STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission	:	
On Its Own Motion	:	
-vs-	:	
Commonwealth Edison Company	:	**14-0569**
	:	
Reconciliation of revenues collected	:	
under power procurement riders with	:	
actual costs associated with power	:	
procurement expenditures.	:	

ORDER

By the Commission:

I. Procedural History

On September 18, 2014, the Illinois Commerce Commission ("Commission") entered an Order ("Initiating Order") commencing the instant reconciliation proceeding. Among other things, the Initiating Order found that Commonwealth Edison Company ("ComEd") "shall reconcile revenue collected under each of the … tariffs [named therein], or under successive tariffs authorizing the recovery of power supply costs for the reconciliation period [of June 1, 2012 through May 31, 2013], with costs incurred in connection with procurement activities as defined in the [utility's] tariffs." (Initiating Order at 2-3).

Pursuant to notice given as required by law and by the rules and regulations of the Commission, an evidentiary hearing was held at the Commission's offices in Chicago, Illinois on March 2, 2016, before a duly authorized Administrative Law Judge ("ALJ"). Appearances were entered by ComEd and Commission Staff ("Staff"). ComEd presented pre-filed sworn testimony of Gerald J. Kozel, ComEd's Vice President and Controller; Scott A. Vogt, ComEd's Vice President of Energy Acquisition; and John Hengtgen, a consultant at Hengtgen Consulting, LLC. Staff presented the pre-filed sworn testimony of Bonita A. Pearce, an accountant in the Accounting Department of the Commission's Financial Analysis Division. At the conclusion of the hearing, the record was marked "Heard and Taken."

There were no contested issues at the completion of the evidentiary hearing and the parties agreed to file a Draft Order. On March 29, 2016, ComEd filed a Draft Order for the ALJ's consideration, following a review by Staff.

II. Background

In the final Order entered in Docket No. 05-0159 on January 24, 2006, the Commission approved, with modifications, the initial series of tariffs under which ComEd would purchase and deliver electricity to its customers following the January 1, 2007 expiration of the mandatory rate freeze. Among the approved tariffs were Rider CPP, Competitive Procurement Process; Rider PPO—MVM, Power Purchase Option (Market Value Methodology); and Rider TS—CPP, Transmission Services (Competitive Procurement Process). The retail charges computed in accordance with these three riders applied to service provided on and after January 2, 2007, and all three riders required annual reconciliation proceedings, as provided for in the January 24, 2006 Order. *See generally, Commonwealth Edison Co*., Docket No. 05-0159, Final Order (Jan. 24, 2006).

The three riders were later superseded, in part, by Rider AAF—Accuracy Assurance Factor and through revisions to Rate BES-H—Basic Electric Service-Hourly Energy Pricing ("Rate BES-H"), which were approved by the Commission in an Order entered on December 19, 2007, in Docket Nos. 07-0528 and 07-0531 (Cons.). Rider AAF – Accuracy Assurance Factor ("Rider AAF") took effect on February 13, 2008, and was applicable to full-requirements electric supply procurement through May 31, 2008. The revisions to Rate BES-H also took effect on February 13, 2008. In accordance with those revisions, ComEd began including transmission and supply administration costs and revenues in the calculation of the Hourly Purchased Electricity Adjustment Factor ("HPEA") for the November 2007 determination period, which were reflected in the bills for hourly customers beginning with the March 2008 billing period. Rider AAF and Rate BES-H similarly provided for annual reconciliation proceedings. Rider AAF was superseded by ComEd's Rider PE – Purchased Electricity ("Rider PE") beginning with the June 2008 determination period, as reflected in the bills for October 2008. Rider PE calculates one Purchased Electricity Adjustment Factor ("PEA"), applicable to all customers served under Rate BES—Basic Electric Service. Rider PE also requires a yearly reconciliation. Effective January 15, 2009, Rate BESH – Basic Electric Service – Hourly Energy Pricing ("Rate BESH"), replaced Rate BES-H.

This is ComEd's sixth power supply cost reconciliation proceeding. The reconciliation period is from June 1, 2012 through May 31, 2013. The purpose of this docket is to reconcile revenues collected under the operative above-named tariffs, which authorize the recovery of power supply costs for the reconciliation period, with costs incurred in connection with those procurement activities as defined in ComEd's tariffs.

Additionally, the Commission has directed ComEd to: (1) include a schedule presenting cumulative totals of incremental costs and cumulative totals of recoveries by wholesale product to the extent such information was reasonably available; (2) address in testimony specifically how it complied with the applicable procurement plan approved by the Commission for the period under review; (3) include a summary schedule detailing the internal administrative and operational costs associated with the procurement of electric power and energy for retail customers during the period under review; (4) provide in testimony a conclusion about the reasonableness of these costs and the basis for that

conclusion; and (5) provide for the correction of any accounting errors that might have occurred in the application of the provisions of Rider PE and Rate BESH. (Initiating Order at 3).

III. Reconciliation of Revenues Collected Under Rider PE, Rate BESH and Accompanying Schedule

As stated by ComEd witness Kozel, ComEd presented a reconciliation of revenues during the reconciliation period for: (1) its PEAs under ComEd's Rider PE and (2) its HPEAs under Rate BESH. (ComEd Exs. 1.0, 1.1, 1.2, and 1.3). The PEAs pertained to bundled electric supply service that is purchased by ComEd for certain retail customers, as described in Rider PE, and for which the applicable period is June 1, 2012 through May 31, 2013. The HPEAs, like the PEAs, pertained to electric power and energy that was directly procured by ComEd for customers taking service under ComEd's bundled service tariff with hourly pricing for the same time period. (ComEd Ex. 1.0 at 2).

