

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

2 A. My name is Richard A. Baudino. My business address is J. Kennedy and Associates, Inc.
3 ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia
4 30075.

5 **Q. What is your occupation and by whom are you employed?**

6 A. I am a consultant to Kennedy and Associates.

7 **Q. Please describe your education and professional experience.**

8 A. I received my Master of Arts degree with a major in Economics and a minor in Statistics
9 from New Mexico State University in 1982. I also received my Bachelor of Arts Degree
10 with majors in Economics and English from New Mexico State in 1979.

11 I began my professional career with the New Mexico Public Service Commission Staff in
12 October 1982 and was employed there as a Utility Economist. During my employment
13 with the Staff, my responsibilities included the analysis of a broad range of issues in the
14 ratemaking field. Areas in which I testified included cost of service, rate of return, rate
15 design, revenue requirements, analysis of sale/leasebacks of generating plants, utility
16 finance issues, and generating plant phase-ins.

17 In October 1989, I joined the utility consulting firm of Kennedy and Associates as a
18 Senior Consultant where my duties and responsibilities covered substantially the same
19 areas as those during my tenure with the New Mexico Public Service Commission Staff.
20 I became Manager in July 1992 and was named Director of Consulting in January 1995.
21 Currently, I am a consultant with Kennedy and Associates.

22 CG Exhibit 2.1 summarizes my expert testimony experience.

23 **Q. On whose behalf are you testifying?**

24 A. I am testifying on behalf of the Commercial Group, which is an ad hoc association of
25 retail companies that own and operate retail stores within Commonwealth Edison
26 Company's ("ComEd" or the "Company") service territory. These companies include
27 Best Buy Co., Inc., J.C. Penney Corporation, Inc., Macy's, Inc., Safeway, Inc. and Wal-
28 Mart Stores, Inc., as well as the Illinois Retail Merchants Association ("IRMA"). Mr.
29 David Vite, witness for the Commercial Group, describes the IRMA in more detail in his
30 Rebuttal Testimony as well as the impact retail companies have on the State of Illinois.

31 **Q. What is the general electric load profile of the Commercial Group?**

32 A. Most of the electric load of members of the Commercial Group falls into the Small,
33 Medium, Large and Very Large Load classes of ComEd.

34 **Q. What is the purpose of your testimony?**

35 A. The purpose of my testimony in the proceeding is to respond to the Direct Testimonies of
36 Mr. David L. Stowe, Mr. Robert Stephens, Dr. Dale E. Swan, and Mr. Mike Luth. I will
37 respond to these witnesses' testimony regarding customer class cost allocation. I will
38 also respond to the Rebuttal Testimonies of ComEd witnesses Paul Crumrine, Alan
39 Heintz, Lawrence Alongi, and Chantal Jones.

40 **Q. Please summarize your testimony.**

41 A. In their initial direct testimony, ComEd's rate design witnesses proposed to allocate costs
42 to reflect the results of ComEd's class cost of service ("CCOS") study. However, in
43 response to testimony from witnesses from the three largest load customer classes (Extra
44 Large, High Voltage and Railroad), ComEd added an alternative recommendation if the

45 Commission does not set non-residential rates at cost – to move those rates only half way
46 toward cost. Adopting such a proposal would be fundamentally unfair for those
47 customers providing this large subsidy and should be rejected, along with proposals by
48 other parties to deviate from cost. Instead, I recommend that the Commission set rates
49 for each customer class based on the cost to serve each customer class.

50 **Q. Before you respond to specific pieces of testimony, please describe in a general**
51 **manner the testimony provided to date on the relationship between cost and rate**
52 **design.**

53 A. ComEd witness Crumrine testified: “Under the current embedded cost paradigm, this
54 [i.e. the embedded cost approach] is the only objective benchmark to fairly allocate costs
55 among customer classes” and if “one customer class does not pay its fair share of costs,
56 another customer class ultimately must pick up the bill, which results in the creation of a
57 subsidy.” ComEd Ex. 30.0, p.43. Mr. Crumrine identified the subsidy provided to the
58 three largest customer classes by the remaining customer classes as \$44 million per year
59 at current rates. ComEd Ex. 30.0, p.47. In its direct testimony, ComEd proposed to
60 eliminate this subsidy and move rates to cost. As this was the correct approach to rate
61 design, the Commercial Group did not file direct testimony on this point. Nevertheless, a
62 number of witnesses representing interests in the three largest load classes recommended
63 some form of average class increase, whether the system average increase, the non-
64 residential average increase or another average increase. In its rebuttal testimony,
65 ComEd responded to these proposals with an alternative of moving only 50 percent
66 toward cost. Compared to the Company’s original proposal, this approach would
67 perpetuate the subsidies that ComEd has identified, albeit at a reduced level going

68 forward. This alternative proposal would raise rates for the Commercial Group's classes
69 of service instead of eliminating the cross-subsidy that the group is providing to other
70 classes.

