

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

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

Phase II Rebuttal Testimony of
JEROME P. HILL
Director of Revenue Requirements
Commonwealth Edison Company

1 Q. Please state your name.

2 A. Jerome P. Hill.

3 Q. Did you provide direct, supplemental direct, rebuttal, and surrebuttal testimony in Phase I
4 and direct testimony in Phase II of this proceeding on behalf of Commonwealth Edison
5 Company (the “Company” or “ComEd”)?

6 A. Yes.

7 Q. What are the purposes of your Phase II rebuttal testimony?

8 A. There are two overall purposes of my Phase II rebuttal testimony. First, I generally
9 respond to the Phase II direct testimony submitted by Illinois Commerce Commission
10 (the “Commission” or “ICC”) Staff (“Staff”) witness Bryan Sant and Governmental and
11 Consumers (“GC”) witness David Effron, respectively. Second, I present ComEd’s
12 revised proposed jurisdictional revenue requirement. This revision reflects certain
13 corrections and modifications to the revenue requirement that I presented in my Phase II
14 direct testimony (ComEd Exhibit 112.0, 112.1).

15 Specifically, with respect to my responses to Staff’s and GC’s Phase II direct
16 testimonies, I will: (1) discuss Staff’s and, to a lesser degree, GC’s failures to correct for
17 the Liberty Consulting Group’s (“Liberty”) analytical and mathematical errors and
18 omissions in terms of not reflecting the full impacts of the adjustments proposed in
19 Liberty’s audit report (the “Audit Report”); (2) analyze Staff’s and GC’s overlay of the
20 Audit Report’s conclusions on the determination in the Commission’s Interim Order (as
21 amended) in this Docket (the “Interim Order”) of ComEd’s jurisdictional revenue
22 requirement, in order to identify certain double-counting of downward adjustments;

23 (3) respond to GC's allocation of a portion of distribution operations and maintenance
24 ("O&M") expenses, as calculated through the Audit Report methodology, to wholesale
25 distribution customers (resale municipalities); (4) respond to the substance of GC's
26 arguments regarding incentive compensation; (5) address GC's position that the
27 Company's 2000 depreciation rates should continue to be used for this proceeding; and
28 (6) comment on GC's treatment of the ComEd salary and wages *pro forma* adjustment
29 approved by the Interim Order.

30 I also will discuss the corrections and modifications that I make to the revised
31 proposed jurisdictional revenue requirement that I presented in my Phase II direct
32 testimony (ComEd Exhibit 112.0, 112.1). These include: (1) the correction of the
33 inadvertent error that I discussed on page 34, lines 766 to 770, of my Phase II direct
34 testimony; (2) a revision to the accumulated depreciation, and the accumulated deferred
35 income taxes ("ADIT"), related to the three adjustments contained in ComEd
36 Exhibit 112.1, page 12, columns AA-CC, and the related depreciation expense for these
37 three adjustments included in ComEd Exhibit 112.1, page 7, column TT; (3) a correction
38 to the related benefits impact for the "Eliminate Billing Contractor/Overtime" adjustment
39 contained in ComEd Exhibit 112.2, Schedule 20; (4) a correction to the "Plant Placed in
40 Service – 2nd Quarter 2001" adjustment shown on ComEd Exhibit 112.1, page 13,
41 column LL; and (5) a revision to reflect the allocation of the portion of costs to resale
42 municipalities for all adjustments contained in the Interim Order and ComEd
43 Exhibit 112.1, where such allocation is appropriate.

44 Q. You referred to Staff's and, to a lesser degree, GC's failures to correct for Liberty's
45 analytical and mathematical errors and omissions in terms of not reflecting the full

46 impacts of the adjustments proposed in the Audit Report. In what respects did Staff and
47 GC fail to correct for such errors and omissions?