Mr. Kozel described the operations relating to PEAs under Rider PE and HPEAs under Rate BESH. The PEAs and HPEAs were designed as part of Rider PE and Rate BESH so that the expenses which ComEd incurred for the procurement of full requirements electric supply and directly procured electric power and energy required by retail customers for which ComEd was providing such supply, would equal the revenues from those retail customers for such supply, based on changes in those customers' actual usage and demands on ComEd's system. (ComEd Ex. 1.0 at 6).

As provided in Rider PE and Rate BESH, ComEd conducted an internal audit and prepared a report that summarized the results of the audit and submitted that report to the Commission as an informational filing. (ComEd Ex. 1.0 at 6). ComEd attached the report to Mr. Kozel's testimony as ComEd Exhibit 1.1. Additionally, the Supplemental Report Relating to the 2013 ComEd Purchased Electricity Cost Recovery Review, ComEd Ex 1.2, contained a schedule of "Cumulative Totals of Incremental Expenses, Revenues, and Recoveries." This schedule was provided for purposes of complying with the Initiating Order's directive that ComEd shall "include a schedule presenting cumulative totals of incremental costs and cumulative totals of recoveries, by wholesale product." (Initiating Order at 3). A copy of Staff Exhibit 3.0, Schedule 3.01, which is an updated version of this schedule, is attached as the Appendix to this Order.

To calculate PEAs and HPEAs under Rider PE and Rate BESH, ComEd calculated the difference between revenues and expenses associated with each product on a monthly basis. Any amounts that were over/under recovered in a given period were reflected in a subsequent period on customers' bills and any amounts that were credited to or recovered from customers were incorporated into the next applicable monthly calculation of the PEAs and HPEAs. At the end of any accounting period, ComEd recorded a cumulative regulatory asset (under-recovery) or regulatory liability (over-recovery) for each product offering. (ComEd Ex. 1.0 at 7).

ComEd witness Hengtgen testified that the Cash Working Capital ("CWC") costs incurred by ComEd for the procurement of electric power and energy for retail customers

served under Rider PE and Rate BESH are reasonable. (ComEd Ex. 3.0 at 2). Mr. Hengtgen explained that ComEd performed a study similar to what was done by Navigant Consulting in the 2010/2011 power procurement reconciliation and updated by ComEd in the 2011/2012 power procurement reconciliation. (*Id.* at 3.) Specifically, ComEd determined the leads and lag to be applied to the various components of the supply costs and therefore calculated the cash working capital amounts that should be included in ComEd's costs incurred under Rider PE and Rate BESH. Mr. Hengtgen stated the methodology used by ComEd appears consistent with other lead-lag studies. In addition, he stated that ComEd's internal audit department reviewed the cost recovery process performed by Revenue Accounting and determined that it is consistent with the requirements in Rider PE and Rate BESH. (ComEd Ex. 3.0 at 11-12).

Staff witness Pearce proposed an adjustment to remove $20,000 in costs unrelated to power procurement. (Staff Ex. 1.0 at 3). ComEd agreed with this adjustment. (ComEd Ex. 4.0 at 2). Additionally, Ms. Pearce raised the issue of a potential adjustment to reduce the amount of incentive compensation expense included in this reconciliation in accordance with the level of incentive compensation expense that was approved in Docket No. 14-0312, and requested that ComEd address this issue in rebuttal testimony. (Staff Ex. 1.0 at 2, 7). ComEd witness Vogt addressed this issue in rebuttal testimony and explained that Ms. Pearce's potential adjustment to reduce ComEd's incentive compensation in this proceeding is not applicable because ComEd requested recovery of incentive compensation through Rider PE and Rate BESH at a payout level below the level approved by the Commission in Docket No. 14-0312. (ComEd Ex. 4.0 at 3-4). ComEd noted that it did not waive its right to seek recovery of greater payout levels in future proceedings. (*Id.* at 4). Ms. Pearce agreed that the potential adjustment was unnecessary. (Staff Ex. 2.0 at 2). The revised version of ComEd Exhibit 1.3 was attached to Ms. Pearce's testimony. (Staff Ex. 3.0, Sched. 3.01).

IV. Compliance with Procurement Plan

As previously noted, the Initiating Order directed ComEd to "address in testimony specifically how it complied with the applicable procurement plan approved by the Commission for the period under review." (Initiating Order at 3). Section 16-111.5(l) of the Public Utilities Act ("Act") provides in part that:

> A utility shall recover through the tariff all reasonable costs incurred to implement or comply with any procurement plan that is developed and put into effect pursuant to Section 1-75 of the Illinois Power Agency Act and this Section, including any fees assessed by the Illinois Power Agency ("IPA"), costs associated with load balancing, and contingency plan costs. The electric utility shall also recover its full costs of procuring the electric supply for which it contracted before the effective date of this Section in conjunction with the provision of full requirements service under fixed-price bundled service tariffs

> subsequent to December 31, 2006. All such costs shall be deemed to have been prudently incurred.

