STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY	:	
	:	
Proposed tariff establishing a market value methodology, pursuant to Section 16-112(a) of the Public Utilities Act, to be effective post-2006 and related revisions to Rider PPO and other tariffs, including provisions that would enable subsequent restructuring of rates and unbundling of prices for bundled services pursuant to Sections 16-109A and 16-111(a) of the Act.	:	No. 05-0159

Surrebuttal Panel Testimony of

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ComEd Ex. 21.0

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I. Introduction and Purpose

A. Identification of Witnesses

Q. Please state your names.

A. Lawrence S. Alongi and Paul R. Crumrine.

Q. Are you the same Lawrence S. Alongi and Paul R. Crumrine who submitted direct and rebuttal panel testimony on behalf of Commonwealth Edison Company ("ComEd") in this Docket?

A. Yes.

B. Purposes of Testimony

Q. What are the purposes of your surrebuttal panel testimony?

A. The purposes of our surrebuttal panel testimony are to:

(1) respond, on the subject of ComEd's proposed Rider CPP - Competitive Procurement Process ("Rider CPP") (ComEd Exhibit ("Ex.") 7.1) (*see also* ComEd Ex. 13.1), to certain portions of the respective rebuttal testimony of Illinois Commerce Commission (the "Commission" or "ICC") Staff ("Staff") witnesses Dr. Eric Schlaf, Peter Lazare, Cheri Harden, Mary Selvaggio, Scott Struck, and Steven Knepler; Building Owners and Managers Association of Chicago ("BOMA") panel witnesses T.J. Brookover and Kristav Childress; Citizens Utility Board / Cook County State's Attorney's Office ("CUB/CCSAO") witness William Steinhurst; Coalition of Energy Suppliers ("CES") witness Dr. Philip O'Connor and panel witnesses John Domagalski and Richard Spilky; Dynegy Inc. ("Dynegy" or "DYN") witness Barry Huddleston; and Illinois

Industrial Energy Consumers ("IIEC") witnesses James Dauphinais and Brian Collins;

(2) respond, on the subject of ComEd's proposed Rider PPO - MVM - Power Purchase Option (Market Value Methodology) ("Rider PPO - MVM") (ComEd Ex. 7.2), to certain portions of the respective rebuttal testimony of Staff witness Mr. Struck and CES witnesses Messrs. Domagalski and Spilky;

(3) respond, on the subject of ComEd's proposed amendment (ComEd Ex. 7.4) to Rider PPO -- Power Purchase Option (Market Index), 5th Revised Sheet No. 151.1, *et seq.* ("Rider PPO - MI"), to certain portions of the respective rebuttal testimony of Staff witness Richard Zuraski and BOMA panel witnesses Messrs. Brookover and Childress; and

(4) respond to certain other portions of the respective direct testimony of certain of the foregoing witnesses, including certain portions of the respective rebuttal testimony on the subject of rate impacts and mitigation of Staff witness Mr. Lazare, BOMA panel witnesses Messrs. Brookover and Childress, Constellation Energy Commodities Group ("CCG") witness Michael Smith, and Dynegy witness Mr. Huddleston; and certain portions of the respective rebuttal testimony on other subjects of BOMA panel witnesses Messrs. Brookover and Childress and CES panel witnesses Messrs. Domagalski and Spilky.

C. <u>Summary of Conclusions</u>

Q. Please summarize the conclusions of your surrebuttal panel testimony.

A. We make the following conclusions:

(1) Staff and most other parties, in their respective rebuttals, remain generally supportive of ComEd's approaches in Rider CPP to translate market clearing prices based on cost-causation, pass-through the costs resulting from the competitive procurement process, and balance expenses and revenues. ComEd, in its rebuttal, accepted, or accepted with appropriate modifications, many of the respective proposals of Staff and intervenors. Staff and intervenors, in their respective rebuttals, have presented a number of revised proposals as well as pursuing many of the proposals they earlier advocated. ComEd, in its surrebuttal, again is accepting, or accepting with appropriate modifications, many of the respective proposals of Staff and intervenors. The remaining proposals should not or cannot be accepted, sometimes for technical reasons, but in some instances because the proposals are not consistent with basic ratemaking principles or with the objectives of Rider CPP.

(2) Staff and intervenors, in their respective rebuttals, have revised and reiterated various of their proposals relating to other of the proposed tariffs and tariff amendments. ComEd once more is able to accept, or to accept with appropriate modifications, some of those proposals, although again some proposals should not or cannot be accepted.

(3) Certain intervenors continue to pursue proposals that do not relate to the proposed tariffs and tariff amendments and are not otherwise within the scope of the matters before the Commission in this Docket. Those proposals should not and cannot be accepted. In several instances, the subjects raised will be reviewed in detail in ComEd's upcoming rate case.

Q. How is your surrebuttal panel testimony organized?

A. As in our rebuttal testimony, our surrebuttal panel testimony primarily responds to the issues raised and recommendations made in the respective rebuttal testimony of the identified Staff and intervenor witnesses on a "tariff–by-tariff" and a "section-by-section" basis to facilitate review of our responses. That is, we have attempted to align the various comments and recommendations with the related proposed tariffs and tariff amendments, where applicable. We do not discuss (except as background or incidentally) tariff provisions that have not been the subject of Staff or intervenor rebuttal testimony. The remaining subjects that we address, including rate impacts and mitigation, are set forth in the final "Other Matters" section of our surrebuttal panel testimony.

Q. Are any exhibits attached to and incorporated in your surrebuttal panel testimony?

A. No. Please note that we reserved the right in our rebuttal panel testimony to provide an updated version of Rider CPP incorporating ComEd's final recommended changes as part of our surrebuttal panel testimony. (ComEd Ex. 13.0, lines 77-85) However, in light of the continuing discussion of significant aspects of the auction design and accompanying processes (such as the proposal to shift the Large Load Customer Group from the CPP Auction - Blended Segment to the CPP Auction - Annual Segment referenced below) and the limited time available in which to prepare this surrebuttal panel testimony, we were not able to prepare such a final and complete revised version of Rider CPP to attach hereto. In its compliance filing, ComEd will make the necessary changes in Rider CPP that conform to those ComEd agreements that are approved by the Commission in its final Order, as well as any other changes that need to be made to conform the tariff with

such Order. (In its compliance filing, ComEd also will make any necessary changes in the other proposed tariffs and tariff amendments.)

Q. How much time will ComEd require after the Commission's final Order is entered in the instant proceeding to submit its compliance filing?

A. In light of the significant number of changes that may need to be incorporated in Rider CPP, ComEd requests at least ten business days after the entry of a final Order in which to submit its compliance filing, and that Staff be afforded a reasonable amount of time to review the compliance filing before the tariffs and tariff amendments become effective.

II. Matters Concerning Rider CPP (ComEd Ex. 7.1)

A. Introduction

Q. What are your general views of the Staff and intervenor rebuttal testimony relating to Rider CPP?

A. As we indicated earlier, we find a large majority of the testimony relating to Rider CPP to be generally supportive and/or constructive, and we are able to accept or to accept with modifications numerous proposals.

B. Rider CPP – Organization of Rider CPP

Q. Are there any outstanding issues with respect to Staff witness Ms. Harden's revised tariff index? (Harden Rebuttal ("Reb."), Staff Ex. 19.0, and Schedule 19.1)

A. For the most part, we believe that all issues raised by Ms. Harden have been resolved and ComEd will make the appropriate changes as part of the compliance filing that will be ordered at the conclusion of this proceeding. With respect to Ms. Harden's response to

ComEd's statement of its intention to eventually move all definitions contained in the Definitions part of Rider CPP to ComEd's Terms and Conditions in a subsequent "housekeeping" type filing, we agree that the appropriate time to consider such a relocation is at the time of such a filing, not in the instant proceeding.

Notwithstanding ComEd's agreement to reorganize Rider CPP, for the purposes of addressing other comments of Staff and intervenors raised with respect to Rider CPP, the remainder of this section of our surrebuttal panel testimony will address those other comments in the order they arise in the original organizational structure of Rider CPP as presented in ComEd Ex. 7.1.

C. Rider CPP – Definitions

1. Customer Supply Group Definitions

Q. Have any parties objected to ComEd's proposed Customer Supply Group Definitions?

A. No. With respect to our response to his proposed rate mitigation plan, Staff witness Mr. Lazare did not enter any objections to our statement that such a plan could be implemented without the creation of a new Customer Supply Group for residential space heating customers. (*See* Lazare Reb., Staff Ex. 14.0, lines 335-359)

2. Peak and Off-Peak Period Definitions

Q. Staff witness Mr. Lazare and BOMA witnesses Messrs. Brookover and Childress continue to oppose ComEd's proposed definitions of the peak and off-peak periods. (Lazare Reb., Staff Ex. 14.0, lines 19-116; Brookover / Childress Reb., BOMA Ex. 4.0, lines 305-366) How do you respond?

