Docket No.05-0159
ICC Staff Exhibit 6.0

DIRECT TESTIMONY

of

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Commonwealth Edison Company

Proposal to implement a competitive procurement process by establishing Rider CPP, Rider PPO-MVM, Rider TS-CPP and revising Rider PPO-MI

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Introduction

Q. Please state your name and business address.

A. My name is Peter Lazare. My business address is 527 East Capitol Avenue, Springfield, Illinois 62701.

Q. What is your present position?

A. I am a Senior Rate Analyst with the Illinois Commerce Commission ("Commission"). I work in the Financial Analysis Division on rate design and cost-of-service issues.

Q. What is your experience in the regulatory field?

A. My experience includes thirteen years of employment at the Commission where I have provided testimony and performed related ratemaking tasks. My testimony has addressed cost-of-service, rate design, load forecasting and demand-side management issues that concern both electric and gas utilities.

Previously, I served as a Research Associate with the Tellus Institute, an energy and environmental consulting firm in Boston, Massachusetts. I also spent two years with the Minnesota Department of Public Service as a Senior Rate Analyst, addressing rate design issues and evaluating utility-sponsored energy conservation programs.

Q. Please discuss your educational background.

A. I received a B.A. in Economics and History from the University of Wisconsin and an M.A. in Economics from the University of Illinois at Springfield in 1996.

Q. What is the purpose of your testimony in this proceeding?

A. I address the development of Commonwealth Edison Company's ("ComEd" or the "Company") proposed translation tariff (Proposed ILL. C. C. No. 4, Original Sheet Nos. 275 through 290). I begin by explaining the translation tariff proposal. Then I discuss individual issues including the new set of proposed rate classes, bill impacts, the migration risk factor, market energy prices and Peak and Off-Peak periods.

Q. Please summarize your recommendations.

A. I recommend that the following changes be made to the Company's proposed Rider CPP translation tariff:

- The recovery of power costs from customer classes should be subject to limits to prevent undue bill impacts.
- The Company's proposed migration cost factor should be eliminated.
- The Company should use Locational Marginal Prices (LMPs) as the foundation for market energy prices.
- The Company's proposed changes to the definitions of Peak and Off-Peak periods should be rejected.

Translation Tariff

Q. Please explain your understanding of the purpose of the translation tariff proposed by ComEd.

A. The tariff allocates the closing auction prices paid to suppliers among the various rate classes receiving bundled electric service (BES). Under the proposed auction mechanism, suppliers will charge two prices for electricity supplied to ComEd: one price for the Summer months of June, July, August and September and a second price for the remaining non-Summer months. Those auction prices will not simply be passed along to ratepayers. Rather they will be recovered through separate charges to rate classes intending to reflect how each class contributes to the cost of this power. The mechanism of breaking down wholesale supplier prices into component parts for retail charges to rate classes has been dubbed the “translation prism”. The specific rates that individual classes will pay for power are determined by four factors under ComEd’s proposed translation tariff: (1) when the rate class consumes electricity; (2) line losses the utility incurs in delivering electricity to the rate class; (3) generation capacity costs; and (4) the customers’ potential risk of migrating to retail electric suppliers (RES). (Company Response to Staff Data Request PL 1.08(c)).

Q. With regard to the first cost factor, please discuss the relationship between when ratepayers consume electricity and power costs.

A. This relationship can be broken down into two parts. The first is a seasonal issue

concerning the relative amount of electricity each class consumes in Summer and non-Summer months. Second, consumption within each season is broken down into daily periods consisting of Peak and Off-Peak hours. The combination of the two breaks down annual power costs into four component periods: (1) Summer Peak, (2) Summer Off-Peak, (3) non-Summer Peak, and (4) non-Summer Off-Peak. The cost of serving customers during each of these periods is assumed to be different, with the highest costs expected during the Summer Peak period.

The development of different electricity costs for each of these time periods provides a foundation for breaking down power costs among rate classes, with electricity costs passed along to individual rate classes depending on their consumption levels in each of these pricing periods. So, for example, classes that consume a proportionately higher level during the Summer Peak period will pay more than classes consuming more during non-Summer Off-Peak periods.

Q. Please discuss the second cost factor pertaining to line losses for customer classes.

A. Line losses vary from one class to the next depending on the level of the transmission and distribution system from which they receive service, with residential customers incurring the highest losses and larger non-residential customers incurring the lowest losses. The costs paid by individual classes are ratcheted up by the percentage losses incurred in the delivery process.

Q. What is the third cost factor in the translation tariff?

A. The third cost factor is generation capacity costs. There is a PJM system-wide capacity cost determined through an annual auction. This cost is applied to all power secured through the auction process (ILL. C.C. No. 4, Original Sheet No, 279). ComEd has proposed that this capacity cost be recovered equally from all kWhs provided through the auction process.

Q. What is the fourth cost factor in the translation tariff?

A. The fourth cost factor is migration risk. The Company proposes to impose a cost on customers depending on the potential risk they present of migrating away from bundled service to RES-supplied power.

Q. How are the power costs to be recovered from retail customers presented in the translation tariff?

A. The translation tariff does not present the actual power costs that customers will have to pay under Post-2006 rates. Instead, it contains a set of formulas and references to data inputs for those formulas that in combination would produce the power costs that bundled customers will have to pay. The reason formulas are necessary is that much of the essential data inputs will not become available until a future point in time. The missing data includes the two years of load data necessary to determine class usage over the Summer and Non-Summer Peak and Off-Peak periods. That two year period continues up to 7 months before the

first scheduled auction. A second future component is a set of forward prices that are to be collected over a period of ten consecutive business days ending 135 calendar days before the auction commencement date (ILL C.C. No. 4, Original Sheet No. 278). This load and forward price data is entered into the translation formulas to produce a set of ratios for the various customer classes. These translation tariff ratios document the relative cost of power for the various classes.

