, A&G Expenses are recorded in Accounts 920-935. Costs included in
619 those Accounts generally represent a wide variety of corporate support and overhead

620 costs that benefit or derive from more than one business function. Major A&G support
621 areas include the Human Resources, Finance, Legal, Supply Management, Information
622 Technology, and Corporate Governance functions. Additionally, the costs of employee
623 pensions and benefits, including health care for active and retired employees, as well as
624 rents, injuries and damages expenses, and regulatory expenses are included in these A&G
625 Accounts. Finally, as I mentioned earlier, certain other non-operational costs are
626 recorded in other accounts. All of these types of costs represent expenses ComEd incurs
627 in providing delivery services to its retail customers. They are managed carefully and
628 with systems of cost control and review similar to those applied to distribution and
629 customer operational expenses. A&G expenses that support operations are also discussed
630 by Mr. Moy (ComEd Ex. 6.0) and Mr. Fitterer (ComEd Ex. 4.0), and Ms. Farkas (ComEd
631 Ex. 3.0) discusses the A&G costs that support non-operational functions.

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

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

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

639 A. Costs for these services are directly charged to ComEd where possible; if costs cannot be
640 directly charged, they are allocated to ComEd and the other Exelon affiliates utilizing
641 several allocation factors, which are set forth in the General Services Agreement

642 approved by the Commission in ICC Docket No. 00-0295 and which have also been
643 accepted by the SEC. In all cases, services provided by BSC are billed to ComEd at cost
644 (*i.e.*, with no mark-up). The process by which ComEd acquires services from BSC is a
645 transparent one that assures that ComEd, and in turn ComEd's customers, receive good
646 value. This is described in more detail by Ms. Farkas (ComEd Ex. 3.0).

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

648 A. The amount of A&G expenses included in the revenue requirements is \$346,031,000 as
649 shown on ComEd Ex. 2.01, Sch FR A-1, line 4. These expenses are discussed in large
650 part by Ms. Farkas (ComEd Ex. 3.0), Mr. Moy (ComEd Ex. 6.0) and Mr. Fitterer
651 (ComEd Ex. 4.0), though I discuss certain A&G expenses – pension, other
652 post-employment benefits and merger CTA – below.

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

654 A. As shown on ComEd Ex. 2.07, page 1, ComEd's total 2014 pension cost was
655 \$156,941,000, of which \$84,428,000 was expensed. The jurisdictional amount included
656 in ComEd's A&G expenses is \$74,077,000. These amounts are supported by, and
657 reconciled to, the Towers Watson actuarial studies also included in ComEd Ex. 2.07.

658 **Q. Can you describe the change in jurisdictional pension expense from 2013 to 2014?**

659 A. ComEd's delivery service jurisdictional pension expense in 2014 of \$74,077,000
660 represents a decrease of \$24 million dollars compared to 2013 jurisdictional pension
661 expense included in ComEd's revenue requirements in ICC Docket No. 14-0312.

662 **Q. What accounts for this decrease?**

663 A. The primary driver of the decrease in pension expense was the impact of an increase in
664 the assumed discount rate that was roughly 88 basis points higher in 2014 than in 2013.

665 Q. **The final Commission Order in ICC Docket No. 13-0318 disallowed pension costs**
666 **associated with disallowed or excluded incentive compensation. Has ComEd made**
667 **an adjustment to pension cost in the current proceeding related to previously**
668 **disallowed incentive compensation?**

669 A. Yes. ComEd has reduced the revenue requirement by approximately \$0.2 million
670 jurisdictional as shown on ComEd Ex. 2.01 App 7, line 21 and ComEd Ex. 2.02 WP 7
671 page 2, line 35 related to pension cost attributable to previously disallowed incentive
672 compensation. Exhibit 2.02, WP 7, page 16 contains the calculation of the total impact of
673 previously disallowed AIP on 2014 pension costs.

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

675 A. OPEB costs mainly consist of retiree health care costs and are accounted for separately
676 from pension costs. As shown on ComEd Ex. 2.07, page 1, ComEd's total 2014 OPEB
677 cost was \$7,123,000, of which \$3,795,000 was expensed. The jurisdictional amount
678 included in ComEd's A&G expenses was \$3,330,000. These amounts are supported by,
679 and reconciled to, the Towers Watson actuarial studies also included in ComEd Ex. 2.07.

