STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

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CHIEF CLERK'S OFFICE

COMMONWEALTH EDISON COMPANY	:	
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Petition for approval of delivery services tariffs and tariff revisions and of residential delivery services implementation plan, and for approval of certain other amendments and additions to its rates, terms, and conditions	:	No. 01-0423

Supplemental Rebuttal Testimony of

PHILIP E. VOLTZ

Director, New Residential Construction Group
Exelon Infrastructure Services

1 Q. What is your name and business address?

2 A. Philip E. Voltz, Exelon Infrastructure Services, 200 Yale Avenue, Morton, Pennsylvania
3 19070.

4 Q. Have you previously given direct and rebuttal testimony on behalf of Commonwealth
5 Edison Company (the "Company" or "ComEd") in this Docket?

6 A. Yes.

7 Q. What are the purposes of your testimony?

8 A. The purposes of my testimony are to respond to: (1) supplemental direct testimony on the
9 subject of ComEd's distribution salaries and wages expense by Illinois Commerce
10 Commission (the "Commission") Staff ("Staff") witness Bryan Sant and (2) supplemental
11 direct testimony on the subject of ComEd's distribution operations and maintenance
12 ("O&M") expenses by "Government and Consumers" ("GC") witnesses David Schlissel
13 and David Effron.

14 **Distribution Salaries and Wages Expense**

15 Q. Mr. Sant "calculates an amount for distribution salaries and wages expense based on
16 1998 amounts." (Staff Ex. 14.0, page 5, lines 108-109). Is Mr. Sant's approach
17 appropriate?

18 A. No. In doing so, he is implying that 1998 is a "normal" year. In relation to subsequent
19 years, 1998 was not and should not be considered a "normal" year. In 1999, ComEd
20 started to implement many well-known substantial changes to various distribution
21 planning, operation, and maintenance practices. By 2000, ComEd had improved the
22 reliability of its distribution system, in large part as the result of ComEd's efforts. The

23 costs of those new practices cannot be ignored in a test year. Because 1998 is prior to
24 2000 and thus prior to these substantial changes, it is not indicative of a "normal" year.
25 The best, known and measurable indicator of a "normal" year is the adjusted 2000 test
26 year.

27 Q. Mr. Sant shows the total distribution salaries and wages expenses to be $111 million,
28 $138 million, and $190 million for 1998, 1999, and 2000 respectively. (Staff Ex. 14.0,
29 page 3, lines 63-65). Does the apparent increase Mr. Sant cites reflect a substantial
30 increase in real spending?

31 A. No, for the most part it does not. In 2000, ComEd accounted for refunctionalization of
32 transmission costs to distribution, and also accounted for annual incentives at a
33 distribution level. Previously, these costs were not accounted for at this level. Further, an
34 annual 3.5% inflation factor and ComEd's proposed downward adjustments need to be
35 taken into account. Once these items have been factored in, the spending in 1998, 1999,
36 and 2000 (shown in 2000 dollars) is $118 million, $139 million, and $131 million,
37 respectively. This represents a $21 million increase from 1998-1999 and an $8 million
38 decrease from 1999-2000. The net $13 million increase, from 1998 to 2000, in salaries
39 and wages is a reflection of the substantial changes ComEd has made to its practices in
40 order to maintain and improve reliability.

41 Q. Can Mr. Sant's proposed adjustment to levelize distribution salaries and wages expense
42 (Staff Ex. 14.0. pages 5-6, lines 108-115 and Schedule 14.7) be considered
43 simultaneously with the other downward adjustments to O&M expense that have been
44 proposed?

45 A. No. Even assuming that all of the proposed adjustments are valid, that would be double
46 counting. Levelization averages for expenses cannot be simultaneously sought while also
47 seeking to retain the downward adjustments made by ComEd or proposed by other
48 parties. For example, ComEd has already made numerous downward adjustments in
49 O&M expenses. These adjustments include merger costs, merger related annual
50 incentives, discontinuation of the Light Bulb program, and storm restoration costs. These
51 downward adjustments represent a $4.4 million adjustment to salaries and wages in
52 distribution expense accounts. If a levelization average does not exclude downward
53 adjustments to expenses, it will count them twice -- once as an adjustment and once
54 because the adjusted expense level does not occur in prior years and is, therefore,
55 "levelized" away. This is explicit double counting. Additionally, any further downward
56 adjustments need to be taken into account when considering any proposed levelization of
57 expenses.

58 Q. Given the expenses included in the 2000 test year, is a levelization adjustment of salaries
59 and wages expenses, such as the one proposed by Mr. Sant appropriate or necessary?
60 A. No. Such an adjustment is neither appropriate nor necessary, for the reasons stated above
61 and based on the facts stated in ComEd's earlier testimony.

