

STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION

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| _____                              | ) |                    |
| COMMONWEALTH EDISON                | ) |                    |
| COMPANY                            | ) |                    |
|                                    | ) |                    |
| Annual formula rate update and     | ) | Docket No. 15-0287 |
| revenue requirement reconciliation | ) |                    |
| under Section 16-108.5 of the      | ) |                    |
| Public Utilities Act.              | ) |                    |
| _____                              | ) |                    |

Rebuttal Testimony and Exhibits of

**Michael P. Gorman**

On behalf of

**Citizens Utility Board and  
Illinois Industrial Energy Consumers**

August 12, 2015



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ILLINOIS COMMERCE COMMISSION

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**Rebuttal Testimony of Michael P. Gorman**

1    **Q    PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2    A    Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140,  
3        Chesterfield, MO 63017.

4    **Q    ARE YOU THE SAME MICHAEL P. GORMAN WHO PREVIOUSLY FILED**  
5        **DIRECT AND CORRECTED DIRECT TESTIMONY ON BEHALF OF THE**  
6        **CITIZENS UTILITY BOARD AND THE ILLINOIS INDUSTRIAL ENERGY**  
7        **CONSUMERS (“CI”) IN THIS PROCEEDING?**

8    A    Yes.

9    **Q    WHAT IS THE PURPOSE OF YOUR REBUTTAL?**

10   A    The purpose of my rebuttal testimony is to address the rebuttal testimony of  
11        Commonwealth Edison (“ComEd” or “Company”) Witness Christine M. Brinkman  
12        (ComEd Ex. 8.0) regarding the materials and supplies (“M&S”) inventory balance  
13        included in rate base, the reconciliation balance for calculating interest, the  
14        accumulated deferred income tax (“ADIT”) balance associated with 2015 projected  
15        plant additions and the Illinois corporate income tax rate. I will also address the  
16        revised rebuttal testimony of ComEd Witness Michael C. Moy (ComEd Ex. 10.0R)  
17        regarding the M&S inventory balance included in rate base.

18 **MATERIALS AND SUPPLIES INVENTORY BALANCE**

19 **Q WHAT CONCERNS HAS COMED WITNESS BRINKMAN RAISED IN HER**  
20 **REBUTTAL TESTIMONY REGARDING YOUR RECOMMENDED LEVEL**  
21 **FOR THE M&S INVENTORY BALANCE?**

22 A Ms. Brinkman raises two concerns. First, Ms. Brinkman states that my adjustment to  
23 the M&S inventory balance is based on what I claim would be proper amounts for  
24 2010 through 2014, and that the Commission has already reviewed and approved the  
25 M&S inventory balances for 2010 through 2013 (ComEd Ex. 8.0, 29:621–30:624).  
26 Her second concern is that my recommendation runs counter to the Commission’s  
27 original cost finding regarding distribution plant in service for December 31, 2012 and  
28 2013 in the last two formula rate update proceedings for 2013 and 2014, respectively  
29 (ComEd Ex. 8.0, 30:630-636).

30 **Q ARE YOU PROPOSING PROPER M&S INVENTORY BALANCES FOR ANY**  
31 **YEAR OTHER THAN 2014?**

32 A No. Except for my recommendation regarding the 2014 M&S inventory balance,  
33 which is a necessary component of the revenue requirement in this case, Ms.  
34 Brinkman’s statement is inaccurate. I have not provided, nor am I making any  
35 proposals regarding the proper M&S inventory balances, other than my recommended  
36 2014 level.

37 **Q DOES YOUR PROPOSAL FOR THE 2014 M&S INVENTORY BALANCE**  
38 **RUN COUNTER TO THE COMMISSION’S ORIGINAL COST FINDING**  
39 **REGARDING DISTRIBUTION PLANT IN SERVICE FOR DECEMBER 31,**  
40 **2012 AND 2013 IN THE LAST TWO FORMULA RATE UPDATE**  
41 **PROCEEDINGS?**

42 A No. I am not an attorney, however CI counsel advises that the Commission has only  
43 made original cost findings for distribution plant in service. For example, in the  
44 Commission’s Final Order in the 2014 formula rate proceeding, dated December 10,  
45 2014, at IV.B.13 - Original Cost Finding, the only amounts cited are plant in service  
46 balances. There is no reference to M&S inventory balances. Therefore, my  
47 recommendation regarding materials and supplies does not run counter to the  
48 Commission’s original cost findings in the 2013 and 2014 formula rate proceedings  
49 since these findings only refer to distribution plant in service.

50 Neither of Ms. Brinkman’s concerns are applicable to my recommendation for  
51 the 2014 M&S inventory balance that should be included in rate base in this  
52 proceeding. I am not making any proposals regarding prior year M&S inventory  
53 balances and the Commission’s original cost findings regarding distribution plant in  
54 service balances do not relate to my proposed 2014 M&S inventory balance.