48 A. In my Phase II direct testimony (ComEd Exhibit 112.0), I identified numerous errors and
49 omissions in the nature of Liberty's failing to fully reflect all impacts of certain of its
50 proposed adjustments that I had discovered in my review of the Audit Report. Many of
51 these items were the subject of data requests issued by ComEd to Liberty, seeking
52 clarification of data that had given rise to my suspicions that such errors and omissions
53 were present in the report. As I discussed in my Phase II direct testimony, Liberty's
54 responses to such ComEd's data requests revealed that, while Liberty did not necessarily
55 confirm ComEd's conclusions or tentative conclusions that there were such errors and
56 omissions, Liberty often chose to defer to the Commission the final decision as to the
57 appropriateness of certain of its proposed adjustments, or, more specifically, the
58 determination of the appropriate ratemaking treatment of those impacts of its proposed
59 adjustments that Liberty had failed to reflect in its quantifications or schedules. It is my
60 understanding that all parties to this proceeding that requested copies of Liberty's
61 responses to ComEd's data requests did in fact receive such copies, including Staff and
62 the City of Chicago (one of the four GC parties). In addition, ComEd previously had
63 provided to Liberty and all other parties in this proceeding copies of ComEd's response
64 to Staff Data Request ML2-1, the narrative portion of which identified two specific such
65 errors and omissions that were present in the report (while indicating that ComEd's
66 analysis of the report was ongoing), *i.e.*, (1) the failure of Liberty to reflect its own
67 finding that certain 2000 test year incentive compensation expenses should be capitalized
68 and included in distribution rate base; and (2) Liberty's failure, given its own findings

69 (regarding reduced depreciation rates), to correctly calculate the size of its proposed
70 adjustment to the depreciation reserve. A copy of the narrative portion of that response is
71 attached hereto as ComEd Exhibit 120.2, Schedule 1. That response was provided to
72 Liberty and all parties nearly seven weeks prior to the filing of direct testimony in
73 Phase II of this proceeding.

74 ComEd's understanding is that Staff witness Sant's testimony is intended to
75 present Schedules that set forth ComEd's jurisdictional revenue requirement, using the
76 Interim Order as a starting point and then assuming Liberty's proposed adjustments
77 thereto as quantified by Liberty. ComEd's understanding is that Mr. Sant's testimony is
78 *not* intended to offer any opinion regarding the merits of Liberty's proposed adjustments,
79 including the proposed quantifications, although Mr. Sant's testimony does state at one
80 point (page 3, lines 43-45) that Staff recommends that the Commission incorporate
81 Liberty's proposed adjustments "in the manner" set forth in the proposed Schedules
82 attached to his testimony. (Staff witness Michael Luth expressly stated that he was not
83 recommending a position on Liberty's proposed adjustments. *See* Mr. Luth's Phase II
84 direct testimony (ICC Staff Exhibit 29.0) at page 2, lines 17-21.)

85 The testimony of Staff witness Sant is silent, however, on the two concerns
86 regarding Liberty's failure to fully reflect the impacts of its adjustments that were
87 identified in ComEd's response to Staff Data Request ML2-1, as well as on the other
88 failures of Liberty to fully reflect all aspects of its proposed adjustments identified in my
89 Phase II direct testimony, except for Mr. Sant's statement (page 3, lines 45-47) that:
90 "Staff reserves the right to modify this position based upon any additional evidence or
91 arguments that may be presented in the remainder of this proceeding". My interpretation

92 of that statement is that Staff either was not convinced by the materials that it reviewed
93 prior to submission of its Phase II direct testimony that such errors and omissions exist or
94 was formally reserving final judgment on that subject.

95 As discussed in my Phase II direct testimony, and based on my experience and
96 knowledge of past determinations of ComEd's revenue requirement by the Commission
97 (the manner in which the impacts of adjustments were identified and quantified by the
98 Commission in its findings and schedules in proceedings such as its Dockets 99-0117 and
99 94-0065), many of the adjustments proposed by Liberty in its Audit Report fail to apply
100 all related impacts of such adjustments in the manner that is required for proper revenue
101 requirement determination by the Commission. Staff, in its Phase II direct testimony,
102 however, did not correct for any such errors and omissions. Thus, even if one were to
103 assume, erroneously, that all of Liberty's proposed adjustments should be adopted,
104 Staff's direct testimony does not reflect the full impacts of those adjustments as required
105 for ratemaking purposes by the Commission.

106 In his Phase II direct testimony, GC witness Effron recognizes some but not all of
107 Liberty's errors and omissions in terms of failures to reflect all impacts of proposed
108 adjustments that I discussed in my Phase II direct testimony. For example, Mr. Effron
109 recognizes that if the Commission were to adopt Liberty's proposed adjustment
110 disallowing certain incentive compensation expenses on the ground that they should be
111 capitalized as distribution plant, which Mr. Effron does not recommend, then the
112 Commission also must adopt all related rate base impacts of that adjustment, i.e, those
113 expenses must be included in distribution rate base. (GC Exhibit 7.0, pp. 16-17).