71 Given the alternative revenue allocation proposals of the Staff and Intervenor witnesses
72 and ComEd's new proposed alternative allocation for its three largest load classes, it
73 became necessary for the Commercial Group to respond to these proposals.

74 **Response to Mr. Stowe and Mr. Stephens**

75 **Q. Beginning on page 12 of his Direct Testimony, Illinois Industrial Energy**
76 **Consumers' ("IIEC") witness Mr. Stowe testified that ComEd's class cost of service**
77 **study does not recognize primary and secondary voltage differences. Do you agree**
78 **with Mr. Stowe's testimony here?**

79 A. Yes. ComEd's class cost of service ("CCOS") does not properly differentiate between
80 primary and secondary voltage levels. I also agree with Mr. Stowe's testimony on page
81 22, lines 357 through 364, that the Company's CCOS study allocates secondary costs to
82 customers that do not use secondary facilities. This has the effect of allocating too much
83 cost to customers that only receive service from primary facilities and allocating too little
84 cost to customers that use both primary and secondary facilities.

85 **Q. Beginning on page 27, line 440, Mr. Stowe describes the merits of applying a**
86 **minimum distribution system ("MDS") concept to ComEd's cost of service study.**
87 **Do you agree with the use of using MDS in formulating a cost of service study?**

88 A. Yes. The underlying argument in support of a customer component for certain distribution
89 costs is that there is a minimal level of distribution investment necessary to connect a

90 customer to the distribution system that is independent of the level of demand of the
91 customer. To the extent that this component of distribution cost is a function of the
92 requirement to interconnect the customer, regardless of the customer's size, it is appropriate
93 to assign the cost of these facilities to rate schedules on the basis of the number of
94 customers, rather than on demand of the class as ComEd has done in the past.

95 **Q. Please summarize the results of the Company's CCOS study and the two revised**
96 **CCOS studies presented by Mr. Stowe.**

97 A. I have summarized the results below in Table 1. Columns 1 through 3 show each class'
98 relative rate of return ("RROR") index, which measures the class' rate of return on rate base
99 to the overall system rate of return on rate base. A relative rate of return greater than 1.0
100 indicates that a customer class is paying more than its allocated cost of service, while a
101 relative rate of return less than 1.0 shows that a customer class is providing less than the
102 system average rate of return and is paying less than its allocated cost of service. Another
103 way to view these results is that a RROR index greater than 1.0 indicates that a customer
104 class is providing subsidies to other classes and that a RROR index less than 1.0 shows that
105 a customer class is receiving subsidies from other customer classes.

TABLE 1			
COMMONWEALTH EDISON			
Comparison of Class Relative Rates of Return			
	<u>ComEd CCOSS</u>	<u>Stowe CCOSS Prim/Sec Volt.</u>	<u>Stowe CCOSS MDS Study</u>
Single Family w/o Space Heating	0.92	0.73	0.40
Multi-Family w/o Space Heating	0.44	0.28	-0.52
Single Family w/ Space Heating	1.13	0.88	1.31
Multi-Family w/ Space Heating	0.74	0.51	0.31
Watt-Hour	1.46	1.22	-0.03
Small Load	1.29	1.04	1.79
Medium Load	1.31	1.19	2.94
Large Load	1.30	1.47	3.33
Very Large Load	1.37	2.74	4.83
Extra Large Load	-0.51	-0.04	0.76
High Voltage Up to 10 Mw	-0.82	0.15	0.15
High Voltage Over 10 Mw	-0.97	-0.69	-0.69
Fixture-Included Lighting	1.54	1.51	1.59
Dusk to Dawn Lighting	1.16	0.86	2.64
General Lighting	1.17	0.93	1.39
Railroad	-0.35	0.20	1.24

106

107 **Q. What do the results of these studies indicate with respect to the Small Load,**
 108 **Medium Load, Large Load, and Very Large Load classes?**

109 A. All three CCOS studies show that the Medium, Large, and Very Large Load classes are
 110 paying in excess of their allocated cost of service. ComEd's CCOS and Mr. Stowe's
 111 MDS study show that the Small Load class is returning more than its allocated cost of
 112 service. Thus, these four classes should receive increases that are less than the system
 113 average increase.

