

NARUC/Illinois – Kosovo Partnership

Overview of Distribution Retail Tariffs and Regulatory Filings

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- ✓ ComEd is a regulated transmission and distribution company and a unit of Chicago-based Exelon Corporation (NYSE: EXC)
- ✓ ComEd and its nearly 6,000 employees are responsible for maintaining approximately 70,000 miles of transmission and distribution circuits
- ✓ Service area in northern Illinois, including the City of Chicago
 - approximately 11,300 square miles
 - serving an estimated population of 8 million people, or 70% of the state's population
 - approximately 3.8 million customers
- ✓ 2009 Revenues (millions) - \$5,774
- ✓ 2009 Assets (millions) - \$20,697

Overview of Tariffed Services

✓ Unbundled Services

- Distribution Services

- Standard services include customer care, metering services, and distribution delivery services
- Optional or nonstandard facilities charges and adjustments for certain metering and distribution delivery services

- Electricity Supply and Transmission Services

- Hourly-Priced Electric Supply & transmission services

✓ Bundled Services (includes Distribution Services, Electric Supply, & Transmission Services)

- Fixed-Priced Electric Supply

- Available to all residential customers and nonresidential/lighting customers with demands less than 100 kilowatts
- Supply and transmission pricing based on actual purchased electricity and transmission costs subject to monthly true-ups and annual reconciliations

- Hourly-Priced Electric Supply

- Available to all retail customers.
- Only bundled service available to nonresidential/lighting customers with demands of 100 kilowatts and greater that are declared competitive
- Electric supply and transmission pricing based on actual real-time PJM hourly electricity prices and transmission costs subject to monthly true-ups and annual reconciliations

✓ Other tariffed services

- Adjustments for incremental uncollectibles
- Energy Efficiency and Demand Response
- Taxes, Franchises Cost (fees or free delivery service provided to certain municipal facilities) , & other state mandated programs
- Recovery of costs for certain environmental activities
- Payments to Qualified Facilities (QF's) and Qualified Solid Waste Facilities (QSWF's) providing electric supply to ComEd.

Overview of Tariff/Rate Filings

- ✓ **Tariffs/Rates Filed with the Illinois Commerce Commission (State Jurisdictional)**
 - Filed with an effective date typically 45 calendar days after the filing date [Illinois Public Utilities Act 220 ILCS 5/9-201(b)]
 - The Illinois Commerce Commission (ICC) can allow such proposed changes to pass as filed and become effective, or
 - The ICC can alter or modify such proposed changes after conducting public hearings, or
 - The ICC can suspend the proposed changes for no longer than a period of 105 days beyond the effective date, unless the Commission extends the suspension period for a further period not to exceed 6 months. (In total approximately 11 months). After suspension period(s), ICC can approve proposal as filed or approve with modifications. In some cases, ICC may open separate investigation.
 - **Other Filings**
 - Informational Filings – update rates periodically for tariffed services that are formula based that are typically effective the following day after the filing date or the next monthly billing period. Examples include: services for electric supply, transmission, energy efficiency and demand response, certain environmental costs, automated metering, state mandated programs, and uncollectibles.
 - Municipal Tax Filings – update municipal tax rates authorized under a municipal ordinance
 - Annual Filings – annual update of rates specified in tariffs, e.g. franchise costs for services pursuant with municipal franchise agreements with ComEd and compensation rates paid to Qualified Facilities (QF).
 - **Rate Cases – Distribution Services**
 - Rate Cases are filed because of significant changes attributed to
 - o Business operations
 - o Growth in net value of plant assets
 - o Increase in O&M costs
 - o Return on equity lower than required – actual or anticipated
 - Filing Requirements (Illinois Administrative Code: Part 285) are applicable if the proposed rates increase annual revenues by 1% or greater from existing rates. See Appendix A for list of Part 285 Schedules.
- ✓ **Tariffs/Rates Filed with the Federal Energy Regulatory Commission (Federal Jurisdictional)**
 - **Rate Cases – Transmission Services**
 - Transmission rates are updated annually
 - Transmission Revenue requirement is determined via a FERC approved formula.
 - o Includes a forecast of costs for the upcoming year based on previous year's expenses, net plant in service, and a forecast of plant additions planned for the coming year.
 - o Also includes true-up of previous year's forecast