114 It is essential that the Commission require that all adjustments proposed by
115 Liberty in its Audit Report fully reflect all impacts that their adoption would have on the
116 proper determination of ComEd's revenue requirement. The same also is true, of course,
117 of all adjustments proposed or supported by ComEd or by any other party. It also is
118 essential that where it is recommended that an adjustment be disapproved in whole or in
119 part, that all impacts of such disapproval be reflected.

120 Mr. Effron's testimony permits illustrations of those points. For example,
121 Mr. Effron does not accept Liberty's proposed adjustment based on Liberty's application
122 of a lower depreciation rate to 2000 test year expenses. (GC Exhibit 7.0 at pages 23-25).
123 Therefore, the criticism (discussed in my Phase II direct testimony) that Liberty failed to
124 correctly calculate the size of its proposed adjustment to the depreciation reserve given
125 that lower rate, while applicable to the Audit Report, would not be applicable either to
126 Mr. Effron's proposed revenue requirement or to ComEd's proposed revenue
127 requirement, in Mr. Effron's case because he rejected all aspects of the adjustment, and in
128 ComEd's case because it corrected for Liberty's error. For another example, Mr. Effron
129 identifies the salaries and wages *pro forma* adjustment approved by the Interim Order as
130 having been improperly excluded by Liberty in its calculation of distribution O&M
131 expenses. That is not an error or omission in ComEd's proposed revenue requirement,
132 however, in that such exclusion only occurs if Liberty's proposed "Global
133 Quantification" distribution O&M expenses adjustment is proposed to be adopted, and if
134 its incremental impact above the Interim Order-approved distribution O&M
135 disallowances is (incorrectly) quantified as Liberty has quantified it. ComEd rejects
136 Liberty's "Global Quantification" distribution O&M expenses adjustment in ComEd's

137 proposed revenue requirement. Thus, if Mr. Efron is correct that Liberty erroneously
138 excluded that adjustment, then that criticism applies to the Audit Report but not to
139 ComEd's proposed revenue requirement.

140 In sum, my point here is that Staff's and, to a lesser degree, GC's testimony
141 regarding the revenue requirement resulting from Liberty's proposed adjustments fail to
142 correct for Liberty's errors and omissions in terms of not reflecting all impacts of
143 Liberty's proposed adjustments. (It is a separate, and tautological, point that, to the
144 extent that Liberty's proposed adjustments are unwarranted or improper in whole or in
145 part on their merits, then Mr. Sant's and, to the extent that he has adopted such
146 adjustments, Mr. Efron's calculations also do not correctly establish ComEd's revenue
147 requirement.)

148 Q. You referred to GC witness Efron's discussion of Liberty's proposed adjustment
149 regarding incentive compensation. Please respond to Mr. Efron's argument regarding
150 incentive compensation.

151 A. Beginning on page 15 of his Phase II direct testimony (GC Exhibit 7.0), GC witness
152 Efron discusses Liberty's proposed incentive compensation adjustment. Mr. Efron on
153 pages 16-17 of the testimony expresses the concern that, should the Commission adopt
154 Liberty's proposed adjustment, such adjustment might result in a double recovery of
155 these costs, because the ratemaking and book treatment of such costs would not be
156 consistent. ComEd neither should be denied recovery of these costs nor should it be
157 allowed to double-recover them. Under ComEd's approach, no double-recovery would
158 occur. Liberty's capitalized incentive compensation adjustment is effectively a *pro forma*
159 adjustment to ComEd's 2000 test year to reflect the change in ComEd's accounting for