220 ILCS 5/16-111.5(l). ComEd witness Vogt testified as to how ComEd complied with the procurement plan approved by the Commission.[1] Mr. Vogt testified that the key components of the Plan are: (1) the identification of pre-existing contracts for supply; (2) the determination of the amounts and method for procuring the residual requirements of energy, capacity and ancillary services for the eligible retail customers; and (3) the procurement of renewable energy resources. (ComEd Ex. 2.0 at 22). He also testified as to how ComEd complied with each component of the Plan. (*Id.* at 24-25).

As to the first component of the Plan, Mr. Vogt testified that, during the relevant time period, there was one pre-existing contract. Pursuant to Section 16-111.5(k) of the Act, ComEd entered into a five-year financial swap contract with Exelon Generation, LLC ("ExGen"). During this reconciliation period, that agreement provided price certainty for 3,000 MW of around-the-clock energy that ComEd procured through the spot markets administered by PJM Interconnection, L.L.C. ("PJM"). (ComEd Ex. 2.0 at 22-23). Mr. Vogt testified that ComEd complied with the pre-existing contracts portion of the Plan, which required ComEd to track compliance with the terms of the swap agreement by procuring and paying for energy from the PJM spot market. ComEd would then settle up, on a monthly basis, with ExGen for the difference between the day ahead spot prices and the contract prices. (*Id.* at 24).

With regard to the second component of the Plan, Mr. Vogt testified that the Plan called for the procurement of block energy-only products, which varied monthly and by on-peak and off-peak time periods. To balance the portion of the load served by these block energy products, he stated that the Plan called for ComEd to passively procure and sell energy in the PJM-administered spot markets, and similarly, to procure capacity and ancillary services from the relevant PJM-administered markets. (ComEd Ex. 2.0 at 23).

Mr. Vogt testified that ComEd complied with the procurement of the electricity supply portion of the Plan by executing the standard contract, developed by the Procurement Administrator, with each winning bidder for the amount and price approved by the Commission. During the terms of these contracts, ComEd tracked the deliveries to ensure that the appropriate amounts of energy were delivered by each supplier, and then paid the approved price to the supplier for this product. ComEd confirmed delivery through the PJM scheduling process at least one month prior to when energy began flowing for each month of the term. ComEd acquired balancing energy, capacity and ancillary services through the relevant PJM markets. ComEd tracked the deliveries to ensure that the appropriate amounts were obtained, confirmed that invoiced amounts were correct, and then processed payment for these amounts. (ComEd Ex. 2.0 at 24).

As to the third component of the Plan, Mr. Vogt testified that the Plan called for procurement of the required amounts of renewable energy resources through the

[1] The Commission approved the procurement plan that covers this reconciliation period in Docket No. 11-0660 ("the Plan").

procurement of renewable energy credits ("RECs"). (ComEd Ex. 2.0 at 23). Mr. Vogt testified that ComEd complied with the procurement of renewable energy resources portion of the Plan by executing the standard contract, developed by the Procurement Administrator, with each winning bidder for the RECs for the amount and price approved by the Commission. During the terms of these contracts, ComEd confirmed delivery of the appropriate amount of RECs from each supplier through the use of the PJM Environmental Information System Generation Attribute Tracking System ("EIS GATS") or the MISO Midwest Renewable Energy Tracking System ("M-RETS") certification systems. After deliveries were made and confirmed, ComEd paid the suppliers at the approved prices. ComEd also validated that invoices from the renewable certification entities were correct and then processed payments as reimbursement for those services. (*Id.* at 24-25).

Ms. Pearce testified that ComEd had provided sufficient information concerning the Company's compliance with the procurement plan, and recommended that, in the future, ComEd should continue to provide detailed information in testimony to support power procurement reconciliations. (Staff Ex. 1.0 at 7).

V. Administrative and Operational Functions and Costs - Overview

The Initiating Order stated that:

> [E]ach utility shall include a summary schedule detailing the internal administrative and operational costs associated with the procurement of electric power and energy for retail customers during the period under review. Moreover, each utility shall provide in testimony a conclusion about the reasonableness of these costs and the basis for that conclusion.

(Initiating Order at 3). Mr. Vogt testified that there are two types of administrative and operational costs: internal costs related to the procurement related functions of ComEd's Energy Acquisition Department and the costs that are external to the Energy Acquisition Department that are incurred to obtain products or services needed by that department to perform its procurement-related functions. A summary schedule detailing both types of costs is presented in ComEd Exhibit 2.1. (ComEd Ex. 2.0 at 3-4).

A. Administrative and Operational Costs of Energy Acquisition Department

Mr. Vogt testified that during the reconciliation period, ComEd's Energy Acquisition Department consisted of five groups: Procurement Planning and Strategy; Wholesale Billing and Credit; Wholesale Supplier Operations; Wholesale Markets and Development; and Electric Supplier Services. The Procurement Planning and Strategy group is responsible for developing and advocating ComEd's position in annual procurement proceedings and fulfilling ComEd's responsibilities in IPA procurement events and managing the nomination of Auction Revenue Rights in PJM. (ComEd Ex. 2.0 at 4).

