

REBUTTAL TESTIMONY

of

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Financial Analysis Division
Illinois Commerce Commission

Commonwealth Edison Company
Proposed General Increase in Rates for Delivery Service

Docket No. 05-0597

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1 **Introduction**

2
3

4 **Q. Please state your name and business address.**

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

7

8 **Q. Are you the same Peter Lazare who provided direct testimony in this case?**

9 A. Yes.

10

11 **Q. What is the subject of your rebuttal testimony?**

12 A. I respond to both the rebuttal testimony presented by Commonwealth Edison
13 Company (“ComEd” or the “Company”) and the direct testimony presented by
14 Intervenors in this case. Specifically, I respond to Company witnesses Hill,
15 Costello and Heintz on General Plant issues; Company witnesses Hill Houtsma,
16 Costello and Landon on Administrative and General (A&G) expenses; and
17 Company witness Crumrine on rate design issues. I also respond to IIEC witness
18 Chalfant and BOMA witness McClanahan on the “minimum system’ cost of
19 service issue.

20

21 **General Plant**

22

23 **Q. Does Company witness Hill take issue with your proposed adjustment to**
24 **General plant?**

25 A. Yes, Mr. Hill seeks to bring the discussion back to a comparison of general
26 allocation vs. direct assignment. He argues that the Company's proposed
27 functionalization should be adopted because it incorporates the direct
28 assignment approach which he contends is by nature more accurate than the
29 general allocation methodology. Mr. Hill summarizes his position as follows:

30

31 It is incomprehensible to me, and apparently to some others, that a
32 methodology that specifically delves into the cost details within the
33 General Plant and Intangible Plant accounts to identify the cost causative
34 nature of such plant in order to assign it to the utility's functional activities
35 – in this case distribution versus transmission delivery services – is argued
36 to be less accurate than applying a general allocator (especially the
37 general labor allocator the Mr. Lazare proposes to use in this proceeding
38 which I will discuss later). (ComEd Ex. 19.0, pp. 14-15, lines 309-315)

39

40 **Q. First, do you agree with Mr. Hill's characterization of your testimony in the**
41 **preceding passage?**

42 A. No, the passage mischaracterizes my proposal for General Plant costs. Mr. Hill
43 suggests that I have introduced a labor allocator into this proceeding as a
44 foundation for an alternative functionalization of General Plant. In fact, I have not
45 proposed any new allocation of General Plant. Rather, I propose to maintain the
46 functionalization approach adopted by the Commission in Docket No. 01-0423 for
47 2000 test year General Plant, which was based on the application of a general

48 labor allocator in that proceeding. My adjustment would prevent ComEd's
49 revenue requirement in this proceeding from including those General Plant costs
50 removed by the Commission in Docket No. 01-0423, which costs Mr. Hill now
51 proposes to restore.

52

53 **Q. Does Mr. Hill acknowledge that he proposes to restore these General Plant**
54 **costs that the Commission removed in Docket No. 01-0423?**

55 A. No, Mr. Hill has failed to acknowledge, in either his direct or rebuttal testimony
56 that the Company proposal is to reverse the Commission decision in that case.
57 Nor does he acknowledge that his proposal is also inconsistent with the
58 Commission's decision in Docket No. 99-0117 which adopted a similar approach
59 to the decision in Docket No. 01-0423 for these costs.

60

61 **Q. Does Mr. Hill argue that the Company's divestiture of generation plant in**
62 **2001 justifies the refunctionalization of 2000 General Plant on a direct**
63 **assignment basis?**

64 A. Yes. Mr. Hill explains that the Company divested its generation units on January
65 1, 2001 and therefore since 2000 has "... no production plant, and, other than its
66 purchased power expense, no significant production operation and maintenance
67 expenses, and no significant labor assigned to production cost... ." (ComEd Ex.
68 19.0, p. 17, lines 361-363) He goes on to argue:

69 Clearly, ComEd's direct assignment approach, which analyzes all the cost
70 elements that are contained within its 2004 General Plant and Intangible
71 Plant accounts, would recognize these changes since 2000 ... Mr.
72 Lazare's proposed adjustments to General Plant and Intangible Plant,

73 however, do not recognize these changes in ComEd's operation since the
74 year 2000." (ComEd Ex. 19.0, p.17, lines 364-370)
75

76 **Q. Is this a valid argument?**

77 A. No, it is not. It should be remembered that my proposed adjustment pertains to
78 plant in existence for the 2000 test year when ComEd did, in fact, own production
79 plant. The amount of that plant necessary to perform the distribution function
80 should not be affected by ComEd's decision to divest its production plant the
81 following year.

82
83 Nevertheless, Mr. Hill's argument that the 2001 divestiture should shift 2000
84 General Plant balances to distribution implies that distribution customers should
85 pay an additional price for ComEd's decision to divest generation. Mr. Hill is
86 arguing that the distribution company should fill the void left by ComEd's decision
87 to divest generation and delivery rates should rise to absorb cost increases
88 resulting from the decision to divest. Stated differently, Mr. Hill would have
89 ComEd's delivery service rates increase even if the only change since its last
90 delivery service rate case had been its divestiture of ComEd's generation assets.

91
92 I disagree with this proposal. The decision to divest was a business decision on
93 the part of ComEd and ratepayers should not be asked to absorb higher costs as
94 a result. Divestiture should not adversely impact ComEd ratepayers, and this
95 \$405 million in General Plant should not be refunctionalized to distribution.

96

97 **Q. Why is your adjustment limited to the undepreciated balance of General**
98 **Plant that existed as of 2000?**

99 A. As explained above and in my direct testimony, I have focused on ComEd's
100 attempt to reintroduce into its current revenue requirement for distribution
101 services G&I Plant excluded by the Commission in ComEd's last delivery
102 services rate case. This proposed change is neither just nor reasonable, is unfair
103 to ratepayers, and has not been adequately justified by ComEd.

104

105 **Q. Does Mr. Hill try to explain the previous Commission decisions concerning**
106 **G&I plant in his rebuttal testimony?**

107 A. Yes. He contends that the previous Commission decisions on this issue should
108 not be considered binding in the current docket. Mr. Hill interprets those
109 decisions in the following terms:

110

111 In both Docket Nos. 99-0117 and 01-0423, the Commission concluded
112 that ComEd had not sufficiently convinced the Commission such that the
113 Commission would approve ComEd's direct assignment proposal for
114 General Plant and Intangible Plant in those cases. Further, I must
115 disagree with Mr. Lazare's conclusion, beginning at line 222, that states
116 that the Commission has consistently rejected the concept of directly
117 assigning General Plant and Intangible Plant in favor of an alternative
118 approach for these costs. In fact, the Commission did not reject the
119 concept at all. What the Commission concluded was that, in those
120 proceedings, ComEd's proposal did not provide sufficient evidence for the
121 Commission to adopt the direct assignment methodology. (ComEd Ex.
122 19.0, pp. 17-18, lines 376-385)

123

124 **Q. Do you consider this to be an accurate representation of these previous**
125 **Commission Orders?**

126 A. No, I do not. The following passage from Docket No. 99-0117 suggests, contrary
127 to Mr. Hill's claim, that the Commission did, in fact, reject the concept of directly
128 assigning General Plant costs:

129

130 The Commission disagrees with Edison's direct assignment approach.
131 The very nature of these costs suggests that they are not amenable to
132 direct assignment. (Docket No. 99-0117, Order dated August 25, 1999, p.
133 11)
134

135 It is difficult to reconcile this statement with Mr. Hill's contention that "the
136 Commission did not reject the [direct assignment] concept at all" (ComEd Ex.
137 19.0, p. 18, line 382).