A. In the interest of further narrowing the outstanding issues in this proceeding, ComEd is willing to use the existing peak and off-peak period definitions, with the North American

Electric Reliability Council holidays, for purposes of determining and applying Supply Charges pursuant to Rider CPP and to reflect such changes as part of a compliance filing ordered in the instant proceeding. However, in doing so, we reserve the right to raise this issue again in subsequent proceedings. Furthermore, we acknowledge the support and cautions of Dynegy witness Mr. Huddleston, who stated: "these proposals could lead to inefficiencies, inefficiencies that could make switching more (or less) likely, which in turn will cause Suppliers to factor this added uncertainty in to their bids." (Huddleston Reb., DYN Ex. 1.2, lines 290-292)

D. Rider CPP - Competitive Procurement Process

Q. Have there been issues raised with respect to this part of the proposed tariff in Staff and intervener rebuttal?

A. Yes. However, matters concerning the structure of the auction process and the auction timeline will be addressed primarily in the rebuttal testimony of ComEd witnesses Arlene Juracek, P.E. (ComEd Ex. 17.0), William McNeil (ComEd Ex. 18.0), and Dr. Chantale LaCasse (ComEd Ex. 19.0).

Q. Is ComEd offering any further changes to this part of proposed Rider CPP?

A. Yes. Many of the refinements offered in the surrebuttal testimony of Ms. Juracek, Mr. McNeil, and Dr. LaCasse, if approved by the Commission, would require revisions to this and other parts of the tariff (ComEd Ex. 7.1). These revisions will be incorporated in ComEd's compliance filing.

E. Rider CPP - Retail Customer Switching Rules

Q. In response to the direct testimony of CES witness Dr. O'Connor and CES panel witnesses Messrs. Domagalski and Spilky (O'Connor Dir., CES Ex. 1.0, lines 541-544, and Domagalski / Spilky Dir., CES Ex. 3.0, lines 485-495) and the direct testimony of Staff witness Dr. Schlaf (Schlaf Dir., Staff Ex. 5.0, lines 298-351) asserting that the advance 60-day termination notice for customers utilizing "CPP-H" service is unnecessary or too lengthy and that normal direct access service request ("DASR") requirements should apply, ComEd in your rebuttal panel testimony stated its acceptance of their proposed changes, provided that standard DASR requirements apply, which restrict such terminations so that they occur only on the customer's normally scheduled meter reading date (ComEd Ex. 13.0 at lines 228-242). How did CES respond in rebuttal?

A. CES witnesses Messrs. Domagalski and Spilky noted ComEd's counter-proposal, and did not express any objection to the limitation to on-cycle switches. (Domagalski / Spilky Reb., CES Reb. Ex. 6.0, lines 560-563)

Q. How did Staff respond in rebuttal in ComEd's proposal to accept the application of standard DASR requirements, subject to the limitation to on-cycle switches?

A. Staff witness Dr. Schlaf stated that he appreciated ComEd's compromise but that he objected to the limitation to on-cycle switches. (Schlaf Reb., Staff Ex. 13.0, lines 201-217)

Q. In objecting to that aspect of ComEd's compromise proposal, Dr. Schlaf asserts that with only 63 customers currently on Rate HEP and a very few customers likely to be taking hourly service at any given time, it is illogical that ComEd would be overwhelmed by

off-cycle switches "from a service that the vast majority of customers apparently want to avoid." (Schlaf Reb., Staff Ex. 13.0, lines 208-211) How do you respond?

A. While we would generally concur with Dr. Schlaf's conclusion regarding commercial and industrial customers' interest in an hourly-priced energy service, his assertions do not address ComEd's concerns with respect to off-cycle switches to and from service under CPP-H and its rationale for requiring switches to occur on the normally scheduled meter reading date. That is, while current customers' interest in hourly energy service might appear to be minimal, the customers' agents' interest in such service could become more significant in a post-transition period environment. Through General Account Agency agreements, customers often cede significant decision-making authority to other entities, particularly RESs, to switch their accounts on and off the ComEd services for which such customers are eligible. Such off-cycle switches might occur regularly and in far greater numbers when the CPP-H service is available, particularly when the expected charges under CPP-H service are lower than market alternatives available to RESs.

The history of ComEd's experience with power purchase option ("PPO") service clearly supports such a conclusion. Utilizing their ability as General Account Agents, RESs have, in the past, placed significant numbers of customers on the PPO when other market alternatives became more attractive than directly supplying the customers. RESs would sometimes place customers on the less expensive PPO service and either resold their contracted supply into the higher price marketplace or avoided making purchases that would have been necessary if they continued to directly supply the customers. There is no reason to expect the RESs to be any less adept in the future at utilizing ComEd's hourly priced product as a short-term alternative for supplying these customers. RESs

could potentially drop hundreds of customers and pick them back up on a calendar month basis or potentially even drop customers and pick them back up within as little as two weeks. ComEd should not have the administrative burden placed on it to deal with such a situation. Moreover, off-cycle switching is not currently an option for residential customers, and there are approximately 1,400 customers taking service under ComEd's Rate RHEP – Residential Hourly Energy Pricing (Experimental), Ill. C.C. No. 4, Original Sheet No. 55.40, et seq.

For the foregoing reasons, ComEd continues to oppose proposals that would allow for off-cycle switching as a means to terminate hourly energy service under a bundled electric service tariff for which ComEd procures full requirements electric supply via the CPP-H Auction. ComEd's compromise proposal should be approved.

Q. In response to Staff witness Dr. Schlaf's proposal in his direct testimony to allow "new" customers with demands between 1 and 3 megawatts ("MW") to initiate "CPP-A" service outside of the 30-day enrollment window, you accepted that proposal as to truly new customers. However, you clarified that a successor account would only be allowed to do so if it were taking over service from a predecessor that was being served under the CPP-A option. (ComEd Ex. 13.0 at lines 253-256) Did Dr. Schlaf in his rebuttal accept your clarification of his proposal?

A. Dr. Schlaf accepted our clarification in part and rejected it in part. He agreed that his proposal regarding "new" customers should not apply to customers that had changed their corporate name, but he took the position that it should apply to "a customer at an existing location under new ownership". (Schlaf Reb., Staff Ex. 13.0, lines 80-91)

Q. How do you respond to Dr. Schlaf's proposal that "a customer at an existing location under new ownership" should be permitted to take CPP-Annual service outside of the enrollment window? (Schlaf Reb., Staff Ex. 13.0, lines 89-91)

A. In light of his statement that it is "very unlikely that an industrial customer would find it beneficial to change its corporate name, with the considerable expense that must accompany such a change, simply to save the difference between the cost of generation from a RES and the CPP-Annual generation rate for only a matter of months" (*id*., lines 81-84), we believe Dr. Schlaf misinterpreted our rebuttal panel testimony. With respect to "successor accounts," we indicated that the inclusion of such accounts "could create an inappropriate incentive for existing customers to change names <u>on their existing accounts</u>." (*See* ComEd Ex. 13.0 at lines 247-250) (emphasis added) We did not suggest that they would find it economic to change their corporate name. It is unclear to us whether changing corporate names for this purpose would be uneconomic. However, changing the name on an existing ComEd account is done routinely and would not necessarily be cost-prohibitive. Moreover, it is our understanding that it would be costly and burdensome for ComEd to implement the internal processes that would be needed in order to determine whether a successor is truly under "new ownership." For the foregoing reasons, ComEd cannot agree with Dr. Schlaf's clarification, and we believe that ComEd's compromise proposal should be approved.

F. <u>Rider CPP – Limitations and Contingencies</u>

Q. Staff witness Dr. Schlaf has expressed concerns regarding, and offered revisions to, the language relating to Commission review in contingency scenarios included on Original

Sheet No. 274 of ComEd Exhibit 13.1. (Schlaf Reb., Staff Ex. 13.0, lines 218-380). Will you be addressing to his concerns?

A. No. The substance of Dr. Schlaf's concerns and proposed revisions is addressed by ComEd witness Mr. McNeil (McNeil Sur., ComEd Ex. 18.0).

G. Rider CPP – Translation to Retail Charges

1. Customer Supply Group Migration Risk Factor

Q. Certain parties continue to oppose the proposed migration risk factor, while other support and propose modifications to the factor. What is ComEd's position in light of all of the testimony on this subject?

A. In the interests of narrowing the issues, ComEd is willing to accept as an integrated "package": (1) the proposal of CES, supported by CUB/CCSAO and Staff, to move the Large Load Customer Group from the "CPP-B" Auction Segment to the CPP-A Auction Segment, with certain modifications, as is discussed in the surrebuttal testimony of ComEd witness Mr. McNeil (ComEd Ex. 18.0); combined with (2) the elimination of the migration risk adjustment from the retail translation mechanism as to CPP-B service. The movement of the Large Load Customer Group to the CPP-A Auction Segment would eliminate most of the migration risks from the CPP-B Auction segment. While some risks would remain, they would be diminished, and, accordingly, in the interests of compromise, ComEd is willing to accept the elimination of the migration risk factor from the translation mechanism in the CPP-B service in that circumstance.

If, however, the Customer Supply Groups that comprise the CPP-B Auction Segment remain the same Groups that ComEd originally proposed to be included in that segment, then ComEd believes that the migration risk factor in relation to the CPP-B

retail translation mechanism should be approved as originally proposed, for the reasons we have indicated in our earlier testimony. In that scenario, while the migration risk adjustment does not perfectly estimate the supplier risk premium resulting from migration risks within the CPP-B Auction Segment, it remains the case that ComEd's original proposal is a more reasonable mechanism to assign the associated costs in accordance with cost causation principles than either the proposed modified version or having no such factor at all. In that instance, having no such factor at all would cause the residential and very small commercial customers to bear the rate impact of costs for which they are not the cause.

Q. Why did ComEd originally propose the migration risk adjustment in the retail translation mechanism as to CPP-B service?