62 **Distribution Operations and Maintenance Expense**

63 Q. Do the various reports referenced by Mr. Schlissel (*e.g.*, GC Ex. 3.1, pages 1-7) show that
64 ComEd has included inflated expenditures in its proposed revenue requirement?
65 A. No, they do not. Nowhere in these reports is it stated or concluded that ComEd has
66 included expenditures that should not be in the revenue requirement. Those reports and
67 evaluations were designed to review ComEd's system and practices to find areas of

68 concern and recommend paths forward for improvement. These reports are, therefore,
69 inherently negative in nature, based on a "hindsight" standard of what the author believes
70 could have been done differently given what the author knew at the time the report was
71 written. Moreover, they are directed at process improvements, not an analysis of
72 expenses.

73 Q. Are costs that were expensed related to the outages in July and August of 1999 included
74 in the revenue requirement?

75 A. No. Any emergency restoration costs that were expensed and were related to the outages
76 in July and August of 1999 would have been expensed in 1999 and as such are not
77 included in the test year.

78 Q. In Mr. Schlissel's testimony, he refers to ComEd internal projections of "distribution
79 group O&M" for 2001 and 2002. (GC Ex. 3.1, page 7, lines 1-2). Are these numbers
80 still relevant?

81 A. No. Mr. Schlissel is relying on "2001/2002 Targets" from a document dated well over a
82 year ago, April 12, 2000. And, the document was far from final then, as is apparent from
83 the fact that it is labeled in the top left hand corner "Preliminary Draft". The information
84 in that document was superceded and outdated some time ago.

85 Q. Mr. Schlissel claims to provide "evidence that the Company's O&M expenditures during
86 2000 are not representative of future on-going expenditures" (GC Exhibit 3.1, page 6,
87 lines 3-5), stating that "the total cost for this Feeder Inspection and Repair Program
88 would be $13,355,107 per year for 2000 and 2001 which was slightly less than double the

89 $6,831,114 projected total cost per year for the program for each of the years 2002-
90 2005." (Exhibit GC 3.1, page 6, lines 13-15). Is his statement correct?
91 A. No. Mr. Schlissel made an error. In referring to the Year 2000 Feeder Inspection and
92 Repair Program document dated November 8, 1999, Mr. Schlissel provides the total cost
93 (O&M expense and capital) for the Feeder Inspection and Repair Program. As he was
94 referring to O&M expenditures, he should have provided only O&M expense. In
95 actuality, the document projects annual O&M expenses of $3.7 million in 2000 and 2001
96 to increase to $5.2 million of ongoing annual O&M expense. Therefore, this document
97 actually provides evidence that ComEd's relevant test year O&M expenses are
98 reasonable and may even understate future expenses.

99 Q. Please describe the major drivers of increases in Operating and Maintenance expense
100 since 1998.
101 A. At a top-level, for FERC Accounts 580-598, there was a $164 million increase between
102 1998 and 2000. Over 40% of this amount, or $70 million, is attributable to accounting
103 changes and does not reflect a real increase in spending. These accounting changes
104 include accounting for annual incentive compensation at a distribution FERC account
105 level and refunctionalization of transmission expenses to distribution. ComEd has also
106 proposed $15 million in downward adjustments to its 2000 test year distribution
107 expenses. Assuming 3.5% inflation, another $19 million can be attributed to cost
108 inflation. This leaves a real spending increase of $60 million. Other major areas of
109 increase include the Jefferson substation refurbishment ($3.0 million); distribution
110 substation maintenance ($15 million); DB&A consulting to conduct optimization and
111 efficiency programs ($7 million); and CEGIS ($6 million). In total, this accounts for

112 $135 million of the increase from 1998 to 2000 or about 82%. The remaining variance is
113 accounted for in small amounts through numerous activities.

114 Q. Mr. Effron claims that expenses in FERC accounts 580 and 590 are "abnormally high."
115 (GC Ex. 2.0 (Supplemental), page 1, lines 20-23, page 2, lines 1-2) He suggests that
116 "Unless the Company can satisfactorily explain the causes for the increases in the
117 expenses in recent years and establish that the increased levels of expenses for Accounts
118 580 and 590 in 2000 are reasonable and expected to continue into the future, the delivery
119 services revenue requirement should be reduced to reflect normalization adjustments..."
120 (GC Exhibit 2.0 (Supplemental), page 3, lines 10-14). Could you explain the variance in
121 these expenses?