160 such costs that began in the year 2001. Provided that the Commission's adoption of this
161 adjustment removes the costs from ComEd's test year operating expenses, adds the costs
162 to ComEd's rate base, and reflects all related effects of such changes, no such double
163 recovery will occur. That is exactly what ComEd proposed in my Phase II direct
164 testimony. In contrast, under Liberty's approach, not only is there no double-recovery,
165 there is no recovery at all. As I have pointed out in my Phase II direct testimony, the
166 incentive compensation adjustment that Liberty proposes effectively would exclude these
167 costs entirely from ComEd's revenue requirement, even though Liberty has made no
168 finding or recommendation that such costs should be excluded from ComEd's revenue
169 requirement. These costs would be excluded from the revenue requirement because
170 Liberty removes these costs from test year operating expenses, but fails to add such costs
171 in its proposed rate base. Therefore, under Liberty's proposal, these incentive
172 compensation costs are nowhere in ComEd's revenue requirement, despite Liberty's
173 apparent intention to simply shift these 2000 costs to capital plant accounts under the
174 accounting practice adopted by ComEd in 2001. Many costs, whether adopted as
175 *pro forma* adjustments or rejected from rate recovery due to regulatory orders, can
176 possess different book treatment and ratemaking treatment. Often times, this gives rise to
177 regulatory assets on the utility's books, and other times simply reflects non-recovery of a
178 utility's above the line expenses.

179 Again, I reiterate that the Commission should insist that all impacts of a proposed
180 adjustment be reflected in the revenue requirement determined in this proceeding, or else
181 the revenue requirement will be in error.

182 Q. GC witness Effron recommends that the Commission not adopt the depreciation rate
183 change advocated by Liberty. (GC Exhibit 7.0, pp. 24-25). Please comment on
184 Mr. Effron's position.

185 A. Mr. Effron's position is not consistent with his positions regarding the acceptance of
186 other Liberty-proposed adjustments.

187 Q. Please explain why Mr. Effron's position is not consistent.

188 A. In his recommendation that the Commission not adopt Liberty's proposed depreciation
189 rate adjustment, Mr. Effron opines that such adjustment falls outside the limited scope of
190 the Audit specified by the Commission. Mr. Effron goes on to say that the Order in
191 Docket No. 01-0664 states that: "There will be an audit, limited in scope to rate case
192 (operating and maintenance expense, and rate base) revenue requirement impacts in
193 Docket No. 01-0423 of the remedial activities across the entire ComEd transmission and
194 distribution system...." (GC Exhibit 7.0, p. 24:19-22). Yet, Mr. Effron accepts, indeed
195 his revenue requirements calculation adopts, Liberty-proposed adjustments to
196 customer-related costs and Administrative & General ("A&G") expenses that have no
197 apparent relationship to "remedial" activities. If Liberty's Audit scope is indeed limited
198 as Mr. Effron suggests, then many of the customer-related costs and A&G expenses
199 adjustments proposed by Liberty are similarly outside of the Audit scope and, thus,
200 should be rejected by Mr. Effron and, based on the even-handed application of
201 Mr. Effron's reasoning, by the Commission. Based on Mr. Effron's understanding of the
202 limited nature of the Audit scope, I would suggest that the following adjustments
203 proposed by Liberty (the quantifications are Liberty's figures, provided for identification)

204 would have to be rejected under the same standard that is imposed by Mr. Effron in
205 reaching his depreciation rate recommendation:

- 206 • Interpreter Services \$766,400
- 207 • CSR coverage \$960,000
- 208 • Call Center SLAs \$440,000
- 209 • Improved Estimating Algorithm \$450,000
- 210 • Document Imaging \$170,000
- 211 • Eliminate Billing Contractor/ Overtime \$1,700,000
- 212 • Improved meter reading accuracy \$300,000
- 213 • Reduction in manual processing \$200,000
- 214 • Prioritized second meter reads \$720,000
- 215 • Risk scoring \$1,700,000
- 216 • Reduction in uncollectibles \$1,744,000
- 217 • Eliminated Agent Compensation \$1,392,900

218 Please note, however, that ComEd's revised proposed jurisdictional revenue
219 requirement does not reject any of Liberty's proposed adjustments based on the scope of
220 the Audit.

221 Q. On lines 5 through 12 on page 11 of GC witness Effron's Phase II direct testimony, he
222 states that Liberty's method of calculating its proposed adjustment to distribution O&M
223 expenses has the impact of eliminating in error the ComEd *pro forma* salary and wage
224 adjustment approved by the Interim Order. What is your assessment of the conclusion
225 Mr. Effron arrives at with respect to this subject?

