

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

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

REBUTTAL 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.
METROPOLITAN WATER RECLAMATION DISTRICT OF GREATER CHICAGO
PDV MIDWEST REFINING LLC
UNITED AIRLINES, INC.
WELLS MANUFACTURING, INC.

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REBUTTAL TESTIMONY OF BRADLEY O. FULTS

I. INTRODUCTION AND BACKGROUND

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, an energy consulting firm that specializes in energy planning,
4 energy pricing, contract negotiations, strategic planning, and other energy matters
5 for large commercial, institutional, and industrial companies, including many
6 customers with facilities served by Commonwealth Edison Company (“ComEd”).
7 My address is 8908 Prestwick Circle, Brooklyn Park, MN 55443.

8

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

10 A. I am testifying on behalf of the coalition to Request Equitable Allocation of Costs
11 Together (collectively, “REACT”).¹

¹ The REACT members presently include: A. Finkl & Sons, Co.; Alsip Paper Condominium Association; Aux Sable Liquid Products, LP; City of Chicago; Commerce Energy, Inc.; Flint Hills Resources, LLC; Integrys Energy Services, Inc.; Metropolitan Water Reclamation District of Greater Chicago; PDV Midwest Refining LLC; United Airlines, Inc.; and Wells Manufacturing, Inc. The opinions expressed herein do not necessarily represent the positions of any particular member of REACT.

12 **Q. Have you previously testified in this proceeding?**

13 A. Yes. In this proceeding, I have filed with the Illinois Commerce Commission
 14 (“Commission”) both Direct Testimony (identified as REACT Exhibit 1.0) and
 15 Supplement Direct Testimony (identified as REACT Exhibit 4.0) on behalf of
 16 REACT.

17 **II. PURPOSE OF REBUTTAL TESTIMONY**

18
 19 **Q. What is the purpose of your Rebuttal Testimony?**

20 A. The purpose of my Rebuttal Testimony is to reiterate to the Commission that
 21 ComEd’s proposals in this proceeding would improperly allocate costs to its
 22 largest customers. I will respond to certain assertions made in the rebuttal
 23 testimony of some of ComEd’s witnesses. In particular, this Rebuttal Testimony
 24 addresses the following issues:

25 **1. Rate shock.** The enormous, disproportionate impact of ComEd’s proposed
 26 rate design on over-10 MW customers remains unjustified and unsupported by
 27 a legitimate cost of service study.

- 28 • Significantly, ComEd did not take issue with the calculation of the dollar
 29 impact of ComEd’s proposal on the over-10 MW customers that was
 30 presented in my Direct Testimony.
- 31 • Even under ComEd’s “modified” proposal, the largest of the 26 Extra
 32 Large High Voltage Customers eventually would receive more than a
 33 **\$900,000 annual rate increase**; for the 53 Extra Large customers that are
 34 not served via high voltage, the annual impact of ComEd’s proposal would
 35 range from approximately **\$420,000 at the “low” end to more than a**
 36 **\$3.2 million increase** – these proposed increases are *per year, per*
 37 *customer*.

38 • ComEd’s “modified” proposal simply would “phase in” this increase
 39 imposing a rate increase in this proceeding that it would double in
 40 ComEd’s next rate case. (*See* ComEd Ex. 32.0 at 9, lines 137-46.)

41 • ComEd does not rebut the Direct Testimony presented by REACT witness
 42 Bodmer and other witnesses, including DOE witness Swan and IIEC
 43 witnesses Stephens and Stowe, which highlight a number of fundamental
 44 deficiencies in ComEd’s proposed cost of service study. (*See* IIEC Ex. 1.0
 45 at 16, lines 289-96; IIEC Ex. 3.0 at 3, lines 19-27; DOE Ex. 1.0 at 3-4,
 46 lines 54-69 and at 9-10, lines 185-225.)

47 **Recommendation:** The Commission should increase the rates to ComEd’s
 48 largest customers by no more than the system-average increase, if any, it
 49 approves for ComEd in this proceeding.

