

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

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

Direct Testimony of
CHRISTINE M. BRINKMAN, CPA
Director,
Rates & 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 Christine M. Brinkman. My business address is Three Lincoln Centre,
5 Oakbrook Terrace, Illinois 60181.

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

7 A. I am employed by Commonwealth Edison Company (“ComEd”) in the position of
8 Director, Rates & Revenue Policy.

9 **B. Summary of Direct Testimony and Attachments**

10 **Q. What are the purposes and subjects of your direct testimony?**

11 A. My testimony first provides a summary of this update filing and introduces the other
12 ComEd witnesses testifying in this proceeding.¹ In this update and reconciliation filing,
13 ComEd uses 2015 actual cost data, 2016 projected plant investment, and certain specific
14 adjustments to determine: (1) ComEd’s 2017 Initial Rate Year Revenue Requirement,
15 and (2) ComEd’s 2015 Reconciliation Revenue Requirement and the resulting
16 reconciliation adjustment to be reflected in 2017 delivery service charges. Next, I
17 explain how ComEd has used updated cost and investment information to determine its
18 revenue requirements and address the effect of what is commonly referred to as the “ROE
19 Collar.” Finally, I support inputs to those calculations, namely compensation items.

¹ Formula ratemaking under the Energy Infrastructure Modernization Act (“EIMA”) annually updates and reconciles participating utilities’ revenue requirements to actual costs. EIMA refers to the changes and additions made to the Public Utilities Act (“PUA”) in Public Act (“PA”) 97-0616 and PA 97-0646, as further amended by PA 98-0015 and, as of June 1, 2015, by PA 98-1175.

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

21 A. Attached to my direct testimony is ComEd Exhibit (“Ex.”) 1.01, which contains plan
22 documents related to ComEd’s incentive compensation programs, as well as a summary
23 schedule of Long Term Incentive Compensation amounts that have been excluded from
24 the revenue requirements in this proceeding.

25 **C. Qualifications and Professional Background**

26 Q. **What are your duties and responsibilities at ComEd?**

27 A. As the Director, Rates & Revenue Policy, I have senior managerial responsibility for the
28 Retail Rates and Revenue Policy groups, and am also responsible for providing financial
29 expertise and support in state and federal regulatory proceedings concerning those
30 functions. I am, therefore, centrally involved in the process by which ComEd’s Illinois-
31 jurisdictional and federal-jurisdictional revenue requirements are calculated and how
32 ComEd’s Illinois-jurisdictional delivery service revenue requirements are reconciled.

33 Q. **Prior to your current position, what other positions did you hold at ComEd and its
34 affiliates?**

35 A. Since beginning my career at ComEd in 2003, I have held a variety of staff and
36 managerial positions in the accounting and finance areas for ComEd and for subsidiaries
37 of ComEd’s parent, Exelon Corporation (“Exelon”). Those positions include Senior
38 Accountant (ComEd and Exelon Delivery Shared Services), Principal Accountant
39 (ComEd), Manager, Financial Transformation (Exelon Business Services Company
40 (“BSC”)), and Manager, Accounting (ComEd). In those roles, I acted as the accounting
41 and/or finance lead with respect to a number of regulatory initiatives, including the 2010

42 general rate case and ComEd's Advanced Metering Infrastructure ("AMI") Pilot, and was
43 responsible for the effort under EIMA to establish, document, and execute the accounting
44 and financial controls framework for the Illinois formula ratemaking process.

45 Q. **What was your professional experience prior to assuming your duties with ComEd?**

46 A. I began my career in the information technology field providing business consulting,
47 project management, and computer programming services with regard to financial
48 applications for a number of clients. I also served in a variety of accounting and finance
49 roles before joining ComEd in 2003.

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

51 A. I graduated from Northern Illinois University in DeKalb, Illinois, with a Bachelor of
52 Science in Operations Management and Information Systems. I received my Masters of
53 Science in Accounting from Roosevelt University in Chicago, Illinois. I am a registered
54 Certified Public Accountant in the State of Illinois.

55 Q. **Have you submitted testimony to the Illinois Commerce Commission**
56 **("Commission" or "ICC") in other dockets applying the same principles to prior**
57 **formula rate updates?**

58 A. Yes. In 2015, I provided testimony in ComEd's formula rate update ("FRU")
59 proceeding, ICC Docket No. 15-0287. I also provided testimony in 2013 and 2014 in
60 ComEd's FRU, the related housekeeping and compliance proceedings, and rate design
61 investigation ("RDI") proceedings where ComEd's rate formula and/or the design of
62 formula rate was at issue.

63 **II. SUMMARY OF THE 2016 FRU**

64 **A. Summary of the Updated Revenue Requirements**

65 **Q. What is ComEd's 2017 Rate Year Net Revenue Requirement that must be recovered**
66 **through ComEd's 2017 delivery services charges?**

67 A. The updated revenue requirement to be reflected in the updated delivery service charges
68 that will be applicable in 2017 is \$2,652,852,000. This is an increase of \$137,515,000
69 over the revenue requirement of \$2,515,337,000 that is reflected in delivery service
70 charges applicable during 2016. Mr. Chad Newhouse addresses the determination of the
71 relevant updated initial and reconciliation revenue requirements and adjustments in
72 ComEd Ex. 2.0.

73 **B. Summary of Other Testimonies Supporting the Filing**

74 **Q. Who are the other witnesses presenting direct testimony on behalf of ComEd in this**
75 **proceeding and what, in summary, are the topics that each witness addresses?**

76 A. In addition to me, each of the following witnesses provides direct testimony:

- 77 • **Mr. Chad A. Newhouse**, ComEd's Manager, Revenue Policy (ComEd Ex. 2.0),
78 presents and supports the majority of the specific data that populate the revenue
79 requirement formula used to determine the 2017 Rate Year Net Revenue
80 Requirement. He supports the calculation of the 2015 Reconciliation Revenue
81 Requirement derived from ComEd's actual costs as reflected in its Federal Energy
82 Regulatory Commission ("FERC") Form 1 for the year ended December 31,
83 2015, as well as the calculation of the 2017 Initial Rate Year Revenue
84 Requirement. He also supports the determination of the 2015 Reconciliation

85 Adjustment. Finally, Mr. Newhouse describes and supports the original cost of
86 ComEd's electric utility plant in service as of December 31, 2015.