138

139 **Q. Does Mr. Hill properly characterize your testimony on the issue of**
140 **Commission precedent?**

141 A. No, he does not. Mr. Hill claims that in lines 266-290 of my direct testimony (ICC
142 Staff Exhibit 6.0), I imply "... not so subtly, that ComEd has 'purposefully' ignored
143 Commission precedent as it relates to the direct assignment methodology for
144 General Plant and Intangible Plant." (ComEd Ex. 19.0, p. 18, lines 391-393)

145

146 **Q. Why is this not an accurate representation of your testimony?**

147 A. The passage has an entirely different meaning. It offers an example where the
148 Company considers Commission precedent to be important. After quoting the
149 opinion of Mr. Heintz on the issue, I concluded as follows:

150

151 The above passage indicates that ComEd has gone so far as to
152 “purposefully” make as few changes as possible to its study because of
153 favorable Commission rulings in ICC Docket Nos. 99-0117 and 01-0423.
154 This demonstrates the importance ComEd places on Commission
155 precedent at least on this matter. (ICC Staff Exhibit 6.0, pp. 11-12, lines
156 287-290)
157

158 Clearly, Mr. Hill’s characterization of this passage is erroneous. I am not
159 suggesting that the Company has “‘purposefully’ ignored Commission precedent”
160 as Mr. Hill contends. In fact, I am saying the opposite, identifying an area where
161 the Company has ‘purposefully’ followed Commission precedent. This
162 misinterpretation of my direct testimony undermines Mr. Hill’s argument on this
163 matter.
164

165 **Q. Does Mr. Hill focus on the specific adjustment you propose to G&I plant in**
166 **this case?**

167 A. Yes. He seeks to denigrate my proposal, arguing that a \$405 million adjustment
168 “... is not supported by any valid ground in Mr. Lazare’s testimony, nor is it
169 supported by the facts presented by ComEd in its direct testimony, nor is it
170 supported by any analysis he has prepared with respect to the cost elements that
171 are ComEd’s 2004 General Plant and Intangible Plant balances recorded on
172 ComEd’s books of accounts.” (ComEd Ex. 19.0, p. 19, lines 405-409)
173

174 Mr. Hill goes on to state:
175

176 Third, one of the bases for the determination of the \$405 million
177 adjustment in Docket No. 01-0423 is that a substantial portion of ComEd's
178 General Plant and Intangible Plant costs were related to ComEd's
179 production function. As shown on Schedule 4 attached hereto, the
180 production component of the disallowance in Docket No. 01-0423
181 accounted for over \$577 million or over 140% of the \$405 million amount.
182 Of course, as we all know, ComEd has no production plant nor does it
183 have any significant production expenses (other than its purchased power
184 expense) since 2000 – again technically January 1, 2001 with respect to
185 the production plant. (ComEd Ex. 19.0, p. 19, lines 413-421)
186

187

188 **Q. Please address these arguments by Mr. Hill.**

189 A. These arguments are misplaced. First, the fact that I did not base my adjustment
190 on the Company's testimony is irrelevant. That testimony has only one purpose,
191 to support Mr. Hill's proposed direct assignment method. For obvious reasons, it
192 fails to provide a foundation for developing an alternative approach. Second, it
193 was not necessary for me to perform an independent analysis of the Company's
194 2004 G&I test year balances to support my proposed adjustment because this
195 issue was fully addressed and decided in the Company's previous delivery
196 service case (Docket No. 01-0423).

197

198 Furthermore, Mr. Hill errs in claiming that my adjustment is not supported "by any
199 valid ground" in my direct testimony. My direct testimony explained that the basis
200 for my proposed adjustment comes from the discovery process. (ICC Staff
201 Exhibit 6.0, p. 12, lines 304-307) In response to a Staff data request, ComEd
202 indicated first that the Commission's decision in Docket No. 01-0423 "reduced
203 ComEd's proposed test year jurisdictional general and intangible gross plant by

204 \$405 million". (ComEd response to Staff Data Request PL 1.15) The Company
205 then went on to note:

206

207 Therefore, all other things equal, ComEd's starting point (that is, the 2000
208 test year used in Docket 01-0423) results in a \$405 million increase... .
209 (ComEd response to Staff Data Request PL 1.15)
210

211 It is this decision by ComEd to restore the \$405 million removed by the
212 Commission in Docket No. 01-0423 that provides the basis for my proposed
213 adjustment which is well-supported in my direct testimony.

214

215 **Q. Does Mr. Hill argue that you have the burden to explain that the plant**
216 **associated with your adjustment is production-related?**

217 A. Yes. Mr. Hill seeks to place the burden on Staff to demonstrate that the G&I Plant
218 assets which the Commission removed and the Company seeks to restore are, in
219 fact, production-related. According to Mr. Hill:

220

221 ... Mr. Lazare's recommendation, that the \$405 million adjustment should
222 continue to apply to ComEd's rate base in this proceeding, is only
223 appropriate if the Commission determines as to the General Plant and
224 Intangible Plant assets that still exist (from 2000) in ComEd's rate base
225 proposed in this proceeding, that the functional use of such remaining
226 assets are used 62.8% to support a production function. (ComEd Ex. 19.0,
227 p. 22, lines 474-478.
228

229 Mr. Hill goes on to state that because ComEd has no production plant as of
230 December 31, 2004 "no rationale can be made that any of ComEd's General
231 Plant and Intangible Plant included in its 2004 test year delivery services rate

232 base support a production functional component". (ComEd Ex. 19.0, p. 22, lines
233 487-491)

234

235 **Q. Do you find Mr. Hill's argument persuasive?**

236 A. No, I do not. In the Order for Docket No. 01-0423, the Commission found that this
237 \$405 million in G&I plant should not be considered distribution-related and
238 therefore removed this plant from the delivery service revenue requirement.
239 (Docket 01-0423, Order dated March 28, 2003, p. 41) I am not proposing to
240 remove any G&I plant additions that were incurred after the test year adopted by
241 the Commission's order in Docket No. 01-0423 from the approved revenue
242 requirement. I am only arguing that the G&I plant that the Commission removed,
243 should not be restored in this case. Mr. Hill's argument about the burden of proof
244 is misplaced because it is ComEd's responsibility to demonstrate why this plant,
245 which the Commission removed in Docket No. 01-0423, should now be restored.

246

247 **Q. Does Mr. Hill criticize you for taking an inconsistent approach on the direct
248 assignment issue?**

249 A. Yes. He argues as follows:

250

251 Staff itself, at times, including Staff witness Mr. Lazare, has supported
252 direct assignment. In Docket No. 99-0117, Staff (Mr. Lazare) testified that
253 ComEd's direct assignment method was the most reasonable method for
254 General Plant functionalization. More recently, Staff has done so in Staff's
255 (Mr. Lazare's) direct testimony in this proceeding – at least with respect to
256 the General Plant and Intangible Plant additions since 2000, for which
257 Staff has made no adjustment to ComEd's assignment of this plant.
258 (ComEd Ex. 19.0, p. 14, lines 302-308)

259

260 **Q. How do you respond to Mr. Hill?**

261 A. It is true that in Docket No. 99-0117, I supported certain direct assignments
262 proposed by the Company for common costs. Nevertheless, my thinking evolved
263 on the issue in the Company's next delivery service case, Docket No. 01-0423,
264 and has not changed since then.