The third data set necessary to determine the power costs charged to each customer class are the closing auction power prices that will be known sometime in 2006. These auction power prices are multiplied by the translation tariff ratios to generate the power costs charged to the various customer classes.

Q. Does the presence of formulas without prices present any issues for the ratemaking process?

A. Yes. As will be discussed in the Bill Impacts section below, the lack of actual numbers for the translation tariff means that the actual power costs to be paid by rate classes will remain unknown until after the auction is conducted. Furthermore, the costs customers will incur for the delivery of that power will not be known until the conclusion of the upcoming delivery services docket. Thus, the potential bill impacts created by the translation prism will not be known before the conclusion of this docket. The implications of this uncertainty will be discussed further in the Bill Impacts section of my testimony.

Design of Bundled Electric Service (BES) Rate Classes

Q. How does the development of rate classes enter into the discussion of the translation tariff?

A. The Company has proposed that customers be divided into a new set of classes for the purpose of determining power prices under bundled service.

Q. What set of rate classes does the Company propose for bundled BES service?

A. The Company proposes a new set of 10 rate classes for BES service. These are: (1) Residential customers; and the remaining non-residential classes of (2) Watt-Hour customers; (3) Small Load customers; (4) Medium Load; (5) Large Load; (6) Very Large Load; (7) Self Generation; (8) Competitive customers; (9) Dusk to Dawn Lighting; and (10) General Lighting (ComEd Ex. 7.0, p. 40).

Q. What is the basis for the new set of customer classes?

A. The Company explains the development of its proposed classes in response to Staff's discovery. The starting point was ComEd's existing delivery services classes which consist of 5 residential classes and 15 non-residential classes (ILL C.C. No. 4, Original Sheet No. 116.1 and 4th Revised Sheet No. 117). The Company decided to combine classes to reduce the overall number for the bundled power component. The Company indicates that this approach aligns the

power and delivery components, thereby facilitating the implementation of Post-2006 rates. (Company Response to Staff Data Request PL 1.02(a))

The Company contends that the specific rate classes proposed for BES service are "logical combinations of the existing delivery services customer classes, reflecting load profiles and migration risks (Company Response to Staff Data Request PL 1.02(a)). With respect to load profiles the Company maintains that load shapes are very similar within each class (Id.).

Bill Impacts

Q. Please begin by explaining why bill impacts should be considered in the ratemaking process.

A. Utility bills can be a significant cost for ratepayers, both residential and non-residential alike. Significant increases in utility bills can have a disruptive effect on ratepayers' budgets. If the changes are sudden, rather than gradual, ratepayers may not have sufficient time to make changes in their behaviors to absorb the higher cost. Thus, it may be necessary to limit those increases to give affected customers the opportunity to adjust to the new paradigm by introducing rate changes on a gradual basis.

Bill impacts are, by nature, a judgment issue. There is no clear and obvious way to consider bill impacts in a proceeding. Nevertheless, it would be poor policy to

ignore bill impacts and focus solely on costs.

Q. What is the relationship between the terms “bill impacts” and “rate impacts”?

A. These are closely related, but not identical, terms. Bill impacts pertain to the overall changes in customer bills while rate impacts focus on changes in individual rates.

A good example of a rate impact issue occurs when a significant increase may be proposed in customer charges for residential customers. Some customers react strongly (and negatively) to an increase in the customer charge even when their overall bills do not rise significantly. Sometimes, limits may be placed on the level of increase for the customer charge to forestall such a reaction.

Despite this difference, there is a tendency among participants in the regulatory process to use the term “rate impacts” in discussion of bill impact issues. The discussion in my testimony focuses on bill impacts.

Q. Is it the Illinois legislature’s view that the regulation of electric rates should be focused solely on the cost of service?

A. No. The 1997 Customer Choice and Rate Relief Law stated that the regulatory process should have a broader perspective as the following passage attests:

A competitive wholesale and retail market must benefit all Illinois citizens. The Illinois Commerce Commission should act to promote the development of an effectively competitive electricity market that operates efficiently and is equitable to all consumers. Consumer protections must be in place to ensure that all customers continue to receive safe, reliable, affordable and environmentally safe electric service. (220 ILCS 5/16-101A(d))

Q. Have bill impacts played a role in setting bundled rates for the restructured Illinois electricity market?

A. Yes. Bill impacts have been the overriding concern in setting bundled electricity rates in Illinois since the Customer Choice and Rate Relief Law was enacted in 1997. The law instituted a rate freeze for non-residential customers and actual rate reductions of 5-20% for residential customers. By the time that new rates go into effect in 2007, this rate freeze and reduction will have been in effect for nine years.

The only factor considered in this rate freeze/reduction was bill impacts. No effort was made to determine the relationship of the frozen or reduced bundled rates to the underlying cost of service. Furthermore, when the rate freeze/reduction was revisited in 2003, there was no effort to align bundled electric rates with costs. Instead, the rate freeze and reduced rates were extended until the beginning of 2007. Thus, over the nine years following the enactment of the 1997 Customer

Choice and Rate Relief Law, costs have deferred to bill impacts as a basis for setting bundled electric rates in Illinois.

Q. Does the Company consider customer impacts to be an important consideration for the ratemaking process?

A. Yes. ComEd has this to say about the role of impacts in the ratemaking process:

> ComEd believes that rate impacts are one of several factors that can be considered when establishing the design of Post-2006 retail bundled service tariffs that provide for full cost recovery. The Illinois Commerce Commission has a long history of considering rate impacts in relation to rate designs, subject to legal limitations. (Company Response to Staff Data Request PL 1.03(a))

Q. Does ComEd's proposed realignment of rate classes pose bill impact issues?

A. Yes. The realignment of customers into a new set of rate classes can have a variety of impact on bills for bundled customers. The realignment by itself can raise bills for some customers and lower bills for others independently of the overall increase in customer bills. If the overall increase in Post-2006 rates is significant, the increase could be that much greater for those customer groups adversely impacted by the realignment of rate classes.