87 • **Mr. Christ T. Siambekos**, ComEd's Director, Finance (ComEd Ex. 3.0),
88 supports ComEd's capital structure and cost of debt, as well as the statutory
89 calculation of ComEd's cost of equity. In addition, Mr. Siambekos addresses costs
90 charged to ComEd by Exelon BSC, as well as certain Administrative and General
91 ("A&G") expenses, and confirms that they are reasonable in amount and
92 prudently incurred. Furthermore Mr. Siambekos presents information pertaining
93 to ComEd's incentive compensation plans and quantifies EIMA investments,
94 including by category, as directed by the Commission.

95 • **Ms. Jennifer Montague**, ComEd's Director, Business Strategy and Technology
96 in ComEd's customer operations organization (ComEd Ex. 4.0), describes the
97 customer-related plant in ComEd's rate base, as well as ComEd's customer-
98 related operating expenses, and confirms that they are reasonable in amount and
99 prudently incurred. She specifically discusses blanket programs that are customer
100 operations efforts. She also identifies and describes EIMA investments that
101 pertain to customer operations. Moreover, Ms. Montague describes how ComEd
102 is meeting its EIMA commitment with respect to low-income assistance. Finally,
103 Ms. Montague presents an Alternate Customer Care Study, as approved by the
104 Commission in Docket No. 14-0312, updated with 2015 data.

105 • **Mr. Michael C. Moy**, ComEd's Director, Asset Performance in ComEd's
106 operations organization (ComEd Ex. 5.0), describes the distribution-related plant
107 in ComEd's rate base, as well as ComEd's distribution-related operating

108 expenses, and confirms that they are reasonable in amount and prudently incurred.
109 He also provides the plant investment information corresponding to that which
110 would be included in Schedule F-4 of a Part 285² submission in a general rate
111 case. Moreover, Mr. Moy identifies and describes EIMA investments that pertain
112 to distribution operations. Finally, Mr. Moy supports ComEd's incentive
113 compensation programs from a distribution operations perspective and provides
114 data requested by the Commission pertaining to that subject.

115 • **Mr. Frank A. Luedtke**, P.E., ComEd's Manager, Regional Distribution Capacity
116 Planning (ComEd Ex. 6.0), supports the functionalization of ComEd's plant and
117 operating expenses. Mr. Luedtke also presents ComEd's updated distribution
118 system loss study.

119 • **Mr. John L. Leick**, a Principal Rate Administrator in ComEd's Retail Rates
120 group (ComEd Ex. 7.0), presents the updated delivery service charges to be
121 applicable during the 2017 monthly billing periods and provides the updated
122 populated rate design model and the updated ECOSS used to determine those
123 charges. Mr. Leick explains how the updated rate design and ECOSS models
124 incorporate prior Commission directives and how ComEd is using its advanced
125 metering infrastructure to improve its cost allocation methodology. Mr. Leick
126 also presents delivery services bill impact information for the various customer
127 delivery classes. Moreover, he provides total bill impact information in
128 accordance with specified Part 285 information requirements. Furthermore, Mr.

² Commission rules pertaining to standard information requirements are designed to assist the Commission and its Staff in their review of filings for general rate increases and formula rates and updates under Sections 9-201, 16-108, and 16-108.5 of the PUA.

129 Leick presents the updated distribution loss factors developed from the
130 distribution system loss study presented by Mr. Luedtke. Finally Mr. Leick
131 presents a form of public notice of this formula rate update that is consistent with
132 the Commission rules that would be applicable to the filing of a general rate case.

133 **III. EIMA FORMULA RATEMAKING**

134 **Q. How are ComEd’s delivery services charges established under EIMA?**

135 A. As a participating utility under EIMA, ComEd’s delivery services charges are updated
136 each year using an annually updated formula rate process and using a rate formula set out
137 in EIMA and ComEd’s formula rate tariff and related filed worksheets.³ The rate
138 formula incorporates specifically defined inputs including ComEd’s actual costs to
139 provide delivery services from the prior year and historical weather normalized billing
140 determinants. In many cases, the formula specifies data to be taken directly from
141 ComEd’s FERC Form 1. The formula rate mechanism also incorporates specific
142 safeguards in the rate making process.

143 **Q. How are ComEd’s costs reflected in delivery services charges under this process?**

144 A. The formula rate process is designed to establish delivery services charges that provide
145 for full recovery of ComEd’s actual reasonable and prudent costs of providing delivery
146 services. However, because ComEd’s actual costs for any given year cannot be known in
147 advance, the formula rate mechanism relies on an after-the-fact reconciliation once actual
148 costs are known. Specifically, ComEd’s delivery services charges applicable during a
149 given year – called the Rate Year – provide for the recovery of the Rate Year Net

³ Rate DSPP - Delivery Service Pricing and Performance (“Rate DSPP”).

150 Revenue Requirement, which is determined during the course of the formula rate update
151 proceeding that is conducted in the year prior to the Rate Year. The Rate Year Net
152 Revenue Requirement includes two component Revenue Requirements. The first
153 component is called the Initial Rate Year Revenue Requirement, which reflects the first
154 effort to quantify a projected cost of service for the rate year, and the second component
155 is called the Reconciliation Adjustment, which quantifies the difference between the
156 actual cost of service for the calendar year preceding the rate year and the initial revenue
157 requirement that originally estimated it.