265

266 As for Mr. Hill's claim that I support the Company's proposed direct assignment
267 approach for General and Intangible Plant additions since 2000, it is simply
268 incorrect. I have not drawn any conclusion, pro or con, concerning the
269 reasonableness of these direct assignments and my direct testimony contains no
270 statement that can be construed as endorsing these proposed direct
271 assignments.

272

273 **Q. Does Company witness Heintz also respond to your argument concerning**
274 **the functionalization of G&I plant?**

275 A. Yes. Mr. Heintz contends I am being inconsistent in opposing the Company's
276 proposed direct assignment approach to functionalizing G&I plant. He argues
277 that the Company's costs are functionalized between transmission and
278 distribution on the basis of direct assignment. (ComEd Ex. 25.0, p. 10, lines 204-
279 212) He also states that "... significant components of G&IP [General and
280 Intangible plant] were directly assigned in the cost of service underlying the
281 development of ComEd's current FERC jurisdictional transmission revenue

282 requirement". (ComEd Ex 25.0, pp. 10-11, lines 216-218) He then concludes that
283 "... a general allocation approach to functionalizing G&IP in this ICC docket may
284 create an inconsistency between the development of transmission rates and
285 delivery service rates". (ComEd Ex 25.0, p. 11, lines 219-221)

286

287 **Q. How would you characterize Mr. Heintz's argument?**

288 A. His argument is irrelevant to my proposal. I did not examine the full universe of
289 the Company's proposed direct assignments in this case. I focused on a set of
290 costs that the Commission removed from the distribution revenue requirement in
291 Docket No. 01-0423 and the Company now seeks to restore. My proposal for
292 these costs stands on its own merits. Whether or not I extend my analysis to
293 direct assignments between transmission and distribution has no bearing on the
294 reasonableness of my G&I plant proposal.

295

296 **Q. Does Mr. Heintz himself take a consistent approach to the issue of general
297 allocations vs. direct assignments?**

298 A. No. He has failed to adhere to ComEd's direct assignment methodology in the
299 allocation of Administrative and General ("A&G") expenses among rate classes.
300 Mr. Heintz rejected the Company's direct assignment approach in favor of a
301 general labor allocator for the allocation process (ComEd Ex. 11, pp. 17-18, lines
302 365-375). I further discuss Mr. Heintz' failure to adopt the direct assignment
303 approach for A&G expenses in the next section of my rebuttal testimony.

304

305 **Q. Does Company witness Costello also weigh in on the issue of**
306 **functionalizing G&I plant?**

307 A. Yes. Mr. Costello echoes Mr. Hill's argument that the Company's proposed G&I
308 plant balances are appropriate because the Company no longer owns production
309 facilities. (ComEd Ex. 13.0, p. 27, lines 615-616) He goes on to state:

310
311 Accordingly, ComEd's expenditures and books do not include any costs
312 that can be attributed to the Production function. (ComEd Ex. 13.0, p. 27,
313 lines 618-619)
314

315 **Q. How do you respond to this argument?**

316 A. I would take issue with Mr. Costello's claim that "ComEd's expenditures and
317 books do not include any costs that can be attributed to the Production function".
318 In the Company's last delivery services case, the Commission did, in fact,
319 allocate this very same \$405 million of the Company's proposed G&I plant
320 balances to the production function.
321

322 **Q. Does Mr. Costello raise an additional issue with respect to Intangible plant?**

323 A. Yes. Mr. Costello argues for the continued recovery of Intangible plant
324 investments as follows:
325

326 ComEd cannot, for example, continue to improve its levels of customer
327 service and responsiveness to outages without updated and improved
328 information systems and software. ComEd has invested a considerable
329 amount of money since the last rate case in updating its computer
330 systems. These investments have assisted ComEd in its provision of safe,
331 efficient, and reliable service. (ComEd Ex 13.0, p. 29, lines 656-661)
332

333 **Q. What is your response to this argument?**

334 A. I would note that my proposed adjustment of G&I Plant is limited solely to
335 General plant for the 2000 test year. I have not proposed any adjustments to
336 General or Intangible plant investments made since the last rate case. So, this
337 argument would not apply to my proposed adjustment of 2000 test year General
338 plant.

339

340 **Q. Does the Company raise an issue concerning the calculation of your**
341 **proposed adjustment?**

342 A. Yes. Mr. Hill claims that my adjustment is overstated because it fails to properly
343 account for General plant retirements between 2000 and the 2004 test year. He
344 indicates that approximately 25% of 2000 test year General plant was retired
345 before the end of the 2004 test year and I have not accounted for the impact of
346 retirements in my proposed numbers. (ComEd Ex. 19.0, pp. 20-21, lines 445-
347 458)

348

349 **Q. What is your view of Mr. Hill's argument?**

350 A. I find it reasonable. As a result, I have revised my adjustment in the attached
351 Schedule 17.1. According to Mr. Hill's figures provided in ComEd Ex. 19.0,
352 Schedule 8, approximately 25% of 2000 test year General plant has been retired
353 by the end of the 2004 test year. Therefore, in Schedule 17.1, I have reduced my
354 original \$405 million adjustment in gross plant by approximately 25% to
355 approximately \$304 million and calculate changes in accumulated depreciation,

356 depreciation expense and deferred income tax accordingly. The revised
357 adjustment is incorporated into the revenue requirement sponsored by Dianna
358 Hathhorn in her rebuttal testimony (ICC Staff Exhibit 12).

359

360

361 **A&G Expenses**

362

363 **Q. Does Mr. Hill defend the Company's proposed increase in A&G expenses?**

364 A. Yes. Mr. Hill argues that the Company's proposed level of A&G expenses is
365 appropriate and he seeks to explain at this late juncture why these expenses
366 have increased since the Company's last delivery service case. (ComEd Ex.
367 19.0, pp. 38-42)

368

369 **Q. What is Mr. Hill's first argument in support of the Company's proposed**
370 **increase in A&G expenses?**

371 A. First, Mr. Hill argues that the Company's proposed A&G expenses are
372 reasonable because they are actually \$123 million lower than the total Company
373 A&G cost level for the year 2000. He further argues that the proposed level is
374 justified by new A&G expenses such as post 9/11 security costs and Sarbanes-
375 Oxley Act compliance costs that did not exist in 2000. (ComEd Ex. 19.0, pp. 38-
376 39, lines 847-853)

377

378 **Q. Is Mr. Hill's comparison of 2000 and 2004 A&G expenses relevant?**

379 A. No, he is mixing apples and oranges. ComEd was a different utility in 2000
380 because it still owned generation. ComEd today is solely a transmission and
381 distribution utility. The relevant comparison for ComEd is the change in the level
382 of A&G expense for delivery services. Based on that comparison, ComEd's
383 proposed increase is quite significant, 55% over the level approved for the 2000
384 test year. It should be noted that the 2000 test year figure was also based upon
385 ComEd's direct assignment methodology.

386

387 With respect to post 9/11 security costs and Sarbanes-Oxley Act compliance
388 costs, Mr. Hill provides no estimate of the magnitude of these costs for the test
389 year. Thus, they cannot be considered meaningful evidence in support of the
390 Company's proposed increase in A&G expenses.

