

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Commonwealth Edison Company :
: **ICC Docket No. 07-0566**
Proposed General Increase in Rates. :

SUPPLEMENTAL DIRECT TESTIMONY
OF

BRADLEY O. FULTS

ON BEHALF OF THE COALITION TO

REQUEST EQUITABLE ALLOCATION OF COSTS TOGETHER

REACT

COMPRISED OF:

A. FINKL & SONS, Co.
ALSIP PAPER CONDOMINIUM ASSOCIATION
AUX SABLE LIQUID PRODUCTS, LP.
THE CITY OF CHICAGO
COMMERCE ENERGY, INC.
FLINT HILLS RESOURCES, LLC
INTEGRYS ENERGY SERVICES, INC.
PDV MIDWEST REFINING LLC
UNITED AIRLINES, INC.
WELLS MANUFACTURING, INC.

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SUPPLEMENTAL DIRECT TESTIMONY OF BRADLEY O. FULTS

I.

INTRODUCTION AND QUALIFICATIONS

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

2 A. My name is Bradley O. Fults. I am the Managing Principal at Progressive Energy
3 Solutions, LLC. My address is 8908 Prestwick Circle, Brooklyn Park, MN 55443.

4

5 Q. Did you submit Direct Testimony in this proceeding on behalf of the coalition to
6 Request Equitable Allocation of Costs Together (“REACT”)?

7 A. Yes. I previously provided Direct Testimony on behalf of REACT. As discussed in that
8 testimony, REACT brings together some of the largest, most prominent industrial,
9 commercial, and governmental entities in Northern Illinois, along with retail electric
10 suppliers (“RESs”) that are interested in providing service to residential customers in the
11 Commonwealth Edison Company (“ComEd”) service territory. REACT’s members are
12 committed to advocating that the Illinois Commerce Commission (“Commission”) ensure
13 accurate, appropriate, and equitable allocation of costs that ComEd seeks to recover in
14 the instant proceeding.

15 II.

16 PURPOSE AND CONTEXT OF TESTIMONY

17 **Q. What is the purpose of your Supplemental Direct Testimony in this proceeding?**

18 A. This testimony addresses the merits of Rider SMP – System Modernization Projects
19 Adjustment (“Rider SMP”) as it has been proposed by ComEd.¹

20
21 **Q. What are your recommendations with respect to Rider SMP?**

22 A. The Commission should reject ComEd’s Rider SMP as it has been proposed, given both
23 the immediate harm that would result, and the long-term negative impact that it would
24 have upon customers and the competitive market.

25
26 First, due to the fundamental flaws in ComEd’s rate design of Rider SMP, approval of
27 Rider SMP would have immediate negative consequences. Specifically,

- 28 • The rate design of Rider SMP would result in ComEd unfairly allocating almost
29 10% of the Rider SMP costs to the 79 over-10 MW customers;
- 30 • Rider SMP fails to recognize that many over-10 MW customers already have
31 installed advanced metering, and are involved in demand response programs; and
- 32 • Rider SMP would not pass any actual costs saving benefits of proposed projects
33 to customers – instead, those cost savings would benefit ComEd and its
34 shareholders.

35

¹ The positions expressed herein are the positions of REACT as a whole, and do not necessarily represent the positions of any particular member.

36 Second, Rider SMP would cause long-term harm to customers and the competitive
37 market. Specifically,

- 38 • Rider SMP contains a very broad definition of qualifying projects that could allow
39 ComEd to include any number of projects under its provisions;
- 40 • Rider SMP provides an avenue for ComEd to dramatically increase rates with
41 little oversight by the Commission;
- 42 • The limited Commission review, combined with a lack of transparency of
43 ComEd’s allocation processes, could allow for *supply and procurement costs* to
44 be improperly recovered through *delivery services charges*; and
- 45 • Rider SMP would lead to customer confusion because it is unnecessarily
46 complicated and confusing.

47
48 Instead, to recover the costs of appropriate projects, ComEd should be required to include
49 such projects in its traditional rate case filings.

50

51 **III.**

52 **OVERVIEW OF PROPOSED RIDER SMP**

53 **Q. Please describe ComEd’s proposed Rider SMP.**

54 A. ComEd has proposed Rider SMP purportedly to recover costs associated with proposed
55 system improvement projects aimed at enhancing service to its customers. Under the
56 terms of Rider SMP, on or before August 1 each year, ComEd would file with the
57 Commission a plan describing each proposed Rider SMP project, a 15-month capital
58 budget for each project, and purported cost justification and recovery for classifying each
59 project as covered under Rider SMP. This filing would initiate a truncated review and

60 approval period lasting no more than 90 days – a sort of mini-rate case each year. Under
61 Rider SMP’s proposed structure, the Commission’s authority would be constricted to
62 allow only for approval of the proposed projects and cost-recovery – the Commission
63 would not be permitted to otherwise review the Rider SMP proposal with respect either to
64 the proposed projects or for alternative proposals. (See ComEd Ex. 11.0 at 18.)