Q. Has ComEd performed any analyses to determine how its proposed realignment of bundled service classes will impact customer bills?

A. Yes. The Company has performed some analyses of potential bill impacts for residential customers. (Company Response to Staff Data Request PL 1.02(c)) The Company looked at bill impacts for space heating and non-heating customers under different assumptions about the cost of power and delivery in a Post-2006 market.

Q. What do the analyses show?

A. The analyses show that the Company's proposed change in BES rate classes will effectively result in a rate increase that will be unevenly distributed across customers, and as a result certain customer groups could face significant adverse bill impacts from Post-2006 rates. One particularly vulnerable group is residential space heating customers. Under ComEd's current rates, residential space heating customers have their own separate rate (Rate 14) featuring a lower non-Summer tailblock rate. (ILL C.C. No. 4, 29th Revised Sheet No. 34). ComEd's proposed reconfiguration of rate classes would eliminate this unique rate and fold in space heating customers with other residential customers. The Company's analysis shows these customers could face significant bill impacts in the post-2006 era.

One scenario developed by ComEd, which assumes an average 12.77% decrease in residential bills as a whole, would increase bills for single family

space heating customers by an additional average 13.92% (Company Response to Staff Data Request PL 1.02(c) Attachment D). If residential rates as a whole were to increase, instead of decrease, and if that increase was significant, the adverse impact on these space heating customers would be correspondingly greater.

Q. Has the Company performed similar bill impact analyses for other rate classes?

A. No. ComEd has not performed any additional analyses of potential bill impacts for any non-residential customer groups.

Q. Does the translation tariff filed by ComEd present a challenge for assessing potential bill impacts?

A. Yes. The challenge arises because ComEd's proposed Rider CPP contains formulas but no hard numbers. The actual power costs that customers will actually pay in the Post-2006 environment will depend on the input of future data into those formulas. Until that data becomes available the power costs to be paid by bundled customers are a matter for speculation.

Q. Why does this lack of transparency present a particular problem for the consideration of Post-2006 rates?

A. January 1, 2007 will mark the end of a decade-long era of frozen bundled rates for bundled service customers that reflected rate freezes for non-residential

customers and rate reductions of up to 20% for residential customers. The key component of the future prices customers will pay will depend on the results of the power auction. Whether power prices increase and, if so, by how much will depend on the vagaries of the auction bidding process. How those costs are allocated among rate classes will depend on future load and forward price data. In this uncertain environment it is not clear whether future costs will be spread evenly among rate classes or whether some classes will incur significantly higher increases than other classes and, if so, what the magnitude of those differences might be.

Q. What steps has the Company taken to address the issue of bill impacts for bundled service customers?

A. The Company claims to have taken a number of steps to address this issue, stating as follows:

> ComEd, in light of the discussions, the Procurement and Rates Working Group reports, and the circumstances, has presented an auction proposal and a proposed "translation" tariff that are consistent with the reports of the Working Groups and that benefit retail customers by, among other things, being designed to procure the lowest expected market price for the products procured under the proposal (*see, e.g.,* the direct testimony of William McNeil, ComEd Exhibit 3.0, page 2, lines 27-33) and passing the costs through, with no mark-up, in accordance with cost-causation.

ComEd also proposes to pass through costs incurred under federally approved transmission tariffs with no mark-up and in accordance with cost-causation. Thus, ComEd's proposal in this docket by its nature is designed to avoid undue rate impacts. (Company Response to Staff Data Request PL 1.03(c))

Q. Does the Company provide a convincing argument on the bill impacts issue?

A. No. The fact that its proposed auction is consistent with a workshop report or that power and transmission costs will be passed along "with no mark-up" will not shield customers from significant adverse impacts under Post-2006 rates. It is distinctly possible that the allocation of power costs through the translation prism will favor some ratepayers at the expense of others. And when the dust settles the translation prism could saddle certain ratepayers with inordinate increases relative to other ratepayers.

Q. Does the Company also suggest that the current docket is not the proper place to address these issues?

A. Yes. The Company argues that the current proceeding is not the kind of full-fledged rate proceeding where bill impacts issues would be considered. ComEd states:

…the purpose of the instant proceeding is not to deal with the design of

> the Post-2006 retail bundled service tariffs, except insofar as their basic outline and interaction with the specific tariffs at issue in this Docket is addressed. (Company Response to Staff Data Request PL 1.03(a))

Thus, the Company suggests the current proceeding is only tangentially related to rates.

Q. Does this argument make sense?

A. No, it does not. Despite the Company's claim otherwise, this is the only proceeding that will address the power component of Post-2006 bundled rates. Since power accounts for considerably greater than half of customers' electric bills, this proceeding will be the primary forum for addressing Post-2006 bundled rate design.

Q. Does the Company suggest an alternative forum for addressing impacts related to Post-2006 rates?

A. Yes. The Company identifies the upcoming delivery services docket as a potential venue for addressing bill impacts issues, stating:

> ComEd will present later this year a fully supported delivery services revenue requirement with an appropriate rate design. ComEd's proposal in that Docket thus by its nature will be designed to avoid undue rate impacts. (Company Response to Staff Data Request PL 1.03(c))

Q. Do you find the Company's proposed approach to be reasonable?

A. No, I do not. If undue bill impacts arose from the translation of auction prices into power prices, it would not be appropriate to address that problem through the redesign of delivery rates. Auction power costs are paid only by bundled customers while delivery rates are paid by both bundled and unbundled customers. Thus, if delivery rates are employed to address power-related bill impact issues, delivery customers could find themselves in the position of subsidizing bundled customers. It would make more sense to limit the scope of remedies to bundled service customers. This requires addressing power-related bill impacts issues within the translation tariff in this docket.