122 A. Certainly, although I do not agree that ComEd, having substantiated its 2000 test year
123 expenses, with appropriate adjustments, has or should have a further burden of proof of
124 future costs. (*See* ComEd Exhibit 28.0 for further discussion of that point.) In 2000,
125 ComEd recorded $42.9 million for incentive payments that were previously recorded at a
126 different FERC account level. This accounting change is the principal driver of increases
127 in FERC account 580. Other main drivers include refunctionalization of $8.4 million,
128 merger integration expenses of $2.3 million and increased expenditures on CEGIS of
129 $5.9 million, regulatory reporting of $4.2 million, and customer studies of $2.4 million.
130 This accounts for about 85% of the variance from 1998 through 2000 (adjusting for
131 inflation). The remaining variance is accounted for in small amounts through numerous
132 activities.

133 The principal drivers of expense increase in FERC Account 590, include an
134 operational excellence study conducted by DB&A of $5.8 million to improve the

135 effectiveness and efficiency of ComEd's labor force, increased information system costs
136 of $3.9 million, and refunctionalization of $3.5 million. This accounts for 80% of the
137 increase between 1998 through 2000 (adjusting for inflation). The remaining variance is
138 accounted for in small amounts through numerous activities.

139 Q. Are any of the expenses listed above excluded from ComEd's proposed revenue
140 requirement?

141 A. Yes, merger integration expenses and merger related incentives have been removed from
142 ComEd's proposed revenue requirement. In addition, contractor, legal, and other
143 incremental costs related to the Liberty and Vantage reports are taken out of regulatory
144 reporting and the proposed revenue requirement.

145 Q. In his supplemental direct testimony, Mr. Effron states that "Compared to expenses
146 incurred in recent years, the expenses charged to distribution maintenance Account 592 –
147 Maintenance of Station Equipment, Account 593 – Maintenance of Overhead Lines
148 (except tree trimming and storm damage), and Account 594 - Maintenance of
149 Underground Lines also appear to be abnormally high." (GC Exhibit 2.0 (Supplemental),
150 page 3 lines 20-23, page 4, line 1). Were there abnormally high expenses in these
151 accounts?

152 A. No. The principal drivers of expense increase in FERC Account 592 include increased
153 substation maintenance of $15.1 million, the Jefferson refurbishment project of $3.0
154 million, and refunctionalization of $2.8 million. This accounts for 91% of the increase
155 between 1998 through 2000 (adjusting for inflation). The remaining variance is
156 accounted for in small amounts through numerous activities.

157 After removing tree management and storm expenses from Account 593, there is
158 a $12.9 million variance (adjusting for inflation) between 1998 and 2000. The primary
159 drivers include $4.3 million for refunctionalization, $1.9 million for storm standby
160 expenses, $1.5 million for repairing overhead lines, $1.4 million for the overhead
161 inspection program, $1.1 million for construction of overhead facilities, and $1.0 million
162 for patrolling the overhead system. This accounts for 87% of the increase between 1998
163 and 2000 (adjusting for inflation). The remaining variance is accounted for in small
164 amounts through numerous activities.

165 FERC Account 594 shows a variance of $11.4 million (adjusting for inflation)
166 between 1998 and 2000. Refunctionalization accounts for $2.7 million, repairing
167 underground cable faults for $1.5 million, repairing underground lines for $1.4 million,
168 underground construction for $1.3 million, manhole inspection for $1.1 million and lock
169 inspection for $1.1 million. This accounts for 80% of the increase between 1998 and
170 2000 (adjusting for inflation). The remaining variance is accounted for in small amounts
171 through numerous activities.

172 Q. Is Mr. Effron's "normalization adjustment" (GC Ex 2.0 (Supplemental), Schedule DJE-
173 1S) for FERC accounts 580, 590, 592, 593, and 594 based on the level of expenses
174 incurred in 1995-1999 appropriate?

175 A. No. First, expenses incurred in the years 1995 and 1996 occurred before the 1997 test
176 year, and have already been accounted for in the previous delivery services rate case. It
177 makes no sense to include these same years in the current filing. Second, because the
178 years 1995 through 1998 are prior to the substantive changes ComEd made in 1999 and
179 2000, they do not properly reflect its costs. Finally, in this testimony (and in previous

180 testimony) I have explained the major drivers of distribution O&M expense increases of
181 the past few years. These drivers have been just and reasonable. As stated in my
182 previous testimony, the adjusted 2000 test year is appropriate and reasonable. For the
183 above reasons, the adjustments proposed by Mr. Effron are improper and should be
184 disallowed.

185 Q. Does this conclude your supplemental rebuttal testimony?

186 A. Yes.