680 Q. **Can you describe the change in jurisdictional OPEB expense from 2013 to 2014?**

681 A. ComEd's delivery service jurisdictional OPEB expense in 2014 of \$3,330,000 represents
682 a decrease of \$52 million dollars compared to 2013 jurisdictional pension expense
683 included in ComEd's revenue requirements in ICC Docket No. 14-0312.

684 Q. **What accounts for the decrease in OPEB expense?**

685 A. In April 2014, Exelon announced plan design changes for certain of its OPEB plans that
686 capped benefits for active employees and retirees. The plan design changes required a
687 remeasurement of the obligation and costs for those plans pursuant to Accounting
688 Standards Codification Topic 715-60. The remeasurement resulted in a decrease of
689 ComEd's OPEB costs in 2014, which was primarily driven by the reduced benefits as a
690 result of the plan design changes discussed above, and partially offset by the impact of
691 lower discount rates.

692 Q. **Please describe the documents included in ComEd Ex. 2.07.**

693 A. ComEd Ex. 2.07 consists of documents produced by Towers Watson, ComEd's
694 independent actuarial consultant, that show the total actuarially determined net periodic
695 benefit costs incurred by ComEd for the pension and post-retirement welfare plans in
696 which ComEd employees and retirees participate. The exhibit also shows the derivation
697 of jurisdictional pension and post-retirement welfare expenses from the actuarially
698 determined costs.

699 Q. **Are any merger-related costs to achieve (CTA) included in ComEd's operating
700 expenses?**

701 A. Yes. On April 14, 2014, Exelon and Pepco Holdings, Inc. ("PHI") signed an agreement
702 and plan of merger to combine the two companies. The merger is expected to close in the
703 second quarter of 2015. For the year 2014, ComEd incurred a total of \$4.4 million in
704 merger related CTA. The Illinois jurisdictional amount is \$3.8 million, and is included in

705 ComEd's total A&G as shown in ComEd Ex. 2.01, Sch FR A-1, line 4 and FR A-1 REC,
706 line 4. There was no capital spend associated with this merger in 2014.

707 In addition, there was \$0.2 million of merger costs to achieve (expense and
708 capital) incurred in 2014 related to the merger with Constellation Energy ("CEG").
709 ComEd has also included in the revenue requirement the continuing amortization and
710 return on rate base related to CEG merger costs greater than \$10 million incurred in
711 2012-2013. A breakdown of the expense and rate base components included in the
712 revenue requirement for the CEG merger are shown in ComEd Ex. 2.08.

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

714 A. ComEd's 2016 Net Revenue Requirement is increased by \$19.5 million for CEG and
715 \$8.3 million for PHI for a total impact of \$27.8 million. ComEd's 2016 Initial Rate Year
716 Revenue Requirement is increased by \$19.3 million (\$15.4 million for CEG and \$3.8
717 million for PHI) and the 2014 Reconciliation Revenue Requirement is increased by \$8.4
718 million (\$4.0 million for CEG and \$4.4 million for PHI). These amounts include the
719 amortization of CEG merger-related costs approved in ICC Docket Nos. 13-0318 and
720 14-0312. The calculations supporting these amounts are included in ComEd Ex. 2.08.

721 **E. Return on Pension Asset**

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

724 A. A debt-only return is calculated on the jurisdictional portion of the pension asset net of
725 ADIT. See ComEd Ex. 2.01, Sch FR C-3. This amount totaled \$51,984,000.

726 Q. **How does the pension funding amount identified in this filing compare to the**
727 **amount allowed by the Commission in ICC Docket No. 14-0312?**

728 A. In its final Order in ICC Docket No. 14-0312, the Commission allowed a (debt only)
729 return on ComEd's pension asset of \$53,473,000. The decrease of almost \$2 million is
730 primarily due to a reduction in the pension asset balance.