Q. How do you propose to incorporate bill impact concerns into the translation tariff?

A. Bill impacts present a particular challenge in this case because the remedy must be proposed before the details of the problem are actually known. The outcome of this proceeding will be the approval of a formula, rather than actual rates. The rates will not take form until the first auction is complete. Therefore, any remedy in this area must be prospective and designed to address potential scenarios that may or may not come to pass.

Q. What is the starting point for your proposal to address bill impacts issues?

A. The starting point is the overall increase in electric bills for bundled customers.

The level of increase over existing customer bills due to the imposition of Post-2006 rates will be the overriding concern.

Q. What mechanism do you propose to use to limit bill impacts for bundled customers?

A. I propose to limit overall bill impacts by adjusting the level of increase in power costs for customer groups. If the level of increase in bundled electric bills for an existing customer group is deemed excessive, power costs for those customers will be adjusted downward by an amount that brings the overall bill increase down to an acceptable level.

Q. When will this proposed adjustment process take place?

A. Because Post-2006 electric bills for bundled customers will not be known until after the power auction and the upcoming delivery services case, the specific adjustment process must await the conclusion of these dockets.

Q. Do you propose any limitations on the scope of your proposal to address bill impacts issues?

A. Yes, I propose that all efforts to address bill impacts issues be limited to customers participating in the up to 1 MW fixed price (CPP-B) auction. Customers from the two other auctions proposed by ComEd (the fixed price auction for 1 – 3 MW customers, or CPP-A, and the capacity auction for bundled customers exceeding 3 MWs, or CPP-H) would be excluded from this proposal to

address bill impacts.

Q. Why do you propose to exclude customers from the CPP-A and CPP-H auctions from your bill impacts adjustment plan?

A. The features of the other auctions justify the exclusion of customers one MW and above. Under the 1-3 MW auction, instead of a translation prism, the proposal is that all customers should pay the energy and/or capacity prices embodied in the winning bids. The fact that all bundled customers are paying the same power costs creates equity for all concerned and, thereby, addresses the issue of bill impacts.

Furthermore, it would not make sense to have customers in one auction subsidize power costs paid by customers in another auction. That could create differences between the overall power costs paid by customers and power prices received by suppliers within an auction. That would add an unneeded level of complexity to the process.

This process of elimination means that all efforts to address bill impacts issues should be limited to customers in the CPP-B auction.

Q. How do you determine an acceptable limit on bill impacts for customers within this auction?

A. Such a determination is necessarily a matter of judgment. There is no generally-

accepted formula to apply to each situation. Instead, the particular circumstances of each proceeding must be examined individually to determine what the appropriate limits, if any, should be.

The specific limit I propose is guided by three key considerations. First, bill impacts should be measured by how rate classes fare relative to the auction group as a whole. If the imposition of Post-2006 rates increased total rates for all customers by 50%, the impacts would be severe, but no basis would exist to make any bill impact adjustments because the impact of the rate increase is equally shared. However, if the overall rate increase was 5% and one customer group faced an increase of 50%, then the increase for that customer class should be limited to a lower level.

A second consideration for addressing bill impacts is the absolute level of increase facing individual rate classes and the CPP-B auction group as a whole. If the overall increase is smaller, then individual customer classes will be able to absorb a higher increase relative to the overall average. As the overall increase for the CPP-B auction group rises, it becomes increasingly difficult for customer classes within that group to absorb increases that greatly exceed the overall average. For example, If Post-2006 rates produced a 5% overall increase in retail rates for the CPP-B auction, then individual classes within that group would be more able to absorb an increase double that size (10%). If the overall increase rose to 25%, however, then imposing an increase twice as large (50%) for a

customer class could be considered burdensome.

Third, bill impacts should be addressed solely within the context of the CPP-B auction. If total bills were capped for a group of customers, only customers within the CPP-B auction would be subject to an offsetting increase in power costs. So, for example, customers in the CPP-A auction would not be subject to an increase in power costs to offset a limit on bill increases for residential customers in the CPP-B auction.

Q. What specific limits on power costs do you propose to address bill impacts?

A. I propose that the Commission adjust increases in power costs to limit overall bill increases for customers to the greater of the following: 20% or 150% of the average for customers in the CPP-B auction. That means that if the overall bill increase for customers within that auction is 13.67% or less, the maximum increase for any group of customers within the auction should be 20%. For an overall increase greater than 13.67%, the 150% of auction average limit would apply. So, if the average increase for the CPP-B auction is 20%, no customer class would receive an increase greater than 30%.

Q. How would you specifically adjust generation prices to conform bills to your proposed percentage limits?

A. The adjustment process would take place after all components of the bundled

ratemaking process are complete. That would include the current proceeding, the auction and the delivery service rate case. Then, the overall level of increase for customers would be used to determine which maximum, 20% or 150% of the CPP-B auction average, should apply. After that, current and Post-2006 bills for each proposed rate class must be calculated. If the increase for an individual rate class climbs above the applicable proposed maximum, then the power price for that class would be set at a level that brings the class back down to the designated maximum and the resulting revenue shortfall would be allocated on an equal percentage basis to all remaining classes. If that reallocation served to raise a class above the maximum, then the maximum would be applied to that class as well and the revenue shortfall would be reallocated again among classes not subject to the maximum.