65

66 **Q. Has ComEd identified particular projects that it proposes would be subject to Rider**
67 **SMP?**

68 A. Yes. Although Rider SMP would allow for an almost unlimited range of projects,
69 ComEd has identified eight (8) initial projects that it would pursue under Rider SMP
70 including:

71

72 • **Advanced Metering Infrastructure (“AMI”).** A metering system that records
73 electric consumption in short intervals, and allows this information to be
74 communicated more frequently over a network to the ComEd central collection
75 point. These meters can be read remotely and may allow customers to gather the
76 data locally. Since the data can be gathered locally and in real-time, customers
77 and/or ComEd theoretically would be able to use this information to manage their
78 electric usage and control devices. (See ComEd Ex. 16.0 at 3.)

79

80 • **Mobile Dispatch.** The program involves installation of new software and laptops
81 in ComEd’s dispatch center, in crew vehicles, and at other locations. ComEd
82 asserts that this project is designed to increase operational efficiencies for
restoration and dispatching crews. (See ComEd Ex. 15.0 at 17.)

83

84 • **Ranger SCADA Upgrade.** The Supervisory Control and Data Acquisition
85 (“SCADA”) system would allow ComEd enhanced monitoring and control of
equipment in the field without human intervention. ComEd asserts that this

86 system upgrade would enhance security and increase its ability to restore service
 87 during outages. (See ComEd Ex. 15.0 at 18.)

88 • **Demand Response Program.** This program would be aimed at increasing
 89 demand response from commercial and industrial customers. The idea is to
 90 reduce demand during system peak periods and when electric prices are high. A
 91 direct link to customer equipment may be established, allowing equipment to be
 92 controlled remotely. For residential customers, through ComEd’s Nature First
 93 program, customer lighting, cooling, or standby generation equipment would be
 94 controlled during high-priced periods or when ComEd’s system is near peak
 95 demand. (See ComEd Ex. 16.0 at 6.)

96 • **Automatic Switches Recloser, Enhanced Line Isolating Control, and**
 97 **Automatic Line Reconfiguration Projects.** These projects all would be aimed
 98 at increasing efficiency and reliability, while minimizing interruptions. (See
 99 ComEd Ex. 15.0 at 17, 20-24.)

100

101 **Q. What is your understanding of the reason that ComEd is proposing Rider SMP?**

102 **A.** ComEd asserts that the initial SMP projects would upgrade ComEd’s system,
 103 incorporating new technology to increase the availability of near real-time information
 104 for customers and ComEd, increase system reliability, reduce operating costs, and
 105 enhance customer service. (See ComEd Ex. 16.0 at 2.) ComEd witnesses have stated
 106 that these SMP projects are *not necessary* for ComEd to provide basic safe, adequate, and
 107 reliable delivery service consistent with its statutory obligations. (See, e.g., ComEd Ex.
 108 15.0 at 26.) Under traditional rate recovery, ComEd would implement the programs and
 109 receive authorization to recover the prudent costs of these projects in the subsequent rate
 110 proceeding. ComEd asserts Rider SMP will allow ComEd to recovery its costs for these
 111 projects “in a more timely fashion” than under the “traditional” regulatory approach.

112 (ComEd Ex. 14 at 4.) Thus, ComEd has proposed Rider SMP as a mechanism to bypass
113 this “traditional” ratemaking structure.

114
115 In short, Rider SMP would provide ComEd a process to obtain Commission pre-approval
116 for guaranteed recovery of costs while allowing it to also avoid the traditional “rate case”
117 regulatory lag and risk for recovering SMP capital costs at a later time.

118
119 **Q. Is regulatory lag necessarily a significant problem that would justify bypassing the**
120 **safeguards associated with traditional ratemaking?**

121 A. No. Nothing prevents ComEd from seeking rate increases as often as it chooses. Since
122 1999, ComEd has initiated four (4) new proceedings to recover costs it has been incurring
123 to maintain and improve its distribution system. The traditional ratemaking process
124 allows ComEd to recover its prudent investments in its distribution system while
125 allowing the Commission, Staff, and intervenors time to evaluate the costs, benefits, and
126 proposed cost-recovery allocations for specific projects. Somewhat surprisingly – given
127 the regulatory bypass that is at the heart of Rider SMP – ComEd has stated publicly that
128 it anticipates submitting rate proceedings on a more “regular” basis than in the past. For
129 instance, Exhibit 4.1 attached hereto is a presentation made by the John Rowe, Chairman
130 of ComEd’s parent company, Exelon Corporation, in which Mr. Rowe indicates that:

131 After 2007, ComEd’s earnings are expected to increase as regulatory lag is
132 reduced over time through regular rate requests....