50

51 **2. Rider SMP.** In my Supplemental Direct Testimony, I recommended that the
 52 Commission reject ComEd’s proposed Rider SMP. (*See* REACT Ex. 4.0 at 2-
 53 3, lines 22-49.)

- 54 • In its rebuttal testimony, ComEd proposed several changes to Rider SMP.
- 55 • Even with the proposed revisions, the fundamental design of Rider SMP
- 56 remains flawed because it fails to limit cost increases and fails to properly
- 57 allocate cost recovery.

58 **Recommendation:** ComEd’s revised Rider SMP proposal should be rejected.

59

60 **3. Rider ACT.** In my direct testimony I challenged ComEd’s proposal to phase-
 61 out Rider ACT, Allowance for Customer-Owned Transformers.

62 • ComEd now is proposing to remove the mandatory termination provision,
 63 but close the rate to prevent customers from initiating service under Rider
 64 ACT after a final Order is issued in this proceeding.

65 • ComEd still has not justified abandoning or closing this rate.

66 **Recommendation:** Rider ACT should be retained in its current form.

67

68 **4. Loss Factors.** ComEd continues to propose higher distribution loss factors
 69 without providing detailed justification for the proposed methodology it used
 70 to create those increases.

71 **Recommendation:** The Commission should reject the revised loss factors for
 72 its over-10MW customer classes, and require ComEd to calculate customer-
 73 specific loss factors for these customers.

74

75 **Q. Do you have any initial points that you would like to make regarding**
 76 **ComEd’s testimony?**

77 A. Yes. ComEd appears to be playing linguistic games by using terms such as
 78 “mitigation,” and “phase-in,” and referring to asserted “cross-subsidies” –
 79 ComEd’s use of all of these terms is fundamentally flawed because they rely on
 80 the assumption that ComEd has accurately determined the costs for serving its
 81 customers. ComEd has not done that. To the contrary, ComEd seems to admit
 82 that its cost study is flawed when it comes to evaluating the actual cost to serve its
 83 79 largest customers. (*See* ComEd Ex. 33.0 at 3, lines 59-64.) The Commission
 84 should not be misled by ComEd’s misuse of these terms. The bottom line is that
 85 if the underlying cost estimates are wrong, any “mitigation” or other suggested

86 fixes based on those cost estimates will be flawed, and any reference to a “cross
 87 subsidy” is, at best, inaccurate.

88

89 **Q. Would ComEd’s “mitigation” proposal materially lessen the impact to over-
 90 10 MW size customers?**

91 A. Not really. It essentially only would delay a portion of the proposed rate increase
 92 for a presumably short amount of time, and then apparently guarantees that the
 93 affected customers will receive yet another massive rate increase in ComEd’s next
 94 general rate increase proceeding.

95

96 In sum, ComEd is asking the Commission to send the following message to the
 97 largest companies that are evaluating whether to locate or expand in Northern
 98 Illinois: electric rates are high now; electric rates are going to get shockingly
 99 higher in the very near future; and for the foreseeable future, electric rates will
 100 continue to increase at an alarming rate. If the Commission were to accept
 101 ComEd’s proposal, it might be more appropriate to refer to the Commission as the
 102 Illinois *Anti*-Commerce Commission.

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III. THE REACT COALITION

Q. Please provide an overview of the REACT Coalition.

A. As I explained in my Direct Testimony, REACT is an *ad hoc* coalition, with diverse members, including some of the largest, most prominent energy users in ComEd’s service territory. REACT has not previously participated as a coalition in Commission proceedings. However, under the circumstances of this case, the customers who are members of REACT are faced with an unprecedented and potentially very onerous permanent rate increase as a result of ComEd’s flawed allocation methodologies; the retail electric suppliers that are interested in serving the residential market also observed some curious allocations, resulting in ComEd significantly understating its supply procurement costs at the expense of delivery services customers. Thus, the REACT members were compelled to organize in order to present their collective viewpoint for the Commission’s consideration.