114 **Q. On page 3, lines 49 through 54, IIEC witness Mr. Stephens recommends that unless**
 115 **and until ComEd corrects its CCOSS consistent with Mr. Stowe's**

116 **recommendations, the Commission should adjust rates based on an equal**
117 **percentage increase to all classes. Do you agree with this recommendation?**

118 A. No. None of the three cost of service studies presented by ComEd or Mr. Stowe supports
119 a system average increase to the Medium, Large, and Very Large Load classes. On the
120 contrary, all three studies support a lower than system average increase for these classes,
121 and ComEd's study and Mr. Stowe's MDS study support a lower than system average
122 increase for the Small Load class. With respect to the Small, Medium, Large, and Very
123 Large Load classes, I recommend that Mr. Stephen's recommendation regarding a system
124 average increase for all classes be rejected by the Commission.

125 **Response to Dr. Dale E. Swan**

126 **Q. On page 3 of his Direct Testimony, U.S. Department of Energy ("DOE") witness Dr.**
127 **Swan recommended that the rates of non-residential customers be adjusted by the**
128 **overall jurisdictional percentage increase that is allowed by the Commission. Please**
129 **respond to this recommendation.**

130 A. I disagree with Dr. Swan's recommendation. The CCOS studies presented in this
131 proceeding indicate that the revenue increases for the Small, Medium, Large, and Very
132 Large Load customers should be less than the system average increase. The CCOS
133 results do not support Dr. Swan's recommendation of a system average increase for these
134 customer classes.

135 **Response to Mr. Luth**

136 **Q. On page 9 of his Direct Testimony, ICC Staff witness Luth recommended that the**
137 **Distribution Facilities Charge ("DFC") be averaged for the Medium Load, Large**

138 **Load, Very Large Load, Extra Large Load, and High Voltage (Other) customers in**
139 **order to reduce ComEd's proposed increase to Extra Large Load and High Voltage**
140 **(Other) customers. Do you agree with Mr. Luth's proposal?**

141 A. No. There is no good reason to reduce ComEd's proposed increase to Extra Large Load
142 and High Voltage (Other) customers at the expense of these other non-residential classes
143 only. I believe this proposal is unduly discriminatory.

144 If the ICC determines that the increase for Extra Large Load and High Voltage customers
145 should be reduced, then I recommend that the reduction should be spread to all of
146 ComEd's other customer classes on a proportional basis. The Commission could use
147 each class' percentage of base rates, for example, to spread the reduction to the Extra
148 Large Load and High Voltage customers.

149 **Response to ComEd Rebuttal Testimony**

150 **Q. On page 9 of their Rebuttal Testimony, the panel of ComEd witnesses Alongi and**
151 **Jones proposed a 50% movement toward cost based DFCs for the Extra Large**
152 **Load, High Voltage, and Railroad classes. They also proposed that the remaining**
153 **subsidy to these classes be borne by the other nonresidential classes. Please address**
154 **this proposal.**

155 A. I recommend that this proposal be rejected on the same grounds as rejecting Mr. Luth's
156 proposal. If the Commission sees fit to continue the subsidy to the Extra Large Load,
157 High Voltage, and Railroad classes, then the remaining subsidies should be borne on a
158 proportional basis by all remaining classes. It is unfair and discriminatory to limit the
159 collection of subsidies to the remaining nonresidential delivery classes. The

160 Alongi/Jones panel presented no evidence whatsoever that their proposal to collect
161 remaining subsidies from the other nonresidential classes is reasonable or in the public
162 interest.

163 **Q. On page 3, lines 60-64 of his Rebuttal Testimony, Mr. Heintz stated that ComEd**
164 **does not record its gross plant or accumulated depreciation on its books in a manner**
165 **that would facilitate changing the COSS to recognize the distinction between**
166 **primary and secondary facilities. Please address this testimony.**

167 A. Mr. Heintz's testimony fails to support the lack of a primary/secondary distinction in the
168 Company's cost of service study. For example, the Ameren companies' cost of service
169 studies distinguish between primary and secondary facilities in their cost of service
170 studies and in their tariffs as well. ComEd has presented no evidence as to why it cannot
171 do the same.

172 **Q. Does this conclude your testimony?**

173 A. Yes.