391

392 **Q. Does Mr. Hill complain that your proposal fails to take into account general**
393 **ComEd wage increases since 2000?**

394 A. Yes. He states that my recommendation to 'freeze' the level of A&G expenses
395 "... would deny all salaries and wage increases for the ComEd labor within the
396 amount approved in Docket No. 01-0423." (ComEd Ex. 19.0, p. 40, lines 877-
397 882) Mr. Hill goes on to indicate that since 2000 salaries and wages at ComEd
398 have, on average, increased approximately 3% per year. (ComEd Ex. 19.0, p.
399 40, lines 886-887)

400

401 **Q. Does Mr. Hill's argument make sense?**

402 A. No. While ComEd may be paying higher wages, its overall payroll costs have
403 been going down since 2000 according to FERC Form 1 data. For example direct
404 distribution payroll declined from \$189,664,419 in 2000 (2000 FERC Form 1, p.
405 354) to \$118,128,755 in 2004 (2004 FERC Form 1, p. 354). That represents a
406 decline of \$71,535,664 or 37.7% from the 2000 level.

407

408 Customer Accounts and Customer Service payroll costs also declined over that
409 same period, from \$89,914,798 and \$4,513,156 in 2000 (2000 FERC Form 1, p.
410 354) to \$77,745,065 and \$1,888,017 in 2004 (2004 FERC Form 1, p. 354).

411

412 **Q. Have you also examined the trajectory of A&G payroll costs over recent**
413 **years?**

414 A. Yes. I examined the change in A&G payroll costs from 2001 to 2004. I did not
415 use 2000 figures because ComEd still owned generation that year (it was
416 divested on January 1, 2001 according to Mr. Hill) (ComEd Ex. 19.0, p. 17, line
417 364)). The comparison indicates that from a level of \$78,092,261 in 2001 (2001
418 FERC Form 1, p. 354), A&G direct payroll costs declined by more than half to
419 \$37,756,966 in 2004 (2004 FERC Form 1, p. 354).

420

421 **Q. What do you conclude from this comparison of payroll costs?**

422 A. It appears that the Company has been able to realize overall savings in labor
423 costs despite the fact that wages have increased between 2000 and 2004. This
424 would suggest that wage increases on their own provide an insufficient

425 justification for adjusting A&G expenses upwards from 2000 to 2004.

426

427 **Q. Does Mr. Hill suggest that the Company is proposing considerably less**
428 **than a 55% increase in A&G expense as you state in your direct testimony?**

429 A. Yes. Mr. Hill states that "... ComEd's proposed jurisdictional A&G cost level [sic]
430 in this proceeding are 14.2% more than 2000 levels." (ComEd Ex. 19.0, p. 41,
431 lines 896-897) He justifies this statement as follows:

432

433 Subsequent disallowances made by the Commission to the 2000 levels
434 were made on the basis of the facts in evidence in that proceeding are a
435 reconciling factor, not a basis for explaining A&G cost increases. (ComEd
436 Ex. 19.0, p. 14, lines 897-900)

437

438 **Q. Do you find this argument reasonable?**

439 A. No, I do not. The revenue requirement approved in a rate proceeding represents
440 those costs that the Commission considers "just and reasonable" for the purpose
441 of setting rates. Somehow, Mr. Hill is seeking to imply that the just and
442 reasonable 2000 A&G expenses for evaluating ComEd's current A&G expense
443 proposal is somehow a higher figure than the figure the Commission approved in
444 Docket No. 01-0423. While Mr. Hill may prefer using a higher figure for his own
445 purposes, the fact cannot be ignored that the Company is seeking a 55%
446 increase in A&G expenses over what the Commission *determined* to be the just
447 and reasonable level for the 2000 test year in Docket No. 01-0423. That is clearly
448 the appropriate starting point for the Commission to evaluate the Company's
449 proposed increase in A&G expenses for this proceeding.

450

451 **Q. How does Mr. Hill's testimony characterize your proposed adjustment to**
452 **A&G expenses in this proceeding?**

453 A. On page 41 of his rebuttal testimony, Mr. Hill is asked if he agrees with the
454 following summary of my proposal:

455

456 ... Mr. Lazare claims that ComEd's method to functionalize A&G expenses
457 has been called into question; and recommends that Staff's proposed
458 general allocator be used instead. (ComEd Ex. 19.0, p. 41, lines 910-912)
459

460 **Q. Is this an accurate summary of your proposal?**

461 A. No, it is not. I do not propose to apply Staff's proposed general allocator to
462 determine A&G expenses in this proceeding. Instead, my proposal is as follows:

463

464 I propose that the overall level of A&G expenses be set at the currently
465 approved level for these costs. In other words, I recommend that there be
466 no increase from the \$176,684,000 in A&G expenses approved by the
467 Commission in ICC Docket No. 01-0423. (ICC Staff Exhibit 6.0, p. 33,
468 lines 810-814)
469

470 In other words, I propose no increase over the A&G expenses approved by the
471 Commission in Docket No. 01-0423 that were based upon ComEd's direct
472 assignment methodology. I argued that the Company has failed to justify any
473 increase in A&G expenses in this proceeding. The general labor allocator does
474 not factor any way into my proposal.

475

476 Furthermore, the level of A&G expense I propose is significantly higher than

477 levels approved by the Commission based on Staff's proposed labor allocator.
478 The Commission last adopted Staff's proposed general allocation of A&G
479 expense in its Interim Order for Docket No. 01-0423. The level of A&G expenses
480 approved in that Order was \$118,153,000. (Docket No. 01-0423, Interim Order
481 dated April 1, 2002, Appendix A, Schedule 1) Thus, my proposal in this
482 proceeding represents an increase of \$58,531,000, or 49.5% over that figure.
483

484 **Q. What issues does Company witness Houtsma raise concerning A&G**
485 **expenses?**

486 A. She presents two arguments in response to my discussion of the SEC audit of
487 ComEd's corporate governance costs. First, she claims that I mischaracterized
488 the SEC's activities as an "investigation" when in her estimation it should be
489 viewed as merely a "routine compliance audit" that generally occurs 1-1/2 to 2
490 years after a company becomes subject to PUHCA. (ComEd Ex. 18.0, p. 23,
491 lines 510-514)

492
493 **Q. What is your response?**

494 A. While Ms. Houtsma may not like the word "investigation", it does, indeed, apply in
495 this case. Merriam-Webster's online dictionary defines "investigate" as "to make
496 a systematic examination"¹. Exelon itself characterized the SEC's activities as an
497 "audit examination" in its response to the SEC Staff findings (Company
498 Response to Staff Data Request DLH-1.01, Attachment 2). Since an investigation

¹ Source: <http://www.m-w.com/dictionary/investigation>. 1/31/2006.

499 and an examination are synonymous, my characterization of the audit is indeed
500 appropriate.