A. In brief, ComEd proposed the inclusion of the migration risk adjustment in order to properly assign to those customer groups who are most likely to switch the costs that wholesale suppliers who are winning bidders in the CPP-B Auction Segment will incur (and subsequently pass along) to account for potential switching on and off of CPP-B service. ComEd believed that if the migration risk adjustment were not included in the retail translation mechanism as to CPP-B service, then those with the lowest propensity to switch, namely residential and very small commercial customers, would end up subsidizing those with much greater propensities to switch.

Q. Please summarize the positions in rebuttal of those interveners who are in favor of including the migration risk adjustment in the retail translation mechanism as to CPP-B service, including with modifications.

A. CES witnesses Messrs. Domagalski and Spilky argue that the migration risk adjustment should not only be included in the retail translation mechanism as to CPP-B service, but that it should be revised in two ways. First, they continue to claim that the PPO switching component should be increased from 50% to 100%. (Domagalski / Spilky Reb., CES Ex. 6.0, lines 91-106) CUB-CCSAO witness William Steinhurst has submitted rebuttal testimony supporting that concept. (Steinhurst Reb., CUB-CCSAO Ex. 4.0, lines 1308-1321) Secondly, Messrs. Domagalski and Spilky continue to argue that the volatility measurement period be revised from an 18-month period to 6 months, but have offered an alternative based on a weighting of the six months measurement and the eighteen months measurement by two-thirds and one-third, respectively. (Domagalski / Spilky Reb., CES Ex. 6.0 lines, 163 – 169) As noted above, it remains the case that ComEd's original migration risk factor proposal is a more reasonable mechanism than the modified version proposed by CES.

Q. Please summarize the positions in rebuttal of those parties that oppose the inclusion of the migration risk adjustment in the retail translation mechanism as to CPP-B service.

A. The parties opposing the inclusion of the migration risk adjustment, BOMA through its panel witnesses Messrs. Brookover and Childress and Staff through its witness Mr. Lazare, recommend eliminating it entirely. In brief, Messrs. Brookover and Childress contend that switching behavior post-2006 will be completely different and the use of historical switching data is not appropriate, thus the model is invalid. (Brookover / Childress Reb., BOMA Ex. 4.0, lines 163-262) In brief, Mr. Lazare argues that ComEd failed to measure supplier cost of migration risk by only valuing it from the consumer's perspective as well as by not asking potential wholesale suppliers how they would

account for the cost. (Lazare Reb., Staff Ex. 14.0, lines 120-309) As noted above, in the original CPP-B scenario, ComEd's original migration risk factor proposal is more reasonable than having no such factor at all.

2. Market Cost Information - Market Energy Costs

Q. Are there any outstanding issues with respect to ComEd's proposal to utilize forward price information for the translation of CPP Auction final clearing prices into retail Supply Charges? (*See* ComEd Ex. 7.1, Original Sheet No. 278)

A. No. Staff witness Mr. Lazare has withdrawn his objections and his proposal to use historic hourly Locational Marginal Prices ("LMPs"). (Lazare Reb., Staff Ex. 14.0, lines 311-333) Dynegy witness Mr. Huddleston concurs with our proposed use of forward prices. (Huddleston Reb., DYN Ex. 1.2, lines 273-282)

3. Translation for Customers Whose Load Is Served Through the CPP-H Auction

Q. With respect to self-generating customers, IIEC witness Mr. Dauphinais continues to question the appropriateness of Rider CPP's translation of the CPP-H Auction clearing price (Dauphinais Reb., IIEC Ex. 5, lines 199 – 226), and he proposes two alternative modifications (*id*., lines 227 – 263). How do you respond?

A. As we understand his rebuttal testimony, the two modifications that Mr. Dauphinais proposes are essentially the same suggestions he made in his direct testimony. Namely, that ComEd should either (1) convert the Hourly Auction Supply Charge ("HASC") to a charge based on dollars and cents per kilowatt-day for self-generating customers or (2) create a new translation process for self-generating customers. (*See* Dauphinais Dir., IIEC Ex. 2, lines 248-256; Dauphinais Reb., IIEC Ex. 5, lines 199-226)

In his rebuttal testimony, Mr. Dauphinais offers no additional support for his preferred approach of employing a charge based on dollars and cents per kilowatt-day, other than to mention that the Ameren Corporation Illinois electric utilities intend to employ such a charge. (*Id.*, Lines 252-253) Mr. Dauphinais does not refute our statements that the proposed application of such charge to each customer's load established during the previous summer "is consistent with the determination of the auction suppliers' capacity obligations for each of ComEd's bundled service customers under PJM and, in turn, ComEd's financial responsibilities under the CPP-H Supplier Forward Contract." (ComEd Ex. 13.0, lines 604-607) Nor does he now question the appropriateness of this aspect of CPP-H Supplier Forward Contract (ComEd Ex. 3.3). Rather, Mr. Dauphinais opines that the structure of the HASC charge is unjust and unreasonable because there is a "finite possibility" that a self-generator would experience a forced outage under peak load conditions and that such customer "would be assessed substantial capacity charges for the following year." (Dauphinais Reb., IIEC Ex. 5, lines 205-207 and 216) His assertions, however, ignore the fact that in the wholesale markets administered by PJM Interconnection, L.L.C. ("PJM"), such a customer would have to experience "misfortune" on each of the five highest peaks in PJM during the previous summer. The impact of any single outage on one of the five peak days would be mitigated by good performance on the other four days. In addition, such a customer's "misfortune" (*id*., line 214) for five times in one summer would create new expectations and financial consequences for CPP-H Auction suppliers and, ultimately, ComEd during the following year. Thus, under the proposed rate structure, ComEd is merely attempting to assess the costs incurred to the cost causer.

In response to his own call in direct testimony for a "new translation process," Mr. Dauphinais proposes in his rebuttal testimony to socialize the total capacity cost of self-generating customers amongst all self-generating customers by allocating the aggregate capacity obligation for the group on a pro rata basis to each individual customer. (*Id*., lines 227-249) IIEC's proposal is tantamount to a self-insurance scheme that would spread the impact of one self-generation customer's "misfortune" over all customers. It is unclear to us why participation in such a scheme should be mandated by Commission fiat. IIEC members with generating facilities would seem fully capable of entering into such an arrangement for themselves. To force non-IIEC members that are within the Self-Generating Customer Group, such as independent power producers ("IPPs"), who may incur significant expenses to make certain that their facilities operate effectively during peak periods, into such a scheme would defy traditional ratemaking principles of cost-causation and the allocation of costs to cost-causers.

Q. In an effort to avoid the imposition of capacity costs on CPP-H customers with demand response enrolled in PJM's Active Load Management ("ALM") program and to eliminate the need for crediting through Rider CLR – Capacity-Based Load Response & System Reliability Program, Ill. C.C. No. 4, Original Sheet No. 242, et seq. ("Rider CLR"), IIEC witness Dauphinais proposes to split the load of such customers between the CPP-H Auction and direct ComEd energy acquisitions through PJM. (Dauphinais Reb., IIEC Ex. 5, lines 285-333) Should Mr. Dauphinais' proposal be adopted?

A. No. From a ratemaking perspective, we believe that Mr. Dauphinais' proposal would inject an inordinate level of complexity to address what he incorrectly views are alleged shortcomings of Rider CLR. Requiring ComEd to perform direct acquisition for

individual customers for a portion of their hourly load at the same time that it is providing CPP-H service for the other portion of the customers' load is an extremely complex undertaking that ComEd should not be expected to execute. Mr. Dauphinais asserts that his proposal "would eliminate the need for the existing inefficient Rider CLR approach," under which "customers are compelled to buy capacity they do not require" and incur the "risk that the Rider CPP capacity charges paid upfront (less ancillary service and other PJM charges) will not be equal to the refund customers later receive back under Rider CLR." (*Id*., lines 296-301)

Under Rider CLR, the incentive payments are based on the clearing price from the most recent PJM-operated Capacity Credit Auction (*See* Ill. C.C. No. 4, Original Sheet No. 243), which are typically held in the January through May time period for the upcoming planning year that begins each year in June. Thus, it is unclear whether the "Rider CLR approach" (where the fixed capacity charge would to some extent be offset by Rider CLR incentive payments) would tend to be more or less costly than IIEC's approach (where ComEd would ostensibly pass-through ancillary service and other PJM charges) and whether such customers would be advantaged or disadvantaged by such a proposal.

What is clear, however, is that the implementation of the IIEC's proposal would create an inappropriate opportunity for customers to choose between two hourly supply options, service under the CPP-H Auction or under the IIEC's proposed split-load hybrid. Because PJM Capacity Credit Auctions are typically held after the proposed January CPP auction date, these customers will likely compare the going price for capacity in the PJM auctions with the clearing price of the CPP-H Auction to determine which option would

be the better deal. Indeed, to the extent that such customers believe a PJM Capacity Credit Auction clears at a high price, there may never actually be a customer on the IIEC's option. Nevertheless, the IIEC would seemingly expect ComEd to bear the costs to implement such a proposal and stand-by in the event a customer elects the option, the costs of which may not be fully recovered (as was the case with the unbundling of metering). To the extent that the IIEC believes that Rider CLR understates the value of demand response, it should be noted that there are alternative outlets in the market.

Finally, to the extent that Mr. Dauphinais' proposal would constitute a new tariffed service for such bundled electric service customers, it may not be consistent with the provisions of Section 16-103(e) of the Act, 220 ILCS 5/16-103(e). However, that question will be explored further in ComEd's briefs, if necessary.