55 **Q WHAT IS THE FOCUS OF MR. MOY’S REBUTTAL TO YOUR PROPOSED**  
56 **2014 M&S INVENTORY BALANCE?**

57 A Mr. Moy discusses ComEd’s use of one item, Network Interface Cards (‘NICs’),  
58 which were not stocked in inventory in 2010. Mr. Moy also references increased

59 usage of other items, including wire and cable and automation switches, above the  
60 levels experienced in 2010, which he states has resulted in an increase in the M&S  
61 inventory balance since 2010 (ComEd Ex. 10R, 4:82-5:108). In addition, Mr. Moy  
62 cites Section 16-108.5(d) of the Public Utilities Act (“Act”) which states that  
63 “Normalization adjustments shall not be required” and Section 16-108.5(c) which  
64 states that, “The sole fact that a cost differs from that incurred in a prior calendar year  
65 or that an investment is different from that made in a prior calendar year shall not  
66 imply the imprudence or unreasonableness of that cost or investment.”

67 **Q AT PAGE 2, LINES 32 THROUGH 36 OF HIS REBUTTAL TESTIMONY, MR.**  
68 **MOY CITES AN M&S INVENTORY BALANCE OF BOTH \$69.2 MILLION**  
69 **AND \$52.7 MILLION. PLEASE EXPLAIN THE RELATIONSHIP BETWEEN**  
70 **THESE TWO AMOUNTS.**

71 A The M&S inventory balance ComEd included in rate base was determined in two  
72 steps. ComEd first identified the actual M&S inventory balance at December 31,  
73 2014, \$69.2 million. This balance was reduced by the amount associated with  
74 accounts payable, 23.92% or \$16.5 million. The result is \$52.7 million (\$69.23-  
75 \$16.57), which is the M&S inventory balance included in rate base by ComEd. My  
76 recommendation of a \$42 million 2014 M&S inventory balance is also reduced by the  
77 23.92% accounts payable factor to determine the \$32 million amount included in rate  
78 base. There is no dispute regarding the accounts payable factor reduction. Therefore,  
79 my discussion of this issue will address the gross M&S inventory balance, which for  
80 ComEd is approximately \$69 million and for CI is approximately \$42 million.

81 Q DO THE SPECIFIC INCREASES CITED BY MR. MOY IN HIS REBUTTAL  
82 TESTIMONY JUSTIFY THE INCREASE IN THE M&S INVENTORY  
83 BALANCE?

84 A No. From 2010 to 2014, the M&S inventory balance has increased by approximately  
85 \$40 million, from \$29 million to \$69 million. Mr. Moy cites three items, which he  
86 states have increased the M&S inventory balance: \$19 million for NICs; \$7 million  
87 for wire and cable; and \$4 million for automation switches (ComEd Ex. 10.0R,  
88 5:89-105). These increases only account for \$30 million (\$19+\$7+\$4) of the \$40  
89 million increase since 2010. In addition, citing the existence of increased inventory  
90 levels for certain items does not justify maintaining these higher balances.

91 Q DOES MR. MOY'S REBUTTAL TESTIMONY REGARDING THE  
92 INCREASED USAGE OF CERTAIN MATERIALS JUSTIFY THE INCREASE  
93 IN THE M&S INVENTORY BALANCE?

94 A No. Increased usage may require ordering larger quantities to meet monthly usage  
95 demands. However, ComEd has not cited any difficulties in obtaining timely  
96 shipments of needed materials and supplies. As a result, there should be no  
97 requirement to have significant lead times between ordering and usage of materials  
98 and supplies.

99 Q DOES MR. MOY CITE COMED'S CONSTRUCTION PROGRAM AS THE  
100 DRIVER FOR THE INCREASE IN THE M&S INVENTORY BALANCE?

101 A Yes. Mr. Moy states that ComEd began its implementation of the Energy  
102 Infrastructure Modernization Act ("EIMA") improvements in 2012 and claims that  
103 ComEd needed to build its inventory in 2011 to be ready to meet its planned work  
104 schedule (ComEd Ex. 10.0R, 5:94-99). While this may explain some of the 20%  
105 growth in the M&S inventory balance from year-end 2010 to year-end 2011, as shown  
106 in the table below, it does not justify the continued annual growth rate of over 24% in  
107 each succeeding year, 2012 through 2014.

108 Q DOES MR. MOY'S USE OF THE 2015 PLANT ADDITIONS AS  
109 JUSTIFICATION FOR THE GROWTH IN THE M&S INVENTORY  
110 BALANCE CAUSE YOU CONCERN (COMED EX. 10.0R, 5:100-103)?