501

502 **Q. Does Ms. Houtsma also seek to downplay the seriousness of the audit**
503 **findings?**

504 A. Yes. She argues as follows:

505

506 At the conclusion of the audit in 2003, BSC reallocated costs that the SEC
507 found to have been allocated inappropriately. The adjustment for the three
508 year period 2001-2003 recorded by ComEd was a cumulative increase in
509 cost allocations of \$4.5 million. This represents less than one half of one
510 percent of O&M costs for the period. ComEd and Exelon take their
511 financial reporting responsibilities very seriously, and I believe Mr.
512 Lazare's accusations are unwarranted. (ComEd Ex. 18.0, p. 24, lines 536-
513 541)

514
515

516 **Q. How do you respond to this argument?**

517 A. In my estimation the SEC audit falls far short of an endorsement of the
518 Company's method of assigning these costs. The SEC report states:

519

520 ***BEGIN CONF [REDACTED]
521 [REDACTED]
522 X
523 [REDACTED]
524 X
525 [REDACTED]
526 X
527 [REDACTED]
528 X
529 [REDACTED]
530 X
531 END CONF*** (Company Response to Staff data request DLH 1.01,
532 Attachment 1, p. 164)

533

534 Whether these results indicate that ComEd BEGIN CONF*** [REDACTED]

535 [REDACTED] END CONF***, the fact remains that the SEC staff

536 considered the Company's ***BEGIN CONF [REDACTED] END

537 CONF***.

538

539 **Q. Does Company witness Costello seek to lend support to ComEd's**
540 **proposed level of A&G expenses?**

541 A. Yes. He begins by noting that A&G expenses include items "... such as salaries,
542 pensions and benefits, health care, office supplies and services, and accounting
543 fees, as well as costs and services that ComEd receives from BSC... ." (ComEd
544 Ex. 13.0, p. 31, lines 701-703) He goes on to sum up:

545

546 These expenditures are necessary in order for ComEd to provide safe,
547 efficient, and reliable service. I cannot imagine that the Commission would
548 want to deny ComEd the ability to pay employees and let them know that
549 it will have money for their health care, pensions, and benefits. (ComEd
550 Ex. 13.0, p. 31, lines 704-708)

551

552 **Q. How do you respond?**

553 A. The issue is not whether ComEd should be allowed to make expenditures in
554 these areas. No party is disputing that. However, the issue is how much ComEd
555 should be allowed to spend in these areas. That is a decision for the Commission
556 to make, not the Company. Furthermore, as I have explained in testimony, the
557 Company has failed to justify its proposed increase in A&G expenses in this
558 proceeding.

559

560 **Q. Does Mr. Costello address your argument that A&G expenses have gone in**
561 **a different direction than distribution, customer accounts and customer**
562 **service expenses?**

563 A. Yes. Mr. Costello argues that successful cost reduction in one area does not
564 necessarily carry over to other areas. Mr. Costello states, "... the fact that we
565 have been successful in some areas does not imply that increases in other areas
566 must be unreasonable". (ComEd Ex. 13.0, p. 32, lines 730-732)

567

568 **Q. What is your view of this argument?**

569 A. It does not make sense. First, Mr. Costello fails to provide any evidence
570 explaining why A&G expenses are different from other expenses such that they
571 rise when others decline. Second, there is reason to expect that ComEd is
572 realizing savings in A&G expenses from the last case.

573

574 Since 2000, ComEd has increasingly relied on BSC to perform services related
575 to the A&G function. According to the Company, this has paid significant
576 dividends:

577

578 As a shared services organization, BSC delivers value to Exelon's
579 business units and optimizes solutions for the company as a whole. By
580 leveraging economies of scale, adopting best practices and implementing
581 process improvements, BSC provides efficiencies and cost savings in
582 keeping with the Exelon Way, positioning Exelon for growth.

583

584 Financially and operationally, 2004 was a banner year for BSC. The
585 business unit surpassed aggressive Exelon Way savings targets from
586 centralization of Exelon's supply and IT functions. It leveraged technology
587 to improve processes, standardized practices and managed performance
588 across its functions to increase overall effectiveness. (Exelon 2004 Annual
589 Report to Investors, p. 21 at [http://phx.corporate-
590 ir.net/phoenix.zhtml?c=124298&p=irol-irhome](http://phx.corporate-ir.net/phoenix.zhtml?c=124298&p=irol-irhome), viewed 2/23/06)
591
592

593 The preceding passage implies that the BSC is achieving great success. It states
594 that "2004 was a banner year for BSC" as it "surpassed aggressive Exelon Way
595 savings targets". It is difficult to construe from this discussion that the BSC
596 lagged behind in delivering savings to ComEd. Nevertheless, that is the
597 implication of Mr. Costello's argument. What Mr. Costello should discuss instead
598 is why the benefits provided by the BSC are not being shared with ComEd
599 ratepayers.

600

601 **Q. Does Mr. Costello respond to your complaint about the complexity created**
602 **by ComEd's reliance on BSC to provide A&G services?**

603 A. Yes. He contends that the BSC, instead of creating complexity, is designed "... to
604 streamline common services among various entities owned by Exelon
605 Corporation and thus save costs for all." He goes on to state that "ComEd
606 customers are reaping the benefits of this streamlined process." (ComEd Ex.
607 13.0, p. 33, lines 745-750)

608

609 **Q. Does Mr. Costello's argument make sense?**

610 A. No, it does not. First, it is ironic for him to claim that ComEd customers are
611 reaping benefits from this relationship with BSC considering that the Company is
612 seeking a 55% increase in A&G expenses from the 2000 test year. Second, his
613 argument that the BSC does not add complexity is undermined by the statement
614 of Mr. Heintz, the Company's witness on cost of service issues.

615

616 **Q. What does Mr. Heintz say about the complexity of the Company's direct
617 assignment approach for A&G expenses?**

618 A. He argues that it constitutes an impediment to a direct assignment approach at
619 the class cost of service level. He explained the problem as follows:

620

621 Notwithstanding ComEd's preference for functionalizing A&G expenses by
622 direct assignment (as authorized by the ICC in its final order in Docket No.
623 01-0423), the information is no longer available to perform an accurate
624 direct assignment. The reason is that, subsequent to the last distribution
625 services general rate proceeding, ComEd has re-organized, and many
626 administrative functions formerly performed within ComEd are now
627 performed by Exelon Corporation's wholly-owned subsidiary, Exelon
628 Business Services Company ("BSC"). Expenses for performing these
629 functions are billed by BSC to ComEd and they are recorded in Account
630 923 – Outside Services Employed. Because the BSC bills are all recorded
631 in a single account, it is impractical to perform the detailed analyses that
632 are necessary to support a direct assignment methodology for A&G
633 expenses. (ComEd Ex. 11, pp. 17-18, lines 365-375)

634

635 **Q. Is there further elaboration on the problems confronting Mr. Heintz in
636 adopting a direct assignment approach?**

637 A. Yes, a further explanation is provided in response to discovery:

638

639 Mr. Heintz did not review documents concerning the amounts billed by
640 Exelon Business Services to ComEd. Mr. Heintz relied on the testimony of
641 ComEd witness Jerome P. Hill that necessary data to determine the direct
642 assignment of ComEd's 2004 A&G expenses are not readily available.
643 (ComEd Response to Attorney General Data Request AG 4.30)
644

645 **Q. What are your concerns with these passages?**

646 A. The Company's own cost of service witness states that ComEd's billing methods
647 make it "impractical" to adopt a direct assignment approach. Furthermore, he is
648 suggesting that "necessary data" for a direct assignment approach "are not
649 readily available". Collectively, these statements raise fundamental questions
650 about the transparency of the Company's direct assignment approach for A&G
651 expenses. They suggest that the Company's direct assignment methodology
652 cannot be readily reviewed and evaluated. This, in turn, would make it difficult to
653 effectively review and assess the reasonableness of ComEd's A&G expenses.
654

655 **Q. Does Company witness Landon also seek to support ComEd's proposed**
656 **level of A&G expenses?**

657 A. Yes, Mr. Landon argues as follows:
658

659 Centralized provision of administrative services is an area that generally
660 can be the source of large economies of scale and scope. I have seen no
661 evidence that that is not the case here. Customers should pay their share
662 of the costs that are incurred to serve them and from which they benefit.
663 (ComEd Ex. 15.0, p. 12, lines 248-251)
664

665 **Q. Do you find this argument problematic in any respect?**

666 A. Yes. The argument begins with a reference to large economies of scale and
667 scope that can result from centralized provision of administrative services. The
668 merger of Commonwealth Edison Company and Philadelphia Electric Company
669 was consummated in October 2000. Based on Mr. Landon's logic, the
670 opportunity to realize additional economies of scale from centralizing services
671 between the two utilities should have placed downward pressure on A&G
672 expenses. Instead, the Company proposes a 55% increase in A&G expenses.
673 There appears to be a fundamental disconnect between the administrative
674 economies of scale the Company is realizing and the A&G expenses the
675 Company is asking customers to pay.