731 **F. Sales and Marketing Expense**

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

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

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

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

738 A. The amount of depreciation and amortization expense of electric utility plant included in
739 the revenue requirements is \$522,769,000. The amount of 2014 depreciation and
740 amortization expenses included in the revenue requirements is \$473,086,000, comprised
741 of \$373,572,000 related to Distribution Plant and \$99,514,000 related to G&I Plant.
742 Additionally, the 2016 Initial Rate Year Revenue Requirement and 2016 Rate Year Net
743 Revenue Requirement include an additional \$49,683,000 of depreciation expense
744 associated with the 2015 projected plant additions. See ComEd Ex. 2.01, Sch FR C-2 for
745 calculations of both the actual 2014 and projected 2015 jurisdictional depreciation
746 expense. The depreciation rates used to calculate depreciation expense for the 2014

747 Reconciliation Revenue Requirement and the 2016 Initial Rate Year Revenue
748 Requirement are the same.

749 **H. Taxes Other than Income**

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

751 A. The amount of taxes other than income included in the revenue requirements is
752 \$142,766,000. In general, these include real estate taxes, the Illinois Electricity
753 Distribution Tax (“IEDT”), payroll taxes and several other taxes. A detailed analysis of
754 the taxes other than income included in the revenue requirements is provided on ComEd
755 Ex. 2.01, App 7, page 2, lines 41 through 62. The amounts on line 62 represent the taxes
756 prior to final jurisdictional amounts, which can be found on ComEd Ex. 2.01, Sch FR
757 C-1, line 10.

758 **Q. Have you excluded payroll taxes related to previously disallowed incentive**
759 **compensation?**

760 A. Yes. In compliance with the Commission’s final Order in ICC Docket No. 13-0318,
761 ComEd has excluded \$634,000 of payroll taxes related to previously disallowed incentive
762 compensation (for example, restricted stock, stock options and BSC Annual Incentive
763 Plan (“AIP”) related to net income). *See* ComEd Ex. 2.02, WP 7, page 2, lines 41 and 42.

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

765 A. Yes. ComEd recorded an accrual in 2014 for an estimated IEDT credit of \$14,076,000
766 related to its actual 2014 IEDT of \$117,299,000, and a credit adjustment of \$1,340,000 to

767 the estimated IEDT credits for the year 2013, reflecting the net amount of \$101,883,000
768 in operating expense. This adjustment is shown as follows:

Illinois Electricity Distribution Tax (IEDT)
2014 Actual Amount Included in the Revenue Requirement

2014 Accrual	\$ 117,299,000
2014 Estimated IEDT Credit	(14,076,000)
Adjustment for 2013 IEDT Credits Received in 2014	<u>(1,340,000)</u>
Net Amount of 2014 IEDT Taxes Included in Operating Expense	<u>\$ 101,883,000</u>

769

770 **I. Income Taxes**

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

772 A. The amount of income taxes included in the 2014 Reconciliation Revenue Requirement is
773 \$188,956,000. ComEd Ex. 2.01, Sch FR A-1- REC, lines 15, 18 and 19. The amount of
774 income taxes included in the 2016 Initial Rate Year Revenue Requirement, which
775 includes the impact of the projected 2015 plant additions, is \$225,712,000. See ComEd
776 Ex. 2.01, Sch FR A-1, lines 15, 18 and 19. Income taxes have been calculated based on
777 the expenses and miscellaneous revenues assigned or allocated to the delivery service
778 function. Likewise, ComEd has analyzed differences in book and tax treatment of 2014
779 revenues and expenses and assigned or allocated those differences to the delivery service
780 function as described in ComEd Ex. 2.01, Sch FR C-4 “Taxes Computation” and App 9
781 “Permanent Tax Impacts Information.”

782 Q. **How is Sch FR C-4 used in developing ComEd's delivery service revenue**
783 **requirements?**

784 A. Sch FR C-4 provides the calculations of ComEd's effective income tax rate, gross-up
785 factor for income taxes, interest synchronization deduction, and gross revenue conversion
786 factor. Sch FR C-4 also summarizes the permanent tax differences and amortization of
787 permanent tax differences. These amounts, after application of the gross revenue
788 conversion factor, reduce the revenue requirements by \$19,627,000 (*see* ComEd
789 Ex. 2.01, Sch FR C-4, line 14), and are included in ComEd's total income taxes described
790 previously.