133
134 (See REACT Ex. 4.1 at 30.)

135 **Q. Would ComEd implement the proposed SMP projects without approval of**
136 **Rider SMP?**

137 A. It is not clear whether ComEd will implement what it refers to as “SMP-eligible projects”
138 if the Commission rejects ComEd’s proposed Rider SMP. According to ComEd witness
139 Williams, ComEd’s existing capital budget program does not provide funding for
140 advanced technologies like the ones proposed under Rider SMP. (See ComEd Ex. 4.0 at
141 29.) However, that does not necessarily indicate that the projects would not be
142 undertaken if the Commission maintains its traditional ratemaking paradigm. It would be
143 helpful if ComEd would clarify its position in its rebuttal testimony.

144

145 **IV.**

146 **ANALYSIS OF PROPOSED RIDER SMP**

147 **Q. What is your recommendation with regard to ComEd’s proposed Rider SMP?**

148 A. The Commission should reject ComEd’s proposed Rider SMP, and direct ComEd to
149 implement appropriate projects under the traditional ratemaking paradigm.

150

151 **Q. Why should the Commission reject ComEd’s proposed Rider SMP?**

152 A. REACT has a number of concerns with the rate design of proposed Rider SMP that
153 warrant the Commission rejecting Rider SMP as the mechanism to achieve technological
154 advancement. Individual proposals and technologies that ComEd has identified as
155 “SMP-eligible projects,” such as real-time energy usage information and more options for
156 demand reduction, may have merit and present some benefits to customers; however,
157 Rider SMP is neither a necessary nor an appropriate regulatory mechanism to evaluate

158 and implement those projects. The Commission could endorse specific programs in the
 159 context of a rate case (perhaps even this rate case) using its traditional ratemaking
 160 paradigm. Unfortunately, the benefits of the individual programs that may exist are far
 161 outweighed by the inherent deficiencies of ComEd’s proposed Rider. Customers and the
 162 competitive market would be harmed if the Commission were to approve ComEd’s
 163 proposed Rider SMP. These concerns are discussed in detail below.

164 **A. COMED’S PROPOSED RIDER SMP WOULD CAUSE**
 165 **IMMEDIATE HARM DUE TO ITS IMPROPER DESIGN.**

166
 167 **1. Rider SMP Would Improperly Over-Allocate The Costs Of**
 168 **The SMP-Eligible Projects To The 79 Over-10 MW Customers.**
 169

170 **Q Please summarize your concern with the way in which ComEd has proposed to**
 171 **recover the costs it would incur to implement its Rider SMP projects.**

172 A. Because ComEd has proposed to recover Rider SMP costs solely through a volumetric
 173 charge, the over-10 MW customers would be overcharged for the initial SMP projects,
 174 and likely would be overcharged in the future as well. In fact, the 79 over-10 MW
 175 customers would have to pay almost 10% of the total cost associated with Rider SMP.

176
 177 **Q Has ComEd provided any capital investment data related to the initial Rider SMP**
 178 **projects that it proposes?**

179 A. Yes. ComEd’s Ex. 15.2 provided a brief summary of certain of the proposed SMP
 180 projects and forecasted capital and O&M costs. The following Table 1 summarizes the
 181 initial proposed SMP projects and their capital and O&M costs, which would total about
 182 \$830 million, excluding annual O&M costs. These projects would be implemented over
 183 a five-year period beginning in the last quarter of 2008. (See ComEd Ex. 16 at 5.)

184
185

Table 1. Proposed SMP Projects

<u>Project</u>	<u>Capital & O&M</u>
AMI - Advanced Metering Infrastructure	\$615,300,000
Demand Response	
C&I Control System	\$4,785,000
Growth	\$57,140,000
Mobile Dispatch	\$10,250,000
Ranger SCADA System	\$8,450,000
Distribution Automation	\$134,150,000
Total Capital and O&M	\$830,075,000
Source: ComEd Ex. 14.1	

186

187 **Q. Please explain how ComEd has proposed to recover its capital investment associated**
188 **with Rider SMP projects.**

189 A. ComEd has proposed recovering its costs for Rider SMP projects solely through a single
190 volumetric per kWh charge; as a result, the monthly per kWh charge applied to a
191 residential customer and an over-10 MW customer would be the same. Under ComEd's
192 proposed Rider SMP rate design of Rider SMP there would not be any demand-related
193 per kW charges or monthly customer charges.