676

677 **Rate Design Issues**

678

679 *Customer vs. Delivery Charges*

680

681 **Q. Does Company witness Crumrine respond to your proposal that 20% of**
682 **customer costs be recovered through delivery charges?**

683 A. Yes. Mr. Crumrine begins his discussion by suggesting that my argument on the
684 issue is insincere:

685

686 His [Staff witness Lazare's] proposal is to allocate costs away from the
687 fixed charges and move such costs toward variable charges in the rate
688 design, ostensibly to send a higher, albeit, arbitrary, price signal to
689 customers to reduce usage of the distribution system. However, it also is
690 clear that Mr. Lazare simply is proposing to shift costs in order to lower the
691 customer charges; he has chosen this argument as a vehicle to do so.
692 (ComEd Ex. 23.0, p. 5, lines 87-93) (footnote and citations omitted)
693

694 **Q. How do you respond to this charge by Mr. Crumrine?**

695 A. First, it is actually the Company's position that appears to lack sincerity. On the
696 one hand, John Rowe, the President of Exelon Corporation, states that the "the
697 science of global warming is overwhelming" and that "limitations on greenhouse gases
698 emissions will prove necessary". (Business Wire, May 6, 2005 at [http://phx.corporate-
699 ir.net/phoenix.zhtml?c=124298&p=irol-newsArticle_Print&ID=706604&highlight=](http://phx.corporate-ir.net/phoenix.zhtml?c=124298&p=irol-newsArticle_Print&ID=706604&highlight=),
700 viewed, 12/15/05) Yet, on the other hand, the Company impedes an effort to address this
701 problem. This calls into question the Company's sincerity in addressing the Global
702 warming issue.

703
704 Second, Mr. Crumrine has incorrectly characterized the "ostensible" argument I make on
705 the issue. The purpose of this proposal is not to "reduce usage of the distribution
706 system" as Mr. Crumrine claims. Rather, it is to incorporate into delivery charges
707 environmental costs resulting from the generation of power to meet ratepayer
708 demands.

709
710 Third, Mr. Crumrine sends mixed signals on this issue. After suggesting that I
711 have an ulterior motive of lowering customer charges, he offers words of praise,
712 stating that "the premise for [my] proposal is laudable". (ComEd Ex. 23.0, p. 40,

713 line 857) So, if I understand Mr. Crumrine correctly, my proposal may be based
714 on ulterior motives, but it is “laudable” nevertheless.

715

716 **Q. Does Mr. Crumrine contend that your focus on reflecting environmental costs in**
717 **delivery charges is misplaced?**

718 A. Yes, he claims it is inappropriate to weave the cost of environmental externalities into
719 delivery rates. According to Mr. Crumrine:

720

721 Delivery rates, by definition, do not take into account *any* cost of producing
722 power. The cost of producing power is related to the *generation* of power-not the
723 *delivery* of electric power and energy. (ComEd Ex. 23.0, p. 40, lines 863-865)

724

725 **Q. What is your response to Mr. Crumrine?**

726 A. Given the choices available to the Commission, my proposed approach is the most
727 reasonable. Furthermore, considering the importance of the issue, it is far better to take
728 this step than to do nothing at all.

729

730 **Q. Why is it best for the Commission to reflect environmental externalities costs in**
731 **delivery charges?**

732 A. The Commission has three alternatives for reflecting environmental costs in electric rates.
733 The first alternative is my proposal, namely to reflect these costs in delivery rates.
734 Second, the Commission could also incorporate these charges into the cost of power
735 received through the auctions. The third alternative is to do nothing at all.

736

737 The second alternative of incorporating these costs into auction power prices is
738 problematic. Environmental costs may arise not just for power received through the
739 auction process, but also for unbundled power purchased from a Retail Electric Supplier
740 (“RES”). If environmental costs were only reflected in power received through the
741 auction, the relative cost of bundled power could rise, causing demand to shift to RES-
742 supplied power without regard to the relative environmental impacts. This could diminish
743 the value of reflecting the environmental price signal in auction-provided power.

744

745 The alternative of doing nothing is most problematic of all. If, as Mr. Rowe states, the
746 science of Global Warming is “overwhelming”, then the Earth faces unpleasant
747 prospects. The U.S. Environmental Protection Agency outlines the problem as follows:

748

749 Rising global temperatures are expected to raise sea level, and change
750 precipitation and other local climate conditions. Changing regional climate
751 could alter forests, crop yields, and water supplies. It could also affect
752 human health, animals, and many types of ecosystems. Deserts may
753 expand into existing rangelands, and features of some of our National
754 Parks may be permanently altered.
755 <http://yosemite.epa.gov/OAR/globalwarming.nsf/content/Impacts.html>,
756 viewed 2/7/06.

757

758

759 **Q. Is there precedent for recovery of environmental costs in delivery rates?**

760 A. Yes, ComEd’s existing Rider 31, Decommissioning Expense Adjustment Clause,
761 recovers nuclear decommissioning costs through a rider that:

762

763 is applicable to each and every kilowatt-hour (kWh) of electricity delivered or
764 sold at retail in the Company’s service area, including, but not limited to, sales by
765 the Company to tariffed services retail customers, sales by the Company to retail

766 customers pursuant to special contracts or other negotiated arrangements, sales by
767 alternative retail suppliers, and sales by an electric utility other than the
768 Company... ." (ILL. C.C. No. 4, 7th Revised Sheet No. 95.09.4 (Cancelling 6th
769 Revised Sheet No. 95.09.4))
770

771

772 Thus, when Mr. Crumrine states that "[t]he cost of producing power is related to the
773 *generation* of power-not the *delivery* of electric power and energy", the fact remains that
774 the Company is recovering this environmental cost of electric generation from the
775 delivery component of ratepayer bills.

776

777 **Q. Does Mr. Crumrine also criticize your proposed figure of 20% of customer costs to**
778 **be recovered through delivery rates?**

779 A. Yes. He notes my 20% reallocation amount is based on judgment, rather than "study or
780 research". (ComEd Ex. 23.0, p. 41, lines 868-869)

781

782 **Q. How do you respond to this argument?**

783 A. It is correct that my proposed reallocation of 20% of customer costs to delivery charges is
784 based on judgment. That is because of the difficulty of measuring the environmental cost
785 of electricity generation. If the environmental costs of consumption could be accurately
786 estimated, I would have adopted an alternative approach.