4. Translation for Large Load Customer Group in the Event Such Customers Are Served Through CPP-A Auction Segment

Q. Should the Commission approve the proposal to move the load of the customers in the Large Load Customer Group into the CPP-A Auction segment, how would you propose to calculate the Supply Charges for such customers?

A. We would propose to calculate separate Supply Charges for the Large Load Customer Group and Very Large Load Customer Group by applying essentially the same translation algorithms proposed for the customer supply groups whose load will be served through the CPP-B Auction segment. However, as indicated above, the migration risk factor would not be employed in the translation of prices for such customers.

H. Rider CPP – Accuracy Assurance Mechanisms

Q. Staff witness Mr. Knepler rejects ComEd's proposed changes to Original Sheet No. 269, as reflected in ComEd Ex. 13.1, because the "language improperly reduces the Commission's regulatory role of the Company's AAF [Accuracy Assurance Factor] true-up mechanism to that of a math checker which is too constraining … it is possible that ComEd may not have flowed through the appropriate costs or recoveries through Rider CPP." (Knepler Reb., Staff Ex. 18.0, lines 98-104) Similarly, Staff witness Ms. Selvaggio opines that "the Commission would arguably have no authority to investigate whether non-recoverable cost had flowed through the AAF." (Selvaggio Reb., Staff Ex. 16.0, lines 955-156) Is it correct that ComEd's proposed revisions to this tariff sheet reduce the Commission's role to that of a "math checker" or somehow limit the Commission's authority to investigate whether non-recoverable costs had been passed through the AAF?

A. No. Staff evidently misconstrues the meaning and intent of the phrase "arithmetical accuracy," as used in Original Sheet No. 269 of ComEd Ex. 13.1. It is ComEd's intention that, for the example proffered by Staff in which an expense or revenue that fit within the definitions of the AAF formulae may not have been reflected in the AAF calculation, would be covered by that phrase. Moreover, we acknowledged in our rebuttal panel testimony potential for both "accounting and computational matters." (ComEd Ex. 13.0, line 840) Thus, we believe our proposed language on Original Sheet No. 269 (which is repeated in part on Original Sheet No. 292) and our interpretation thereof are consistent with Staff's goals.

Acknowledging, however, that Staff read the same language in a different way, ComEd proposes the following clarifying language, which would be added in two

locations, i.e., at the end of the first modified paragraph appearing on Original Sheet No. 269 of ComEd Ex. 13.1, and immediately before the last sentence of the fourth modified paragraph appearing on Original Sheet No. 269 of ComEd Ex. 13.1:

> Arithmetical inaccuracy as used in this rider means: (1) computational errors in calculating a previously applied AAF; (2) inclusion of expenses or revenues when calculating a previously applied AAF that are not within the applicable equations for calculating an AAF stated in the Accuracy Assurance Mechanisms part of this rider, for the effective period during which such AAF was applied; and (3) exclusion of expenses or revenues when calculating a previously applied AAF that are within the applicable equations for calculating an AAF stated in the Accuracy Assurance Mechanisms part of this rider, for the effective period during which such AAF was applied. Nothing in the three preceding sentences of this rider authorizes or provides for refunds of charges calculated in accordance with this rider other than to correct those found to be arithmetically inaccurate.

We note that Staff's concerns about the potential inclusion of non-recoverable costs, as indicated by certain recent data request responses (ComEd-Staff 3.26, 3.27, and 3.28), appear at least in part of have been the product of a misimpression that all expenses and revenues recorded in the Accounts of the Uniform System of Accounts listed in ComEd Ex. 13.2 (Revised) would be "eligible" to flow through the AAF. That is not the case. As we indicated in our rebuttal (ComEd Ex. 13.0), and as the above proposed language indicates, only those expenses and revenues that are within the definitions and formulae for calculation of the AAF in Rider CPP will be included in that calculation. (*See also* the surrebuttal testimony of ComEd witness Kevin Waden, ComEd Ex. 22.0)

While we cannot speak for Staff, based on our understanding of Staff data request responses ComEd-Staff 3.31, 3.36, and 3.37, we believe that the above proposed language fully and fairly addresses Staff's concerns on this subject.

Q. Is ComEd willing to simply strike the following language from Original Sheet No. 269, as Mr. Knepler proposes? ((Knepler Reb., Staff Ex. 18.0, lines 80-95)

> The Company shall not be required to obtain any consent or other approval, whether prospective, contemporaneous, or retrospective, from the ICC or any other entity in order to issue bills containing such retail supply charges or in order to collect such retail supply charges.
>
> The Company shall not be required to obtain any consent or other approval, whether prospective, contemporaneous, or retrospective, from the ICC or any other entity in order to issue bills containing any such AAF or in order to collect any such AAF.

A. No. This proposed language provides the critical assurances needed to conduct a successful auction, as discussed in the surrebuttal testimony of Ms. Juracek (ComEd Ex. 17.0). Without assured cost recovery, ComEd does not believe that market participants can or will rely on the regulatory process permitting utilities to meet all of their obligations to suppliers under the Supplier Forward Contracts ("SFC"), as currently structured. As ComEd witness Dr. LaCasse stated in her direct testimony, the assurance of cost recovery is one of "eight elements of an auction process that can be together essential to determining its success." (ComEd Ex. 4.0, lines 489-514) As Dr. LaCasse indicated with respect to New Jersey:

> The *a priori* rate design and prudence determinations provide substantial assurance of cost recovery. This furthers the goal of maintaining the financial integrity of the EDCs [electric utilities]. This helps to obtain lower prices in the auction as it provides assurance that the EDCs will be able to perform under the auction contract.

(*Id*., lines 834-837) (*See also* ComEd Ex. 4.0, lines 1271-1294) Moreover, as ComEd witness Mr. McNeil stated in his direct testimony, these assurances allow ComEd to avoid the need for "regulatory out" provisions in the SFCs. (ComEd Ex. 3.0, lines 950-963) (*See also* Mr. McNeil's surrebuttal testimony, ComEd Exs. 17.0, 18.0)

For the foregoing reasons, we offer the additional, clarifying language (shown above, in the preceding Answer) to these provisions to address Staff's concerns.

Q. As part of its continued call for annual docketed reconciliation proceedings for the AAF, Staff asserts that the Commission Post-2006 Initiative Procurement Working Group's goal of transparency should be extended to annual reconciliation proceedings. (Knepler Reb., Staff Ex. 18.0, lines 216-221) Is the AAF calculation process transparent?

A. Yes, it is transparent. The revised formulae are set forth in ComEd Ex. 13.1. Moreover, the monthly AAF informational filings and annual reports will be filed with the Commission and will be available for inspection by any interested party. Indeed, it is unclear how an annual docketed proceeding could or would make the calculations any more transparent.

Q. Staff witness Mr. Knepler states that IIEC witness Mr. Collins's direct testimony "states that New Jersey requires annual reconciliations, not just workshops or open forums advocated by ComEd in this case. (IIEC Exhibit 3, pp. 14-15, lines 300-325)." (Knepler Reb., Staff Ex. 18.0, lines 221-225) Is that correct?

A. No. In fact, the words "reconcile" and "reconciliation" do not even appear in the cited passage of IIEC witness Mr. Collin's direct testimony, nor anywhere else in his testimony for that matter. In fact, it is our understanding that the New Jersey utilities do not annually reconcile their equivalents of the AAF through docketed proceedings. What Mr. Collins is speaking to in the passage cited by Staff is a completely different issue (*i.e.*, the administrative process for refining the auction process itself).

Q. Has Staff responded to ComEd's alternative proposal to ensure that a robust review of ComEd's calculations is regularly performed absent a docketed proceeding?

A. No. In our rebuttal testimony, ComEd proposed that, as part of its final Order in this proceeding, the Commission formally direct Staff to (1) review the information supplied

annually by ComEd; and (2) within six months, issue a report to the Commission regarding Staff's findings, including a recommendation regarding the need, or lack thereof, for a formal Commission investigation. (*See* ComEd Ex. 13.0, lines 831-837) Staff has not proffered any explanation as to why ComEd's proposal is unreasonable or what benefits would be obtained by automatically holding annual docketed proceedings, regardless of whether or not they are needed.

The closest Staff comes to responding to ComEd's proposal is to note that the Ameren utilities have agreed to such proceedings and that such proceedings would provide stakeholders a forum for expressing their concerns and settling disputes. (Knepler Reb., Staff Ex. 18.0, lines 226-232) ComEd cannot speak to the positive and negative considerations that the Ameren utilities may or may not have considered on this particular subject, nor to whether or to what extent they are comparable to those applicable to ComEd. We can only say that ComEd simply does not find it in the best interest of the Commission, the utility, and, more importantly, its customers, to conduct such an unnecessarily burdensome process each year whether or not the need to do so has been reasonably demonstrated. In conclusion, it should be noted, that Staff is the only party that has heretofore entered testimony on this subject and no other party has denied, much less refuted, the reasonableness of ComEd's proposal.

