

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY)	
)	
Proposed general increase in electric rates,)	No. 05-0597
general restructuring of rates, price unbundling)	
of bundled service rates, and revision of other)	
terms and conditions of service)	

Rebuttal Testimony of

ALAN C. HEINTZ

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Brown, Williams, Moorhead & Quinn, Inc.

On Behalf of
Commonwealth Edison Company

January 30, 2006

1 Q. Please state your name, title and business address.

2 A. My name is Alan C. Heintz. I am a Vice President of Brown, Williams, Moorhead &
3 Quinn, Inc. (“BWMQ”). My business address is 1155 15th Street, NW, Suite 400,
4 Washington, DC 20005.

5 Q. What is the purpose of your rebuttal testimony?

6 A. I previously filed direct testimony on behalf of Commonwealth Edison Company
7 (“ComEd” or the “Company”), which testimony (ComEd Ex. 11.0) presented the
8 Company’s embedded cost of service study (“ECOSS”) (ComEd Exs. 11.1 and 11.2).
9 My rebuttal testimony addresses the direct testimony of several witnesses for intervenors
10 who commented on ComEd’s ECOSS. These witnesses are:

- 11 • IIEC witness Alan Chalfant (IIEC Exs. 2.0 and 2.2)
- 12 • BOMA witness David W. McClanahan (BOMA Ex. 2.0)
- 13 • CUB-CCSAO witness Steven W. Ruback (CUB-CCSAO Ex. 3.0)
- 14 • CTA witness Dennis Anosike (CTA Ex. 1.0)
- 15 • Staff witness Peter Lazare (Staff Ex. 6.0 Public)

16 Q. Please comment on the portions of the testimony of IIEC witness Alan Chalfant (IIEC
17 Ex. 2.0) that relate to ComEd’s ECOSS.

18 A. While stating that ComEd’s ECOSS “generally follows well accepted principles
19 concerning cost causation...,” Mr. Chalfant takes exception in one area—the fact that the
20 study does not “reflect the concept of a minimum distribution system.” (*See* IIEC
21 Ex. 2.0, 9:161-162, 13:253-254). Mr. Chalfant also is concerned about ComEd’s

22 proposed combination of all loads over 1,000 kW (not served at 69 kV or above) into a
23 single “Very Large Load” class. Mr. Chalfant claims that his analysis shows a lower
24 average cost attributable to the over 10,000 kW class compared to the other members of
25 the Very Large Load class. (*Id.*, 12:236-239).

26 Q. Please discuss the minimum distribution system issue.

27 A. The cost causation methodology underlying ComEd’s ECOSS, which has been accepted
28 by the Commission since at least the first delivery service case in Docket No. 99-0117 in
29 1999, does not incorporate the results of a minimum distribution system analysis. That
30 is, the distribution plant accounts numbered 364 through 368¹ (and associated expenses),
31 where not directly assigned, are allocated to classes on non-coincident peak (“NCP”) or
32 coincident peak (“CP”) demands, because demands are the primary factor causing cost
33 incurrence. Mr. Chalfant argues that some portion of these distribution related costs
34 should be identified as being caused merely by the existence of customers, and this
35 portion of distribution costs should be allocated to customer classes on the basis of
36 number of customers. (*See* IIEC Ex. 2.0, 14:284-285). The result of such a revised
37 allocation methodology would be: “More costs are allocated to small customer classes
38 such as Residential and less costs are allocated to large customer classes such as the Very
39 Large Load class.” (*See Id.*, 15:297-298). Mr. Chalfant requests that the Commission
40 require ComEd to recognize a minimum distribution component in its *next* delivery

¹ Alan Chalfant in his testimony includes Account 369 – Services in the specific costs that he said that ComEd allocates on the basis of demand. (IIEC Ex. 2.0, 14:284-288). This is not accurate. In ComEd’s ECOSS, Account 369 costs are in the “Services” subfunction and are allocated to customer classes based on weightings of services as described in ComEd’s response to a data request by Peter Lazare of the Illinois Commerce Commission Staff (PL 3.32). The “Services” costs are part of the customer-related costs shown in ComEd Ex. 11.1, Sch. 2a, pp. 11-12, line 223.

41 service rate case or provide the basis for such an allocation by providing either a
42 minimum system study or a zero intercept analysis. (*See Id.*, 15:304-307).

43 Q. Does BOMA witness McClanahan also testify on this issue?

44 A. Yes. Mr. McClanahan offers essentially the same observations on the issue as
45 Mr. Chalfant. (*See BOMA Ex. 2.0*, 12:260-14:306).