Q. Do you have any specific proposal to address bill impacts for existing space heating customers?

A. Yes, it will be necessary to maintain some form of the Non-Summer declining block rate for current space-heating customers to mitigate potentially adverse bill impacts. The current blocking size for these customers should be maintained and the tailblock should be adjusted to conform these customers' average bill increases to the maximum of 20% or 150% of the CPP-B auction average.

Q. How would your proposed approach align the power costs that customers pay with the power cost allocations they receive under the translation

prism over time?

A. Under the translation tariff, power prices will be updated annually (after an initial 17-month period) to incorporate the results of auctions to replace expiring power contracts. Each time power prices are updated customers within the auction group would again be subject to the limit of the maximum of 20% or 150% of the average for the auction group. This would provide an opportunity to bring the power costs that customers pay further into line with the power costs they cause suppliers to incur, subject to these limits. Because future auctions will affect only a portion of overall power costs and not impact delivery services rates, there will be considerable latitude to bring the power costs that customers pay in line with the costs they cause to be incurred.

Q. What is the downside of your proposed constraints?

A. To the extent that the constraints come into play, there will be a gap between the costs that ratepayers cause and the prices that they pay. However, that is clearly outweighed by the value of reducing rate shock for some ratepayers. In addition, the long experience of the rate freeze demonstrates that the electric industry in Illinois can effectively deal with rates developed according to non-cost factors.

Migration Cost Factor

Q. How does ComEd raise the issue of migration costs in its proposed translation tariff?

A. The Company seeks to impose a price premium onto customers based on the migration risk they cause for potential suppliers. According to ComEd, the possibility that customers may forgo bundled service in favor of RES-supplied power makes it difficult for auction bidders to forecast the size of the loads in the tranches placed out for bid. If resources are lined up and customers migrate to RES service, then suppliers may have to absorb costs associated with keeping available resources they end up not needing. ComEd argues that the risk of keeping these resources available is a meaningful cost for suppliers (ComEd Ex. 7.0, p. 57).

Q. How has the Company sought to address these migration costs in the translation tariff?

A. First, the Company has concluded that these are meaningful costs which should be passed on to ratepayers. Second, the Company has employed a two-step analysis to quantify these costs. In the first step, ComEd estimated the number of customers in each rate class expected to migrate to RES service in the Post-2006 era. The Company has included all customers currently on RES service and 50% of the customers on PPO service. The 50% figure represents ComEd's judgment that half of the PPO customers will gravitate to RES service when the current rate freeze ends.

The Company then seeks to estimate the cost associated with this migration risk. The migration risk cost estimated for each class is added to the other costs of providing power to serve that class. The application of this factor raises the power costs for those classes at greater risk of migrating relative to other classes that pose a lower risk.

The Company develops its estimate of this migration risk cost by seeking to determine the value to consumers of having the option to switch from bundled service to RES-supplied power. ComEd employs Black's model which it maintains is used to value options on forward contracts (ComEd Ex. 7.0, p. 59) as a tool to estimate the value to ratepayers of having the option to migrate from bundled service. The dollar values are then weighted according to the propensity of customers in each customer class to migrate to RES service. Because larger customers have been more willing in the past to migrate to PPO and RES service, the migration adder serves to raise their share of power costs compared to smaller customers on the system.

Q. What is your opinion of the Company's proposed migration factor?

A. I find the factor to be problematic on a number of levels. First, it is poor policy. Second, it is counter-productive from an overall cost standpoint. Third, ComEd can identify no other utility that has implemented a migration adder. Fourth, the specific adder proposed by ComEd is ill-conceived.

Q. Why do you consider the proposed migration adder to be poor policy?

A. The proposed adder sends the wrong message to consumers concerning their role in the development of a competitive electricity marketplace. It, in effect, levies a penalty on those groups of customers that have ventured out into the marketplace and taken advantage of the competitive alternatives.

This proposal would place the regulatory process in an untenable position. On the one hand, regulation has actively sought to introduce competition into the electricity market. On the other hand, ComEd seeks to impose a penalty on customers who participate in the market that legislators and the regulatory process have sought to foster.

The Customer Choice and Rate Relief Law of 1997 regards the advent of competition as a welcome development in the electricity marketplace:

> Competitive forces are affecting the market for electricity as a result of recent federal regulatory and statutory changes and the activities of other states. Competition in the electric services market may create opportunities for new products and services for customers and lower costs for users of electricity. (220 ILCS 5/Sec. 16-101A(b))

The language clearly recognizes that competition may create real benefits for

electric consumers in terms of new products and services and lower prices. However, healthy competition requires the emergence of alternative providers who, in turn, rely on the willingness of ratepayers to migrate away from bundled service. If competition is to prosper, migrations away from bundled service must grow. Thus, migration should be considered not just a cost but as a benefit as well. Accordingly, the migration risk penalty should be removed from the translation prism calculation.

Q. Why do you consider the migration risk factor counter-productive?

A. The proposal appears to undermine a key objective for ComEd in the ratemaking process which is to keep auction prices low. The Company claims to have "presented an auction proposal and a proposed 'translation' tariff that are consistent with the reports of the Working Groups and that benefit retail customers by, among other things, being designed to procure the lowest expected market price for the products procured under the proposal". (ComEd Response to Staff Data Request PL 1.03 (c)).However, the migration risk factor undermines this objective by placing an additional risk premium on auction prices.

The factor effectively raises bundled power costs for the larger customers that are most likely to migrate to RES service. This makes RES service a more attractive option for large customers and increases the likelihood they will migrate away. This higher migration risk can create additional costs for auction suppliers

to reserve power for loads that may not materialize. Suppliers may seek to recover these higher costs in their auction bids and, thereby, undermine ComEd's stated objective of minimizing power prices.