158 **Q. What is the overall timing of the formula ratemaking process?**

159 A. Updated delivery services charges are applied each year, during the January through
160 December monthly billing periods in every given Rate Year. Those charges are
161 determined in the update and reconciliation proceeding that is conducted during the year
162 prior to the Rate Year. That proceeding is conducted within a maximum of 240 days
163 after ComEd files its updated costs and charges, which ComEd must do on or before the
164 first day of May in the year prior to the Rate Year. Those delivery services charges are
165 calculated to provide for the recovery of a Rate Year Net Revenue Requirement
166 determined during that proceeding. For each Rate Year, the Rate Year Net Revenue
167 Requirement is the sum of (a) the Initial Rate Year Revenue Requirement, which includes
168 projected costs for the year prior to the Rate Year, and (b) the Reconciliation Adjustment,
169 be it positive or negative (i.e., a charge or a refund), which reconciles previously
170 projected costs to actual costs for the year that occurred two years prior to the Rate Year.
171 The diagram below portrays this annual process pictorially using the 2016 Rate Year as
172 an example.



173

174 Q. **What does this formula ratemaking structure mean for customers and for ComEd?**

175 A. This formula ratemaking structure results in delivery services charges designed to recover
176 ComEd's actual reasonable and prudent costs of providing delivery services, determined
177 by actual after-the-fact data – no more and no less. Moreover, because every Initial Rate
178 Year Revenue Requirement is fully reconciled, with interest, projections of cost and
179 investments do not affect the total costs ultimately recovered, only when they are
180 recovered.

181 **IV. COMED'S REVENUE REQUIREMENTS**

182 **A. 2015 Reconciliation Revenue Requirement and Reconciliation Adjustment**

183 **1. The Reconciliation Framework**

184 **Q. What is the purpose of the reconciliation component of each EIMA formula rate**
185 **update filing?**

186 A. The annual formula rate update called for by Section 16-108 of the PUA reconciles the
187 revenue requirement reflected in delivery service charges for the prior year with what the
188 revenue requirement would have been had the actual cost information been available, *i.e.*,
189 with what would have been the result calculated using actual costs for the rate year being
190 reconciled. This reconciliation is made in accordance with EIMA and Rate DSPP and is
191 essential if delivery service charges are to reflect actual prudent and reasonable costs of
192 service. The reconciliation filing also includes two other computations, a return on
193 equity ("ROE") Collar calculation, and an ROE penalty calculation.

194 **Q. Where are the calculations and inputs for the reconciliation revenue requirements**
195 **set forth?**

196 A. The updated summary calculations and revenue requirement inputs for the reconciliation
197 are set forth in Rate DSPP on Schedule ("Sch") FR A-1-REC: Revenue Requirement
198 Reconciliation Computation ("Sch FR A-1-REC"). Specifically, Mr. Newhouse
199 (ComEd Ex. 2.0) presents Sch FR A-1-REC and all of the other schedules and appendices
200 that comprise the statutory revenue requirement formula in ComEd Ex. 2.01.

201 **Q. Can you please describe the ROE Collar calculation?**

202 A. Yes. ComEd’s distribution ROE is a measure of the income ComEd earns in relation to
203 shareholders’ equity. Section 16-108.5(c)(5) of the PUA sets upper and lower boundaries
204 or, in common terms, a “collar” on ComEd’s actual ROE (“ROE Collar”). The ROE
205 Collar limits the revenue requirement used to set delivery service charges if and when
206 ComEd actually earns an ROE of more than 50 basis points higher or lower than the rate
207 determined utilizing the specific methodology set forth in Section 16-108.5(c)(3) of the
208 PUA. This calculation is set forth on Sch FR A-3. *See* ComEd Ex. 2.01. I will discuss
209 the application of the ROE Collar to this year’s formula rate update in the next Section.

210 Q. **Can you please describe the ROE Penalty Calculation included in the formula?**

211 A. Yes. On April 4, 2012 in ICC Docket No. 11-0772, the Commission entered an order
212 approving ComEd’s Multi-Year Performance Metrics Plan as well as Rider DSPM –
213 Delivery Service Performance Metrics (“Rider DSPM”). The plan and related rider also
214 discuss each individual performance metric as well as their related penalties, if
215 applicable. Generally, EIMA states that if a participating utility does not meet specified
216 performance metrics, a penalty related to each missed metric must be applied as a
217 reduction to the allowed ROE calculation for the reconciliation year. Specifically, Rider
218 DSPM states:

219 [T]he penalty determined in accordance with the provisions of this
220 Determination of the Penalty section is incorporated into the determination
221 of the COE [cost of equity] used to develop the Company’s annual net
222 revenue requirement in accordance with the provisions of Rate DSPP.
223 Such penalty (PEN) in percentage format converted from the basis point
224 format used in Section 16-108.5(f-5) of the Act, is determined each year,
225 beginning in 2014, for the most recently completed Performance year...

226 The annually updated delivery service charges determined in accordance
227 with the provisions of Rate DSPP must reflect the inclusion of any such
228 penalties in the determination of the reconciliation of the annual net
229 revenue requirement for the Performance Year...

230 This formula used for this calculation is set forth on work paper (“WP”) 23 and is
231 reflected in ComEd’s Cost of Capital Computation on Sch FR D-1. *See* ComEd Ex. 2.01
232 and 2.02. As with the ROE Collar, I will discuss its application in this formula rate
233 update in the next section of my testimony.

234 **2. Calculation of the 2015 Reconciliation Revenue Requirement and the**
235 **Reconciliation Adjustment**

236 Q. **Can you describe the calculation of the 2015 Reconciliation Revenue Requirement**
237 **as reflected on Sch FR A-1-REC?**

238 A. Yes. Sch FR A-1-REC is straightforward, and summarizes the determination of the
239 actual revenue requirement for the most recent historical calendar year, 2015, using the
240 same schedules and inputs in the revenue requirement formula that are utilized to
241 calculate the revenue requirement prospectively, except that Sch FR A-1-REC does not
242 include 2016 projected plant additions, and associated depreciation and Accumulated
243 Deferred Income Taxes (“ADIT”) adjustments. In addition, Sch FR A-1-REC includes
244 Construction Work in Progress (“CWIP”) not accruing Allowance for Funds Used during
245 Construction (“AFUDC”).