226 A. ComEd has asked Liberty several data requests to confirm or deny that a double-count
227 exists in the application of its “Global Quantification” distribution O&M expenses
228 adjustment, including quantification of any double-count, and to determine the related
229 question of how Liberty treated the *pro forma* salary and wages adjustment, such as
230 ComEd Data Request 3.04 (ComEd Exhibit 112.2, Schedule 1). (*See also* ComEd Data
231 Requests 2.16, 3.03, 3.12, and 6.02. A copy of ComEd Data Request 6.02 is attached
232 hereto as ComEd Exhibit 120.2, Schedule 2.) These data requests, if all were fairly and
233 completely answered, would show both whether and, if so, to what extent, there is a
234 double-count with the voluntary downward adjustments to distribution O&M expenses
235 made by ComEd in my Phase I direct testimony (ComEd Exhibit 4.0 CR, and
236 Appendix C thereto), and also whether Liberty erroneously failed to reflect the *pro forma*
237 salary and wages adjustment. ComEd Data Request 6.02, in particular, follows up on
238 Liberty’s response to ComEd Data Request 3.04, and if Liberty gave a fair and complete
239 answer thereto that almost certainly would resolve the issue. Liberty, to date, has
240 refused to answer ComEd Data Request 6.02.

241 Thus, based on my review of the available data, at a minimum, I agree with
242 Mr. Effron’s assessment of this exclusion. Liberty should have added the *pro forma*
243 salary and wages adjustment to its proposed distribution O&M expenses.

244 Q. On lines 114 through 141 on pages 6-7 of your Phase II direct testimony, you discuss
245 Liberty’s apparent failure to fully reflect in its “Global Quantification” adjustment for
246 distribution O&M expenses the downward adjustments to such expenses from ComEd’s
247 (Company *pro forma*) initial filing (its direct case in Phase I, set forth in ComEd
248 Exhibit 4.0 CR, and Appendix C thereto). Specifically, on lines 139 through 141 on

249 page 7, you state that it remained unclear whether Liberty had accounted for some or all
250 of these adjustments. Have you determined the extent to which, if any, Liberty did
251 double-count in its “Global Quantification” adjustment?

252 A. As indicated above, I have again reviewed several documents, including Liberty’s
253 response to ComEd Data Request 3.04, the direct testimony of GC witness Effron,
254 Liberty’s Audit Report, my Phase I testimony, and the Interim Order, and have developed
255 a detailed schedule on this topic included with this testimony as ComEd Exhibit 120.2,
256 Schedule 3. The Schedule is based on my best current understanding, subject to my
257 review of Liberty’s answer to ComEd Data Request 6.02, should Liberty ever answer that
258 request, and any rebuttal testimony that Liberty may submit on this subject. As
259 illustrated on the Schedule, Liberty’s proposed “Global Quantification” downward
260 adjustment of \$70.2 million for distribution O&M expenditures is overstated by
261 \$8.9 million. The causes of this overstatement are outlined in detail in the Schedule and
262 in the following testimony. The overstatement amount is different depending on whether
263 the calculation uses ComEd’s initial Phase I proposal or the Interim Order as the base.
264 The \$8.9 million is the overstatement amount using ComEd’s Phase I proposal as the
265 base amount.

266 ComEd’s retail distribution O&M expenses as proposed in ComEd’s initial filing
267 in Phase I of this proceeding, but excluding incentive compensation, are \$377.6 million,
268 *i.e.*, \$428,098,000, minus \$42,865,000 (incentive compensation), minus \$13,053,000
269 (ComEd’s initial voluntary downward adjustments, not including the \$2,143,000
270 downward adjustment for merger-related incentive compensation already excluded),
271 minus \$1,683,000 (assignment to wholesale distribution customers, not including the

272 \$181,000 assigned portion of the incentive compensation already excluded), plus
273 \$7,103,000 (the *pro forma* adjustment for salary and wages). (E.g., ComEd
274 Exhibit 4.0 CR, Appendix C, Schedules A-6, C-1, C-2; ICC Staff Exhibit 3.0,
275 Schedule 3.8 at page 1 (showing the amount of incentive compensation after the
276 \$2,143,000 downward adjustment for merger-related incentive compensation)). This
277 figure takes into account ComEd's voluntary downward adjustments, the *pro forma*
278 salary and wage adjustment, and the allocation to wholesale distribution customers. This
279 analysis evenly allocates the wholesale distribution customers adjustment between the
280 distribution O&M expenses excluding incentive compensation (\$1,683,000) and the
281 incentive compensation (\$181,000). It appears that Liberty (in the \$377.419 million
282 figure in Audit Report at page II-2) allocated all of the wholesale distribution customer
283 adjustment from ComEd's proposal in Phase I to distribution O&M expenses excluding
284 incentive compensation.