Q. What is the experience of other utilities with respect to a migration risk factor?

A. The available evidence indicates that no other utility has incorporated a migration risk factor into auction translation tariffs. The Company states in response to Staff Data Request PL 2.04:

> ComEd is not aware of any other utilities in the United States that factor the cost of migration risk into rates for end-use customers.

It should also be noted that ComEd's proposal would create a consistency issue. Ameren has not included a corresponding migration risk factor into its proposed translation tariff. Thus, approval of ComEd's proposal would place conflicting policies into effect for the state's two largest electric utilities.

Q. Why do you believe that the specific migration factor proposed by ComEd is ill-conceived?

A. The problem is that the Company seeks to estimate this cost for suppliers indirectly by estimating the value of migration for consumers. Whatever value the migration option offers to consumers, it does not explain what cost migration risk

might impose on suppliers.

Q. Did ComEd solicit any assistance from suppliers to develop this migration risk factor?

A. No. The Company states that, “ComEd has not asked any suppliers to quantify the costs to them stemming from migration risk” (Response to Staff Data Request PL 2.06(e)).

Q. Did the Company receive any feedback from suppliers about migration risk costs?

A. The Company indicates it did not. In its response to Staff Data Request PL 2.01(a), the Company states, “ComEd has not received any substantive ’feedback’ from suppliers regarding the translation prism in Rider CPP”. With regard to the migration risk issue specifically, the Company did explain to suppliers “that it intended to include a variety of factors into the translation mechanism including migration risk” (Response to Staff Data Request PL 2.06(a)). However, the Company indicated that “[n]one of the potential suppliers gave any indication of support or opposition to the inclusion of a migration risk factor” (Response to Staff Data Request PL 2.06(c)).

Q. What do you conclude about the Company’s proposed migration factor?

A. ComEd has failed to establish any meaningful relationship between the value of the migration option to consumers and the actual migration risk costs incurred by

suppliers. This further calls into question the value of its proposal.

Translation Energy Prices

Q. What issue arises concerning the energy prices used by ComEd to develop its proposed translation prism?

A. The issue concerns the reasonableness of the forward prices used to develop the Peak and Off-Peak prices.

Q. Why does the Company's proposed use of forward price products to develop market energy prices present a concern?

A. ComEd has failed to establish the viability of the forward price product as a foundation for market energy prices. The problem centers on the low level of activity in the Northern Illinois (NI) Hub forward price product market which calls into question its use in developing the translation prism.

Q. Why should the Commission be concerned about the liquidity of this market?

A. If the market is not liquid, then it is easier for a small number of participants to game or exert control over the resulting prices. This can create a divergence with the prices that would result from a more competitive market in which a larger number of trades take place.

Q. What evidence has the Company provided on this issue?

A. In response to Staff's discovery, ComEd provided a table listing the daily trading volume on the Intercontinental Exchange's Northern Illinois Hub forwards market for contracts with a monthly term or longer (Staff Data Request PL 1.06(b)). That table listed trading volumes for a total of 53 days over the course of the year which means that trades took place on average about one day per week over a year's time.

The Company was also asked to provide the number of contracts traded each day. The Company responded that it did not have the requisite information (Staff Data Request PL 1.06(a)).

Q. How do you assess these responses?

A. They raise two concerns about the level of trading activity. First, the lack of data on the number of contracts traded leaves unanswered a key question about the level of trading activity on the market. Second, the data provided on MWh volumes traded raises concerns because trades only appear to take place on average one day a week. The fact that these contracts are not traded on average four days out of five creates questions about the liquidity of this market.

Thus, ComEd has failed at this juncture to demonstrate that the NI Hub forward price market provides a reasonable price foundation for its proposed translation prism.

Q. How should this problem be addressed?

A. I propose that the Company's forward market pricing approach should be replaced with a method based on Locational Marginal Prices (LMPs). Specifically, I propose to base Peak and Off-Peak prices on the weighted average of hourly LMPs in ComEd's service territory for the year ending 135 calendar days before the earliest possible auction commencement date.

The first step in the process would be to calculate an average LMP for each hour of the month. That average LMP would be the simple average of all LMPs across ComEd's service territory. Then each of these LMPs would be weighted by the corresponding MWh load for ComEd's retail customers for that hour. The sum of these weighted LMPs for each hour of the Peak period would be divided by the total MWh for the Peak period to produce a monthly Peak price. Similarly, the sum of weighted LMPs over the remaining hours of the month would be divided by the corresponding MWhs of load to produce a monthly Off-Peak price.

Q. What advantage do weighted LMPs offer over forward prices for developing Peak and Off-Peak market energy costs in the translation tariff?

A. The advantage is that LMPs are more viable. In contrast to forward price products that result from sporadic trades in a fledgling market, LMPs represent the spot prices of power at various locations within ComEd's territory and throughout PJM for each five minute interval throughout the year. The LMPs are

not just financial instruments but rather are prices that buyers and sellers rely on in the power markets. In short, LMPs comprise an important and essential price foundation for ComEd and the PJM system as a whole and it would be reasonable to extend their use to the development of the translation prism.

Q. How would you address the criticism that historical LMPs are incompatible with a forward-looking prism?

A. The issue is secondary to the issue of which is the more stable foundation for market energy prices. On this count, LMPs hold a distinct advantage. The forward price products ComEd seeks to rely on appear to have been created in a weak, unstable market which undermines their usefulness as a ratemaking tool. The LMPs incurred in ComEd's service territory are not saddled with such a credibility issue. In short, whatever advantage the forward price products may offer by being future-oriented, is outweighed by the weakness of the market in which they are developed. Thus, on balance, LMPs offer the more reasonable foundation for developing the translation prism.