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

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

795 **J. Regulatory Asset Amortization**

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

798 A. Yes. As shown on ComEd Ex. 2.01, Sch FR C-1, line 18, ComEd included in its revenue
799 requirements \$43,288,000 of regulatory asset amortization. This amount includes the
800 effects of the Commission's final Order in ICC Docket No. 10-0467, which revised the
801 amount of amortization of several existing regulatory assets, authorized amortization of
802 new regulatory assets, and eliminated amortization of others. Regulatory asset
803 amortization also includes (1) \$694,000 of the \$2,083,000 in formula rate case expenses

804 incurred in 2012 related to ICC Docket No. 11-0721 and allowed for recovery in the final
805 Order in ICC Docket No. 13-0318; (2) \$69,000 of the \$215,000 in formula rate case
806 expenses incurred in 2013 related to ICC Docket No. 11-0721; and (3) \$24,000 of the
807 \$71,000 in formula rate case expenses incurred in 2014 related to ICC Docket
808 No. 11-0721. Section 16-108.5(c)(4)(E) of the PUA provides that these costs be
809 amortized over a three-year period. These costs are further discussed by Ms. Brinkman
810 (ComEd Ex. 1.0).

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

812 Q. **Did ComEd include any expenses related to the \$10 million of EIMA Credits it**
813 **incurred in 2014 in its revenue requirements?**

814 A. No. The vast majority of the \$10 million program credits (\$8,434,000) was recorded as
815 customer bill credits and was not included in operating expenses. Additionally, \$936,000
816 of customer assistance expense recorded in FERC Account 908 and \$631,000 of
817 advertising expenses recorded in FERC Account 930.1 were also removed from operating
818 expenses. *See* ComEd Ex. 2.02, WP 7, page 13.

819 **VI. MISCELLANEOUS REVENUES**

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

821 A. Based on a detailed analysis of these revenues, \$130,999,000, after adjustments, was
822 directly assigned or allocated to the delivery service or distribution function (as
823 applicable) and was therefore deducted from the revenue requirements. *See* ComEd
824 Ex. 2.01, App 10 “Other Revenues Information” for detailed calculations. This aggregate
825 amount consists of: miscellaneous revenues of \$27,779,000 (which includes \$9,698,000

826 of late payment charges related to PORCB) received in connection with late payment fees
827 and earned finance charges allocated to the delivery service function based on the
828 methodology approved by the Commission in ICC Docket No. 10-0467; \$7,886,000 of
829 miscellaneous service revenues (*i.e.*, meter service fees); \$68,180,000 of rental payments
830 for facilities recorded in distribution accounts and included in the distribution rate base
831 (*e.g.*, equipment and meter rentals, pole attachments, third party use of fiber optic cable
832 and rent from affiliates); other Electric Revenues of \$1,925,000 (fees earned from a
833 telephone referral program and reimbursements for customer requested studies); an
834 adjustment of \$4,299,000 to reflect annualized revenues to be collected from reselling
835 municipalities as compensation for their usage of a portion of the ComEd distribution
836 system; and other adjustments totaling \$20,929,000 (including cost of delivery service
837 recovered under Rider FCA - Franchise Cost Additions, detailed in ComEd Ex. 2.01, App
838 11 “Franchise Delivery Service Value Information,”) and amounts recovered for facility
839 lighting.

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

841 **A. Adjustments to Rate Base**

842 **Q. What is the net change to the delivery service rate base attributable to the 2015**
843 **projected plant additions and the associated increase in the depreciation reserve and**
844 **ADIT?**

845 **A.** As discussed in Section IV above, ComEd has included both the 2015 projected plant
846 additions as of March 31, 2015, and the associated estimated increase in, or the
847 roll-forward of, the depreciation reserve relating to plant in service and ADIT as of

848 December 31, 2014. These amounts increased rate base by a net amount of
849 \$1,213,891,000. The projected plant additions are reasonably expected to be placed in
850 service by December 2015. These additions and amounts are supported by Mr. Moy
851 (ComEd Ex. 6.0) and Mr. Fitterer (ComEd Ex. 4.0). The increase in the depreciation
852 reserve is calculated by adding the estimated 2015 depreciation expense to the reserve.
853 This amount reflects the estimated 2015 depreciation expense on both plant existing as of
854 December 31, 2014, and the 2015 projected plant additions. These calculations are
855 presented on ComEd Ex. 2.01, App 1, lines 38 through 55. The change in ADIT related
856 to the projected plant additions of \$16,760,000 is shown on ComEd Ex. 2.01, Sch FR
857 B-1, line 33 and App 1, line 39, and is calculated on ComEd Ex. 2.02, WP 19.