285 The incremental (on top of ComEd's Phase I initial voluntary downward
286 adjustments) Interim Order adjustments to distribution O&M expenses, excluding the
287 adjustments to incentive compensation, are \$20.2 million. (Interim Order, Appendix A
288 (Rev), Schedules 1, 2; Audit Report at page II-1). Although ComEd did not object in its
289 application for rehearing to those adjustments in the Interim Order not being reduced to
290 reflect only the portion of the adjustments relevant to retail distribution, I have made such
291 an adjustment in this analysis. I further discuss this adjustment to the Interim Order
292 proposal elsewhere in my testimony. As a result, so corrected, the Interim Order
293 proposal for distribution O&M expenses, excluding incentive compensation expenses, is
294 \$357.4 million, (*i.e.*, \$357.206 million plus \$270 thousand, which is the combination of

295 \$181 thousand from the assignment of a portion of the allocation to wholesale customers
296 to incentive compensation and \$90 thousand from applying an allocation to wholesale
297 customers to the proposed Interim Order adjustments).

298 Liberty's proposal for ComEd's distribution O&M expenses, not including
299 incentive compensation, as developed in Liberty's "Global Quantification" analysis as
300 shown on page II-53 of its Audit Report, was \$287.1 million. In its analysis, Liberty
301 neglected to take into account the *pro forma* salary and wage adjustment of \$7.1 million
302 approved in the Interim Order and the allocation to wholesale distribution customers. In
303 addition, Liberty incorrectly calculated the hypothetical impact of refunctionalization on
304 1991 distribution O&M expenses, as discussed in the Phase II rebuttal testimony of
305 ComEd witness Michael Born (ComEd Exhibit 119.0). The net result of correcting those
306 errors and/or omissions is an increase in Liberty's proposal to \$296.1 million and a
307 decrease in the amount Liberty is proposing be used as a downward adjustment for
308 ComEd's distribution O&M expenses of \$8.9 million.

309 Q. Please discuss the revision to ComEd's proposed jurisdictional revenue requirement that
310 you present in ComEd Exhibit 120.1.

311 A. As a result of the corrections and modifications that I describe further below, ComEd
312 Exhibit 120.1 contains ComEd's revised proposed jurisdictional revenue requirement of
313 \$1,595,192,000. This revised revenue requirement is \$2,658,000, or 0.2%, higher than
314 that ComEd proposed in my Phase II direct testimony (ComEd Exhibit 112.0, 112.1).

315 Q. Please describe the corrections and modifications that you have reflected in ComEd
316 Exhibit 120.1.

317 A. As I discussed in my Phase II direct testimony at page 34, I had discovered upon my final
318 review of ComEd Exhibit 112.1 that such Exhibit contained an error in calculating
319 ComEd's modification to the "Operational Excellence" adjustment (ComEd
320 Exhibit 112.2, Schedule 14.) The correction results in an increase to the adjustment, and
321 thus, a reduction to ComEd's proposed revenue requirement contained in ComEd Exhibit
322 112.1 of \$960,000. The revised Schedule is presented as ComEd Exhibit 120.2,
323 Schedule 4.

324 In preparing ComEd's responses to Staff Data Requests BCS 8.05 – 8.07, which
325 related to certain ComEd rate base adjustments contained in ComEd Exhibit 112.1,
326 page 12, columns AA-CC, ComEd reevaluated the methodology that it had used in
327 determining the related accumulated depreciation, accumulated deferred income taxes
328 (ADIT), and depreciation expense for such adjustments. Based on this reevaluation,
329 ComEd has revised the cumulative impact of accumulated depreciation for these three
330 adjustments by approximately \$2 million (from \$2,149 thousand to \$117 thousand) and
331 revised the cumulative ADIT effect of these adjustments by over \$1 million (from \$1,146
332 thousand to \$51 thousand). The net effect of these modifications reduces ComEd's
333 proposed rate base, for purposes of determining the revenue requirement, by
334 \$3,127 thousand. The associated impact on depreciation expense for these modifications
335 is to lower the depreciation expense reduction in ComEd's proposed revenue requirement
336 by \$2,032 thousand. In total, the rate base and test year expense modifications for these
337 three items increase ComEd's proposed revenue requirement contained in ComEd
338 Exhibit 112.1 by approximately \$2,400 thousand. The calculations for this modification
339 are shown on ComEd Exhibit 120.2, Schedule 5.