46 Q. Has the Commission recently addressed the issue of a minimum distribution system?

47 A. Yes. In Docket Nos. 99-0121 and 00-0802, Ameren proposed to employ the zero-
48 intercept method of identifying the portion of distribution costs said to be related to
49 connecting customers to the system, so that these costs could be allocated to customer
50 classes on a basis other than demand and charged through a customer charge. *See* Docket
51 No. 00-0802, Order. Staff opposed the attempt to separate common distribution costs
52 into customer and demand components. The Commission agreed with Staff, finding that
53 “a utility’s system is designed in an integrated manner to deliver electricity to customers
54 in quantities to meet all customer demands and individual components of the system
55 cannot be identified for purposes of connecting customers only.” Further, “[i]n the
56 Commission’s view, Staff’s method is consistent with the fact that distribution systems
57 are designed primarily to serve demand, and the Commission agrees with Staff that
58 attempts to separate the costs of connecting customers to the electric distribution system
59 from the costs of serving their demand remain problematic.” *See Id.*, p. 42.

60 Q. Are Mr. Chalfant’s and Mr. McClanahan’s recommendations appropriate?

61 A. No. The Commission should deny Mr. McClanahan’s proposal that FERC accounts 364-
62 370 be analyzed to segregate customer-related and demand-related components.

63 Likewise, the Commission should deny Mr. Chalfant's proposal that the Company should
64 recognize a minimum distribution system in its next delivery services rate case or prepare
65 a study that would provide the basis for the recognition of a minimum distribution
66 concept. This issue has been fully analyzed by the Commission in the above-noted
67 Ameren dockets and no new information has been brought before the Commission that is
68 likely to change its conclusion as expressed in the orders in those dockets.

69 Q. Please comment on Mr. Chalfant's concerns about ComEd's proposal to aggregate into
70 one class all General Service loads over 1,000 kW, not served at 69 kV or above.

71 A. Mr. Chalfant prepared a study, summarized in IIEC Exhibit 2.2, wherein he estimated the
72 unit costs of the four General Service classes that ComEd proposes to aggregate into a
73 single class. Mr. Chalfant claims that this study reveals that unit costs of the over
74 10,000 kW class are less than the other three classes. Assuming, *arguendo*, that
75 Mr. Chalfant's study is evidence of some cost differences among the four GS classes
76 comprising the proposed "Very Large Load" class, ComEd does not agree that
77 Mr. Chalfant's study, *per se*, is determinative of whether there should be a separate
78 class for the over 10,000 kW loads not served at 69 kV or above. I also point out that
79 Mr. Chalfant, in his testimony, has not actually requested that the Commission reject
80 ComEd's proposal to include the over 10,000 kW customers in the Very Large Load
81 class.

82 However, ComEd has decided to prepare an embedded cost of service study with the over
83 10,000 kW customers in a separate class, and the results of this illustrative study are
84 provided in ComEd Exhibit 25.1. As noted in Paul Crumrine's rebuttal testimony,
85 ComEd Exhibit 23.0, if the Commission determines that it is necessary to maintain the

86 over 10,000 kW rate class, the rates should be determined using the information provided
87 in ComEd Exhibit 25.1.

88 Q. Do you have any additional comments on Mr. Chalfant's direct testimony?

89 A. Yes. Mr. Chalfant discusses the amount of ComEd's General and Intangible Plant
90 ("G&IP"). (IIEC Ex. 2.0, 7:125-137). In this discussion, he quotes, selectively and out
91 of context, from my direct testimony. (ComEd Ex. 11.0, 14:300-306). I wish to state for
92 the record that my testimony did not address the issue Mr. Chalfant is discussing—the
93 absolute or relative amounts of as-filed G&IP. Rather, the portions of my testimony
94 referenced by Mr. Chalfant related only to alternative methodologies for functionalizing
95 G&IP in an embedded cost of service study. In my view, there is nothing in my
96 testimony that supports Mr. Chalfant's contention that ComEd's filed G&IP is in some
97 way too large.

98 Q. Please comment on the testimony of CUB-CCSAO witness Steven W. Ruback (CUB-
99 CCSAO Ex. 3.0).

100 A. Mr. Ruback proposes two changes to ComEd's filed ECOSS. First, he recommends that
101 the Commission change the way distribution plant and related costs are allocated to
102 classes. Second, he proposes that the Commission adjust downward, or discount, the rate
103 of return applicable to rate base allocated to the residential class, to account for an alleged
104 risk differential.