787

788 **Q. Does Mr. Crumrine also express concern about the impact of your proposal on**
789 **customer usage?**

790 A. Yes. He complains that I have failed to examine the potential impact of my proposal on
791 ratepayer demand, “i.e., what the expected reduction in kilowatt-hours usage would be”.
792 (ComEd Ex. 23.0, p. 41, lines 871-874) Mr. Crumrine expresses concern about the
793 adverse impact of my proposal on the Company:
794

795 ... Mr. Lazare’s proposal fails to take into account the impact such a shift in costs
796 would have on customer usage or, in turn, ComEd’s ability to recover its costs.
797 That is, Staff seeks to redesign rates with the express purpose of encouraging a
798 reduction in customer usage, yet offers no corresponding adjustment to the billing
799 determinants to account for the reduction in revenues that would occur. (ComEd
800 Ex. 23.0, p. 41, lines 875-879)
801

802 **Q. Is this a reasonable argument by Mr. Crumrine?**

803 A. No, it is flawed in a number of respects. For one, Mr. Crumrine mischaracterizes my
804 proposal as having “the express purpose of encouraging a reduction in customer usage”.

805 In fact, my proposal has a more narrow purpose of reflecting environmental costs in
806 electricity rates by raising delivery charges and reducing customer charges accordingly.

807 The proposal is reasonable because environmental costs constitute a real cost of
808 electricity usage. The key differences are that they are outside the revenue requirement
809 and difficult to estimate. Nevertheless, they are real.

810
811 Second, Mr. Crumrine’s concern about the potential impact of my proposal on demand is
812 mitigated by two factors. First, my proposal would not increase the overall rates paid by
813 ComEd customers, but rather would shift the recovery from customer charges to delivery
814 charges. If bills for some customers rise, then bills for others would decline. The proposal
815 would be a zero sum game from a revenue standpoint.

816

817 Third, the Company's proposed increase in delivery rates combined with the potential
818 increase in bundled power rates resulting from the auction could have a much greater
819 impact on ratepayer demands than my proposal.

820

821 Finally, any potential impact of my proposal on ratepayer demands could be reduced if
822 the Commission adopts the Staff-proposed revenue requirement in this proceeding.

823

824 **Q. Is there any other problem with Mr. Crumrine's criticism of your proposal?**

825 A. Yes, his position appears to conflict with the Commission's efforts to address load
826 growth issues. In its Order for Docket No. 05-0159, the Commission has this to say about
827 future load growth:

828

829 The Commission hereby takes Administrative Notice of the Resolution that we
830 adopted on July 19, 2005 which affirmed the State of Illinois' commitment to a
831 Sustainable Energy Plan. The plan, as adopted, sets for [sic] goals for procuring a
832 certain amount of power from renewable resources and for achieving reductions
833 in load growth. (Final Order dated January 24, 2006, p. 246)

834

835

836 The Commission Order goes on to initiate three rulemakings, two of which pertain to
837 controlling electricity demands - one is to focus on demand response programs and the
838 second is to focus on energy efficiency. (Docket 05-0159, Final Order dated January 24,
839 2006, p. 246) These initiatives reflect the Commission's concern about controlling load
840 growth.

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Ironically, Mr. Crumrine criticizes my proposal out of concern that it will foster the Commission’s goal of reducing load growth. For this reason alone, Mr. Crumrine’s criticism should be rejected.

Q. What is Mr. Crumrine’s final argument on this issue?

A. He is concerned that my proposal would:

... unfairly penalize any customer who does not reduce its usage, but in its own way, makes socially conscious efforts to address environmental issues (*e.g.*, by making investments to use electricity more efficiently, buying large quantities of so-called “green energy” from a RES, making contributions to environmental causes, etc.). This is one of the fundamental problems with attempting to achieve a focused social objective using the broad brush of utility rate design. (ComEd Ex. 23.0, pp. 41-42, lines 886-892)

Q. Is this argument logical?

A. No, it is not. Ratepayers invest in green energy or contribute to environmental causes as a means to address a global problem. They do not derive any private benefits from these actions, but rather share the benefits with other ratepayers. To the extent that other ratepayers reduce consumption and lower the production of greenhouse gases, the benefits of those decisions will be conferred on all ratepayers, including socially conscious ratepayers. Thus, the action of one ratepayer adds to, rather than undermines, the efforts of others. So, all efforts to address the problem of Global Warming would augment the benefits enjoyed by socially conscious ratepayers.

867 **Q. Does Mr. Crumrine use your proposal as leverage for accepting CUB’s proposal to**
868 **expand the residential real-time metering program?**

869 A. Yes, he states that: “ComEd’s support for, and acceptance of, CUB’s proposal is also
870 predicated on the rejection of Staff witness Lazare’s proposal to shift 20 percent of the
871 costs reflected in the Customer Charges to the Distribution Facilities Charges.” (ComEd
872 Ex. 23.0, p. 47, lines 1008-1010)

873

874 **Q. How do you respond?**

875 A. I would argue that both proposals by CUB and Staff stand on their own merits. There are
876 a number of excellent reasons why both should be adopted and the Commission should
877 not permit ComEd to serve as a bottleneck to these proposals.

878

879 **Q. Do you have any additional comments concerning the CUB proposal to eliminate**
880 **the price premium for real time residential meters?**

881 A. Yes. I agree with the Company that the additional costs for these meters should be
882 recovered only from residential customers. These are the customers that would benefit
883 from the price proposal and they should therefore pay the attendant costs.

884

885 *Supply Administration Charge*

886

887 **Q. Does Mr. Crumrine respond to your argument that the Supply Administration**
888 **Charge (“SAC”) should be allocated on a usage, rather than customer, basis?**

889 A. Yes. He continues to support the Company's customer-based approach against my
890 proposal to allocate these costs among customers on a usage basis. Mr. Crumrine begins
891 by arguing that I offer no evidence for my contention that these costs are more closely
892 related to usage than the number of customers. (ComEd Ex. 23.0, p. 48, lines 1030-1035)

893

894 **Q. Are there any problems with his argument?**

895 A. Yes. First, while criticizing me for a lack of evidence, Mr. Crumrine offers no evidence
896 to support his proposed allocation of these costs on a customer basis.

897

898 Second, Mr. Crumrine sends confusing signals by allocating these costs between the
899 Basic Electric Service ("BES") tariffs on a usage basis but then switching gears and
900 allocating these costs within the auctions on a customer basis. Using one allocator for the
901 first step and a different allocator for the second step is illogical. My proposal to use
902 usage throughout the allocation process is clearly more reasonable.

903

904 **Q. Does Mr. Crumrine have anything else to say on the issue?**

905 A. Yes, he further elaborates on the Company's proposed approach in the following passage
906 from his rebuttal testimony:

907

908 As indicated in my corrected direct testimony, these costs are relatively fixed.
909 They do not vary with the volume sold or the number of customers served, for
910 that matter. ComEd ultimately opted to allocate such costs to Customer Supply
911 Groups based on historic usage because they are, in some limited sense, incurred
912 to provide supply. However, consistent with traditional ratemaking principles,
913 ComEd proposed a fixed charge for the recovery of fixed costs. (ComEd Ex. 23.0,
914 p. 49, lines 1044-1049) (citation omitted)

915

916 **Q. Does this discussion present further problems?**

917 A. Yes, it presents two problems. First, the discussion reveals that Mr. Crumrine does not
918 believe that SAC costs vary with the number of customers. Therefore, he is conceding
919 that his proposal is not justified from a cost-causation standpoint.