340 In preparing its response to Staff Data Request SAS 1.15, ComEd recognized that
341 it had applied an incorrect benefit loading factor attributable to the “Eliminate Billing
342 Contractor/Overtime” adjustment contained in ComEd Exhibit 112.2, Schedule 20. The
343 result of applying the correct benefit loading factor for this adjustment is to reduce the
344 related benefits impact of such adjustment from \$282,300 to \$23,000. The impact of this
345 change increases ComEd’s proposed revenue requirement contained in ComEd
346 Exhibit 112.1 by \$259,300. The revised Schedule is presented as ComEd Exhibit 120.2,
347 Schedule 6.

348 In preparing its response to Staff Data Request BCS 8.12, ComEd discovered that
349 it had incorrectly removed plant from its proposed rate base to reflect its position with
350 respect to the “Plant Placed in Service – 2nd Quarter 2001” adjustment. To correctly
351 reflect ComEd’s position for this adjustment, the rate base should: (1) reflect the “add-
352 back” to rate base for the Interim Order adjustment of \$11,038 thousand (Interim Order,
353 Appendix A (Rev), Schedule 4, page 2, column K); and (2) remove from rate base certain
354 costs of the Streator project (as more fully described in the Phase II direct testimony of
355 Mr. Born (ComEd Exhibit 109.0). ComEd Exhibit 112.1 correctly reflects the removal of
356 that Streator distribution plant (ComEd Exhibit 112.1, page 12, column AA, line 1), but
357 does not properly add-back the amounts contained in the Interim Order (referenced
358 above). ComEd Exhibit 120.1, page 14, column LL, reflects the correct amount from the
359 Interim Order. This correction increases ComEd’s proposed rate base by \$513,000 and
360 increases ComEd’s proposed revenue requirement contained in ComEd Exhibit 112.1 by
361 approximately \$64,000.

362 Finally, as discussed above, the proposed revenue requirement contained in
363 ComEd Exhibit 120.1 reflects an allocation to wholesale customers of their portion of the
364 adjustments contained in the Interim Order, as well as other adjustments proposed by
365 ComEd in ComEd Exhibit 120.1, where such allocation is appropriate. The allocation of
366 the expense adjustments to wholesale customers is contained in ComEd Exhibit 120.1,
367 page 8, columns YY and ZZ, and the allocation of the rate base adjustments is contained
368 on page 15, columns QQ and RR. The effect of the allocation of these adjustments to
369 wholesale customers decreases rate base by \$158,000 and increases operating expenses
370 by \$353,000. The cumulative effect of the allocation of adjustments to wholesale
371 customers is to increase ComEd's proposed revenue requirement contained in ComEd
372 Exhibit 112.1 by approximately \$ 330,000.

373 Q. With these corrections and modifications, what is the proposed level of jurisdictional
374 revenue requirement that ComEd recommends in this proceeding?

375 A. As shown on page 1 of ComEd Exhibit 120.1, ComEd proposes that the jurisdictional
376 revenue requirement used in this proceeding be \$ 1,595,192,000.

377 Q. Are there any corrections to the other schedules attached to your Phase II direct testimony
378 that you wish to make?

379 A. Yes. ComEd Exhibit 112.2, Schedule 5, contains an error that was corrected by
380 Attachment A to ComEd's response to Staff Data Request BCS 8.05. The latter therefore
381 is attached hereto as ComEd Exhibit 120.2, Schedule 7. That error had no effect on the
382 revised revenue requirement proposed in my Phase II direct testimony and shown in
383 ComEd Exhibit 112.1, nor on the revised revenue requirement proposed herein.

384 Q. Does this complete your Phase II rebuttal testimony?

385 A. Yes.