Mr. Vogt explained that the Wholesale Billing and Credit group performed three primary functions: (1) validating PJM invoiced charges to ComEd and initiating payments to PJM for confirmed services; (2) validating charges to ComEd from its wholesale suppliers, initiating payments for those deliveries, and managing all wholesale contracts; and (3) monitoring the credit ratings of ComEd's wholesale suppliers and administering daily credit processes, including the determination of market-to-market collateral requirements and the processing of collateral payments or instruments. (ComEd Ex. 2.0 at 4-5).

Mr. Vogt stated that the Wholesale Supplier Operations group performs a number of daily functions, such as: (1) validating individual retail customer enrollments for each RES to assure that the daily load responsibilities of each RES are accurate; (2) calculating individual retail customer Peak Load Contributions and Network Service Peak Loads and aggregating them by the responsible RES so that PJM can properly bill each RES; (3) submitting daily load bids for the retail load served by ComEd into the PJM day-ahead energy market; (4) forecasting RES hourly energy load serving responsibilities and monitoring RES estimates submitted to PJM to ensure good faith scheduling; (5) forecasting hourly load serving responsibility estimates for the load supplied by ComEd; (6) confirming scheduled physical deliveries by ComEd's wholesale suppliers; and (7) performing the reconciliation of actual versus estimated supplier load responsibilities with PJM. (ComEd Ex. 2.0 at 5-6).

Mr. Vogt testified that the primary responsibility of the Wholesale Markets and Development group is to calculate the hourly load of the ComEd Zone on a daily basis, which is the starting point for the allocation of load responsibility for the load-serving entities in the ComEd Zone. (ComEd Ex. 2.0 at 6-7). As explained below, no incremental administrative and operational costs associated with this group were collected from retail customers through Rider PE or Rate BESH. (*Id*.)

Mr. Vogt also explained that the main responsibility of the Electric Supplier Services group is to serve as the primary point of contact with RESs, including certifying new RESs and addressing RES issues. Additionally, this group processes customer enrollments with RESs as well as customer enrollments to ComEd's hourly service; it also provides historical customer usage data to market participants with customer authorization to obtain such information. (ComEd Ex. 2.0 at 7-8).

Mr. Vogt stated that the Wholesale Markets Development, Wholesale Supplier Operations, and Electric Supplier Services groups report to a Director who oversees the work performed within these groups. Other departmental overhead costs in Energy Acquisition that relate to procurement administrative costs are those associated with activities performed by the Vice President of Energy Acquisition and his Administrative Assistant, as they spend a portion of their time working on procurement-related activities. (ComEd Ex. 2.0 at 8).

B. Other Administrative and Operational Costs

Mr. Vogt also provided a description and breakdown of the various categories of administrative and operational costs which are costs other than those that are internal to ComEd's Energy Acquisition Department and other than the direct costs of the supply itself (*e.g.,* energy, capacity, ancillary services, transmission) that ComEd incurred in procuring power and energy during the relevant period, as is reflected in cost summary in ComEd Exhibit 2.1. These "other" administrative and operational costs are associated with both internal and external activities. They are described below, and are listed by category, along with the costs expended for each category, in ComEd Exhibit 2.1. (ComEd Ex. 2.0 at 9).

Mr. Vogt stated that the Information Technology System Costs are the costs incurred to maintain and support the Retail Office ("RO") software used by the Energy Acquisition Department's Wholesale Supplier Operations, which is a standard industry wholesale settlements program that assists in the determination of the amount of load served by ComEd pursuant to Rider PE and Rate BESH. He further explained that ComEd needed to revise RO in response to various PJM rule changes. Mr. Vogt stated that, consistent with the Commission's decision in Docket No. 05-0597 and with standard accounting practice, ComEd has capitalized those costs and has been amortizing them over a five-year period. (ComEd Ex. 2.0 at 9-10).

PJM Credit Costs represent the credit facility costs for the posting of PJM-required collateral for the load that ComEd procures from PJM. Mr. Vogt said the Procurement Plan in Docket No. 11-0660 requires ComEd to procure the supply needed to balance the load of its fixed-price customers directly from the PJM spot markets, and that ComEd also procures capacity, ancillary services and transmission to serve both its fixed-price and hourly customers from PJM pursuant to the Procurement Plan. He stated that ComEd is not required to post collateral for the portion of its load related to the contracts for the block energy products, which are most of the energy that ComEd procures. (ComEd Ex. 2.0 at 10).

REC costs are incurred as a result of the certification and tracking services that are used to manage the REC contracts, and include a fixed annual membership fee and a separate volume-based fee charged for each REC delivered and retired using the systems. As set forth in the Procurement Plan, ComEd used three services during this period to track RECs: the PJM Environmental Information Services Generation Tracking System ("EIS GATS"), the MISO Midwest Renewable Energy Tracking System ("M-RETS") and the North American Renewables Registry ("NARR"). (ComEd Ex. 2.0 at 11).

IPA fees are billed to ComEd, pursuant to the IPA Act (20 ILCS 3855/1-1 et seq.), in order to pay for consultants engaged by the IPA to help in the development of the procurement plan. Procurement Monitor Costs are the costs directly associated with payment of bills by ComEd for the professional services of a Procurement Monitor who monitored the fixed-price procurement process. The amount of costs shown on ComEd Exhibit 2.1 for IPA fees and Procurement Monitor Costs include the costs related to the sixth procurement plan proceeding, Docket No. 11-0660. (ComEd Ex. 2.0 at 11).