Peak and Off-Peak Periods

Q. How are Peak and Off-Peak periods employed in ComEd's proposed translation tariff?

A. The Company proposes to use Peak and Off-Peak periods as a foundation for allocating generation costs among rate classes. For each month of the year, the Company divides the total number of hours into Peak and Off-Peak periods. Then the Company develops average Peak and Off-Peak market energy prices for each month. These averages are then multiplied by the corresponding MWhs sold to each rate class to develop a total cost of serving each class during the Peak and Off-Peak hours of each month.

Q. What specific hours of the week does the Company propose for its Peak period?

A. ComEd proposes that Peak hours be between the hours of 6am – 10pm, Monday – Friday Central Prevailing Time (excluding holidays) (ComEd Ex. 7.0, p. 47). The Company justifies these hours in the following terms:

> The decades-old currently effective definition for Energy Peak period has its basis in a vertically integrated electric utility environment that no longer exists. The proposed definition for Peak Period is reflective of the electric utility environment that will be in place after the end of the transition period. It will also provide customers with the ability to make price

comparisons on an “apples to apples” basis rather than an “apples to oranges” basis. As noted in the direct testimony of Messrs. Alongi and Crumrine at lines 1058-1061, “The (proposed) definitions of the Peak and Off-Peak periods will conform the retail rate structure to the commonly used definition in the wholesale market, enhancing the transparency of the corresponding retail Supply Charges to the wholesale market, and they simplify the calculations in the translation portion of Rider CPP.” (Company Response to Coalition of Energy Suppliers’ Data Request No. CES 1.21(b))

Q. Please comment on ComEd’s proposed revision to the definitions of Peak and Off-Peak periods.

A. These periods should be developed according to the impact of customer classes on the wholesale cost of power. Simply put, the Peak periods should cover the part of the day when the demand for power is higher and more supply resources are needed. The higher prices are designed to discourage demand during the Peak periods and reduce the strain on resources needed to meet that demand. Setting the Peak period too broadly will produce prices that are too high when demand is low and prices that are too low when demand is high. Lower peak prices will reduce the incentive to curb demands at the peak period and ratepayers may have to incur additional costs for securing the necessary supply resources to cover those demands.

The Company has selected Peak and Off-Peak periods solely for the purpose of aligning the retail Peak period with wholesale market Peak and Off-Peak periods. A peak period this broad combines hours when demand is high with hours when demand is considerably lower and thereby weakens the potential signal sent to ratepayers of the significant resources necessary to serve customers during peak times.

The problem is represented in the attached Schedule 1 which presents average peak and off-peak demands for each Summer 2004 (June through September) weekday (excluding holidays). The schedule shows that average hourly system demand for the hours of 6 a.m. – 9 a.m. on these days averages 11,473 MWs. In contrast, hourly demand for 9 a.m. – 10 p.m. (the Company's current Peak period averages 13,819 MWs, more than 20% higher than the 6 a.m. – 9 a.m. period.

This example shows that the shoulder hours of 6 a.m. – 9 a.m. have a different character and should not be considered part of the peak period. To lump demand during these hours into the Peak period creates an improper signal concerning the impact of ratepayer demands on power costs during this time.

Q. Please comment on ComEd's argument for its proposed Peak and Off-Peak periods.

A. I find the argument to be flawed. The Company is arguing that the best way to send proper price signals to customers is to align the retail electricity market as

closely as possible with the wholesale market. However, the Company itself does not follow its own advice in the development of its proposed translation prism. The Company has chosen not to directly pass the prices paid to suppliers along to ratepayers. Instead, ComEd has developed a translation prism that creates differences between the prices that ComEd pays in the wholesale market and the prices that consumers pay in the retail market.

Q. Please explain.

A. ComEd's auction proposal will produce two prices for power in the wholesale market; one for the Summer months and a second for non-Summer months. However, in recovering electricity costs from ratepayers, ComEd does not simply propose that these costs be passed directly through to ratepayers. Instead, the Company proposes that each rate class pay a different price. In addition, while auction prices are not differentiated by time of day, ComEd will recover power costs through Peak and Off-Peak rates for larger customers.

In sum, the translation prism is designed to create differences between auction prices and retail prices. In other words, the prism transforms an "apples to apples" relationship into one based on "apples to oranges". And despite the claims by Messrs. Alongi and Crumrine, the translation tariff reduces the transparency between the wholesale market and corresponding retail Supply Charges. (Company Response to Coalition of Energy Suppliers' Data Request No. CES 1.21(b))

Q. What does this discussion indicate about the purpose of the translation prism?

A. The purpose of the prism is not simply to align the retail market with the wholesale market. Rather, the prism seeks to determine how each customer class contributes to the wholesale power cost and then set prices accordingly.

Q. What alternative approach do you propose for determining the Peak and Off-Peak periods?

A. I propose that the Company continue to use its current definition of the Peak period for determining the cost of power under the translation tariff. The current peak period is 9 a.m.-10 p.m., Monday through Friday (excepting holidays). This proposal offers two distinct advantages. First, it removes from the Peak period the hours of 6 a.m.-9 a.m. when demands on the system are low and the need for supply resources is low as well. Second, the continuity with the current Peak period offers benefits to customers who are on time-of-day rates and have aligned their consumption behavior to take advantage of the current definitions of Peak and Off-Peak hours. If the definition of the Peak were to be broadened, then these customers would find it necessary to change their consumption behavior once again to take advantage of an extended peak period.