Rate Making Process - Revenue Requirement

- ✓ Total revenue needed to meet all costs and return for the provision of electric service to customers.
 - Includes operating expenses, taxes, depreciation and return on investment
- ✓ Test Year (what is the baseline for measuring costs)
 - Historical – a 12 month period that is complete, for which actual financial data is available
 - Future – future test year cannot be the “current year” and cannot end more than 24 months from filing date
- ✓ Pro Forma Adjustments
 - Must meet “Known & Measurable” standard
 - Makes up for “lag” between test period and effect date of rates
 - Examples: plant additions, wage escalation
- ✓ Revenue Requirement =
 - $(\text{Rate Base} \times \text{Rate of Return}) + \text{Recoverable Expenses}$
- ✓ Rate of Return
 - Evaluate cost of equity and capital structure
- ✓ Recoverable Expenses
 - Starting Point is the FERC Form 1
 - O&M
 - Depreciation (this cost is our return of plant infrastructure assets)
 - Taxes Other Than Income (payroll, real estate, etc)
 - Admin & General (benefit costs, BSC costs to ComEd, etc)
 - Income Taxes
 - “Below the line” costs (e.g., product and service offerings, lobbying and promotional advertising) are not recoverable
- ✓ Test year expenses are recovered, but we do not earn a return “on” these amount

Rate Making Process - Rate Base

- ✓ Rate Base is essentially the Net Assets we use to provide electric service - These must be determined to be **used and useful** and must be **prudently incurred**.
- ✓ We earn a return “of” AND “on” our approved rate base
- ✓ Major components of rate base include:
 - **Net Plant**
 - Gross Plant in Service
 - (less) Accumulated Depreciation
 - (less) Accumulated Deferred Income Taxes
 - **Plus:**
 - Construction work in progress (CWIP) (maybe)
 - Materials and Supplies (inventories)
 - Regulatory Assets
 - **Less:**
 - Cost deferrals/other investments
 - Customer Advances
 - Regulatory liabilities and operating reserves (pension and OPEB liabilities)