194
195 **Q. Have you been able to calculate the dollar impact that ComEd's initial SMP**
196 **projects would have on customers under the rate design ComEd has proposed?**

197 A. Yes. Annual costs for ComEd's customers would increase from about \$8 million in 2009
198 to over \$84 million in 2012, just to implement this initial round of proposed projects.
199 The estimated per kWh charge and estimated monthly customer costs are provided in
200 ComEd Ex. 14.1. The annual costs for each customer class associated with Rider SMP
201 were calculated using these charges and the number of customers for each customer class

202 provided in ComEd Schedule E-5. Table 2 below provides a summary of the annual
 203 SMP costs by customer class.

204 **Table 2.** Rider SMP, Annual Cost to Customer Classes
 205

	<u>No. Customers</u>	<u>Annual Cost</u>			
		<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Single Family w/o Space Heat	2,224,785	\$1,935,563	\$6,407,381	\$12,837,009	\$19,667,099
Multi Family w/o Space Heat	982,552	\$393,021	\$1,296,969	\$2,593,937	\$3,969,510
Single Family w/ Space Heat	35,088	\$76,141	\$254,037	\$508,074	\$778,954
Multi Family w/ Space Heat	154,290	\$155,833	\$519,957	\$1,041,458	\$1,595,359
Watt-Hour	97,839	\$48,920	\$162,413	\$323,847	\$497,022
Small Load	224,757	\$1,033,882	\$3,445,525	\$6,891,050	\$10,568,074
Medium Load	17,770	\$979,838	\$3,266,304	\$6,532,430	\$10,016,416
Large Load	4,298	\$922,351	\$3,074,488	\$6,148,977	\$9,428,437
Very Large Load	1,897	\$1,752,411	\$5,841,375	\$11,682,731	\$17,913,542
Extra Large Load	53	\$376,287	\$1,254,292	\$2,508,583	\$3,846,494
High Voltage (<10 MW)	41	\$42,599	\$141,997	\$283,995	\$435,458
High Voltage (> 10MW)	26	\$432,450	\$1,441,500	\$2,883,000	\$4,420,600
Railroad	4	\$92,201	\$307,338	\$614,676	\$942,503
Annual Totals		\$8,241,496	\$27,413,575	\$54,849,767	\$84,079,467

Source: ComEd Exhibit 15.2 and number of customers data from Schedule E-5.

206

207 **Q. Have you calculated the percentage of the SMP-related costs that would be allocated**
 208 **to each customer class?**

209 **A.** Yes. Under ComEd’s proposal, the 79 over-10 MW customers would be assessed almost
 210 10% of the overall Rider SMP costs. Table 3 details the percentage of total SMP costs
 211 (as identified in Table 2) for each year for each customer class.

212
213
214

**Table 3. Annual SMP Customer Cost
Percent of Total by Customer Class**

	<u>Percent of Total SMP Cost</u>
Single Family w/o Space Heat	23.40%
Multi Family w/o Space Heat	4.73%
Single Family w/ Space Heat	0.93%
Multi Family w/ Space Heat	1.90%
Watt-Hour	0.59%
Small Load	12.57%
Medium Load	11.91%
Large Load	11.21%
Very Large Load	21.30%
Extra Large Load	4.57%
High Voltage (<10 MW)	0.52%
High Voltage (> 10MW)	5.26%
Railroad	1.12%
Over 10 MW	9.83%
Source: Sum of annual costs divided by sum of customer class costs (see Table 2 above).	

215

216 **Q. How does ComEd’s proposed recovery of annual SMP costs from the over-10 MW**
217 **customers under proposed Rider SMP compare to overall costs recovered from**
218 **these same customers in ComEd’s base rates?**

219 A. ComEd’s proposed design of Rider SMP would improperly allocate additional costs to
220 the Extra Large and High Voltage over-10 MW customers at a rate that is completely out
221 of proportion to the percentage of base rates assigned to these customers. Under
222 ComEd’s proposed Rider SMP, the percentage of costs assigned to the over-10 MW
223 customers is more than 400% of the total current allocations in base rates. ComEd’s
224 proposed Rider SMP cost allocation to the over-10 MW customers is even more than
225 170% of the percent of base rates that ComEd has proposed in this proceeding (as explain
226 in detail in REACT’s direct testimony, ComEd’s proposed base rates themselves would

227 vastly over-allocate costs to the over-10 MW customers). ComEd has not presented any
 228 testimony that would justify such a disproportionate allocation of SMP costs to these
 229 customers.

230

231 **Q. Please explain how you calculated those figures.**

232 A. ComEd provided the overall revenue requirement (*i.e.*, customer costs) for each customer
 233 class in ComEd Schedule E-5. A summary of these costs by customer class is shown
 234 below in Table 4, indicating that the Extra Large and High Voltage over-10 MW
 235 customers currently are responsible for around 1.8% of ComEd’s revenue, and would be
 236 responsible for about 3.6% of the overall revenue under ComEd’s proposed rates.