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

859 A. Yes. ComEd has reduced its delivery service rate base for costs recovered through other
860 tariffs (for example, costs recovered through Rider PORCB and Rider EDA, as discussed
861 earlier). Additionally, ComEd reduced rate base for amounts disallowed in prior ICC rate
862 proceedings for reasons other than timing (for example, capitalized incentive
863 compensation costs). These amounts are presented on ComEd Ex. 2.01, App 1, lines 1
864 through 22.

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

866 Q. **What types of adjustments are made to 2014 operating expenses?**

867 A. The costs removed from operating expenses on Sch FR C-1 and App 7 included
868 ratemaking adjustments, costs recovered through other tariffs, and voluntary exclusions.
869 Some of these adjustments have already been described above and include (among

870 others) bank fees accounted for in the cost of credit facilities and non-delivery service
871 regulatory costs. Operating expenses are also reduced for costs recovered through other
872 tariffs (for example, supply administration costs and residential real-time pricing).
873 Finally, similar to ComEd's adjustments in its last FRU case, ICC Docket No. 14-0312,
874 ComEd has voluntarily reduced its operating expenses by a portion of compensation costs
875 of certain executives, and half of its corporate jet costs. These amounts are presented on
876 ComEd Ex. 2.01, App 7, page 1.

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

879 A. Yes. As allowed by Section 9-227 of the PUA, ComEd adjusted its operating expenses to
880 include charitable contributions. These costs are recorded "below the line," and for
881 ratemaking purposes, ComEd has included in its operating expenses a jurisdictional
882 amount based on the W&S allocator of \$6,477,000. Of this amount, \$2,658,000 is
883 included in customer accounts and \$3,819,000 in A&G accounts. ComEd has provided a
884 description of each charitable organization, the purpose of each donation, and how the
885 donation meets the requirements set by Section 9-227 in ComEd Ex. 2.02, WP 7, page 4,
886 subpages 1-29.

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

889 A. Yes. Section 16-108.6(f) of the PUA requires that a participating utility shall pay a pro
890 rata share, based upon number of customers, of a \$5 million donation to the Illinois
891 Science and Energy Innovation Foundation, 70 percent of which is recoverable. In 2014,

892 ComEd paid \$3.8 million to the Foundation and has included \$2,658,000 in its charitable
893 contributions, as referenced in Section V.C.

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

895 A. Other Revenues are reduced by removing amounts applicable to transmission services; in
896 particular, ComEd has removed the amounts reflected in Accounts 450 and 451. *See*
897 ComEd Ex. 2.01, App 10.

898 **VIII. OTHER**

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

900 A. Yes. In accordance with the final Order in ICC Docket No. 13-0318, ComEd has
901 included a set of schedules showing the total BSC costs allocated to ComEd and the
902 amount included in its revenue requirements. *See* ComEd Ex. 2.10.

903 **IX. GROSS REVENUE CONVERSION FACTOR**

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

905 A. ComEd's GRCF is 1.700, the development of which is shown on ComEd Ex. 2.01, Sch
906 FR C-4, line 13.

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

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

909 A. ComEd's overall weighted cost of capital (rate of return) is 7.02% for the 2014
910 Reconciliation Year and 7.05% for the 2016 Initial Rate Year. The cost of capital figures
911 are derived from the following capital structure and costs, which reflect the full removal

912 of goodwill from the capital structure. ComEd’s rate of return components are also
913 addressed by Ms. Farkas (ComEd Ex. 3.0).

2014 Reconciliation Year

<i>Capital Structure Component</i>	<i>Weighting</i>	<i>Cost</i>	<i>Weighted Cost</i>
<i>Common Equity</i>	46.25%	9.09% ⁽¹⁾	4.20%
<i>Long Term Debt</i>	53.18%	5.24%	2.79%
<i>Short Term Debt</i>	0.57%	0.33%	0.00%
<i>Credit Facility Cost</i>			0.03%
<i>Total Weighted Average</i>	100.00%		7.02%

2016 Initial Filing Year

<i>Capital Structure Component</i>	<i>Weighting</i>	<i>Cost</i>	<i>Weighted Cost</i>
<i>Common Equity</i>	46.25%	9.14%	4.23%
<i>Long Term Debt</i>	53.18%	5.24%	2.79%
<i>Short Term Debt</i>	0.57%	0.33%	0.00%
<i>Credit Facility Cost</i>			0.03%
<i>Total Weighted Average</i>	100.00%		7.05%