105 Q. Please discuss Mr. Ruback's proposal on allocation factors.

106 A. Consistent with the previous embedded cost studies filed by ComEd, the current ECOSS
107 uses class NCP and CP demands to allocate distribution costs. ComEd's allocation

108 methodology reflects the Company’s belief that interclass revenue allocation should be
109 based on the principle of *cost-causation*. ComEd’s allocation methodology also reflects
110 the Commission’s position, as discussed above and embodied in two recent Ameren
111 orders, that “distribution systems are designed primarily to serve demand.” Mr. Ruback
112 proposes that the Commission abandon its consistent adherence to this long-standing
113 methodology based on cost-causation in favor of an allocation methodology that gives
114 significant weight to the kilowatt-hour (“kWh”) consumption by class. Specifically,
115 Mr. Ruback proposes to replace the NCP and CP allocators used in the ECOSS with
116 allocators he identifies as “Peak and Average” (“P&A”) allocators. Mr. Ruback creates
117 these by equally weighting each class’s share of kWh consumption (as provided in
118 ComEd’s filed ECOSS) with each class’s share of NCP or CP, as the case may be. The
119 effect is arbitrarily to shift distribution-related costs away from the residential class.

120 Q. Why do you say the shift is arbitrary?

121 A. The shift is arbitrary because Mr. Ruback’s allocation methodology is simply an arbitrary
122 weighting of demand and volumetric factors that no longer reflect cost causation; rather,
123 they purport to represent, in some vague and unspecified manner, non-cost
124 considerations.

125 Q. Please comment on Mr. Ruback’s second proposed adjustment—an alleged risk
126 adjustment to the ROR used to calculate the return on residential rate base.

127 A. Mr. Ruback proposes that the target ROR for the Residential class be set at 97.5% of the
128 system average ROR. (*See* CUB-CCSAO Ex. 3.0, 29:601-603). There are two problems
129 with this proposal. First, there is no evidence offered to support the allegation that the
130 Residential class is less risky than all other classes. Second, not one iota of evidence is

131 offered to support the specific discount of 2.5% that is proposed. Thus, the proposition
132 and its method of implementation are pure speculation on Mr. Ruback's part. I
133 recommend that the Commission reject the adjustment because it is totally without
134 foundation.

135 Q. Please summarize your view of Mr. Ruback's proposals.

136 A. Both of Mr. Ruback's proposals—the P&A methodology and the ROR discount for
137 Residential customer—are, in my opinion, simply artificial devices that are “results-
138 driven.” Mr. Ruback's desired result is simply to reduce the interclass allocation
139 produced by the ECOSS, and these are two convenient, but unsubstantiated, means of
140 achieving that result. The Commission has for many years accepted, indeed, relied upon,
141 the NCP and CP methodology incorporated in the ECOSS. Mr. Ruback's arbitrary and
142 unsupported proposals to change that allocation methodology should be rejected. I also
143 note that the proposed changes in ECOSS offered by Mr. Ruback and Mr. Chalfant
144 constitute a “tug of war,” the main purpose of which is to shift costs away from (Ruback)
145 or to (Chalfant) the Residential class. ComEd's position is that the ECOSS, as filed,
146 reflects the Commission's careful review over several recent proceedings of its many
147 components and its underlying cost allocation methodology. ComEd also notes that Staff
148 has proposed no changes in ECOSS. Indeed, with respect to ComEd's ECOSS, Staff
149 witness Peter Lazare states: “I have found no issues that would prevent its acceptance for
150 ratemaking in this case. Further, it is consistent with studies approved by the
151 Commission in previous DST rate cases.” (*See* Staff Ex. 6.0 Public, 36:878-880).

152 Q. Do you have other comments on Mr. Ruback's testimony?

153 A. Yes. I have two additional comments on Mr. Ruback's testimony. First, in the context of
154 his discussion of certain supply administration costs, Mr. Ruback has inaccurately
155 attributed certain testimonies to me. (*See* CUB-CCSAO Ex. 3.0, 15:301-304, 16:309-
156 314). The quotations Mr. Ruback cites are from Mr. Crumrine's testimony, ComEd
157 Exhibit 9.0.

158 Second, Mr. Ruback alleges that there is some "nexus" between the share of
159 revenues recovered by kilowatt-hour charges and the methodology for determining the
160 allocation of distribution-related costs to classes. (*See Id.*, 18:365-19:383). This
161 contention is incorrect. The mere fact that some portion of revenues is collected through
162 kilowatt-hour charges reflects mainly the reality that many customers do not have
163 demand meters; so, aside from customer charges, their rates must be designed as per
164 kilowatt-hour charges. Specifically, per kilowatt-hour charges apply to Residential,
165 Watt-Hour, and lighting customers.

166 Mr. Ruback also testifies that ComEd Exhibit 10.9 demonstrates that about 76%
167 (\$1,434,039,863) of the total proposed distribution revenue requirement of
168 \$1,895,546,000 constitutes revenues from kilowatt-hour charges. (*See Id.*, 18:373-
169 19:383). Mr. Ruback's statement is in error; the revenue from per kilowatt-hour charges
170 is \$622,569,416, or less than 33% of the revenue requirement. (*See* ComEd Ex. 10.9).