246 Q. **What is the 2015 Reconciliation Revenue Requirement calculated on Sch FR A-1-**
247 **REC, and how does it compare to the revenue requirement in effect for 2015?**

248 A. The 2015 Reconciliation Revenue Requirement is \$2,411,921,000. *See* ComEd Ex. 2.01,
249 Sch FR A-1 REC. Mr. Newhouse supports the majority of the individual cost

250 components comprising that revenue requirement (ComEd Ex. 2.0). As shown on Sch
251 FR A-4, ComEd's Initial Rate Year Revenue Requirement in effect during 2015 was
252 \$2,347,553,000, resulting in a reconciliation adjustment of \$64,368,000 before interest
253 and before considering the ROE Collar. See ComEd Ex. 2.01, Sch FR A-4.

254 Q. **How was the Initial Rate Year Revenue Requirement in effect during 2015**
255 **calculated?**

256 A. The Initial Rate Year Revenue Requirement for 2015 is based on ComEd's compliance
257 filing in ICC Docket No. 15-0287. Mr. Newhouse discusses the revenue requirement
258 calculation in greater detail in his direct testimony (ComEd Ex. 2.0).

259 Q. **Can you please describe the ROE Collar adjustment?**

260 A. Yes. As I noted above, the ROE Collar provides that if the actual earned ROE for a
261 reconciliation year (2015, in this case), after reflecting necessary adjustments, is more
262 than 50 basis points ("bps") higher than the allowed ROE included in ComEd's costs
263 under the statutory formula rate for that year (after reflecting any penalties imposed for
264 failure to meet applicable metrics and performance goals), then an adjustment in the
265 amount of the excess will be made to the next formula rate revenue requirement to credit
266 customers for the over recovery. Similarly, if the actual earned ROE, after reflecting
267 necessary adjustments, is more than 50 bps lower than the allowed ROE (after reflecting
268 penalties imposed for failure to meet applicable metrics and performance goals), then an
269 adjustment in the amount of the shortfall will be made to the next formula rate revenue
270 requirement to recover the deficiency.

271 Q. **Where is the ROE calculation shown in the revenue requirement formula?**

272 A. Sch FR A-3 contains the methodology to calculate the earned ROE for the reconciliation
273 year (2015 in this case). This calculation utilizes the actual delivery service revenues and
274 other data for the reconciliation year to arrive at the earned ROE, which is compared to
275 the allowed range of ROE. Sch FR D-1 contains the methodology to calculate the
276 allowed ROE. Finally, the allowed range is shown on Sch FR A-1. The result of this
277 calculation is incorporated as part of the 2017 Rate Year Net Revenue Requirement
278 calculation in Sch FR A-1. *See* ComEd Ex. 2.01, Sch FR A-1.

279 Q. **For purposes of the ROE Collar, do revenues for 2015 include an accrual for the**
280 **reconciliation revenues to be recovered in future years?**

281 A. Yes. Costs incurred in 2015 are recoverable through future delivery service charges, to
282 the extent delivery service charges in effect in 2015 were not sufficient to provide for
283 recovery of those costs. In 2015, a \$67 million accounting accrual was recorded for the
284 estimated shortfall of actual 2015 cost recovery based on delivery service charges in
285 effect in 2015. This amount is supported by Mr. Newhouse and is reflected on Sch FR
286 A-3, line 11. *See* ComEd Ex. 2.01, Sch FR A-3.

287 Q. **Why does ComEd include this accrual?**

288 A. Inclusion of the accrued revenues associated with the reconciliation avoids a circular
289 outcome in the ROE Collar calculation and ensures that differences in the revenue
290 requirement are captured in the reconciliation and not in the ROE Collar calculation. To
291 the extent the amount of the reconciliation calculated or ultimately approved by the
292 Commission is different from the estimated amount accrued during the 2015

293 reconciliation year, an adjustment must be reflected on line 12 of Sch FR A-3 to keep the
294 costs and revenues in alignment. *See* ComEd Ex. 2.01, Sch FR A-3.

295 Q. **Did ComEd's allowed ROE reflect any penalties imposed on the Company related to**
296 **performance metrics in 2015?**

297 A. Yes. The calculation of ComEd's allowed ROE is the average of the monthly average
298 treasury yields of 30-year U.S. Treasury bonds plus 580 basis points. This results in an
299 allowed ROE of 8.59%. However, ComEd has reflected a penalty of 5 basis points on
300 Sch FR D-1 line 9 as a result of failing to meet a service reliability performance metric,
301 as discussed by Mr. Siambekos (ComEd Ex. 3.0). On April 13, 2016, ComEd filed its
302 annual performance metric report, which includes details on ComEd's performance in
303 2015, including the performance on this metric. Adjusting the allowed ROE of this
304 penalty reduced the allowed ROE for this period to 8.59%, as reflected on Sch FR D-1
305 line 11. *See* ComEd Ex. 2.01, Sch FR D-1.

306 Q. **Did the application of the ROE Collar for 2015 result in an adjustment?**

307 A. Yes. The ROE calculation shown on Sch FR A-3 reflects that ComEd's actual earned
308 ROE in 2015 was 7.97%. The allowed ROE as calculated per the PUA was 8.59%. The
309 ROE Collar ranged from a minimum allowed ROE of 8.09% to a maximum allowed
310 ROE of 9.09% as shown on Sch FR A-1. Therefore, ComEd's actual earned return for
311 2015 was \$4,259,000, or 0.12%, lower than the ROE Collar's minimum ROE. An ROE
312 Collar adjustment of \$7,103,000 (reflecting tax gross-up) is necessary to restore the
313 actual earned ROE to the 8.09% collar minimum.