Mr. Vogt stated that the Procurement Plan and Reconciliation Proceedings Costs are primarily the costs incurred developing, obtaining approval for and implementing the sixth procurement event, covering the period of time from June of 2012 through May of 2017, which was approved by the Commission in Docket No. 11-0660. Also included are procurement-related costs associated with the issues that arose in administering existing supply and renewables contracts and the reconciliation process and proceeding. These costs were incurred over the time period June of 2012 through May of 2013, and were passed through to customers as they were incurred. They consisted primarily of legal services from counsel external to ComEd, as well as expert witnesses and consulting charges. (ComEd Ex. 2.0 at 11-12).

Mr. Vogt testified that merger-related costs are costs incurred in the merger with Baltimore Gas and Electric, which were allocated to the ComEd supply function. These are similar to merger-related costs approved by the Commission in Docket No. 13-0318. (ComEd Ex. 2.0 at 12).

Mr. Vogt further testified regarding the Customer Care and Collection Agency Costs allocated to supply in Docket No. 14-0312. He stated that customer care costs are expenses recorded in FERC Accounts 901-910. These expenses include the costs of maintaining and servicing customer accounts such as call center personnel, meter reading, recordkeeping, and billing and credit activities. Collection agency costs are fees ComEd pays to outside collection agencies to collect unpaid amounts from customers. Mr. Vogt explained that the Commission identified a portion of these expenses as supply-related in Docket No. 14-0312. This reduced ComEd's Delivery Service reconciliation revenue requirement by $12,079,000, $11,574,000 of which was allocated to Rider PE and Rate BESH. (ComEd Ex. 2.0 at 12-14). Because five months of the period at issue (January 2013 through May 2013) aligned with these costs, five-twelfths of the total costs ($11,574,000 * 5/12) are included in this proceeding. Thus, $4,822,500 of the 2013 customer care and collection agency costs are allocated to Rider PE and Rate BESH in this proceeding. (ComEd Ex. 2.0 at 12-14; *see also* ComEd Ex. 2.1).

Mr. Vogt explained that the annual Energy Infrastructure Modernization Act ("EIMA") (220 ILCS 5/16-108.5) Formula Rate reconciliations are based on calendar year costs beginning with the calendar year 2010, while the energy procurement reconciliation fiscal year under Rider PE and Rate BESH is the twelve-month period beginning on June 1 through May 31 of the following year. As such, the allocation of 2013 customer care and collection agency costs will be reflected in the annual reconciliations for Rider PE and Rate BESH as follows:

Rider PE and Rate BESH	Customer Care Costs	Collection Agency Costs	**Total**
Reconciliation Year-Ended May 31, 2013	$4,552,917	$269,583	$4,822,500
Reconciliation Year-Ended May 31, 2014	$6,374,083	$377,417	$6,751,500
Total	$10,927,000	$647,000	$11,574,000

The reduction to delivery services rates for the 2013 customer care and collection agency costs allocated to the Supply function ("Supply") was effective for the January 2015 through December 2015 monthly billing periods. The 2013 customer care and collection agency costs allocated to Rider PE and Rate BESH were reflected in the December 2014 determination period for Rider PE and Rate BESH, consistent with the timing of the issuance of the December 10, 2014 Order in Docket No. 14-0312 and, as such, were reflected in the PEA and HPEA Factors billed in April 2015. (ComEd Ex. 2.0 at 15-16).

Mr. Vogt then testified that there is a time lag between when ComEd's Delivery Service costs are incurred and when the reconciliation of those costs are approved by the Commission in a Formula Rate proceeding (*e.g.*, the reconciliation of 2013 costs was approved by the Commission in December 2014). This timing lag will not result in double recovery of such costs and, in order to properly match the time period when these costs were incurred (2013), it is appropriate to include them in this reconciliation proceeding. Future Rider PE and Rate BESH reconciliations will reflect the costs allocated to Supply from future Formula Rate delivery service filings. The revenues recovered under future Rider PE and Rate BESH rates and the supporting filings will have incorporated such costs. The respective reconciliations will do so also, incorporating only minor differences due to customer load. (ComEd Ex. 2.0 at 16).

On a prospective basis, ComEd will include calendar year customer care and collection agency costs allocated to Rider PE and Rate BESH reconciliations in the fiscal year in which the costs are applicable (June 1 through May 31). For example, in the Rider PE and Rate BESH reconciliation for the fiscal year June 2013 through May 2014, ComEd will reflect seven months of the 2013 customer care and collection agency costs and five months of the 2014 customer care and collection agency costs. (ComEd Ex. 2.0 at 16-17).

Customer care costs and collection agency costs are not typically allocated by usage or demand but rather are typically allocated by the number of customers served under such Supply-related tariffs. As such, ComEd allocated approximately 98.7% of the customer care costs and collection agency costs to Rider PE and the remainder to Rate BESH based upon the average number of retail electric supply customers noted on page 9, line 24, columns (b) and (c) in Form 21 ILCC Annual Report for the reporting period ending December 31, 2013. (ComEd Ex. 2.0 at 13-14).

Ms. Pearce also described the inclusion of customer care and collection agency costs in this reconciliation, and stated that the method and amount of cost reallocation were reasonable. (Staff Ex. 1.0 at 8-9).