171 Q. Do you have other comments on Mr. McClanahan's testimony?

172 A. Yes. I would like to comment on the matter of weighting factors discussed in
173 Mr. McClanahan's testimony. (*See* BOMA Ex. 2.0, 14:307-323). Mr. McClanahan

174 noted that weighting factors used to derive certain allocators employed in ComEd
175 Exhibit 11.1, Schedule 2a are significantly different for different customer classes; in his
176 view these weighting factors should be very similar for nonresidential delivery service
177 customers. Mr. McClanahan also stated that ComEd does not offer any explanation as to
178 why these weighting factors are so different.

179 Q. Does Mr. McClanahan explain why he believes these weighting factors should be similar
180 for nonresidential delivery service customers?

181 A. No.

182 Q. Does ComEd provide an explanation about the development of these weighting factors?

183 A. Yes. The work papers that show the development of these weighting factors have been
184 submitted pursuant to 83 Illinois Administrative Code Part 285, the standard information
185 requirements for public utilities. The spreadsheet versions of the work papers have been
186 provided in ComEd's response to a data request from the Attorney General (AG 4.03). In
187 addition, ComEd provided explanations of the development of specific weighting factors
188 in responses to data requests from Staff Peter Lazare for Services (PL 3.32), Standard
189 Meter (PL 3.33), Meter Reading (PL 3.34), Customer Account (PL 3.35), and Customer
190 Information (PL 3.36). I also note that Mr. McClanahan did not proffer any data requests
191 to ComEd in an attempt to clarify any questions he might have about these workpapers
192 and data responses.

193 Q. Please comment on the portion of the testimony of CTA witness Dennis Anosike (CTA
194 Ex. 1.0) that relates to ComEd's ECOSS.

195 A. Mr. Anosike stated his general concern about the amount of billing costs allocated to the
196 railroad class. (CTA Ex. 1.0, 7:150-8:153).

197 As noted above, ComEd provided workpapers detailing the development of the
198 various allocators employed in the ECOSS. Additional information on the derivation of
199 the billing allocators was provided in ComEd's response to Staff data request PL 3.35. It
200 is not clear what other information Mr. Anosike requires, since he did not submit any
201 additional data requests to ComEd concerning these allocators.

202 Q. Do you have any comments on Mr. Lazare's testimony?

203 A. Yes. As noted earlier, Mr. Lazare testified that he had not identified any problems with
204 the ECOSS proposed by ComEd for ratemaking in this case. This position seems to be
205 inconsistent with his testimony that G&IP should not be functionalized to distribution
206 services based on a direct assignment methodology, but, rather, a general allocator
207 methodology, such as the labor allocator. (See Staff Ex. 6.0 Public, 7:148-15:379). I
208 wish to point out two aspects of Mr. Lazare's position. First, if G&IP is to be
209 functionalized on a labor allocator, the share of G&IP (as booked by the Company in the
210 test year) functionalized to delivery services will increase in ECOSS. Correspondingly,
211 the share functionalized to Transmission will decrease. (See ComEd Ex. 11.0, 17:352-
212 361).

213 Second, Mr. Lazare notes that "G&I plant may be utilized by not just the
214 distribution function of the regulated utility but also by the transmission function which is
215 not regulated by the ICC and by unregulated subsidiaries." (See Staff Ex. 6.0 Public,
216 7:150-152). In this regard, I note that significant components of G&IP were directly
217 assigned in the cost of service underlying the development of ComEd's current FERC-

218 jurisdictional transmission revenue requirement. FERC Docket No. ER03-1335.
219 Therefore, a general allocation approach to functionalizing G&IP in this ICC docket may
220 create an inconsistency between the development of transmission rates and delivery
221 services rates.

222 Therefore, I recommend to the Commission that G&IP costs be functionalized by
223 direct assignment, as reflected in the filed ECOSS.

224 Q. Do you have a final comment about ComEd's ECOSS, as filed?

225 A. Yes. I note that subsequent to the filing, several relatively small errors were discovered
226 by ComEd in its identification of certain distribution plant accounts as being either high
227 or low voltage. These values were corrected in responses to Staff interrogatories. (*See*
228 ComEd's response a data request from to Staff witness Peter Lazare in PL 3.05). In
229 addition, on December 14, 2005, ComEd made an errata filing with the Commission,
230 including an approximate \$5 million reduction in the proposed jurisdictional delivery
231 services revenue requirement. (*See* ComEd Ex. 5.0 Revised, 3:63). Furthermore, I am
232 informed that in his rebuttal testimony, ComEd Exhibit 19.0, Mr. Hill proposes a further
233 reduction in revenue requirement of approximately \$9 million. I have reviewed the effect
234 of these changes in inputs to the as-filed ECOSS (ComEd Ex. 11.1). Their impact on the
235 distribution of revenue requirement among classes is *de minimis*, so revision of ECOSS is
236 not warranted at this time.

237 Q. Does this complete your rebuttal testimony?

238 A. Yes.