920

921 A second problem concerns Mr. Crumrine's claim that traditional ratemaking principles
922 argue for recovery of fixed costs through a fixed (i.e., customer) charge. This sweeping
923 claim is not true. There are numerous fixed costs, such as distribution lines, poles and
924 transformers, that the Company proposes to recover through variable charges such as
925 delivery charges or demand charges.

926

927 *24 Hour Demand Charge*

928

929 **Q. Does Mr. Crumrine defend his proposal to base demand charges on 24 hour**
930 **maximums for customers with time differentiated metering?**

931 A. Yes. He presents a number of arguments in support of the Company's proposal. The first
932 is that the proposal represents a continuation of ComEd's "gradual movement from a
933 vertically integrated utility to a distribution-only utility". (ComEd Ex. 23.0, p. 9, lines
934 183-185)

935

936 The implication, which he does not fully explain, is that a distribution utility is not driven
937 by cost at the peak in the same manner as a vertically integrated utility. Nevertheless, as I

938 explained in my direct testimony, the peak demands of customer classes, rather than
939 individual customers are a key driver of distribution costs even for the largest customers
940 on the system. (ICC Staff Exhibit 6.0, p. 50, lines 1208-1219) This is borne out by the
941 results of the Company's own cost of service study sponsored by ComEd witness Heintz.
942 The study reveals that more than 99% of the Company's Distribution Plant for Very
943 Large Load Over 1000 kW customers consists of the following accounts: 360, Land and
944 Land Rights; 361 Structures and Improvements; 362, Station Equipment; 364, Poles
945 Towers and Fixtures; 365 Overhead Conductors and Devices; 366, Underground
946 Conduit; 367, Underground Conductors and Devices; and 368, Line Transformers.
947 (ComEd Ex. 11.1, Schedule 2a, p. 6) These are ComEd's largest and most sophisticated
948 customers who are most likely to have peak demand metering capabilities. Each of these
949 accounts is allocated in the Company's cost of service study on a class or system-wide
950 basis. None of these costs are allocated according to the demands of individual
951 customers.

952

953 **Q. How is this relevant to the Company's proposal for 24 hour peak demands?**

954 A. The Very Large Load Over 1000 kW class experiences its peak during the peak period as
955 defined in the Company's retail tariffs (ComEd Response to Staff Data Request PL 7.01,
956 Attachment). Thus, the Company's own class cost of service study indicates that the
957 causation of more than 99 percent of distribution plant costs for this class is driven by
958 peak period demands. This would suggest that peak demands are the key driver of
959 distribution costs for these customers who are most likely to have time-differentiated
960 demand metering capabilities. This would indicate that the customers with these metering

961 capabilities should have demand charges based upon their demands during the peak
962 period, rather than over the full 24 hours of the day.

963

964 *Minimum Distribution System*

965

966 **Q. Which witnesses are you responding to on the issue of a minimum distribution**
967 **system?**

968 A. I am responding to the direct testimony by Alan Chalfant on behalf of the IIEC (IIEC
969 Exhibit 2.0) and David McClanahan for BOMA (BOMA Exhibit 2.0).

970

971 **Q. What position does IIEC witness Chalfant take concerning the issue of a minimum**
972 **distribution system?**

973 A. Mr. Chalfant supports the minimum system approach and criticizes the class cost of
974 service study sponsored by ComEd because it fails to incorporate this concept. According
975 to Mr. Chalfant, the minimum distribution system “is a customer-related component to
976 the costs of the distribution system that is associated with the need to ‘cover the system’”.
977 He goes on to state that “[t]he split of distribution costs between demand related and
978 customer related is typically measured using either a zero intercept approach or a
979 minimum size approach”. (IIEC Exhibit 2.0, p. 13, lines 258-261) He goes on to justify
980 his proposed minimum system as follows:

981

982 The distribution system is sized not only to accommodate demand requirements
983 but must also be designed just to physically connect each customer’ service –
984 irrespective of size – to the system. This is above and beyond the service drop to a

985 customer's premises because there must be an infrastructure to which the service
986 drop can be connected.

987
988 Consequently, while a customer's demand requirements will influence the
989 particular size of the distribution facilities installed, the fact that some facilities of
990 at least a minimum size must be constructed relates to the existence and location
991 of customers within the service territory. Unless this factor is taken into
992 consideration, the cost of service study will depart from cost causation. (IIEC
993 Exhibit 2.0, p. 14, lines 272-281)
994

995 **Q. Does BOMA witness McClanahan also advocate the minimum system approach?**

996 A. Yes. He cites language from NARUC's Electric Utility Cost Allocation Manual which
997 discusses the breakdown of distribution-level plant between demand and customer
998 components utilizing a minimum system approach. (BOMA Exhibit 2.0, p. 13, lines 284-
999 297)

1000

1001 **Q. Do you find the arguments by IIEC witness Chalfant and BOMA witness**
1002 **McClanahan persuasive?**

1003 A. No, I do not. The minimum system is a flawed concept that relies on a distant
1004 relationship between distribution costs and the number of customers as a basis
1005 to shift costs from the demand to the customer function and thereby benefit large
1006 customers at the expense of smaller customers on the system. It is true that an
1007 important function of the distribution system is to connect customers to the
1008 system. However, I would argue that the more relevant factor in determining the
1009 costs of connection is not the number of customers, but rather the location of
1010 customers within the utility's service territory. The cost of connecting one rural
1011 customer may be far higher than connecting a dozen customers in a multifamily
1012 dwelling in an urban setting. Differences such as this undermine the use of the

1013 number of customers as a determinant of distribution plant costs.

1014

1015 **Q. How do you respond to Mr. McClanahan's reference to the NARUC manual**
1016 **on electric cost allocation?**

1017 A. I would note that since that manual was written in January 1992 (BOMA Ex. 2.0,
1018 p. 13, line 299), the Commission has consistently rejected the allocation of
1019 distribution costs on a customer basis (See MidAmerican Order Docket No. 01-
1020 0444, p. 19, March 27, 2002; Ameren Order Docket No. 00-0802, pp. 42-43,
1021 December 11, 2001; and CIPS Order 99-0121, p. 71 August 25, 1999). As a
1022 result, no electric or gas utility in Illinois currently employs a minimum system to
1023 allocate costs among customer classes.

1024

1025 **Q. What do these witnesses propose in this area?**

1026 A. Mr. McClanahan ends his discussion by stating that a minimum system approach
1027 should be adopted for ComEd's cost of service study without explaining clearly
1028 how that should be done. (BOMA Exhibit 2.0, pp. 13-14, lines 300-306) Mr.
1029 Chalfant, for his part, does not recommend specific action in this proceeding, but
1030 asks that "... the Commission order ComEd to recognize a minimum distribution
1031 component in its next delivery service rate case or, at the very least, make
1032 available to parties the results of either a zero intercept analysis or minimum
1033 system study of its distribution Accounts 364 through 369." (IIEC Exhibit 2.0, p.
1034 15, lines 304-307)

1035

1036 **Q. What is your opinion of these proposals?**

1037 A. I oppose both proposals. BOMA witness Clanahan's proposal is unclear. He has
1038 failed to explain what he is asking the Commission to do on this issue. IIEC
1039 witness Chalfant's proposal should be rejected because the minimum system is
1040 flawed by nature and should not be used in this or any future rate proceedings.

1041

1042 **Q. Does this complete your testimony?**

1043 A. Yes, it does.