C. Allocation of Administrative and Operational Costs

Mr. Vogt described the process used to: (1) allocate internal administrative and operational costs to the Energy Acquisition Department function, and (2) apportion or split those allocated costs between the fixed-price load served under Rider PE and the hourly load served under Rider BESH.

For each group in the Energy Acquisition Department – other than the Wholesale Markets and Development group which imposes no incremental administrative costs on retail customers receiving supply service under Rider PE or Rate BESH – ComEd first identified the primary work activities performed by the group and the portion of the total time spent on each activity by the employees within the group. ComEd then made an assessment as to whether each activity was related to ComEd's procurement responsibilities. In making that assessment, ComEd considered whether the activity was necessary solely because of ComEd's load-serving responsibilities, or alternatively, if the function would have been required regardless of its load-serving obligation. (ComEd Ex. 2.0 at 17).

It was determined that most activities are a combination of these responsibilities. That is, some amount of that activity was deemed necessary to fulfill ComEd's electric distribution company responsibilities to PJM. This work activity would have been required whether ComEd supplied any energy to retail customers; however, the fact that ComEd was also a load-serving entity expanded the amount of time and resources needed to perform most activities. Therefore, an estimate of the time spent on each activity was made based on the incremental procurement-related work. This allocation of time to the procurement function was then further split between how much of the activity related to serving the fixed-price load in Rider PE versus the hourly load in Rate BESH. This split was made on a time-based assessment. (ComEd Ex. 2.0 at 17-18). The resulting allocation percentages for each group in the Energy Acquisition Department were described by Mr. Vogt.

Mr. Vogt also explained the methodology used to allocate the "Other Administrative and Operational Costs" described above between Rider PE and Rate BESH. The REC Costs, IPA fees, the Procurement Monitor Costs, and the Procurement Plan Proceedings Costs were all directly allocated to fixed-price customers because these are costs incurred for procuring supply for those customers. The Information Technology System Costs were allocated 82% to fixed-price and 18% to hourly-priced customers. Approximately 82% of the PJM Credit Costs were allocated to the fixed-price customers and 18% were allocated to the hourly-priced customers because these costs were proportionately allocated based on PJM billings to each service type. Reconciliation Proceedings costs were allocated 75% to fixed-price customers and 25% to hourly-priced customers. Supply-related costs identified by the Commission and merger-related costs were allocated 82% to fixed-price customers and 18% to hourly priced customers. (ComEd Ex. 2.0 at 18-20).

ComEd Exhibit 2.1 identifies the amounts allocated to Rider PE and to Rate BESH for the Energy Acquisition Department and for the remaining seven categories in the "Other Administrative and Operational Costs." Total administrative and operational costs incurred in procuring energy and power were $12,373,122, of which $2,348,757 was incurred by the Energy Acquisition Department. Of the $12,373,122 total, $11,111,702 was allocated to Rider PE. (ComEd Ex. 2.1).

Mr. Vogt's testimony supported the conclusion that the internal administrative and operational costs that ComEd incurred associated with the procurement of electric power and energy for retail customers served under Rider PE and Rate BESH for the period June 1, 2012 through May 31, 2013 were reasonable. He explained all of these costs relate to the operations of ComEd's Energy Acquisition Department. The functions performed by the Energy Acquisition Department were all necessary to procure the electric power and energy to serve Rider PE and Rate BESH customers. The staff that the Energy Acquisition Department employed was needed to perform these procurement functions. The salaries of the staff are set on a competitive basis and utilize the same salary structure that is used throughout ComEd and they are reasonable in amount. The administrative costs associated with operating the department are also reasonable in amount. The methodology ComEd employed to allocate these costs between Rider PE and Rate BESH is a fair and reasonable method. (ComEd Ex. 2.0 at 20).

Mr. Vogt's testimony also supported the conclusion that the other administrative and operational costs, described above, all fall within one of two categories: (1) costs incurred in procuring power and energy for fixed-price customers under the provisions of Rate BES, including the costs to develop, implement and comply with any relevant procurement plan, as described in Rider PE; and (2) costs incurred in procuring electric power and energy for hourly-priced customers under the provisions of Rate BESH. The Act specifically provides that a utility shall recover its costs of procuring electric power and energy, including the costs incurred by the utility in procuring a supply of electric power and energy, any just and reasonable costs that the utility incurs in arranging and providing for the supply of electric power and energy, all reasonable costs incurred to implement and comply with any procurement plan, any fees assessed by the IPA, any costs associated with balancing load and the full costs of all auction-related activities. Similarly, Rider PE and Rate BESH implement the Act and further authorize the recovery of these costs.[2] As is evident from the description of the costs that Mr. Vogt provided, all the costs recovered from retail customers during this period were necessary to procure the electric power and energy to serve ComEd's fixed-price and hourly-priced customers consistent with the Act, the Procurement Plan, and ComEd's tariffs. These costs are conclusively classified as prudent and reasonable, and are fully recoverable. (ComEd Ex. 2.0 at 21-22).

