

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY :
: Docket No. 15-0535
:
Reconciliation of revenues collected under :
power procurement riders with actual costs :
associated with power procurement :
expenditures. :

Direct Testimony of

GERALD J. KOZEL

Vice President and Controller
Commonwealth Edison Company

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1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Identification of Witness**

3 **Q. What is your name and business address**

4 A. My name is Gerald J. Kozel. My business address is Commonwealth Edison Company
5 (“ComEd”), Three Lincoln Centre, Oakbrook Terrace, Illinois 60181.

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

7 A. I am employed by ComEd as its Vice President and Controller.

8 **B. Background and Experience**

9 **Q. What is your educational background and qualifications?**

10 A. I graduated from the University of Illinois at Urbana-Champaign in 1994 with a
11 Bachelor’s degree in Accounting and Business Administration. I am a certified Public
12 Accountant in the State of Illinois and a member of the American Institute of Certified
13 Public Accountants.

14 **Q. What is your past and present employment history?**

15 A. I began my career at Arthur Andersen, LLP in 1994 as a staff auditor in the audit practice
16 of the company’s Chicago office. Over the next eight years, my responsibilities
17 increased and I was eventually promoted to Manager. In June 2002, I joined Deloitte &
18 Touche LLP, where I continued my career as an auditor and was promoted to Senior
19 Manager. During my time at both companies, a significant portion of my time was
20 focused on the energy and utility industries. In 2005, I joined Exelon Corporation
21 (“Exelon”) and held roles as Manager and Director. As Controller for ComEd, I am
22 responsible for ComEd’s accounting operations and associated internal controls as well

23 as external financial reporting requirements and associated filings with the Securities and
24 Exchange Commission, the Federal Energy Regulatory Commission and the Illinois
25 Commerce Commission (“Commission” or “ICC”).

26 **C. Purpose of Testimony**

27 **Q. What is the purpose of your testimony?**

28 A. The purpose of my testimony is to explain ComEd’s reconciliation of revenues during the
29 applicable period (the period involved in this proceeding under the applicable tariffs, *i.e.*,
30 June 1, 2013, through May 31, 2014) for: (1) its Purchased Electricity Adjustment
31 Factors (“PEAs”) under ComEd’s Rider PE – Purchased Electricity (“Rider PE”); and
32 (2) its Hourly Purchased Electricity Adjustment Factors (“HPEAs”) under ComEd’s
33 Rate BESH – Basic Electric Service Hourly Energy Pricing (“Rate BESH”).

34 **Q. What did the PEAs pertain to during the applicable period?**

35 A. The PEAs pertained to electric power and energy directly procured by ComEd for
36 customers taking service under ComEd’s bundled service tariff with fixed pricing.

37 **Q. What did the HPEAs pertain to during the applicable period?**

38 A. The HPEAs, like the PEAs, pertained to electric power and energy directly procured by
39 ComEd for customers taking service under ComEd’s bundled service tariff with hourly
40 pricing.

41 **Q. Is ComEd submitting any other direct testimony?**

42 A. Yes. ComEd is presenting:

- 43 • Direct Testimony of Scott A. Vogt, ComEd Exhibit (“Ex.”) 2.0. That testimony:
44 (1) describes and supports the reasonableness and allocation of ComEd’s

45 administrative and operational costs associated with the procurement of electric
46 power and energy for retail customers served under Rider PE and under
47 Rate BESH for the period June 1, 2013, through May 31, 2014; and (2) explains
48 how ComEd complied during that period with the applicable procurement plan
49 approved by the Commission and provides certain additional related information.

50 • Direct Testimony of John Hengtgen, ComEd Ex. 3.0. That testimony describes
51 and supports the reasonableness of ComEd's cash working capital ("CWC") costs
52 associated with the procurement of electric power and energy for retail customers
53 served under Rider PE and under Rate BESH for the period June 1, 2013, through
54 May 31, 2014.

55 **D. Summary of Conclusions**

56 **Q. Stated briefly, what are your conclusions?**

57 **A.** In brief, I conclude that: (1) ComEd correctly determined and recovered the applicable
58 costs through the PEAs during the applicable period and did not inappropriately recover
59 those costs through charges in any other tariffs; (2) ComEd correctly accounted for the
60 costs and revenues associated with the PEAs during the applicable period; (3) ComEd
61 correctly determined and recovered the applicable costs through the HPEAs during the
62 applicable period and did not inappropriately recover those costs through charges in any
63 other tariffs; and (4) ComEd correctly accounted for the costs and revenues associated
64 with the HPEAs during the applicable period.

65 **E. Itemized Attachments to Direct Testimony**

66 **Q. Are you sponsoring any attachments to your testimony?**

67 A. Yes. Attached hereto are the following exhibits:

- 68 • ComEd Ex. 1.1 is ComEd's annual filing to the ICC under Rider PE and Rate
69 BESH dated November 20, 2014. This annual filing included: (1) a cover letter,
70 (2) the Company Officer Verification, (3) the 2014 ComEd Rider Purchased
71 Electricity Cost Recovery Review prepared by the Internal Audit ("IA")
72 department of Exelon, ComEd's parent corporation, and (4) the Supplemental
73 Report Relating to 2014 ComEd Purchased Electricity Cost Recovery Review.
- 74 • ComEd Ex. 1.2 is a schedule of ComEd's Cumulative Totals of Incremental
75 Expenses, Revenues, and Recoveries under Rider PE and Rate BESH for the
76 June 1, 2013, through May 31, 2014 determination period, which is an updated
77 version of Appendix I to ComEd Ex. 1.1. This update incorporates adjustments
78 reflected in the Commission's Orders in Docket No. 14-0312, dated December 10,
79 2014, Docket No. 15-0287, dated December 9, 2015, and Docket No. 14-0569,
80 dated April 26, 2016.