237 **Table 4.** Summary of Total Current and Proposed Customer Class Revenue

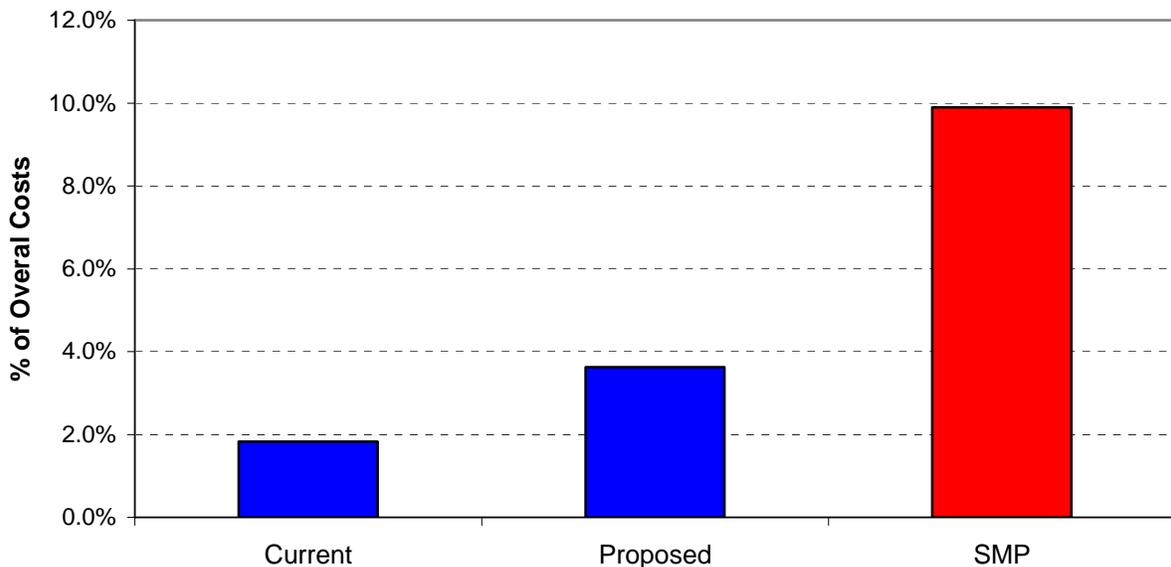
<u>Total Revenue</u>	<u>Current</u>	<u>Proposed</u>	<u>Inc. %</u>
Residential	\$886,503,733	\$1,105,154,826	25%
Non-Residential	\$776,254,065	\$913,758,644	18%
Lighting	<u>\$27,135,166</u>	<u>\$29,912,530</u>	10%
Total	\$1,689,892,964	\$2,048,826,000	21%
Over 10-MW	\$21,657,019	\$52,442,914	142%
High Voltage	\$9,161,426	\$21,817,825	138%
<u>% of Total Revenue</u>			
Over 10 MW	1.28%	2.56%	
High-Voltage	<u>0.54%</u>	<u>1.06%</u>	
Total	1.82%	3.62%	
Source: Customer summary cost data obtained from ComEd Schedule E-5, current and proposed rates. Note that Schedule E-5 groups all high-voltage customers into one delivery group.			

238

239 **Q. Can you illustrate how the costs allocated to the over-10 MW customers under**
 240 **ComEd’s proposed Rider SMP compare to the costs ComEd otherwise has allocated**
 241 **to the over-10 MW customers through base rates?**

242 A. Yes. The following Table 5 graphically summarizes costs by percent allocated to the
 243 over-10 MW customers, and indicates that over-10 MW customers would pay a
 244 significantly higher percentage of SMP costs under ComEd’s proposed uniform
 245 volumetric per kWh charge than if the costs were included in base rates and recovered
 246 through distribution charges.

247 **Table 5. Over-10 MW Cost Recovery Comparison**
 248 **Rider SMP vs. Current and Proposed Rates (% of Total Costs)**



249
 250 **Q. Do you have other concerns regarding the disproportionate cost recovery of Rider**
 251 **SMP costs from the over-10 MW classes?**

252 A. Yes. ComEd has proposed that all Rider SMP costs be recovered via a uniform per kWh
 253 charge for all customers. This design is not appropriate for recovery of capital
 254 investment costs for distribution services. The costs that ComEd would incur associated

255 with those projects would not vary with its customers' energy consumption. As a result,
256 it would be improper to design the cost-recovery mechanism based solely upon
257 customers' energy consumption.

258
259 Further, under an appropriate rate design, the cost-recovery method should recognize
260 who is benefiting from the proposed projects and assign the costs accordingly to those
261 benefiting parties. For example, ComEd is proposing to invest in its demand response
262 and advanced metering programs. While this type of effort is laudable in principle, it is
263 important to note that many extra large customers already participate in demand response
264 and advanced metering programs on their own; there is no reason that these customers
265 should have to pay an additional charge to ComEd to implement these programs for other
266 customers, much less have to pay a disproportionately high percentage of ComEd's costs.
267 Absent a compelling public policy rationale, it would be improper for the Commission to
268 force the over-10 MW customers to subsidize the implementation of programs for the
269 other classes.