Q. Is ComEd willing to be held accountable for its AAF calculations through formal docketed proceedings?

A. Yes. ComEd expects and is fully prepared to be held accountable for its monthly AAF calculations, whether through a more practical review and then a docketed proceeding if determined necessary (as ComEd has proposed) or a more rigid annual docketed process

to be invoked regardless of the need for such (as Staff has proposed). Notwithstanding ComEd's opposition to Staff's proposed annual docketing process, should the Commission deem Staff's formal annual docketing process to be more appropriate for purposes of the AAF, then ComEd offers the following revisions (reflected in legislative style) to the revised tariff language Staff witness Mr. Knepler offered in his rebuttal testimony (Knepler Reb., Staff Ex. 18.0, lines 291-309):

> Annually, the Commission shall initiate a proceeding~~public hearings~~ to determine whether the AAFs~~Rider CPP~~ applied during the preceding calendar year reflect~~s~~ actual expenses incurred~~ costs~~ for the procurement of full requirements electric supply required by retail customers and to ~~reconcile~~equalize the revenues recorded with the actual expenses incurred for~~ costs of~~ the procurement of full requirements electric supply, as such expenses and revenues are defined by the formulae provided for the calculation of AAFs in this rider.
>
> ~~In conjunction with a docketed reconciliation proceeding, ComEd shall file with the Commission an annual reconciliation statement, which shall be verified by an officer of the utility. This statement shall show the difference between the following:~~
>
> ~~1) the costs recoverable through the Rider CPP during the reconciliation year, as adjusted by the AAF mechanism, and~~
>
> ~~2) the revenues arising through the application of the Rider CPP to applicable kWh during the reconciliation year~~.
>
> If the ICC in such proceeding finds arithmetical inaccuracies in one or more AAFs applied~~, after hearing, the Commission finds that ComEd has not flowed through the appropriate costs or revenues recorded from Rider CPP for such reconciliation year~~, the difference determined by the Commission shall be refunded or recovered, as appropriate, through the Factor O~~, along with any interest or other carrying charge authorized by the Commission~~.

Q. Will you briefly explain the bases for your proposed revisions above?

A. Yes. With respect to the first paragraph, we made the changes reflected above because: (1) the reference to "Rider CPP" in this context is too vague ("AAFs applied during the preceding calendar year"); and (2) "expenses incurred" is more consistent with the

language already proffered elsewhere in the tariff (ComEd Ex. 13.1) per Staff's call for an accrual accounting-based AAF (*see* Selvaggio Dir., Staff Ex. 8.0, lines 164-171; Selvaggio Reb., Staff Ex. 16.0, lines 397-405) .

With respect to the second paragraph, we deleted this paragraph, because (1) the first sentence, which pertains to the filing of verified annual reports, is already included in ComEd Ex. 13.1; and (2) the second sentence pertains to the content of such reports, and Mr. Knepler already expressed Staff's willingness to work with ComEd to develop the exact form and content of such report after the conclusion of the instant proceeding. (*See* Knepler Dir., Staff Ex. 10.0, lines 198-200)

With respect to the third paragraph, we made the changes reflected above because: (1) this language should be harmonized with the revised language to be included on Original Sheet Nos. 269 and 290, which was discussed previously; (2) "flowed through" is a bit vague for purposes of tariff language and the phrase itself is not needed, as shown above; (3) the phrase "appropriate costs or revenues recorded from Rider CPP" is vague and begs questions regarding what assurance of cost recovery ComEd actually has, as discussed previously; (4) the phrase "for such reconciliation year" does not account for the two-month lag (discussed later in our surrebuttal panel testimony) between when the costs are incurred and when the AAF is applied; and (5) the phrase "with any interest" is vague and more clearly stated in the changes ComEd offers to the definition of the "Factor O" below.

Q. Staff proposes in rebuttal, for the first time in this proceeding, to require "annual reconciliations, hearings, internal audits and reports" for proposed Rider PPO-MVM,

Rider PPO-MI and Rider TS-CPP, as well as Rider CPP. (Knepler Reb., Staff Ex. 18.0, lines 313-321)

A. We are disadvantaged by the fact that Staff has not heretofore offered any insights or details regarding its rationale for applying these requirements to proposed Rider PPO-MVM, Rider PPO-MI and Rider TS-CPP. Indeed, it is not clear to us what there is to reconcile in Rider PPO-MVM and Rider PPO-MI. With respect to Rider PPO-MVM, the Supply Charges determined through proposed Rider CPP are already subject to balancing through the proposed AAF, which is also applicable to such customers through the proposed tariff. (*See* ComEd Ex. 7.2 at Original Sheet Nos. 295 and 297) With respect to Rider PPO-MI, the existing transition period PPO rider, the algorithms set forth in that tariff employ forward market data to administratively determine the Market Value Energy Charges ("MVECS"), which are in turn applied to every kilowatt-hour of energy supplied. MVECs do not reflect ComEd's full requirements supply costs the way the Supply Charges determined under Rider CPP would. Thus, it is unclear what there is to "reconcile" under a process that is inherently disconnected from ComEd's supply costs. Moreover, MVECs are also used to determine Customer Transition Charges, which are beyond the scope of the instant proceeding. Furthermore, ComEd has proposed to terminate the effectiveness of Rider PPO-MI at the end of the transition period.

As we indicated in our direct panel testimony, the formula proposed in Rider TS - CPP is based on the formula that is used to determine the Transmission Services Charge ("TSC") in existing Rider TS – Transmission Services, 5th Revised Sheet No. 2171, *et seq.* ("Rider TS"). (ComEd Ex. 7.0, lines 1582-1583) This tariff,

which was approved in the March 28, 2003, final Order in ICC Docket No. 01-0423 and has been in operation since the June 2004 monthly billing period, the TSC determined pursuant to its provisions is currently applicable to the almost 15,000 customers on PPO today and to customers taking short-term supply service under Rider ISS – Interim Supply Service. Rider TS does not contain any provisions requiring annual reconciliation proceedings, nor were any called for during the proceeding in which it was approved. Moreover, Staff has offered no explanation of why such proceedings are warranted with respect to Rider TS-CPP. Thus, ComEd objects to such a requirement being imposed on Rider TS-CPP.

Q. With respect to the "Factor O," Staff witness Ms. Selvaggio objects to ComEd: (1) renaming this component of the AAF formulas to "A" (or "Factor A"); (2) including language that would have provided for the payment of interest in the event ComEd, "after discussions with Staff," determined there was an inaccuracy in it AAF computations; (3) employing the phrase "arithmetical inaccuracies"; (4) the determination of interest to be paid or charged; and (5) including language regarding the amortization of amounts to be recovered or refunded. (Selvaggio Reb., Staff Ex. 16.0, line 420-483) How do you respond?

A. As we stated in our rebuttal panel testimony:

> … consistent with our belief that such accounting and computational matters can be handled without the need for formal proceedings, ComEd's proposed "Factor O" provides for the payment of refunds, with interest, in the event the Commission so orders and also in the event Staff uncovers an error. Therefore, we have renamed the "Factor O" component as "A" for "Adjustment", in keeping with the possibility that corrections may not be the result of Commission order. Furthermore, Staff's proposal regarding the computation of interest was revised to extend the ending of the period for which interest is calculated from "the date of

> the Commission decision" to the date when the refund is first made to customers' through the "A" term (thereby increasing the interest payment)

(ComEd Ex. 13.0, lines 839-845) Furthermore, to address Ms. Selvaggio's claims that the interest-related provision proffered on Original Sheet No. 292 of ComEd Ex. 13.1 is "confusing," some of the more implicit goals and purposes of our proposed language should be further explained. In order to put interest calculations on an even footing for the different modes of resolution, we needed to specifically provide interest from the day the erroneous AAF was applied through the day such error would be corrected through the "A" component of the formula. In so doing, we were also able to indirectly address the inherent inconsistency in Staff's direct testimony on this matter.[1]

With respect to the calculation of interest, we believe that the language proffered in the definition of the "A" component in ComEd Ex. 13.1 more clearly articulates how interest is to be calculated and centralizes the provision in one location. Further below, we offer additional modifications to that language that would be consistent with Staff's proposed annual docketed reconciliation process, should the Commission determine such process appropriate, which we do not believe to be the case.

With respect to whether or not "A" should be changed to "O," we believe "A" is more appropriate, but we are willing to accommodate Staff by using something other than

[1] In his direct testimony, Mr. Knepler's proposed language regarding annual reconciliation proceedings that included the phrase, "along with any interest or other carrying charge authorized by the Commission," while Ms. Selvaggio's original proposed language for the proposed "Factor O" included the phrase "including interest … from the date at which the over or under recovery was improperly flowed through the AAF to the date of the Commission decision that a Factor O was warranted." (*See* Knepler Dir., Staff Ex. 10.0, lines 185-186; and Selvaggio Dir., Staff Ex. 8, lines 428-435) The inclusion of both phrases in Rider CPP would have created two conflicting provisions regarding the payment or collection of interest which could be later construed as providing for the assessment of interest twice, once as part of the Commission Order and a second time per the definition of Staff's "Factor O." Thus, in our rebuttal panel testimony, we also sought to remedy such a potentially unfair situation -- for both customers and ComEd -- by simply consolidating the provision regarding the calculation of interest in its proposed definition for the "A" component. However, Staff's rebuttal testimony is somewhat clearer on this point. (*See* Selvaggio Reb., Staff Ex. 16.0, lines 457-463)

"A". However, whether or not the name ultimately given should be "O" for "ordered" depends on the whether the Commission approves ComEd's proposed provisions of Rider CPP that would allow ComEd and Staff to initially attempt to resolve any disputes regarding the computation of the AAFs through an informal process, before engaging in formal docketed proceedings, and in conjunction with that decision, whether or not the Commission denies Ms. Selvaggio's proposed deletion of the language that would allow adjustments to be made with interest should Staff detect, and ComEd concur, that an error has been made in an AAF computation.