314 Q. **Does the reconciliation calculation reflect interest on the reconciliation balance?**

315 A. Yes. Sch FR A-4 reflects how interest is calculated and applied to the reconciliation
316 amount. Interest is accrued for one-half year for the reconciliation year (in this case
317 2015), for a full year in the year following the reconciliation year (in this case 2016), and
318 for one-half year in the second year following the reconciliation year (in this case 2017).
319 This sequence assumes that the costs leading to the under-recovery were incurred
320 gradually throughout the 2015 reconciliation year; remained outstanding for the entirety
321 of the following year (2016); and will be recovered gradually throughout the second year
322 following the reconciliation year (2017).

323 Consistent with the Commission's final Order in ICC Docket No. 13-0553, the
324 interest applied is based on ComEd's weighted average cost of capital without a gross-up
325 for income taxes. *Commonwealth Edison Co.*, ICC Docket No. 13-0553 (Order Nov. 26,
326 2013) at 18.

327 Q. **What is the overall impact of the 2015 reconciliation and collar adjustments on the**
328 **2017 Rate Year Net Revenue Requirement?**

329 A. The overall adjustment for the reconciliation, including interest, included in the 2017
330 Rate Year Net Revenue Requirement is \$74,585,000. In addition, the overall adjustment
331 related to the ROE collar (reflecting tax gross-up) is \$7,103,000.

332 Q. **How will this adjustment be reflected in the charges to customers?**

333 A. This adjustment is incorporated into Sch FR A-1, which sets the 2017 Rate Year Net
334 Revenue Requirement that is reflected in delivery service charges to be applied on
335 customers' bills beginning with the January 2017 monthly billing period. Mr. John L.

336 Leick's direct testimony (ComEd Ex. 7.0) presents the updated delivery service charges
337 that reflect the 2017 Rate Year Net Revenue Requirement.

338 **B. ComEd's 2017 Rate Year Net Revenue Requirement**

339 Q. **On what basis are the delivery service charges that will go into effect beginning with**
340 **the January 2017 monthly billing period determined?**

341 A. The delivery service charges that will go into effect beginning with the January 2017
342 monthly billing period and extending through the December 2017 monthly billing period
343 are designed to recover the 2017 Rate Year Net Revenue Requirement. Sch FR A-1
344 provides the summary level calculation of the 2017 Rate Year Net Revenue Requirement
345 to be recovered through those delivery service charges.

346 Q. **What are the main components that make up the 2017 Rate Year Net Revenue**
347 **Requirement?**

348 A. The 2017 Rate Year Net Revenue Requirement is made up of two main components: the
349 2017 Initial Rate Year Revenue Requirement as well as the 2015 Reconciliation
350 Adjustment, with interest, and also includes the 2015 ROE Collar Adjustment, as
351 discussed above. See ComEd Ex. 2.01, Sch FR A-1, lines 23, 24, and 35 respectively.

352 Q. **In general, how did ComEd establish the 2017 Initial Rate Year Revenue**
353 **Requirement?**

354 A. The calculation utilizes the now well-established formula:

355
$$\text{Revenue Requirement} = (\text{Rate of Return} \times \text{Rate Base}) + \text{Operating Expenses}.$$

356 As provided in EIMA, the 2017 Initial Rate Year Revenue Requirement is based
357 on actual historical cost and rate base data reported for the 2015 calendar year, plus

358 projected plant additions for 2016 and the associated adjustments to accumulated
359 depreciation (change in depreciation reserve), depreciation expense, and per the
360 Commission's Order in Docket No. 11-0721 ("2011 FR Case"), ADIT.

361 Q. **What is ComEd's 2017 Rate Year Net Revenue Requirement?**

362 A. ComEd's 2017 Rate Year Net Revenue Requirement is \$2,652,852,000, which includes a
363 2017 Initial Rate Year Revenue Requirement of \$2,571,164,000, a 2015 Reconciliation
364 Adjustment with interest amount of \$74,585,000, and a 2015 ROE collar adjustment of
365 \$7,103,000 (with tax gross-up).

366 Q. **Does this filing conform to the Commission's rulings in its final Order in ICC
367 Docket No. 14-0312 regarding ComEd's Customer Care Costs?**

368 A. Yes. As discussed in the testimony of Ms. Montague (ComEd Ex. 4.0), ComEd has
369 based its updated rates on an Alternative Customer Care ("Study"), as directed by the
370 Commission in that docket. This Study, which has been updated, was used to determine
371 the amount of customer care costs to be shifted to supply customers. While ComEd
372 respectfully disagrees with the Commission ruling in ICC Docket No. 14-0312 that an
373 Alternative Customer Care Study methodology should be used, because the Switching
374 Studies show that no customer care costs should be removed from the distribution
375 revenue requirement, ComEd is not contesting that issue in this proceeding. ComEd does
376 however reserve the right to address any testimony or arguments concerning customer
377 care costs that may be offered by other parties and preserves its rights in any further
378 proceedings.

379 V. **COMPENSATION PROGRAMS**

380 Q. **What points concerning incentive compensation does your testimony address?**

381 A. In its May 29, 2012 final Order in ICC Docket No. 11-0721, the Commission adopted a
382 “proposal to require ComEd to include, in its initial filing, the information that is
383 necessary to allow the Commission to determine whether ComEd has achieved the metric
384 regarding incentive compensation ... as it requires ComEd to substantiate entitlement to
385 recovery for the incentive compensation that it awarded which meets the metrics cited
386 above in Section 16-108.5” of the PUA. *Commonwealth Edison Co.*, ICC Docket No.
387 11-0721 (final Order May 29, 2012) at 160. The Commission decided that “ComEd
388 should be required to file, with its initial performance-based rate filing, evidence
389 establishing that its employees have achieved the statutory metrics,” including evidence
390 “as to what its employees did to achieve the performance metrics in Section 16-108.5.”
391 *Id.* at 92. My testimony regarding the incentive compensation plans, together with that of
392 ComEd witnesses Mr. Siambekos (ComEd Ex. 3.0), Mr. Moy (ComEd Ex. 5.0), and Ms.
393 Montague (ComEd Ex. 4.0), substantiates ComEd’s entitlement to recover its incentive
394 compensation expenses and describes the metrics set forth in ComEd’s incentive
395 compensation plans, how ComEd performed under the metrics, and what employees did
396 to achieve their performance on those metrics.