(1) Incorporates 5 basis points penalty for missing EIMA reliability metric in 2014

914

915 Q. **Which schedules in ComEd Ex. 2.01 support ComEd’s rate of return?**

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

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

919 A. Sch FR D-1 summarizes ComEd's overall weighted cost of capital, and provides
920 calculations of ComEd's capital structure, weighted costs of each capital structure
921 component, and the overall weighted average cost of capital for both the 2014
922 Reconciliation Revenue Requirement and the 2016 Initial Rate Year Revenue
923 Requirement.

924 Q. **What is the interest rate that is applied to the 2014 reconciliation balance?**

925 A. ComEd has applied its pre-tax weighted average cost of capital of 7.02%

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

927 A. Sch FR D-2 calculates the average monthly market yields on 30-year treasury bonds.
928 This amount is added to the return on equity base of 580 basis points to determine
929 ComEd's cost of equity on ComEd Ex. 2.01, Sch FR D-1.

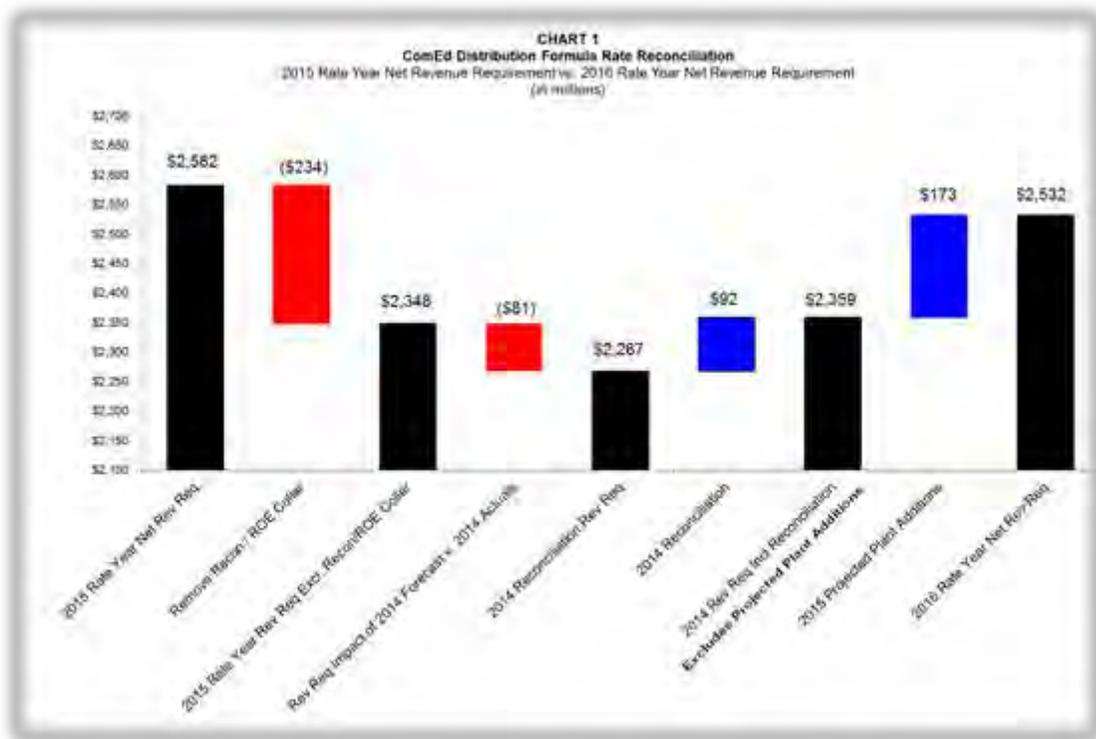
930 **XI. COMPARISON TO 2015 RATE YEAR NET REVENUE REQUIREMENT**

931 Q. **How does ComEd's 2016 Rate Year Net Revenue Requirement presented in your
932 direct testimony compare with the delivery service revenue requirement approved
933 by the Commission in ICC Docket No. 14-0312?**

934 A. ComEd's formula-derived 2016 Rate Year Net Revenue Requirement is \$2,531,558,000,
935 \$50,456,000 less than the \$2,582,014,000 2015 Rate Year Net Revenue Requirement
936 approved by the Commission in its final Order in ICC Docket No. 14-0312
937 (*Commonwealth Edison Co.*, ICC Docket No. 14-0312 (Order Dec. 10, 2014), at 106),
938 adjusted for Public Act 98-0015.