With respect to the language included on Original Sheet No. 292 of Exhibit 13.1 regarding the amortization of amounts to be refunded or recovered, ComEd included such language in response to Ms. Selvaggio's direct testimony. (*See* Staff Ex. 8.0, lines 433-435) However, should the Commission approve ComEd's proposed provision of Rider CPP that would allow ComEd and Staff to initially attempt to resolve any disputes regarding the computation of the AAFs through an informal process, then it would be appropriate to retain this phrase.

With respect to the phrase "arithmetical inaccuracies," our response is provided above and reflected in the revisions offered below.

Q. Do you offer any changes to the "Factor O" language that Staff witness Selvaggio has advanced in her rebuttal testimony?

A. Yes, we do. In the event the Commission does not find ComEd's proposed process for the efficient and fair resolution of computational issues to be valuable, ComEd would offer the following revisions (reflected in legislative style) to Ms. Selvaggio's proposed language (Staff Ex. 16.0, line 473-483):

Adjustment ordered by the ICC, in $, equal to an amount ordered by the ICC that is to be refunded or collected from retail customers. Such amount will~~shall~~ include interest charged at the rate established by the ICC in accordance with 83 Illinois Administrative Code Section 280.70(e)(1). Such interest is calculated by the ~~Commission~~ Company for the period of time beginning on the day that the inaccurate AAF was applied ~~date of the Commission order~~ and extending through the day ~~prior to the start of the effective period in which~~that the factor O ~~Factor~~ is applied ~~to customer bills~~.

Q. In order to afford Staff more time to review AAF informational filings, Staff proposes as an alternative that ComEd use a three-month lag period as opposed to the two-month lag period included in ComEd's proposal. (Knepler Reb., Staff Ex. 18.0, lines 127-141) Does ComEd accept this proposal?

A. Although Mr. Knepler offers this as a compromise, ComEd cannot accept his proposal to extend the lag period to three months. In light of the fact that the purpose of the AAF is to balance the several billions of dollars of revenues and expenses that will be incurred annually, ComEd has proposed a process that would minimize the lag to the shortest period practicable (*i.e.*, a two month lag). We believe it is important for both customers and ComEd to reflect the appropriate charge or credit through the AAF in as timely a fashion as possible. Therefore, ComEd believes it would be inappropriate to inject an additional month's delay into the process. Furthermore, as ComEd witness Kevin Waden discusses in his surrebuttal testimony (ComEd Ex. 22.0), ComEd and Exelon Corporation controls for the calculation and implementation of the AAFs will ensure that customer bills reflect the appropriate factors. As we indicated in our rebuttal panel testimony, such processes will result in accurate monthly AAF calculations, thereby minimizing the likelihood of such an occurrence (ComEd Ex. 13.0, lines 749-750) and eliminating the need for lengthy Staff reviews of the monthly informational filings.

Q. With respect to Staff's proposal to require ComEd to file for special permission for an untimely original information filing pursuant to Section 9-201(a) of the Public Utilities Act, 220 ILCS 5/9-201(a), Staff notes that "eliminating Commission approval in this instance would be inconsistent with the Commission's practice with respect to the current operations of other riders, i.e., the Fuel Adjustment Clause ("FAC") and the Purchased Gas Adjustment clause ("PGA")." (Knepler Reb., Staff Ex. 18.0, lines 193-198) How does ComEd respond?

A. ComEd's legal position is that it does not agree that Section 9-201(a) of the Act requires Mr. Knepler's proposal, and will address this issue further in briefs.

Q. Staff accepts ComEd's offer to provide a single annual report and a report on the results of an internal audit, but rejects the end of May due date for such reports that ComEd proposed, asserting that such date is "too far" beyond the end of the calendar year. However, Staff offers April 30 as a compromise. (Knepler Reb., Staff Ex. 18.0, lines 233-277) Does ComEd accept Staff's counter-offer?

A. Yes. Mr. Knepler offers a reasonable compromise here.

Q. Staff clarifies that the internal audit report should be filed with the Commission's Manager of Accounting and a confidential copy should be filed with the Chief Clerk. (Knepler Reb., Staff Ex. 18.0, lines 278-280) Does ComEd have any objections to such clarification?

A. No.

Q. With respect to the denominator of the AAF formulae, Staff witness Ms. Selvaggio continues to find ComEd's proposed algorithm inappropriate and suggests that a ComEd

forecast be used in its place. (Selvaggio Reb., Staff Ex. 16.0, lines 215-286) Would the use of forecasts be inappropriate?

A. While we continue to question Ms. Selvaggio's views that the use of a forecast is more easily auditable than the use of historic data and that the use of forecasts would be inherently more accurate than the use of historic data (which is the main basis for most forecasts) in the proposed algorithm, in the interests of narrowing the issues, ComEd is willing to employ forecasts in the denominator of the AAF formulas. In addition to striking the "E_{m-2}" and "E_{m-n}" terms and definitions from the algorithm itself, as Ms. Selvaggio suggests (*id*., lines 298-304), ComEd offers the following revisions to Ms. Selvaggio's proposed forecast term and definition (*id*., lines 305-306):

> U = ~~Forecasted Customer~~ Usage forecasted, in M~~k~~Wh, to be ~~to be~~ provided~~Billed~~ to applicable retail customers during the e~~E~~ffective period~~Month.~~

For the most part, the revisions offered above are made to conform the term and definition to ComEd's proposed tariff (ComEd Ex. 7.1 as revised by ComEd Ex. 13.1). The issue of using "billed" (versus "provided") is discussed directly below. It should also be noted, that monthly informational filings containing forecasts will include the necessary legal caveats and qualifications regarding possible wholesale supplier reliance on such forecasts and any legal liabilities that might entail.

Q. Staff witness Ms. Selvaggio suggests that the use of the word "provided," as used on Original Sheet Nos. 246, 291, 292, 293 and 296 of proposed Rider CPP (ComEd Ex. 13.1) and Rider PPO, should be replaced with the word "billed" because it implies that ComEd will prorate AAF charges and credits and proration is unwarranted. (Selvaggio Reb., Staff Ex. 16.0, lines 307-346) Do you accept Staff's proposed changes?

A. No. As ComEd indicated in ComEd's response to Staff Data Request MS 1.02, which pertained to the AAF, "[i]t is not ComEd's intention to bill the AAF charge under Rider CPP on a prorated basis." Contrary to Ms. Selvaggio's assertions, such changes are neither "consistent" with ComEd's response to Staff Data Request MS 1.01 (*id*., lines 344-346), which actually pertained to Rider PPO-MVM, nor ComEd's response to Staff Data Request MS 1.02, which states in relevant part:

> ComEd does not see the need for such changes and, therefore, is not amenable to making them. Further responding, ComEd notes that customers are "billed" for the kilowatt-hours "provided" (or "supplied" or "delivered") in a monthly billing period by applying the applicable charges to such kilowatt-hours in the normal bill preparation process that occurs shortly after the end of the monthly billing period in which such service was rendered. That is, "billing" is performed on a scheduled monthly billing cycle basis <u>after</u> the services are provided. ComEd has not heretofore encountered any issue with respect to the use of words such as "provided" (or "supplied" or "delivered"), the use of which is prevalent in ComEd's existing tariffs.

The terms "provided," "supplied" and, more recently, "delivered" have been used for decades. Moreover, as addressed in the surrebuttal testimony of ComEd witness Mr. Waden (ComEd Ex. 22.0), the word "billing" is inconsistent with accrual method of accounting that Staff seeks to implement.

Q. Staff witness Ms. Selvaggio proposed several changes to the introductory paragraph in the Customer Demand and Usage ("CDU") Factor section of Rider CPP (ComEd Ex. 13.1, Original Sheet No. 291). (Selvaggio Reb., Staff Ex. 16.0, lines 369-418) How do you respond to her proposed changes?

A. First, Ms. Selvaggio believes that "the phrase, 'based on changes in such customers' actual usage and demands on the Company's system,' obfuscates the meaning of the sentence and is unnecessary", and she offers a new, clarifying sentence: "The resulting

over/under recovery that will be refunded/recovered through the application of the CDU Factor is caused by Changes in customers' actual usage and demand patterns from the historic class usage and demand patterns used in the translation algorithm." (*Id.*, lines 374-382) As shown below, we can accept the later part of her proposed sentence, the phrase that provides greater detail with respect to the purpose of the CDU Factor, but reject the former part of the sentence, as it is redundant.

Second, Ms. Selvaggio proposes that the word "balance" be changed to "reconcile." In light of the fact that we have already changed the phrase "balanced with" to "equal" in the opening paragraph under the Accuracy Assurance Mechanism part per her suggestion (*see* ComEd Ex. 13.0, lines 936-937; and ComEd Ex. 13.1, Original Sheet No. 291), we believe it would be more appropriate to maintain consistent terminology when referring to the CDU Factor and suggest the word, "equalize."

Ms. Selvaggio's last suggested revision to this paragraph concerns the use of the word "received" in the phrase, "revenue received." Ms. Selvaggio opines that the use of this word connotes a "cash basis of accounting" and that the components of the CDU Factor formula should be on the same accrual basis of accounting. (*Id.*, lines 399-405) ComEd agrees. As we indicated in our rebuttal panel testimony, the new revenue term, "AR," in the CDU Factor formula itself, employs the accrual method of accounting. (ComEd Ex. 13.0, lines 878-880; and ComEd Ex. 13.1, Original Sheet No. 292) Thus, there is no ambiguity to resolve here regarding the operation of the CDU Factor formula or the AR Factor.