Mr. Vogt stated that in the prior period, ComEd recovered approximately $8.7 million in administrative and operational costs. In the period examined in this docket (June 1, 2012 through May 31, 2013), the amount recovered from customers was approximately $12.4 million in administrative and operational costs. Excluding the Customer Care and Collection Agency Costs allocated to Supply in Docket No. 14-0312, the difference from the prior period is primarily due to an invoice for over $1 million

[2] *See* Rider PE, Original Sheet No. 311, section on Purpose; Original Sheet Nos. 313 and 314, section on Procurement Obligation; 3rd Revised Sheet No. 317, section on Purchased Electricity Price; Rate BESH, 7th Revised Sheet No. 36 and 2nd Revised Sheet No. 37, section on Miscellaneous Procurement Components Charge; 2nd Revised Sheet No. 37, 3rd Revised Sheet No. 38 and Original Sheet No. 39, section on Hourly Purchased Electricity Adjustment Factor; and 5th Revised Sheet No. 46 and 2nd Revised Sheet No. 46.1, section on Miscellaneous General Provisions.

received from the IPA in July 2011 for 2010 and 2011 fiscal year expenses. (ComEd Ex. 2.0 at 22).

VI. Accounting Errors that Occurred in the Application of the Provisions of Rider PE and Rate BESH

Mr. Kozel testified that ComEd identified errors associated with the computation of previously applied PEA and HPEA factors and he described the adjustments ComEd will make, pursuant to the terms of Rider PE and Rate BESH, to correct these errors. Mr. Kozel stated the errors related to the mapping of certain Customer Information Management System ("CIMS") transactions to the general ledger performed in 2011 that resulted in an approximate $12 million HPEA overcharge to customers on ComEd's hourly-priced bundled service tariff and an offsetting PEA undercharge to customers on ComEd's fixed-priced bundled service tariff for periods from June 2011 through September 2015. Mr. Kozel noted that $12 million represents 0.2% of the approximate $7 billion of Rider PE and Rate BESH revenues during the same June 2011 through September 2015 time period. (ComEd Ex. 5.0 at 1, 2).

Mr. Kozel explained that the applicable tariffs include provisions that allow ComEd to refund and/or charge to correct errors associated with the computation of previously applied PEA and HPEA factors. Rider PE provides:

> A = Adjustment, in $, equal to an amount (a) ordered by the [Commission], or (b) determined by the Company, that is to be refunded to or collected from retail customers to correct for errors associated with the computation of previously applied PEA factors. Such amount includes interest at the rate established by the [Commission] in accordance with 83 Illinois Administrative Code Section 280.40(g). Such interest is calculated for the period of time beginning on the first day of the effective period during which such PEA was applied and extending through the day prior to the start of the effective period in which the A is applied. Such amount may be amortized over multiple effective periods with interest.

(Rider PE, Ill. C. C. No. 10, 3rd Revised Sheet No. 325). Similarly, Rate BESH Provides:

> A = Adjustment, in $, equal to an amount (a) ordered by the [Commission], or (b) determined by the Company, that is to be refunded to or collected from retail customers receiving electric service with hourly pricing to correct for errors associated with the computation of a previously applied HPEA in accordance with this tariff. Such amount includes interest at the rate established by the [Commission] in accordance with 83 Illinois Administrative Code Section 280.40(g). Such interest is calculated for the period of time beginning on the first day of the effective period during which such HPEA was

> applied and extending through the day prior to the start of the effective period in which the A is applied. Such amount may be amortized over multiple effective periods with interest.

(Rate BESH, Ill. C. C. No. 10, 1st Revised Sheet No. 39). *See also* 220 ILCS 5/16-111.5 (Provisions relating to procurement shall "provide for the correction … of any accounting errors that may occur."); (ComEd Ex. 5.0 at 3).

Mr. Kozel testified that ComEd plans to reflect the corrections through the PEA and HPEA adjustment factors over the course of one year, beginning with the June 2016 billing period. ComEd will apply interest to both the charge and the refund at the rate established by the Commission in accordance with 83 Ill. Adm. Code 280.40(g), calculated for the period during which the incorrect PEA and HPEA rates were applied (June 2011 – September 2015) through the period during which the adjustment will be reflected in PEA and HPEA rates. Given the interest rate for 2012 through 2015 was 0.0%, ComEd will only apply interest for 2011 and 2016, and potentially in 2017 if the interest rate established by the Commission for 2017 is greater than 0.0%. (ComEd Ex. 5.0 at 3-4).

Ms. Pearce testified that she accepted Mr. Kozel's description of the errors as well as ComEd's calculation of interest associated with the correction of the errors. (Staff Ex. 3.0 at 2, 3). Ms. Pearce explained, however, that she was concerned that the impact of the error correction, however minimal, would not be transparent to retail customers who seek to compare prices per kilowatt-hour ("kWh") for the 12-month period beginning June 2016 when choosing a supplier. (Staff Ex. 3.0 at 4; *see also* Staff Ex. 3.0, Attachment C). Ms. Pearce stated that including a footnote on the "Plug In Illinois" website (http://pluginillinois.org) that explains the correction would increase the PEA by approximately $0.00063/kWh and reduce the HPEA by approximately $0.00268/kWh (Staff Ex. 3.0, Attachment C) would provide transparency to customers and mitigate her concern. (Staff Ex. 3.0 at 4).