270
271 **2. ComEd's Proposed Rider SMP Would Fail To Recognize**
272 **That Many Over-10 MW Customers Already Have Installed**
273 **AMI And Are Participating In Demand Response Programs.**
274

275 **Q. You mentioned that some large customers have installed advanced metering and are**
276 **already participating in demand response programs. Please explain.**

277 A. Many extra large customers already have advanced metering installations, and have either
278 been participating in or evaluating demand response programs. Over the last year, PJM
279 capacity-related costs have increased dramatically, and will continue to increase
280 substantially. In fact, the PJM capacity costs for the June 2007 to June 2010 period will

281 increase by more than 325%. These large increases already are causing customers to
282 seek ways to reduce their capacity costs. The PJM demand response program reduces
283 capacity costs for customers who are able to lower their demand when requested by PJM,
284 generally during the summer months.

285

286 **Q. Are companies actively recruiting customers to participate in demand response**
287 **programs?**

288 A. Yes. Many suppliers are now actively trying to sign up customers for the PJM demand
289 response programs. Suppliers as well as customers benefit because the suppliers retain a
290 portion of the capacity savings for their services to administer the program for the
291 customer. Thus, even without ComEd incurring costs under Rider SMP programs,
292 competitive suppliers are providing demand response programs.

293

294 **Q. How should this impact the Commission’s evaluation of ComEd’s proposed Rider**
295 **SMP?**

296 A. Requiring customers to pay for these types of projects a second time through Rider SMP
297 would amount to a form of double collection and create a subsidy. As REACT witness
298 Merola observed, the concept of fair cost causation principles requires that, absent a
299 compelling public policy argument, costs should be assigned to the cost causer. (*See*
300 REACT Ex. 3.0 at 6.) In this instance, ComEd has not presented any evidence of a
301 “compelling” public policy that would justify the misallocation of costs.

302 **3. Savings Achieved By Rider SMP Projects**
 303 **Would Not Be Passed Along To Customers.**
 304

305 **Q. Does it appear that ComEd would experience any cost savings as a result of**
 306 **implementing the initial Rider SMP projects that it has identified?**

307 A. ComEd believes it would achieve some significant cost savings as a result of
 308 implementing the Rider SMP projects it has identified. For example, ComEd witness
 309 Clair cited the following cost savings, benefits, and efficiencies associated with the Rider
 310 SMP proposals:

- 311 • Eliminate 675 full-time meter reader and supervisor positions;
- 312 • Eliminate all the related meter reading equipment such as 400 vehicles and tools;
- 313 • Improve meter reading accuracy and collections;
- 314 • Reduce billing errors and customer complaints;
- 315 • Lower meter problems related to stuck and broken meters;
- 316 • Increase efficiency of connecting and disconnecting customers; and,
- 317 • Enhance theft detection.

318 (*See* ComEd Ex. 16.0 at 11.) As illustrated in ComEd Ex. 15.2, the potential AMI
 319 savings alone could be \$110 million annually. Savings for the other SMP projects would
 320 further increase benefits to ComEd that would not be passed on to customers.

321
 322 **Q. Has ComEd proposed a mechanism to allow customers to share in the benefit of**
 323 **these cost savings?**

324 A. No. There is no provision in Rider SMP that would allow customers to benefit from or
 325 share in cost savings. As proposed by ComEd, these savings would be retained by
 326 ComEd until ComEd files for a general rate increase. Rider SMP's cost recovery

327 mechanism may actually be an incentive for ComEd to avoid or delay filing for a rate
328 case.

329

330 **Q. Would ComEd be required to perform a true up of its costs recovered under Rider**
331 **SMP?**

332 A. No. As ComEd witness Crumrine testified, ComEd's proposed Rider SMP does not
333 require a true-up of actual costs and revenues. (*See* ComEd Ex. 11.0 at 21.)

334

335 **Q. Why does it matter if there is a true up of costs recovered under Rider SMP?**

336 A. Under ComEd's proposed Rider SMP, costs would be recovered from customers through
337 a volumetric per kWh charge. If actual kWh deliveries are greater than forecasted
338 volumes, ComEd would retain the additional revenue collected. In order for Rider SMP
339 to be designed to ensure recovery of ComEd's actual costs, a true-up would be required.
340 Without a true-up, ComEd would have the incentive to make sure there is no under
341 recovery of costs, but no disincentive to prevent over-recovery of its actual SMP costs.