Based on the foregoing, we offer the following changes to the introductory paragraph in the Customer Demand and Usage Factor section (ComEd Ex. 13.1, Original Sheet No. 291):

> The purpose of the Customer Demand and Usage Factor (CDU) is to periodically equalize~~balance~~ the revenues ~~received~~ from retail customers for full requirements electric supply procured for them by the Company~~, based on changes in such customers' actual usage and demands on the Company's system, with~~ and the expenses incurred by the Company for procurement of such supply, as a function of the contract terms and prices determined in accordance with the CPP, in order to address the differences that may exist between actual usage and demand patterns and the historic usage and demand patterns used in the equations in the Translation to Retail Charges part of this tariff.

Q. Staff witness Ms. Selvaggio suggests that the phrase "net of uncollectibles" in the "AR" component of the CDU formula be deleted because the "AAF mechanism should not be complicated by guaranteeing the recovery of uncollectible accounts." (Selvaggio Reb., Staff Ex. 16.0, lines 307-346) Staff witness Mr. Struck also reaches this conclusion. (Struck Reb., Staff Ex. 17.0, lines 177-180) How do you respond?

A. It was never ComEd's intention to true-up or "track" uncollectibles using the AAF, and our inclusion of the phrase "net of uncollectibles" should not be construed as implicit support for the recommendations of CES witnesses Messrs. Domagalski and Spilky relating to this subject (CES Ex. 3.0, lines 674-676). Rather, our intention for including the phrase was to clarify, for Staff, that ComEd did not intend to true up supply-related uncollectibles expenses through the AAF. As further explained in the surrebuttal testimony of ComEd witness Mr. Waden (ComEd Ex. 22.0), this phrase can be stricken from ComEd Ex. 13.1, which we would propose in light of the confusion.

Q. Staff witness Ms. Selvaggio proposes that "transmission costs recorded in Account 566, Miscellaneous Transmission Expense, should not be recovered through the AAF, but through Rider TS-CPP," noting that only "power supply costs" and the "incremental cost of contingency power supply costs" should be reflected in the AAF. (Selvaggio Reb., Staff Ex. 16.0, lines 497-504) Do you agree?

A. No. It is unclear whether Staff is suggesting (a) that expenses recorded in Account 566 should be reflected in Rider TS-CPP or (b) whether only "power supply costs" (i.e., no ancillary transmission costs) should be reflected in the AAF. Therefore, we respond to both possible suggestions.

As indicated in the Competitive Procurement Process part of Rider CPP (ComEd Ex. 7.1), the basic purpose of the auction is to procure full requirements electric supply. As indicated in the definition of full requirements electric supply on Original Sheet No. 246 of Rider CPP, providing or supplying full requirements electric supply includes, among other things, "the responsibility to arrange for, acquire, and pay for those transmission services and ancillary transmission services specified in the applicable Supplier Forward Contract." The specific transmission and ancillary services that suppliers must provide are outlined in the three Supplier Forward Contracts ("SFCs"). (ComEd Ex. 3.1, 3.2, and 3.3) Because such services are rolled into the single market clearing price for any given auction product, along with energy and capacity, the expenses for these services cannot (and should not be) be unbundled and reflected in Rider TS-CPP. Thus, ComEd is generally unable to perform the calculations that would be required to attempt to implement Ms. Selvaggio's suggestion.

There is one exception, however, concerning hourly-priced energy service. In the event ComEd procures full requirements electric supply to serve hourly service customers directly from PJM-administered markets (i.e., ComEd does not hold the CPP-H Auction), then ancillary transmission service costs will be reflected in proposed Rider TS-CPP for hourly service customers – not through the Hourly Auction Supply Charge or, in turn, the AAF. (*See* ComEd Ex. 7.3, Original Sheet No. 299; and ComEd Ex. 7.1, Original Sheet No. 290) Thus, when such charges are consistently isolated, as they would be in this scenario, it is ComEd's intention to reflect them through Rider TS-CPP.

As ComEd witness Mr. Waden explains (ComEd Ex. 22.0), only in the event of an auction supply contingency would ancillary transmission expenses recorded in Account 566, Miscellaneous Transmission Expense, be reflected in the AAF. In the unlikely event of a contingency, such as a supplier default, ComEd will procure such services through PJM-administered markets for a length of time that will depend primarily on when the default occurs. For ratemaking purposes, ComEd seeks to reflect such expenses in both the Contingency Factor ("CF") and CDU Factor computations as applicable in order to maintain parity with the expenses incurred from other suppliers through the auction, avoid unnecessary fluctuations in both the AAF and Rider TS-CPP, and generally avoid additional complexity in both tariffs.

III. Matters Concerning Proposed Rider PPO-MVM (ComEd Ex. 7.2)

A. Supply Administration Charge

Q. CES witnesses Messrs. Domagalski and Spilky continue to suggest that as part of the instant proceeding, the Commission should address "the types of costs which should be

included, the proper allocation method, and the manner in which the [Supply Administration Charge] is to be set," but defer the determination of the "actual charge and the actual allocation" to the upcoming ComEd rate case. (Domagalski / Spilky Reb., CES Ex. 6.0, lines 453-458) Is their view one that should be adopted?

A. We continue to believe that it would be counterproductive to attempt to set, even at a broad conceptual level, the types of costs, allocation method, and manner in which the Supply Administration Charge should be assessed (e.g., on a per customer or a per kilowatt-hour basis) without the benefit of the robust review of costs and allocations that the upcoming rate case will provide. We believe Staff concurs with this position. (*See* Struck Reb., Staff Ex. 17.0, lines 51-53)

Furthermore their assertion that "ComEd may have to make further changes to tariff language" in 2006, should the Commission later alter the language ComEd has offered in the placeholder, is baseless. (Domagalski / Spilky Reb., CES Ex. 6.0, lines 461-464) A review of the placeholder for the Supply Administration Charge on Original Sheet No. 295 of proposed Rider PPO-MVM (ComEd Ex. 7.2, as modified in ComEd Ex. 13.0) will dispel any concerns, as the language offered therein is sufficiently broad to accommodate any form of charge that the Commission may determine.

Q. Staff witness Mr. Struck proposes that the Supply Administration Charge section of proposed Rider PPO-MVM be revised per the language ComEd offered in its response to Staff Data Request SAS 1.04. (Struck Reb., Staff Ex. 17.0, lines 55-93) Do you accept these changes?

A. Yes.

Q. Staff witness Mr. Struck opines that "supply-related uncollectible costs should be handled through a charge separate from the supply charge that come from Rider CPP," suggesting that such uncollectibles be recovered through a separate charge or by including such uncollectibles in the Supply Administration Charge. (Struck Reb., Staff Ex. 17.0, lines 146-169) Do you concur with either of these suggestions?

A. No. Mr. Struck's proposal apparently is premised on the mistaken belief that ComEd is seeking to "track" supply-related uncollectible costs through the AAF. (*Id*., lines 148-154) As discussed above, ComEd included the phrase "net of uncollectibles" to clarify that ComEd did not intend to true up uncollectible expenses through the AAF. The second premise of Mr. Struck's proposal is that his proposal would "more clearly separate" the "pass-through" from the "non-pass-through" components. (*Id*., lines 159-162) However, ComEd witness Mr. Waden in his surrebuttal testimony (ComEd Ex. 22.0) speaks to how simply a supply-related uncollectible expense ("non-pass-through") can be separated from the supply-related revenues ("pass-through") as part of the AAF calculations. Thus, there is no need to change the structure of the uncollectible adjustment.

Q. Staff witness Mr. Struck states that a "true-up like the one proposed by CES [witnesses Messrs. Domagalski and Spilky] is not necessary for the Supply Administration Charge." (Struck Reb., Staff Ex. 17.0, lines 193-194) Do you have any views on this matter?

A. In the instant proceeding, ComEd has not proposed to "true-up" the costs underlying the Supply Administration Charge to be determined in the upcoming rate case through the AAF. Whether such costs should or should not be "trued-up" through other rate

mechanisms is a matter that should be reserved for, and addressed in, the rate case that ComEd intends to file shortly.

B. Supply Charge

Q. Are there any outstanding issues with respect to Staff Witness Mr. Struck's proposed changes to the description of the Supply Charge in Rider PPO-MVM and your response thereto?

A. No. Mr. Struck does not take issue with respect to the new language we offered in our rebuttal panel testimony in response to his proposed changes to the description of the Supply Charge in Rider PPO-MVM. (Struck Reb., Staff Ex. 17.0, lines 138-142)

IV. Matters Concerning Rider PPO-MI (ComEd Ex. 7.4)

Q. Messrs. Brookover and Childress' again assert that Rider PPO-MI "is a wise 'check' against the untried auction process." (Brookover / Childress Reb., BOMA Ex. 4.0, lines 295-298) Do you have anything further to offer on this subject?

A. Yes. We first note that the auction process is clearly not "untried," given its success in New Jersey as discussed by other witnesses. (*See, e.g.*, ComEd Ex. 3.0) Second, we note the rebuttal testimony of Staff witness Mr. Zuraski, who states:

> (1) The proposed auction process and translation tariffs "are more likely to represent the 'market value' of power and energy" than the administratively determined Rider PPO-MI (Zuraski Reb., Staff Ex. 12.0, lines 570-592);
>
> (2) In light of the time spent in previous cases deciding the mechanics of the index, "[t]here is no reason to expect the PPO-MI approach is more accurate than a direct assessment by auction suppliers" (*Id*., lines 600-604);
>
> (3) Rider PPO-MI "should not be used … for the purpose of capping rates" (*Id*., lines 636-639); and
>
> (4) "[I]f a separate mechanism is used to assess market value and potentially prohibit recovery in retail rates of the auction-based wholesale costs though

application of a market cap … the Commission may find itself faced with arguments that it has improperly disallowed recovery of FERC-approved wholesale power costs" (*Id*., lines 682-687).