397 Q. **In 2015, did ComEd offer any incentive programs in which its employees**
398 **participated?**

399 A. Yes, ComEd offered an Annual Incentive Program (“AIP”), a Key Manager and
400 Executive Long Term Performance Program (“LTPP”), and an Executive Long Term
401 Performance Cash Award Program (“LTPCAP”) to its employees. The fundamental

402 concept of the AIP, LTPP, and LTPCAP is “pay at risk”. ComEd sets total
403 compensation, including base salaries, benefits, and incentive compensation, at levels
404 necessary to remain competitive with comparable companies. In other words, the AIP is
405 part of the overall compensation package. The total compensation that ComEd pays its
406 employees is based on the levels needed in the marketplace to attract and retain qualified
407 personnel. Instead of paying the entire amount of an employee’s compensation through
408 base salaries, ComEd makes a portion of each employee’s pay subject to the achievement
409 of operational metrics specified in the incentive compensation plans. By structuring
410 compensation in this manner, ComEd implements a “pay at risk” approach under which
411 ComEd’s employees are at risk of receiving less than a marketplace level of
412 compensation if the metrics of the plans are not achieved. Thus, the incentive
413 compensation paid under these plans should not be construed as some form of “bonus” or
414 additional compensation.

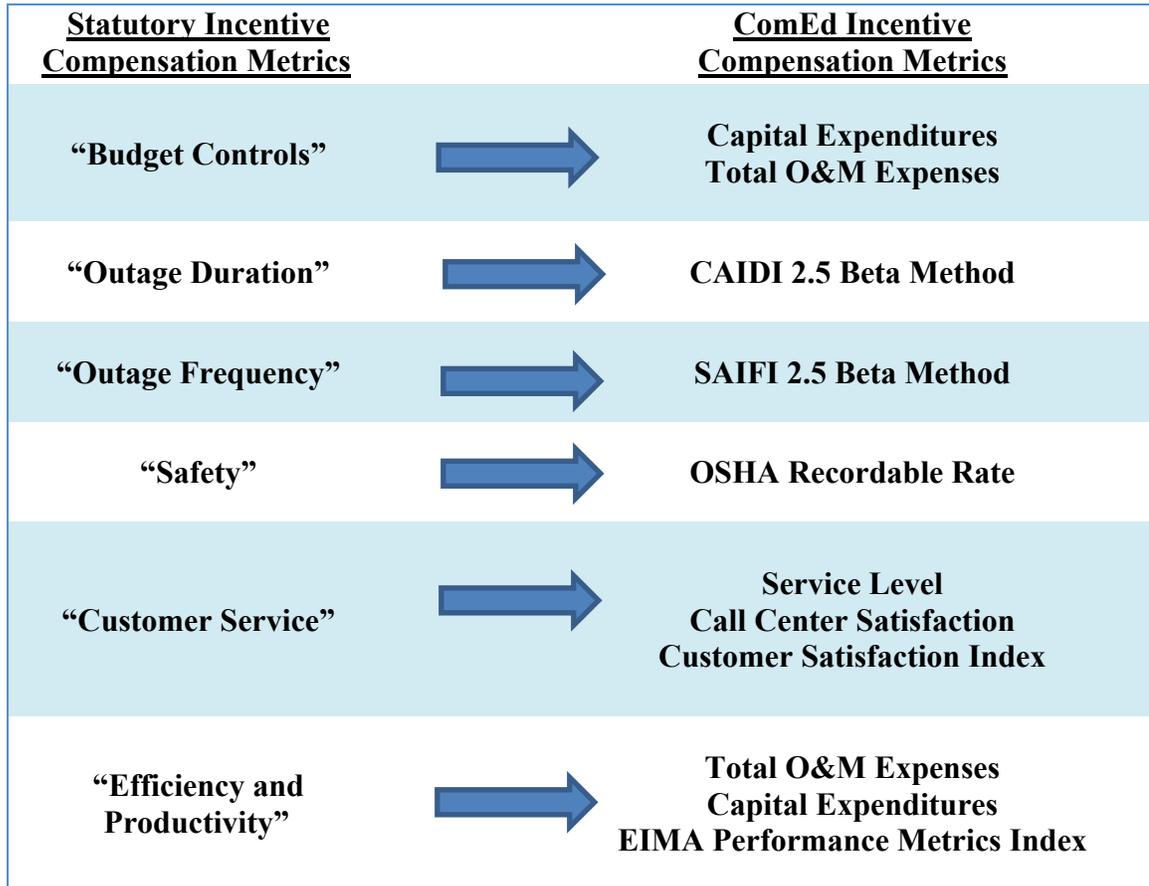
415 As I describe in more detail below, ComEd employees exceeded targeted
416 performance for a majority of the operational metrics established for 2015, and thus did
417 not lose the portion of their compensation that was at risk during the year. In light of
418 these achievements, I conclude that the 2015 AIP costs, which result in market-based
419 compensation levels, were prudently incurred and reasonable in amount.

420 **A. Annual Incentive Program**

421 **1. ComEd Annual Incentive Plan**

422 **Q. Are the ComEd AIP metrics consistent with EIMA ratemaking?**

423 A. Yes. The metrics described above all tie directly to one or more of the specific
424 operational goals listed in EIMA as appropriate for incentive compensation, as shown in
425 the graphic below.