111 A Yes. Mr. Moy's rebuttal testimony implies that ComEd may have built up its 2014  
112 M&S inventory balance to address the projected 2015 additions to plant. Since the  
113 2015 formula rate proceeding also includes the 2015 projected plant additions, a  
114 portion of this buildup in inventories reflected in the 2014 balance may be included  
115 twice in ComEd's revenue requirement, once in the 2014 M&S inventory balance and  
116 again in the 2015 projected plant additions. This potential double counting is further  
117 indication that ComEd's actual 2014 M&S inventory balance should not be reflected  
118 in rate base in this proceeding.

119 Q ON PAGE 6 OF MR. MOY'S REBUTTAL TESTIMONY HE PRESENTS A  
120 TABLE SHOWING THE ADDITIONS TO DISTRIBUTION PLANT,  
121 YEAR-OVER-YEAR DURING 2010 THROUGH 2014. HOW DOES THE  
122 CHANGE IN INVESTMENT LEVELS COMPARE TO THE CHANGE IN  
123 M&S INVENTORY BALANCES?

124 A Below is a table comparing annual plant additions to plant investment levels and M&S  
125 inventory balances.

|  | <u>12/31/10</u> | <u>12/31/11</u> | <u>12/31/12</u> | <u>12/31/13</u> | <u>12/31/14</u> |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Distribution Plant Additions                 | \$548,313       | \$643,555       | \$718,158       | \$782,667       | \$967,798       |
| Annual Increase in<br>Plant Additions        |                 | 17%             | 12%             | 9%              | 24%             |
| Distribution Materials<br>and Supplies       | \$ 28,710       | \$ 34,463       | \$ 42,591       | \$ 53,970       | \$ 69,264       |
| Annual Increase in<br>Materials and Supplies |                 | 20%             | 24%             | 27%             | 28%             |

126 Mr. Moy's suggestion that the pace of annual plant additions justifies increases  
127 in the levels of the M&S inventory balance does not support ComEd's significant  
128 increase in these inventories. M&S inventory balances are increasing at a rate of  
129 25.63% while annual plant additions are only increasing at a rate of by 15.26%.

130 Q WHAT IS YOUR RESPONSE TO MR. MOY'S CHARACTERIZATION OF  
131 YOUR RECOMMENDATION FOR THE 2014 M&S INVENTORY BALANCE  
132 AS A NORMALIZATION ADJUSTMENT?

133 A I am not making a normalization adjustment, nor am I making an adjustment because a  
134 cost differs from that incurred in a prior calendar year or that an investment is different  
135 from that made in a prior calendar year. In my experience, a normalization adjustment  
136 employs the use of multi-year averages to adjust significant variations in revenues and  
137 expenses. My recommendation relies on an examination of escalation rates in  
138 distribution plant and maintenance expenses as an indication of the rate of increase  
139 that should be experienced in the M&S inventory balance. Although Mr. Moy  
140 believes there are other factors that influence increases in the M&S inventory balance,  
141 at page 3 lines 53 through 55 of his rebuttal testimony he concedes that increases in  
142 distribution plant and maintenance are factors that can lead to increases in the level of  
143 materials and supplies.

144 **RECONCILIATION BALANCE FOR CALCULATING INTEREST**

145 Q WHAT IS YOUR RESPONSE TO MS. BRINKMAN'S REBUTTAL  
146 TESTIMONY FOR THIS ISSUE?

147 A As rebuttal for this issue Ms. Brinkman has attached copies of her testimony and the  
148 testimony of ComEd Witness James I. Warren from 2014 formula rate proceeding. In  
149 that case, I provided rebuttal testimony to both Ms. Brinkman and Mr. Warren  
150 regarding the appropriate reconciliation balance on which to calculate interest. I am

151 adopting that testimony in this case and have attached it to my rebuttal testimony as  
152 CI Ex. 2.04 and 2.05.

153 In addition, CI counsel advises me that the First District Court of Appeals has  
154 made a recent decision in favor of ComEd regarding this issue. However, my  
155 understanding is that the appeal is continuing and a final determination has not been  
156 made with regard to this issue.

157 **Q HAVE YOU ALSO UPDATED YOUR ADJUSTMENT TO COMED'S**  
158 **CALCULATION OF THE RECONCILIATION INTEREST?**

159 **A** Yes. CI Ex. 2.01, attached to my rebuttal testimony, provides an updated calculation  
160 of my proposed adjustment to the reconciliation interest. As will be discussed later in  
161 this rebuttal testimony, CI is no longer proposing a reduction to the Illinois corporate  
162 income tax rate ComEd used in its calculation of the revenue requirement. This  
163 change in the income tax rate affects the value of the other adjustments I am proposing  
164 to ComEd's calculation of revenue requirement.