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

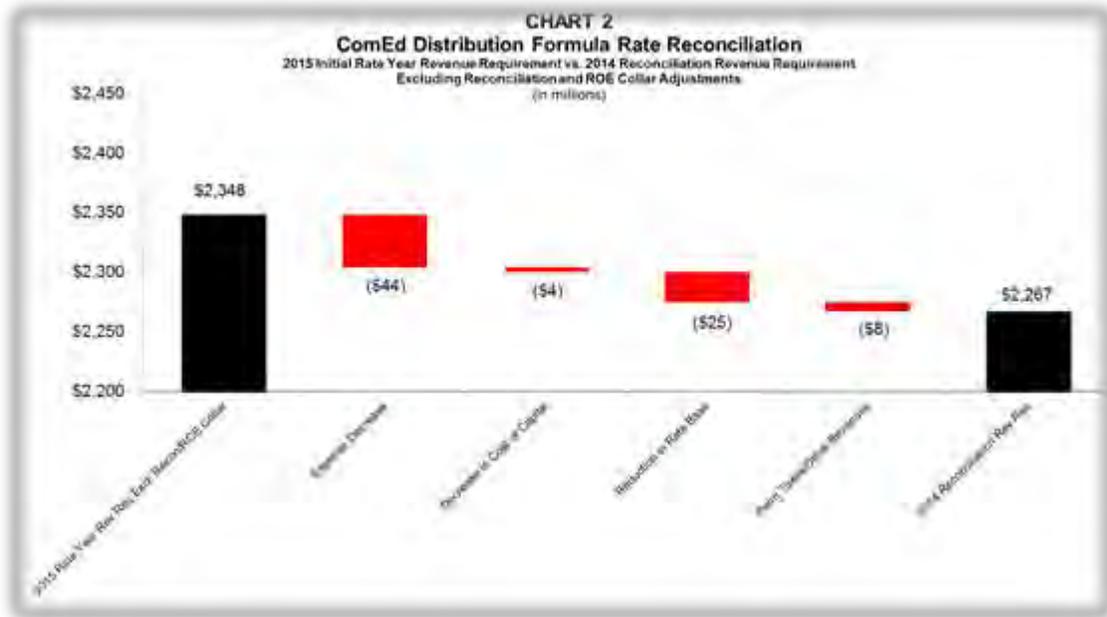
940 A. As shown in Chart 1, below, the majority of the difference is related to three components.
 941 The first is a decrease in ComEd's costs in 2014 over 2013. The second is the
 942 reconciliation of the 2014 Reconciliation Revenue Requirement to the revenue
 943 requirement in effect in 2014. The third is the inclusion of the 2015 projected plant
 944 additions, net of the change in the depreciation reserve and ADIT.



945

946 Q. **Can you summarize the key drivers behind the decrease in 2014 Reconciliation**
 947 **Revenue Requirement over the 2015 Initial Rate Year Revenue Requirement?**

948 A. The key driver of the decrease to the 2014 Reconciliation Revenue Requirement is lower
 949 expenses primarily related to lower pension and OPEB expenses. Additionally, there was
 950 a decrease in rate base primarily related to ADIT. These changes are shown in Chart 2.



951

952 **XII. CONCLUSION**

953 **Q. What is your overall conclusion regarding the 2016 Rate Year Net Revenue**
954 **Requirement determined pursuant to the revenue requirement formula?**

955 **A.** Apart from the issues that are or may be on appeal, the 2016 Rate Year Net Revenue
956 Requirement will produce delivery service charges that are authorized by the statute, are
957 correctly calculated, and are just and reasonable.

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

959 **A.** The Commission should approve the updated cost data provided in this filing, the revenue
960 requirement and reconciliation calculations described in this filing, and the associated
961 update of ComEd's delivery services charges. ComEd also requests that the Commission
962 make a finding as to the original cost of ComEd's electric utility plant in service as of
963 December 31, 2014.

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

965 A. Yes.