426

427 Q. **To which employees does the AIP apply?**

428 A. The AIP applies to all of ComEd’s employees, approximately six thousand as of
429 December 2015. All ComEd employees perform work that directly provides delivery
430 services or that supports the provision of those services. Through the AIP, ComEd seeks
431 to align all employees’ incentives to the customer-centric metrics of the AIP, so that the
432 employees perform their tasks within the context of the ultimate objectives of providing
433 adequate, reliable, and safe service at reasonable cost.

434 Q. **How is the AIP structured?**

435 A. The 2015 AIP had nine operational metrics (also referred to as goals or Key Performance
436 Indicators (“KPI”)). Two of the nine metrics (50% of the AIP’s weighting) related to
437 ComEd cost control. Seven of the nine metrics (50% of the AIP’s weighting) related to
438 ComEd operations. The AIP was equally weighted between the ComEd cost control
439 metrics and the ComEd operational metrics. The nine metrics are:

- 440 • Controlling the total level of Operations & Maintenance (“O&M”) expense (goal
441 weight 25%);
- 442 • Controlling the total level of capital expenditures (goal weight 25%);
- 443 • The Occupational Safety and Health Administration (“OSHA”) Recordable Rate
444 (goal weight 10%);
- 445 • Performance on the weather normalized System Average Interruption Frequency
446 Index (“SAIFI”) (goal weight 10%);
- 447 • Performance on the weather normalized Customer Average Interruption Duration
448 Index (“CAIDI”) (goal weight 10%);
- 449 • Service Level, which measures the number of calls answered within thirty seconds
450 over the total number of calls offered (goal weight 5%);
- 451 • Performance on Call Center Satisfaction, which measures the percent of customers
452 who are satisfied (giving scores of 6-10 on a 10 point scale, where 10 is extremely
453 satisfied) with the service they received during a call to the call center (goal weight
454 5%);
- 455 • Performance on the Customer Satisfaction Index (goal weight 5%); and

- 456 • Performance on the EIMA Performance Metrics Index, which measures
457 productivity on the major work plan objectives that are key to supporting EIMA,
458 including the Underground Cable, Smart Substation, and Wood Pole programs.
459 Key performance standards are based on ComEd’s filing of its Multi-Year
460 Performance Metrics Plan (ICC Docket No. 11-0772) (goal weight 5%).

461 A copy of the ComEd AIP plan document is included in ComEd Ex. 1.01. In sum,
462 ComEd’s AIP is among the tools that are critical to efforts to manage operations and
463 expenses to keep costs low and performance high.

464 Q. **Why do you refer to the 2015 AIP metrics as operational?**

465 A. Each of the nine 2015 AIP metrics is aligned with specific operational metrics. The two
466 cost control metrics tie to “budget controls” and to “efficiency and productivity.” The
467 OSHA metric ties to “safety.” The SAIFI and CAIDI metrics tie to “outage duration and
468 frequency.” The EIMA Performance Metrics Index ties to “efficiency and productivity.”
469 as well as “customer service.” The Customer Satisfaction Index, Service Level and Call
470 Center Satisfaction metrics tie to “customer service.” These metrics also are inter-
471 related, *e.g.* efficiency and productivity also serve to help control costs. All nine metrics
472 relate in various ways to the provision of adequate, reliable, and safe service at
473 reasonable cost to customers.

474 Q. **How does performance under the metrics impact compensation?**

475 A. The AIP, as to each of its metrics, includes three levels: (1) a threshold level that must be
476 met in order for any payment to be made under the metric, and which, if met, results in

477 50% payment of the target payment level for the metric; (2) a target level, which, if met,
478 results in 100% payment of the target level for the metric; and (3) a more rigorous
479 distinguished level, which, if met, could result in up to 200% payment of the target level
480 for the metric.

481 Q. **Why does the AIP apply these metrics to all employees?**

482 A. Placing some of each ComEd employee's compensation at risk for all nine metrics
483 encourages each employee to work directly toward, or to support the work of other
484 employees toward, achieving the objectives of those metrics. ComEd is seeking to
485 incentivize every employee to perform his or her assigned work within the framework of
486 those company-wide goals.

487 Q. **Can you provide an overview of the projects and departments to which ComEd
488 employees dedicate their time?**

489 A. Of ComEd's total headcount as of December 2015, approximately 63% were in the
490 Operations department and 26% were in the Customer Operations department. My
491 colleagues, Mr. Moy and Ms. Montague, describe the achievements of the employees in
492 the Operations and Customer Operations departments, respectively. *See* ComEd Exs. 5.0
493 and 4.0. Mr. Siambekos addresses the other 11% of employees who, while at times
494 perform operations work, also serve in various operational support, management, and
495 executive positions in the other major departments and offices. *See* ComEd Ex. 3.0.

496 Q. **How did ComEd perform under the 2015 AIP operational metrics?**

497 A. The following is a summary of 2015 performance under the AIP metrics:

- 498 • With respect to SAIFI (weather-normalized), performance of 0.78 surpassed the
499 threshold level of .87;
- 500 • The 82 minute CAIDI performance of ComEd's employees met the the
501 distinguished performance level of 82;
- 502 • The Customer Satisfaction Index result of 7.85 in 2015 surpassed the target level
503 of 7.79;
- 504 • The OSHA Recordable Rate of 0.57 achieved by ComEd's employees was better
505 than the target level of .77 and was ComEd's best OSHA performance on record
506 for the second year in a row;
- 507 • ComEd employees achieved a Service Level rating of 91.3%, exceeding the
508 distinguished performance threshold level of 90.1%;
- 509 • Call Center Satisfaction performance was 81.2, exceeding the target of 80.3.
- 510 • Total capital expenditures were \$109 million lower (favorable) than the threshold
511 level;
- 512 • Total O&M costs were \$9 million lower (favorable) than the target level; and
- 513 • Performance on the EIMA Performance Metrics Index was 156% and exceeded
514 the target rating of 100%.