ComEd's position remains unchanged. Rider PPO-MI should be terminated at the end of the transition period.

V. Other Matters

A. Staff's Rate Increase Mitigation Proposal

Q. Have any new issues been raised with respect to Staff witness Mr. Lazare's proposed mitigation plan?

A. Although Mr. Lazare has not raised any new issues (Lazare Reb., Staff Ex. 14.0, lines 335-359), CCG witness Mr. Smith (Smith Reb., CCG Ex. 2.0, lines 82-192) and Dynegy witness Mr. Huddleston (Huddleston Reb., DYN Ex. 1.2, lines 255-272) have expressed questions or concerns regarding the implementation of Staff's proposed mitigation plan.

Q. CCG witness Mr. Smith (Smith Reb., CCG Ex. 2.0, lines 106-192) and Dynegy witness Mr. Huddleston (Huddleston Reb., DYN Ex. 1.2, lines 255-272) both express concern regarding the uncertainty surrounding the ultimate Supply Charges that would be applied to customers subject to the rate mitigation proposal and the impact such charges would have on customer switching. Both witnesses caution the Commission regarding the impact that additional risk would have on clearing prices. (*Id*.) How do you respond?

A. To mitigate suppliers' concerns in this regard, ComEd would make available a spreadsheet that, like the spreadsheet for the retail translation mechanism itself, would enable bidders to translate an assumed market clearing price into the final, post-mitigation Supply Charges for CPP-B Auction customers. This spreadsheet would

be made available at the same time as the retail translation mechanism spreadsheet for suppliers to use in whatever manner they see fit during the auction process.

Q. Are there any outstanding issues with respect to Mr. Lazare's initial proposal that the current residential space heating customers maintain the current declining block rate? (Lazare Dir., Staff Ex. 6.0, lines 267-270 and 500-504)

A. No. Mr. Lazare accepted our proposal in rebuttal to retain the proposed flat rate structure. (Lazare Reb., Staff Ex. 14.0, lines 353-356)

Q. Have you provided specific tariff language in this testimony to implement Staff's rate mitigation proposal?

A. No. If the Commission adopts Staff's proposal, then ComEd will file appropriate tariff language in its compliance filing subsequent to conclusion of this proceeding.

B. <u>Elimination of Rider ISS</u>

Q. BOMA witnesses Messrs. Brookover and Childress maintain their position that ComEd must or should be required to continue Rider ISS post-2006, opining that "the CPP-H auction does not provide an attractive 'safe harbor'" and that as a result "Consumers may be forced into an unwise procurement choice by rushing their decision." (Brookover / Childress Reb., BOMA Ex. 4.0, lines 467-471) How do you respond?

A. We note again that ComEd has not filed to cancel or modify Rider ISS - Interim Supply Service, Ill. C.C. No. 4, 3rd Revised Sheet No. 152, *et seq*., ("Rider ISS") as part of the instant proceeding and that BOMA has not proposed any change in Rider ISS.

In addition, as we indicated in our rebuttal panel testimony, a separately structured Rider ISS is no longer necessary or appropriate because the post-2006 bundled

electric service rates will provide the necessary service that Rider ISS provides today. The retail customer switching rules as proposed in Rider CPP, provide an exception to the twelve-month hold on bundled electric service related to the CPP-B Auction Segment in the circumstance that a customer is switched from delivery service to such bundled service as a direct result of the customer's RES ceasing to do business as a RES in ComEd's service territory. We further note that customers served through the CPP-A Auction segment are fully capable of managing any risks of default through their dealings and arrangements with alternative suppliers. Finally, as we indicated in our rebuttal panel testimony, Rider ISS is a service that ComEd has voluntarily been offering in its current structure during the transition period. ComEd is not willing to offer this service as a separately priced product after the end of the transition period.

C. Nonresidential Space Heating Customers

Q. In an effort to support their proposal to exempt Rider 25 customers from distribution facilities charges in ComEd's delivery services tariffs, BOMA witnesses Messrs. Brookover and Childress claim that "[t]he cost basis for an exemption from demand charges has not changed merely because ComEd is unbundling its supply and delivery charges." (Brookover / Childress Reb., BOMA Ex. 4.0, lines 93-94) Is that correct?

A. No. We have thoroughly rebutted this point in our rebuttal panel testimony. (*See* ComEd Ex. 13.0, lines 1252-1259) However, BOMA appears to have abandoned this defense of its proposal, noting in the same breath that "cost-causation is not an absolute standard" and proceeding to draw comparisons to Staff witness Mr. Lazare's rate mitigation proposal. (Brookover / Childress Reb., BOMA Ex. 4.0, lines 953-94) ComEd

continues to oppose BOMA's attempt to obtain free delivery for eight months out of twelve each year. Proper cost causation principles and sound ratemaking indicate that no customer group is entitled to such treatment and it should not be afforded to former Rider 25 customers either.

Q. Although it would prefer that nonresidential space heating customers be exempted from distribution facilities charges, BOMA asserts that if its proposal is rejected and Mr. Lazare's rate mitigation proposal is adopted, then a "separate subgroup for which nonsummer supply charges are mitigated" should be included. (Brookover / Childress Reb., BOMA Ex. 4.0, lines 115-127) Do you agree?

A. No. With respect to space heating customers whose load is served through the CPP-A Auction Segment, it should be noted that Mr. Lazare limited his rate mitigation proposal to customers served through the CPP-B Auction segment (Lazare Dir., Staff Ex. 6.0, lines 464-469) because, among other reasons, "it would not make sense to have customers in one auction subsidize power costs paid by customers in another auction" and "would add an unneeded level of complexity to the process" (*id.*, lines 427-431) We believe that this is an essential element of Mr. Lazare's proposal and that it must be maintained.

With respect to customers served through the CPP-B Auction segment, it should be noted that Mr. Lazare attributes the perceived need to mitigate rate impact for residential space heating customers to the proposed realignment of such rate class through the proposed Customer Supply Groups. (Lazare Dir., Staff Ex. 6.0, lines 248-253) Unlike residential space heating customers, which are served under Rate 14 – Residential service – Space Heating Customers, Ill. C.C. No. 4, Original Sheet

No. 34, et seq., nonresidential space heating customers have never been identified through a separate rate class or subclass. Rather, in ComEd's prior bundled rate cases, the electric space heating consumption of Rider 25 customers was included as a type of usage that was a component of multiple nonresidential rate classes. As a specific end use for nonresidential customers, it is no more deserving of unique treatment than any other nonresidential end use. BOMA's request for separate treatment of Rider 25 customers within a rate mitigation plan for the CPP-B Auction segment should be denied.

D. Credit Risk and Other Administrative Costs

Q. Have CES witnesses Messrs. Domagalski and Spilky offered any additional support for their proposal to allocate additional costs, including credit risk and other administrative costs, to customers whose load is served through the CPP-H Auction or responded to your panel rebuttal testimony? (*See* Domagalski / Spilky Dir., CES Ex. 3.0, lines 497-533)

A. For the most part, Messrs. Domagalski and Spilky merely recap their proposal in their panel rebuttal testimony without providing any additional analytical support. (*See* Domagalski / Spilky Reb., CES Ex. 3.0, lines 469-487) They do, however, express concern regarding the uncertainty and amount of time they will have to educate customers and they suggest that "the basic cost definitions and mechanics of the tariffs should be addressed in this proceeding." (*Id.*, lines 501-508) We respond to their concerns by noting that the charges to be included in Rider PPO-MVM have been well articulated and mirror, in many respects, the charges set forth in exemplar Rate BES-NRB (ComEd Ex. 7.5). Thus, CES has some insight as to tariff structure. Moreover, as we stated above with respect to the Supply Administration Charge, it would

be counterproductive to attempt to set broad guidelines for the calculation of such charges outside of a rate case. Indeed, it is unclear what benefit the determination of such guidelines in the instant proceeding would be to CES, as the values themselves would seem to be what is most important. Last, the rate case, which is the proper venue to address these issues, will likely be completed in the summer of 2006, providing CES and ComEd several months to educate customers.

E. <u>Integrated Distribution Company</u>

Q. In their panel rebuttal testimony, Messrs. Domagalski and Spilky reiterate their proposal to initiate a separate docketed proceeding for consideration of any new communication materials related to the procurement process because ComEd is an Integrated Distribution Company ("IDC"). (Domagalski / Spilky Reb., CES Ex. 6.0, lines 529-537) Do you agree that such a proceeding is necessary?

A. No. As a Commission-approved IDC, ComEd is fully cognizant of the restrictions regarding marketing and attempts to retain customers that are imposed upon it -- and of the strict "three-strikes and you're out" provision, which if violated could require ComEd to functionally separate. ComEd will continue to take the necessary measures to ensure that its actions comport with the restrictions set forth in the Commission's rule. (*See, e.g.*, 83 Illinois Administrative Code Sections 452.240 and 452.320) A formal Commission proceeding to evaluate, and to litigate, the contents of proposed communication tools would be burdensome and unworkable.

Q. Does this conclude your surrebuttal panel testimony?

A. Yes.