81 **Q. Who prepared the internal audit report included in ComEd Ex. 1.1, and what**
82 **information does the report provide?**

83 A. The internal audit was conducted by IA, which performs a separate and independent
84 auditing function within Exelon. The report provides background information, identifies
85 the objective and scope of the internal audit, and describes the results of the internal
86 audit.

87 Q. **What is provided in the supplemental report included in ComEd Ex. 1.1?**

88 A. The supplemental report provides additional information relating to the internal audit
89 report included as ComEd Ex. 1.1 and additional background information regarding
90 Rider PE and Rate BESH.

91 Q. **What information is provided in the schedule included in ComEd Ex. 1.2?**

92 A. This schedule provides the cumulative totals of incremental expenses, revenues and
93 recoveries under Rider PE and Rate BESH for the June 1, 2013, through May 31, 2014,
94 determination period and was prepared consistent with the Appendix to the
95 Commission's Final Order in Docket No. 14-0569, dated April 26, 2016. The schedule
96 includes the following adjustments to the May 31, 2013, beginning balance (originally
97 submitted on November 20, 2014) consistent with the Appendix in the Final Order in
98 Docket No. 14-0569 dated April 26, 2016, applicable to the determination period June 1,
99 2012 through May 31, 2013: (1) an increase for customer care and collection agency
100 costs of \$4,822,500; (2) a decrease for administrative and operational expense of
101 \$20,000; and (3) a reclassification between Fixed and Hourly for a mapping error of
102 \$2,548,074. The schedule also includes an adjustment to Accrued Expenses of
103 \$11,874,000 for an increase for customer care and collection agency costs consistent with
104 the Final Orders in Docket No. 14-0312 dated December 10, 2014, and 15-0287, dated
105 December 9, 2015, applicable to the determination period June 1, 2013 through May 31,
106 2014. In addition, the schedule includes an adjustment to the May 31, 2014 ending
107 balance of \$3,933,108 for a reclassification between Fixed and Hourly for a mapping
108 error consistent with the Final Order in Docket No. 14-0569.

109 **II. SUMMARY OF RELEVANT OPERATIONS UNDER RIDER PE AND RATE**
110 **BESH**

111 **Q. Generally, how would you describe the operations relating to the PEAs under Rider**
112 **PE and the HPEAs under Rate BESH?**

113 A. In brief, the PEAs and HPEAs were designed as part of Rider PE and Rate BESH so that
114 the expenses that ComEd incurred for the procurement of full requirements electric
115 supply and directly procured electric power and energy, as applicable, required by retail
116 customers for which ComEd was providing such supply, would equal revenues from such
117 retail customers for such supply based on changes in those customers' actual usage and
118 demands on ComEd's system. The expenses included in the PEAs and HPEAs also
119 include certain transmission expenses as well as certain supply administration costs
120 associated with the provision of service under Rider PE and Rate BESH, including cash
121 working capital costs. Those supply administrative and operational costs are addressed in
122 the direct testimony of ComEd's Vice President – Energy Acquisition, Scott A. Vogt
123 (ComEd Ex. 2.0). The cash working capital costs are addressed in the direct testimony of
124 John Hengtgen (ComEd Ex. 3.0). As provided in the tariff language of Rider PE and
125 Rate BESH, an internal audit is conducted related to the PEAs and HPEAs for the
126 applicable period, and a report that summarizes the results of that internal audit is then
127 submitted to the Commission as an informational filing. The internal audit was
128 conducted, and the report was prepared. *See* ComEd Ex. 1.1.

129 Q. **How did ComEd determine the underlying data and calculate the PEAs and HPEAs**
130 **under Rider PE and Rate BESH during the applicable period?**

131 A. On a monthly basis, using ComEd's general ledger, ComEd calculated the difference
132 between revenues and expenses associated with each product. ComEd's wholesale
133 procurement management system, payables system, and retail billing system are the
134 sources of the information that support the general ledger. At my direction, ComEd's
135 accounting Staff prepared the calculations and filings during the applicable period and
136 John Bobek (Manager, Accounting) approved them prior to filing with the Commission
137 each month. Any amounts that were over/under-recovered in a given period were
138 reflected in a subsequent period on our customers' bills, as applicable. Any amounts that
139 were credited to or recovered from customers were incorporated into the next applicable
140 monthly calculation of the PEAs and HPEAs. At the end of any accounting period,
141 ComEd recorded a cumulative regulatory asset (under-recovery) or regulatory liability
142 (over-recovery) for each product offering.

143 Q. **Did ComEd inappropriately also recover any of the same costs through charges in**
144 **any other tariffs?**

145 A. No. The accounting and the process related to the PEAs and HPEAs, as well as the tariff
146 provisions, prevented any such double-recovery, as the Internal Audit Report confirms.
147 *See ComEd Ex. 1.1.*

148 Q. **Did ComEd correctly account for the applicable costs through the PEAs and HPEAs**
149 **during the applicable period?**

150 A. Yes. The September 29, 2014 Internal Audit Report states in part: “[T]he cost recovery
151 process[es] performed by ComEd Accounting, Energy Acquisition, and Regulatory to
152 ensure compliance with the requirements of Rider PE and Rate BESH ... are **Effective**”.
153 *See* ComEd Ex. 1.1.

154 **III. CONCLUSION**

155 Q. **Does this conclude your direct testimony?**

156 A. Yes.