515 Overall, ComEd employee performance resulted in a calculated AIP payout of 131.3%.

516 In sum, by performing their respective duties skillfully and efficiently, ComEd
517 employees contributed to the achievements in 2015 under the AIP. ComEd's employees
518 directly provide, support, or perform other work essential to the provision of adequate,
519 reliable, and safe customer service at reasonable cost.

520 Q. **Were the 2015 ComEd AIP metrics or KPIs similar to those approved by the ICC in**
521 **previous rate decisions?**

522 A. Yes. The 2015 ComEd AIP included KPIs related to total O&M and total capital
523 expenditures, safety, outage frequency and duration, and customer satisfaction which
524 were the same as the 2014 ComEd AIP. The ComEd AIP customer operations index was
525 replaced with service level and call center satisfaction metrics in the 2015 AIP.

526 Q. **Do customers benefit from performance levels achieved above target?**

527 A. Yes. For example, if above target levels of CAIDI and SAIFI are achieved, customers
528 benefit from shorter and fewer outages. Also, as another example, if ComEd's cost
529 control goals (*e.g.*, operating expenses) are exceeded, customers benefit in the form of
530 lower rates, as these savings are passed directly through to customers via the formula rate
531 reconciliation mechanism.

532 Q. **Was ComEd's AIP pay out in 2015 impacted by net income or an affiliate's earnings**
533 **per share?**

534 A. No. ComEd's 2015 performance relative to its KPIs resulted in a payout of 131.3% of
535 target, based solely on the nine operational and cost control metrics. *See* ComEd
536 Ex. 1.01.

537 Q. **What amount of ComEd's AIP is included in the revenue requirements?**

538 A. The amount of AIP accrued and estimated to be paid to ComEd employees at December
539 31, 2015 was approximately \$86 million (\$70 million functionalized to delivery service).
540 This includes a jurisdictional amount of \$37.9 million related to O&M and \$32.1 million
541 of Capital.

542 **2. AIP Costs allocated from BSC**

543 Q. **Did ComEd incur any AIP costs allocated from BSC in 2015?**

544 A. Yes. ComEd incurred approximately \$15.1 million (\$13.2 million jurisdictional to
545 delivery service) of AIP allocations from BSC. The BSC Plan is based on a Total Cost
546 KPI for the vast majority of BSC employees.

547 Q. **Did the 2015 BSC AIP include an Exelon Earnings Per Share (“EPS”) KPI,
548 Shareholder Protection Feature, or net income limiter?**

549 A. Yes, in part. For certain BSC executives the 2015 BSC AIP plan is based entirely on an
550 EPS KPI. Thus, ComEd has excluded \$1.1 million (\$1.0 million jurisdictional) from the
551 \$15.1 million (\$13.2 million jurisdictional) included in the revenue requirement,
552 consistent with the Commission’s decision in ICC Docket No. 11-0721. *See* ComEd Ex.
553 2.01, App 7, line 21, and ComEd Ex. 2.02 WP 7, page 11.

554 **B. Long Term Incentive**

555 Q. **Did ComEd offer Long Term Incentive programs in 2015?**

556 A. Yes. Similar to 2014, the Executive and Key Manager Long Term Performance Plan
557 (“LTPP”) and the Executive Long Term Cash Award Program (“LTPCAP”) were
558 available for eligible key managers and executives. These programs are designed to align
559 the interests of management and customers by incentivizing ComEd employees who play
560 key roles in ComEd’s business and whose retention is critical to long-term success, to
561 focus on goals that support and enhance the customer experience. The LTPP grants a
562 cash award that vests over three years. Because the goals in these plans mirror the goals

563 of the AIP, they benefit customers in a similar fashion. A description of each program is
564 included in ComEd Ex 1.01.

565 In addition, certain ComEd executives were eligible for the Long Term
566 Performance Share Award Program (“LTPSAP”). Consistent with the Commission’s
567 Order in ICC Docket No. 14-0312, ComEd has excluded 95%, or approximately \$3.0
568 million, related to 2013, 2014 and 2015 LTPSAP costs vesting in 2015. The 5% of
569 LTPSAP costs, approximately \$0.2 million, that is included in the 2017 Rate Year net
570 revenue requirement represents the 2015 incentive compensation payout for the
571 achievement of CAIDI and SAIFI performance by ComEd. *See* Ex. 2.01, App 7, line 21
572 and ComEd Ex 2.02, WP 7, page 12.

573 **VI. OTHER ISSUES**

574 **A. OTHER ISSUES**

575 **Q. Does this filing change the status of any issue on which there is an appeal of a prior**
576 **Commission Order pending?**

577 **A.** No. ComEd’s filing presents revenue requirements calculated in conformity with EIMA
578 as it has been interpreted and applied by the Commission in prior ComEd FRUs and
579 related proceedings. However, on certain issues, ComEd's respectfully disagrees with
580 determinations made by the Commission in the past, and there are pending appeals of
581 certain aspects of these decisions, including the definition of the formula rate and the
582 calculation of the reconciliation adjustment. ComEd does not intend to relitigate in this
583 proceeding issues now pending before the appellate court. Also, because appellate
584 decisions may be made during this proceeding, ComEd requests that any such decisions
585 be noted in the record so they may be implemented in accordance with the law. Also, in

586 the interest of saving costs, reducing the burden on the Commission and all parties, and
587 streamlining this process, ComEd has decided not to relitigate in this proceeding other
588 issues previously addressed by the Commission, but with which we may respectfully
589 disagree. ComEd's decision does not waive its rights to raise any argument in future
590 proceedings or limit in any way ComEd's right to respond should any other party raise a
591 related claim or issue in this proceeding.

592 **VII. CONCLUSION**

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

594 **A. Yes.**