342

343 Annual true-up of costs recovered through a rider is standard cost recovery practice. For
344 example, a review of ComEd's Rider ECR, Environmental Cost Recovery, includes
345 provisions for annual reconciliation. (*See* Ill. C.C. No. 4, Original Sheet No. 440.1.)

346

347 **B. COMED’S PROPOSED RIDER SMP WOULD LEAD TO ONGOING**
348 **IMPLEMENTATION AND COMPETITIVE MARKET ISSUES**

349
350 **1. Rider SMP Is Inappropriately Broad.**
351

352 **Q. Would Rider SMP projects be limited to the projects ComEd has identified in this**
353 **proceeding?**

354 A. No. The terms found in ComEd’s proposed Rider SMP suggest that each year ComEd
355 would submit a filing with the ICC for a 90-day review detailing the “system
356 modernization projects” that ComEd seeks to undertake pursuant to the rider. As ComEd
357 develops projects unrelated to those being proposed in this proceeding, ComEd could
358 request approval to implement these additional projects under Rider SMP.

359
360 **Q. How does ComEd define a “System Modernization Project” to qualify a project for**
361 **cost recovery under Rider SMP?**

362 A. ComEd’s proposed definition of a “System Modernization Project” is inappropriately
363 broad. The definition of System Modernization Project in the proposed Rider SMP tariff
364 includes such general items as “any capital investment (a) that *the Company classifies* as
365 pertaining to the improvement of the Company’s distribution system for the purpose of
366 enhancing service...” (ComEd Ex. 12.18, Ill. C.C. No. 4, Original Sheet No. 626)
367 (emphasis added).

368
369 **Q. Should the Commission be concerned about this broad definition of System**
370 **Modernization Projects?**

371 A. Yes. It is hard to imagine any project that would not fall under the shadow of this
372 definition. This broad application would open the door for ComEd to dump every

373 conceivable project into Rider SMP under the guise of “system modernization,” and
 374 thereby avoid the traditional rate making analysis associated with such projects. As
 375 discussed earlier,, Rider SMP does not contain any true up mechanism and imposes a
 376 very truncated annual Commission review process. Thus, ComEd not only would be able
 377 to avoid the scrutiny of the traditional rate making analysis for the vast range of projects
 378 that could conceivably fall under Rider SMP, but the projects might not receive the type
 379 of regulatory review that is necessary to ensure that the costs associated with these
 380 projects are properly allocated.

381
 382 **2. Rider SMP Would Create Customer Confusion.**
 383

384 **Q. Should the Commission be concerned about the way in which proposed Rider SMP**
 385 **would be implemented?**

386 A. Yes. Rider SMP is incredibly complicated in its application and would result in customer
 387 confusion, as customers would see their delivery service bills fluctuate on a quarterly
 388 basis to account for Rider SMP projects that likely will not receive the attention that
 389 ComEd rate cases historically have received.

390
 391 **Q. Why would Rider SMP create customer confusion?**

392 A. There are at least two (2) ways in which Rider SMP would result in customer confusion.

393
 394 **First**, each year ComEd would make a filing with the Commission detailing the proposed
 395 Rider SMP projects for which it is seeking recovery under the Rider. Under Rider SMP,
 396 the Commission would have only 90 days to complete its review of the merits of the
 397 proposals and make a determination of whether the costs are appropriate. In short, the

398 Commission, Staff and intervenors would have only three months to complete a rate case
399 for the proposed projects.

400
401 **Second**, even within the context of those truncated proceedings, the evaluation of each
402 proposed Rider SMP project would be complicated. With each filing, the proposed price
403 changes that would have to be reviewed and understood by the Commission, Commission
404 Staff, and concerned customers and other intervenors. As the Attorney General and CUB
405 pointed out in their joint Exhibit 1.0 at 26, these parties would need to develop
406 complicated accounting practices for each known project to account for book
407 depreciation, accrual rates that differ by FERC account, and then conduct parallel
408 calculations of tax depreciation rates based on the particular class of assets for estimation
409 of tax depreciation and Accumulated Deferred Income Taxes beginning at the point when
410 each SMP asset is placed in service. This process inevitably would result in confusion
411 and disputes related to the merits of the proposed periodic price changes.

412
413 As ComEd witness Crumrine has acknowledged, ComEd views the annual 90-day Ride
414 SMP proceedings as a sort of “mini-rate case.” (*See* ComEd Ex. 11.0 at 17.) That is an
415 interesting observation to make in a full rate proceeding that is scheduled to take almost a
416 year to complete. In essence, ComEd’s proposed Rider SMP would require the entire 11-
417 month traditional rate case process to be completed in less than three months. The
418 logistical issues associated with reviewing the various SMP projects and associated cost
419 data, discovery, testimony, motion practice, hearings, briefing, and Commission
420 deliberation are profound.