165 **ADIT ON PROJECTED PLANT ADDITIONS**

166 **Q WHAT IS THE FOCUS OF MS. BRINKMAN'S REBUTTAL TESTIMONY**  
167 **REGARDING THIS ISSUE?**

168 **A** Ms. Brinkman cites the Commission's decision in Docket No. 14-0136 in support of  
169 Staff's calculation of ADIT on projected plant additions. In addition, Ms. Brinkman  
170 believes my proposal would add complexity to the calculation of revenue requirement,

171 without any benefit to customers or the formula rate process (ComEd Ex. 8.0,  
172 26:544-27:563).

173 **Q WHAT IS YOUR RESPONSE TO MS. BRINKMAN'S RELIANCE ON THE**  
174 **COMMISSION'S RULING IN DOCKET NO. 14-0136?**

175 A First, Ms. Brinkman does not say that my proposal results in an incorrect amount of  
176 ADIT associated with the 2015 plant additions, merely that it is not consistent with the  
177 Commission's ruling. My proposal is to calculate an amount of ADIT that accurately  
178 reflects the ADIT balance associated with 2015 plant additions.

179 **Q HOW SHOULD THE ADIT ASSOCIATED WITH 2015 PLANT ADDITIONS**  
180 **BE CALCULATED?**

181 A The ADIT associated with 2015 plant additions should reflect the first year tax  
182 depreciation less the comparable first year book depreciation expense, multiplied by  
183 the combined effective income tax rate. The first year tax depreciation rates are less  
184 than the full-year rates, in recognition of the fact that the additions occur throughout  
185 the year. Likewise, this amount should be compared to a book depreciation expense  
186 that reflects the fact that 2015 plant additions occur throughout the year. ComEd's  
187 calculation of ADIT using first year tax depreciation based on approximately half of  
188 the normal tax depreciation rates, with a full year of book depreciation, is an  
189 inconsistent calculation that will understate ADIT on projected plant additions.

190 Q WHAT IS YOUR RESPONSE TO MS. BRINKMAN'S STATEMENT THAT  
191 YOU ARE INTRODUCING ADDITIONAL COMPLEXITY TO THE  
192 CALCULATION WITHOUT PROVIDING ANY BENEFIT TO CUSTOMERS  
193 OR THE FORMULA RATE PROCESS?

194 A My proposal would require changing one formula on one workpaper. This can hardly  
195 be characterized as adding complexity, considering the hundreds of calculations that  
196 are performed to determine the revenue requirement. My proposal results in a  
197 reduction to revenue requirement in this proceeding as a result of a more accurate  
198 calculation of the ADIT associated with the 2015 additions. This allows ComEd to  
199 recover its reasonable and prudent cost of service now, rather than permitting an  
200 over-recovery that may be resolved by some future reconciliation of its rates.

201 Q HAVE YOU UPDATED YOUR CALCULATION OF THE ADIT  
202 ASSOCIATED WITH 2015 PLANT ADDITIONS?

203 A Yes. CI Ex. 2.02, attached to my rebuttal testimony, provides an updated calculation  
204 of my proposed calculation. As previously explained, the change in my proposal  
205 regarding the Illinois corporate income tax rate affected the calculation of the other  
206 adjustments I am proposing to ComEd's revenue requirement.

207

**ILLINOIS CORPORATE INCOME TAX RATE**

208 **Q HAS COMED PROVIDED ADDITIONAL INFORMATION THROUGH**  
209 **TESTIMONY AND RESPONSES TO DATA REQUESTS, WHICH PROVIDE**  
210 **ADEQUATE SUPPORT FOR THE COMPANY'S POSITION TO USE A 9.5%**  
211 **ILLINOIS CORPORATE INCOME TAX RATE, RATHER THAN THE 7.75%**  
212 **RATE CI SUPPORTED IN ITS DIRECT TESTIMONY?**

213 **A** Yes. After reviewing this additional information, CI is no longer disputing the use of  
214 an Illinois corporate income tax rate of 9.5% in this proceeding.

215

**SUMMARY**

216 **Q HAVE YOU UPDATED YOUR CALCULATION OF THE TOTAL EFFECT**  
217 **OF ALL THE ADJUSTMENTS YOU ARE SPONSORING?**

218 **A** Yes. ComEd has revised its proposed decrease in the revenue requirement in this case  
219 to (\$53,872) (ComEd Ex. 9.01 at 2:38). My revised recommendation is to further  
220 reduce the revenue requirement to (\$63,873) million, as shown in CI Ex. 2.03.  
221 CI Ex. 2.03 begins with ComEd's filed revised revenue requirement; shows my  
222 proposed adjustments for the M&S inventory balance, ADIT on 2015 plant additions  
223 and the reconciliation balance for calculating interest; and provides my recommended  
224 revenue requirement in the last column on line 38.

225 **Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

226 **A** Yes, it does.