Ms. Pearce explained that "Plug In Illinois" is the official electric choice website of the Commission. It provides information that enables electricity consumers to learn about electric competition in Illinois and choose a supplier. In addition, the website provides information about utility rates, explains the meaning of real-time electricity pricing and informs consumers about how to conserve energy. She stated consumers can use this website to understand the charges on their bill and to compare offers between competing electricity suppliers, so the information provided should be as accurate as possible. She further stated the Utility's Electric Supply Price for ComEd is provided on this website, along with a description of the PEA factor. The current description indicates that future PEA values would be expected to average near zero in the planning year (June 2015 through May 2016). Because the proposed error correction will result in a known impact on the PEA/HPEA factors for the planning year June 2016 through May 2017, this impact should be fully disclosed to the consumer. Including the footnote would therefore provide more accurate information to consumers who are comparing supply prices for the next planning year. (Staff Ex. 3.0 at 5).

Ms. Pearce recommended the Commission adopt ComEd's proposed methodology for correcting the errors over a 12-month period beginning June 2016. She further recommended that the Commission adopt ComEd's adjustment to reflect the portion of the error that relates to this reconciliation period, which is $2,546,942 plus interest of $1,132, for a total of $2,548,074. (Staff Ex. 3.0 at 6, 7). These recommendations are reflected in Staff Exhibit 3.0, Schedule 3.01, showing the reconciliation amounts, which she also recommended that the Commission approve. Lastly, she proposed that the Commission direct Staff to update the "Plug In Illinois" website (http://pluginillinois.org) to reflect the impact of the error correction on PEA and HPEA factors. (Staff Ex. 3.0 at 7).

VII. Commission Analysis and Conclusion

The Initiating Order directed ComEd to present a "reconciliation of revenues collected under the respective tariffs with costs incurred in connection with proper procurement activities as defined in the tariffs." (Initiating Order at 2, 3). Based on the evidence presented, including the internal audit and supplemental report, the Commission finds that the reconciliation of revenues collected under the above-referenced procurement tariffs with actual costs incurred in connection with procurement activities as defined therein, for the reconciliation period June 1, 2012 through May 31, 2013, as shown in the Appendix hereto, is accurate, and is hereby approved. The correct tariffs were applied, and, subject to the adjustments that were made as described by Staff witness Pearce regarding removal of costs unrelated to power procurement (Staff Ex. 1.0 at 3) and correction of the mapping error described by ComEd witness Kozel (ComEd Ex. 5.0 at 1, 2), the charges were accurately calculated and collected.

The Commission further finds that ComEd complied with the applicable procurement plan approved by the Commission for the period under review. With regard to the internal administrative and operational costs associated with the procurement of electric power and energy for retail customers serviced under Rider PE and Rate BESH for the period June 1, 2012 through May 31, 2013, the Commission finds that such activities and costs were reasonable. The Commission also approves the inclusion of customer care and collection agency costs allocated to Rider PE and Rate BESH that align with the five months of the period at issue for the reconciliation.

The Commission agrees with ComEd's proposed methodology for correcting the errors associated with the computation of previously applied PEA and HPEA factors over a 12-month period beginning June 2016, pursuant to the terms of Rider PE and Rate BESH. The Commission also agrees with ComEd's adjustment to reflect the portion of the error that relates to this reconciliation period. The Commission directs Staff to work with ComEd to update the "Plug In Illinois" website (http://pluginillinois.org) to reflect the impact of the "'error correction on PEA and HPEA factors.

For the reconciliation period at issue here, accrued expenses were $1,630,107,385 for the fixed segment and $175,742,369 for the hourly segment, totaling $1,805,849,754. Accrued revenues were $1,657,486,672 for the fixed segment and $173,442,185 for the hourly segment, totaling $1,830,928,857. After reflecting recoveries and other adjustments, the total cumulative under-recovery is $31,378,480, as reflected on line 14, column (d) of the Appendix hereto.

VIII. Findings and Ordering Paragraphs

The Commission, having given due consideration to the entire record and being fully advised in the premises, is of the opinion and finds that:

(1) Commonwealth Edison Company is an Illinois corporation engaged in the transmission, sale and distribution of electricity to the public in Illinois, and is a public utility as defined in Section 3-105 of the Public Utilities Act;

(2) the Commission has jurisdiction over Commonwealth Edison Company and the subject matter of this proceeding;

(3) the statements of fact set forth in the prefatory portion of this Order are supported by the evidence and the record and are hereby adopted as findings of fact; and

(4) for the reconciliation period of June 1, 2012 through May 31, 2013, the reconciliation of revenues collected under the above-referenced procurement tariffs with actual costs incurred in connection with procurement activities as defined therein, as shown in ComEd Exhibits 1.1, 1.2, 1.3 and 5.1 and in the Appendix hereto, after revision to reflect the adjustment proposed by Staff witness Pearce regarding removal of costs unrelated to power procurement and the error correction described by ComEd witness Kozel, is accurate, and hereby approved.

IT IS THEREFORE ORDERED that for the reconciliation period of June 1, 2012 through May 31, 2013, the reconciliation of revenues collected under the above-referenced procurement tariffs with actual costs incurred in connection with procurement activities as defined therein, as shown in ComEd Exhibits 1.1, 1.2, 1.3 and 5.1 and as adjusted by Staff witness Pearce regarding removal of costs unrelated to power procurement as shown in the Appendix attached hereto, is hereby approved.

IT IS FURTHER ORDERED that, subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By Order of the Commission this 26th day of April, 2016.

(SIGNED) BRIEN SHEAHAN

Chairman