421 It simply is not realistic to assume that the Commission, Staff, and interested customers
422 and intervenors can adequately assess the prudence and reasonableness of proposed Rider
423 SMP investments and charges within the truncated 90-day process proposed by ComEd.
424 This is especially true if ComEd were to take advantage of the broad definition of
425 “System Modernization Projects” in its proposed Rider SMP and dump in a large volume
426 of projects that may fall under that definition.

427

428 **Q. Do you believe Rider SMP would increase the complexity associated with customers**
429 **determining their electricity budgets?**

430 A. Yes. Under the terms of Rider SMP, ComEd would adjust the line item for Rider SMP
431 costs on a quarterly basis. Thus, customers would not be able to accurately budget for
432 their delivery services. Given recent increases in ComEd’s delivery services rates and
433 PJM transmission costs, as well as the volatility in energy commodity prices, companies
434 in Illinois already have an extremely difficult job in trying to manage their energy costs;
435 including a further fluctuating cost, over which the customers have no control, and from
436 which they may receive no benefit seems inappropriate, to say the least.

3. **ComEd’s Proposed Rider SMP May Result
In ComEd or Its Unregulated Affiliates
Providing Competitive Services Funded By
Non-Competitive Delivery Services Customers.**

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Q. What concerns do you have regarding the impact of Rider SMP on customers served by a RES or other competitive supplier?

A. At this time, it is unclear how the value of the enhanced service offering through ComEd’s SMP programs would be used by ComEd or made available to RESs or other companies that are interested in providing competitive services in the Illinois retail electric markets. This uncertainty raises competitive concerns that may not fully surface until well after the conclusion of this rate case.

Q. Can you provide an example to illustrate this concern?

A. Yes. The technologies used and implemented for the Rider SMP programs may provide services that go beyond services directly associated with electric delivery service, and could provide new business opportunities for ComEd or its unregulated affiliates such as value-added services for data management, information technologies, or energy management. If the SMP project deployment were to provide ComEd or its unregulated affiliates an opportunity to provide these enhanced competitive services that is not made available to RESs and other Illinois retail market participants, regulated delivery customers would have been forced to fund equipment used to provide non-delivery, competitive services. Based upon the evidence ComEd has provided regarding Rider SMP, it would be inappropriate for the Commission to endorse a tariff that would allow for such cross-subsidization. The Commission should not encourage such cross-subsidization when there is not a public policy requiring such a result.

463 **Q. Are there other competitive market concerns associated with the truncated 90-day**
 464 **process proposed by ComEd?**

465 A. Yes. The broad definition of qualifying “System Modernization Projects” would allow
 466 ComEd to throw all sorts of additional projects into Rider SMP for guaranteed cost
 467 recovery. For example, given the lack of transparency associated with the procurement
 468 costs that ComEd incurs, ComEd could include in the Rider SMP delivery services
 469 charges costs that would be appropriately be categorized as supply or procurement
 470 related. A 90-day proceeding would not provide adequate time to develop a record that
 471 would allow the Commission to make a rational determination on the merits of the
 472 proposed programs and the related costs and charges.

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CONCLUSION AND RECOMMENDATIONS

476 **Q. Please summarize your overall conclusions and recommendations with respect to**
 477 **Rider SMP.**

478 A. The individual initial projects that ComEd proposes to include in the Rider SMP may
 479 have some merit and benefit for customers and may, in fact, be appropriate costs to
 480 capture in the context of a traditional ratemaking proceeding. However, those benefits
 481 are far outweighed by the serious deficiencies inherent in the mechanism that ComEd has
 482 proposed to implement those programs. The Commission should reject proposed Rider
 483 SMP for the following reasons:

- 484 • Rider SMP would unfairly over-allocate almost 10% of the total Rider SMP costs
 485 to the 79 over 10-MW customers;

- 486 • Rider SMP fails to recognize that many over-10 MW customers already have
487 installed AMI and are participating in demand response programs;
- 488 • Rider SMP does not flow through any actual costs saving benefits of proposed
489 projects to customers;
- 490 • Rider SMP does not contain any sort of true up mechanism.
- 491 • Rider SMP contains an inappropriately broad definition of qualifying projects that
492 could be undertaken pursuant to its provisions;
- 493 • Rider SMP provides an avenue for ComEd to dramatically increase rates with
494 little oversight by the Commission;
- 495 • The limited Commission review, combined with a lack of transparency of
496 ComEd’s allocation processes could allow for *supply and procurement costs* to be
497 improperly recovered through *delivery services charges*; and
- 498 • Rider SMP is unnecessarily complicated and confusing to customers.

499
500 Instead, to recover the costs of such projects, ComEd should be required to include the
501 projects in its traditional rate case filings.

502
503 **Q. Does this conclude your supplemental direct testimony?**

504 A. Yes.