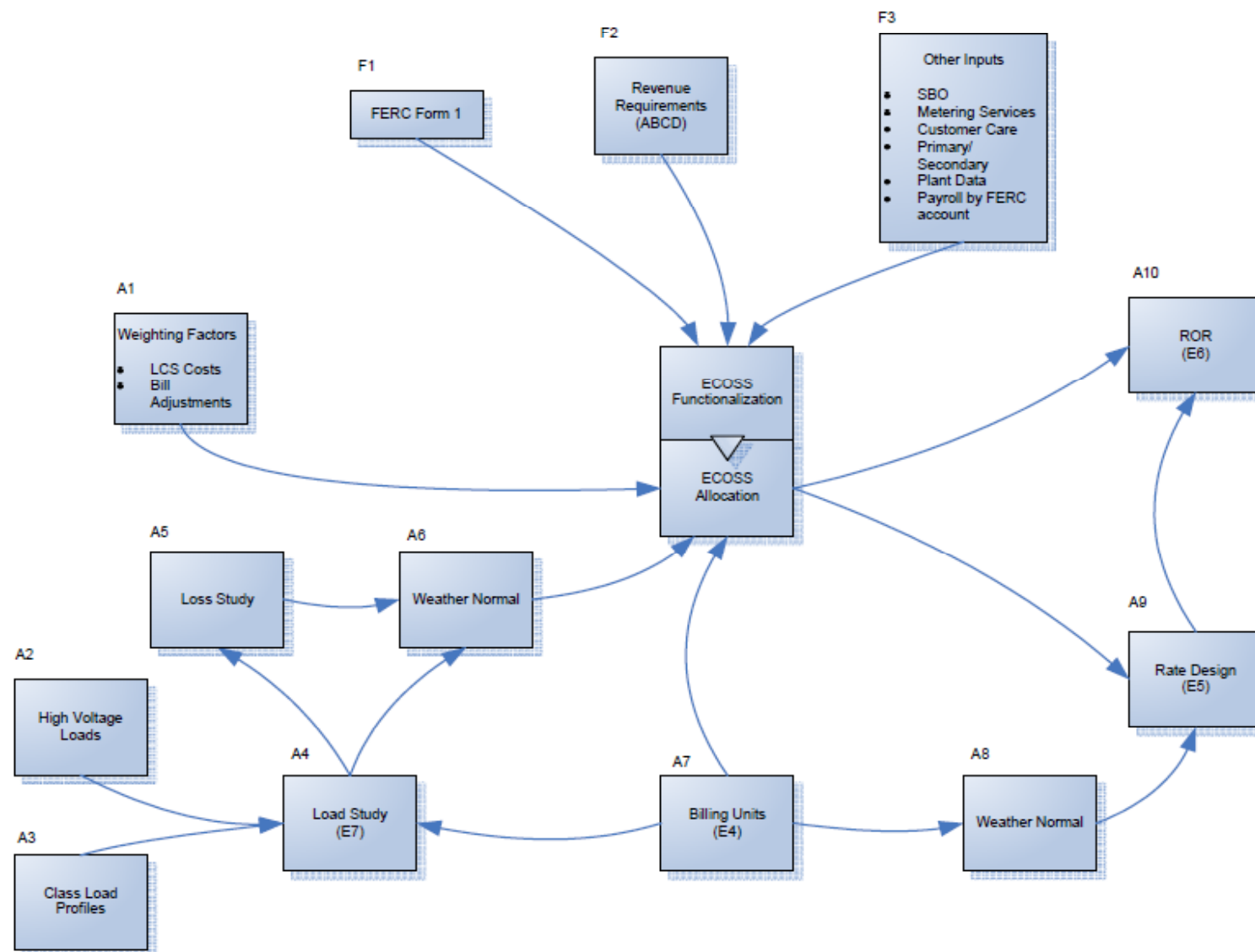
Rate Making Process - Cost of Service

- ✓ Cost of Service Studies are used to allocate the revenue requirement to Delivery Classes and for use in allocating costs for each rate component
- ✓ Marginal versus Embedded Cost Of Service
 - Marginal reflects cost of installing next unit
 - Embedded reflects historical costs
 - Marginal sends appropriate price signals for efficient decision making, while embedded may not
- ✓ Direct Assignment of Costs
 - On a limited basis for certain distribution facilities serving high voltage & generating customers, and
 - Costs for each delivery class such as metering service, and bill issue & processing.
- ✓ In Illinois, regulators prefer embedded cost studies for cost allocation and setting rates due to the ability to review actual historic costs

- ✓ ComEd performs its Embedded Cost of Service Study (ECOSS) for its delivery function in two primary steps
 - Functionalization – Takes revenue requirements and other financial inputs to develop factors that assigns costs to a variety of company sub functions (e.g. distribution lines and transformers)
 - Direct cost assignment to sub functions (e.g. high voltage ESS plant cost, metering service O&M)
 - Allocation – Using inputs from operating data, allocates the costs to the customer (delivery) classes (e.g. weather normalized load study, bill adjustment effort)

Embedded Cost of Service Study flows

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Rate Making Process - Rate Design Overview

✓ Sectors

- Residential (~3.4 million customers, ~28B kWhs)
- Nonresidential (~360,000 customers, ~60B kWhs)
- Lighting (~400 customers*, ~0.8B kWhs)

✓ Delivery Service Classes

- Similar load characteristics and costs to serve
- Sometimes result of regulatory requirements
- ComEd currently has 15 delivery classes
 - 4 residential (single family/multi-family electric/gas heating)
 - 8 nonresidential (1 watt-hour, 5-demand, 1 high voltage, 1 RR)
 - 3 lighting (dusk to dawn, fixture-included, general)

✓ Rate Design Considerations

- Cost Causation
- Rate / Revenue Impacts
- Rate / Revenue Stability
- Simplicity
- Understandability
- Regulatory and Statutory Requirements

* Estimate of municipal lighting accounts

✓ Customer Charge

- Customer related costs / # bills
 - Customer service center, billing, associated A&G & uncollectibles

✓ Standard Metering Service Charge

- Meter related costs / # bills
 - Meter, meter reading, associated A&G & uncollectibles

✓ Distribution Facilities Charge

- Distribution related costs / kW's (or kWh's)
 - Poles, conduit, wires, associated A&G & uncollectibles

✓ Part 285 requirements include:

- General Information Requirements [ILCS 21, FERC Form 1, Historical & Forecasted (if applicable) Peak Demand & Energy Usage]
- Revenue and Financial Summaries (Schedule A series)
- Rate Base Schedules (Schedule B series)
- Operating Income Schedules (Schedule C series)
- Rate of Return Schedules (Schedule D series)
- Rate and Tariff Schedules (Schedule E series)
- Future Test Year Schedules, if applicable (Schedule G series)