

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

Exelon Generation Company, LLC )      Docket No. ER10-1418-000  
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**MOTION FOR LEAVE TO ANSWER AND ANSWER  
OF THE INDEPENDENT MARKET MONITOR FOR PJM**

Pursuant to Rules 212 and 213 of the Commission’s Rules and Regulations, 18 CFR §§ 385.212 & 385.213 (2010), Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor for PJM (“Market Monitor”),<sup>1</sup> moves for leave to answer and answers the response of Exelon Generation Company, LLC (“Exelon”) filed on August 26, 2010 (“August 26<sup>th</sup> Answer”), regarding the Reliability Must-Run Rate Schedule (“RMR”) submitted by Exelon Generation Company, LLC (“Exelon”) on June 10, 2010 (“June 10<sup>th</sup> Filing”) to recover costs associated with two units, Cromby Unit No. 2 and Eddystone Unit No. 2 (“RMR Units”), that it has set for deactivation. Exelon still does not meet its burden of proof to demonstrate the justness and reasonableness of the rates it proposes, particularly regarding its proposed treatment of depreciated costs.

**I. ANSWER**

Exelon has not yet presented a clear statement and supporting evidence in response to the concerns raised by the Market Monitor. Exelon’s filing raises questions regarding the

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<sup>1</sup> PJM Interconnection, L.L.C. is a FERC-approved Regional Transmission Organization. Capitalized terms used herein and not otherwise defined have the meaning provide in the PJM Open Access Transmission Tariff.

approach to the calculation of the depreciation expense for the RMR Units and other accounting issues. The cost recovery proposed by Exelon for the RMR period is not adequately supported based on the information filed and may be excessive.

Exelon has not satisfactorily explained its treatment of depreciation expense. Exelon appears to plan to accelerate its recovery of depreciation costs based on its decision to deactivate the RMR Units prior to end of their accounting life, and asserts that this approach is in accordance with Generally Accepted Accounting Principles (GAAP) in the United States.<sup>2</sup> Exelon argues that Financial Accounting Standards Board Statement No. 144, and, specifically, paragraph 9, applies because of its commitment to a plan to abandon a long-lived asset before the end of its previously estimated useful life.<sup>3</sup>

However any reliance on paragraph 9 should also reference paragraph 28, which concerns “Long-Lived Asset to Be Abandoned.” Footnote 16 of paragraph 28 states “The salvage value of the asset should not be reduced to an amount less than zero.” Exelon’s depreciation of the net plant incorporates a negative salvage value, and this appears to be inconsistent with footnote 16.

In addition, the 2009 financial statements of Exelon include a discussion of additional depreciation to reflect the change in useful life assuming the retirement of the plants in question as of May 31, 2011.<sup>4</sup> According to FASB Accounting Standards Codification 360-10-35-20, if an impairment loss is recognized, the adjusted carrying

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<sup>2</sup> August 26<sup>th</sup> Answer at 3.

<sup>3</sup> *Id.* & n.8.

<sup>4</sup> SEC Form 10-K, Exelon Corporation et al., Combined Notes to Consolidated Financial Statements, at 286–287 (FY 2009).

amount of a long-lived asset shall be its new cost and it shall be depreciated over the remaining useful life. The last sentence in that Codification states “Restoration of a previously recognized impairment loss is prohibited.”

The Exelon’s 2009 financial statements suggest that the company assumed in 2009 that the asset would be written off as of May 31, 2011, which appears to mean the net book value would be zero at that date. For rates in effect as of June 1, 2011, the cost of service should reflect only depreciation of the appropriately undepreciated balance at that time.

There are other accounting issues raised but not adequately addressed by Exelon’s filing. For example, the testimony of Exelon Witness Heintz does not include a full description of how the proposed recovery of fixed cost and variable cost components were calculated. Examples of other concerns include the level of operating expense and the level of administrative and general costs allocated to the plants.

With respect to the level of operating expense, the numbers presented by Exelon suggest that the cost is based on the normal (not RMR) operations of the RMR Units in the test year of 2009.<sup>5</sup> Operations after May 31, 2011 will be RMR operations, which will be significantly different than pre RMR operations. Cost differences would be expected to result from this operational change, but Exelon Witness Heintz’s calculations do not indicate that the different type of operations was considered.

With respect to A&G Costs, the cost included appears to be based on total company overheads from an unidentified period of time, and the calculation is not explained in any detail in the testimony of Witness Heintz. It is not appropriate that approximately 60

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<sup>5</sup> See June 10<sup>th</sup> Filing, EXG-1 and EXG-3.

percent of the Fixed O&M expense included in rates is based on the statement, “A&G is included on line 18, and reflects corporate overheads which are allocated to the plants based on salaries and wages on page 12.”<sup>6</sup>

Exelon has demonstrated the difficulty of completing the record on the basis of paper pleadings. The above matters should be fully explored in a technical conference or hearing. Accordingly, the Market Monitor respectfully renews its request that the Commission institute a forum that would allow for a full evaluation of the rates proposed for the RMR Units.

## II. MOTION FOR LEAVE TO ANSWER

The Commission’s Rules of Practice and Procedure, 18 CFR § 385.213(a)(2), do not permit answer to answers or protests unless otherwise ordered by the decisional authority. The Commission has made exceptions, however, where an answer clarifies the issues or assists in creating a complete record.<sup>7</sup> In this answer, the Market Monitor provides the Commission with information useful to the Commission’s decision-making process and which provides a more complete record. Therefore, this answer should be permitted.

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<sup>6</sup> EXG-1 at para. 21.

<sup>7</sup> See, e.g., *PJM Interconnection, L.L.C.*, 119 FERC ¶61,318 at P 36 (2007) (accepted answer to answer that “provided information that assisted ... decision-making process”); *California Independent System Operator Corporation*, 110 FERC ¶61,007 (2005) (answer to answer permitted to assist Commission in decision-making process); *New Power Company v. PJM Interconnection, L.L.C.*, 98 FERC ¶ 61,208 (2002) (answer accepted to provide new factual and legal material to assist the Commission in decision-making process).

### III. CONCLUSION

The Market Monitor respectfully requests that the Commission afford this answer due consideration as it resolves the issues raised in this proceeding.

Respectfully submitted,



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Dated: September 13, 2010

## CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Eagleville, Pennsylvania,  
this 13<sup>th</sup> day of September, 2010.



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