Q. Is there precedence for Peak periods diverging between the retail and wholesale markets?

A. Yes. That is the case for utilities in New Jersey which do not consistently adhere to the 7 a.m.-11 p.m. (Eastern) Peak period prevailing in the PJM wholesale market to devise Peak periods for their retail customers. For example, Public Service Electric and Gas defines the Peak period for residential time-of-day customers as 7 a.m. to 9 p.m. (EST) (B.P.U.N.J. No 14 Electric, Original Sheet No. 92) and 8 a.m. to 10 p.m. for Large Power and Lighting customers (B.P.U.N.J. No 14 Electric, Original Sheet No. 127). The two applicable tariffs sheets are included in Schedule 2 attached to my testimony.

Q. Does this conclude your direct testimony?

A. Yes.

Docket No 05-0159
Staff Ex. 6.0
Schedule 1

Hourly Summer Load Data for ComEd Customers
2004

	Total Summer Usage MWh	Average Daily Usage Mwh 1/
12-1am	841,779	9,903
1am-2am	798,582	9,395
2am-3am	771,661	9,078
3am-4am	758,359	8,922
4am-5am	767,491	9,029
5am-6am	812,341	9,557
6am-7am	894,265	10,521
7am-8am	981,776	11,550
8am-9am	1,049,570	12,348
9am-10am	1,094,241	12,873
10am-11am	1,141,008	13,424
11am-Noon	1,174,216	13,814
Noon-1pm	1,198,138	14,096
1pm-2pm	1,223,112	14,390
2pm-3pm	1,233,679	14,514
3pm-4pm	1,234,475	14,523
4pm-5pm	1,226,354	14,428
5pm-6pm	1,200,506	14,124
6pm-7pm	1,163,962	13,694
7pm-8pm	1,143,171	13,449
8pm-9pm	1,137,230	13,379
9pm-10pm	1,100,340	12,945
10pm-11pm	1,015,103	11,942
11pm-12am	919,871	10,822
Average Hourly		
6am-9am	34,419	11,473
9am-10pm	179,652	13,819

1/ Average of 85 weekdays, excluding holidays.

Source: Company Response to Staff Data Request PL 1.04, Attachment 1.

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

B.P.U.N.J. No. 14 ELECTRIC **Original Sheet No. 92**

RATE SCHEDULE RLM
RESIDENTIAL LOAD MANAGEMENT SERVICE
(Continued)

Transmission Obligation:

The customer's Transmission Obligation, in kilowatts, is determined in a similar manner to the Generation Obligation described above. The Transmission Obligation represents the level of transmission network service that must be procured by the customer's electric supplier from PJM to provide service to the customer.

Costs associated with the Generation and Transmission Obligations are included in the charges for Basic Generation Service and may affect the price offered by a Third Party Supplier.

TIME PERIODS:

The On-Peak time period shall be considered as the hours from 7 A.M. to 9 P.M. (EST) Monday through Friday. All other hours shall be considered the Off-Peak time period.

TERMS OF PAYMENT:

Bills are due on presentation.

TERM:

The term for delivery service is one year and thereafter until terminated by five days notice.

SPECIAL PROVISIONS:

(a) **Limitations on Service:** This rate schedule is available where all service is measured by one meter, except for service provided under Rate Schedules WH or WHS:

(a-1) In individual residences and appurtenant outbuildings;

(a-2) In residential premises where customer's use of electric service for purposes other than residential is incidental to its residential use;

(a-3) On residential farms;

(a-4) For rooming or boarding houses where the number of rented rooms does not exceed twice the number of bedrooms occupied by the customer;

(a-5) To a customer in a two- or three-family building who has the service for incidental common-use equipment registered on its meter;

(a-6) In individual flats or apartments in multiple-family buildings;

(a-7) In multiple-family buildings of two or more individual flats or apartments where electric service is furnished to the tenants or occupants of the flats or apartments by the owner without a specific charge for such service.

(b) **Resale:** Service under this rate schedule is not available for resale.

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

B.P.U.N.J. No. 14 ELECTRIC

First Revised Sheet No. 127
Superseding
Original Sheet No. 127

RATE SCHEDULE LPL

LARGE POWER AND LIGHTING SERVICE

(Continued)

Generation Obligation:

The customer's Generation Obligation, in kilowatts, is determined by Public Service no less frequently than once a year. The Generation Obligation for existing customers or for new customers utilizing an existing building or premise is based upon the customer's share of the overall summer peak load assigned to Public Service by the Pennsylvania-New Jersey-Maryland Office of the Interconnection (PJM) as adjusted by PJM assigned capacity related factors and shall be in accordance with Section 9.1, Measurement of Electric Service, of the Standard Terms and Conditions. The Generation Obligation for customers taking service in a new building or premise, as determined by Public Service, is based upon the load requirements, as estimated by Public Service, of the customer's building or premise. The Generation Obligation represents the generator capacity that PJM requires an electric supplier to have available to provide electric supply to a customer.

Transmission Obligation:

The customer's Transmission Obligation, in kilowatts, is determined in a similar manner to the Generation Obligation described above. The Transmission Obligation represents the level of transmission network service that must be procured by the customer's electric supplier from PJM to provide service to the customer.

Generation and Transmission Obligations are used in the determination of the customer's charges for Basic Generation Service and may affect the price offered by a Third Party Supplier.

TIME PERIODS:

The On-Peak time period shall be considered as the hours from 8 A.M. to 10 P.M. Monday through Friday. All other hours shall be considered the Off-Peak time period.

TERMS OF PAYMENT:

Bills are due on presentation subject to a late payment charge at the rate of 1.416% per monthly billing period in accordance with Section 9.12 of the Standard Terms and Conditions. Service to a body politic will not be subject to a late payment charge.

TERM:

The term for delivery service is one year and thereafter until terminated by five days notice.

Customers who transfer from third party supply to Basic Generation Service may be subject to additional limitations regarding the term of Basic Generation Service as detailed in Section 14 of the Standard Terms and Conditions of this Tariff.