Q. Can you share some additional information about REACT members?

A. Yes. Although ComEd refers generically to the “over-10 MW customers,” as reflected by the composition of REACT, it is worth noting that *each* of ComEd’s customers in the over-10 MW class is a substantial employer in the state, and an important member of the community in Northern Illinois. Each of these companies represents a part of the economic engine that drives the larger Illinois economy.

127 **IV. IMPACT OF PROPOSED COST INCREASE UPON CUSTOMERS IN**
 128 **THE OVER 10-MW CUSTOMER CLASSES**
 129

130 **Q. Please summarize ComEd’s proposed rate impact on the over 10-MW**
 131 **customer classes.**

132 A. As explained in my direct testimony, ComEd proposed an overall 21% rate
 133 increase for its customers. However, ComEd proposed an overall **140.4%**
 134 **increase** for Extra Large Delivery Class (over 10-MW), and a **129.4% increase**
 135 for the High Voltage Delivery Class (over-10 MW). (*See* REACT Ex. 1.0 at 15,
 136 lines 322-26.)

- 137 • The *annual* cost impact for the 26 Extra Large High Voltage Customers
 138 would range from \$158,000 (for customers with a demand of 10 MW) up
 139 to \$1,188,000 (for customers with a demand of 75 MW).
- 140 • Extra Large customers that are not served via high voltage would
 141 experience even larger annual increases, ranging from approximately
 142 \$426,000 (for customers with a demand of 10 MW) up to \$3,195,000 (for
 143 customers with a demand of 75 MW).
- 144 • Again, for customers with demands greater than 75 MW, under ComEd’s
 145 proposal, their rates would increase by **significantly more than**
 146 **\$3,000,000 every single year.**

147 Although the full impact that these rate increases will have on these customers is
 148 not known, the potential for substantial negative, rippling effects is clear – such a
 149 large increase in operating expenses is far from trivial for any business or

150 governmental entity – and the likelihood that the entire business climate in
 151 Northern Illinois could be put under severe stress is obvious.

152

153 **Q. In its rebuttal testimony, did ComEd modify the overall amount of its**
 154 **proposed rate increase?**

155 A. Yes, slightly. ComEd now proposes an overall increase of \$355.4 million instead
 156 of \$361 million. As a result, it appears that ComEd now is requesting a 20.6%
 157 overall increase, instead of its originally proposed 21% increase. (ComEd Ex.
 158 25.0 at 3, lines 46-49.) ComEd also has proposed a modification to the allocation
 159 of its proposed increase for the over-10 MW customers.

160

161 **Q. Please explain ComEd’s revised proposal as it relates to rate impact on over**
 162 **10-MW customers.**

163 A. ComEd now purports to “mitigate” the potential cost increase to the Extra Large
 164 Delivery Class, High-Voltage Customer Class, and Railroad Delivery Class.
 165 ComEd witnesses Alongi and Jones now propose to cut in half the proposed
 166 increase in the Distribution Facilities Charge (“DFC”) for this case. (See ComEd
 167 Ex. 32.0 at 9, lines 137-39.) However, this misnamed “mitigation” is contingent
 168 upon the Commission promising to impose another huge increase at the
 169 conclusion of ComEd’s next general rate proceeding. (See *id.* at lines 140-42.)

170

171 In other words, ComEd is not retreating from the enormous, unjustified rate
 172 increase that it has proposed for the over-10 MW customers. Rather, ComEd still

173 asserts that the Commission should find that ComEd is entitled to raise these
174 customers' rates by the very same full amount. The only difference is that
175 ComEd now seeks to impose half the increase immediately and half the increase
176 at a later date, most likely not later than 2010 given ComEd's claim that it intends
177 to file more frequent rate cases. (*See* ComEd Ex. 30.0 at 29, lines 654-55.) In
178 that next rate case, ComEd undoubtedly will again seek another increase in its
179 revenue requirements – which means that under ComEd's proposal, ComEd's
180 largest customers would be subject to annual per customer increases of well over
181 \$1.5 million now, and a total in the range of \$3.5 million per customer, per year
182 by the end of the next rate case. Essentially, ComEd has simply provided a little
183 more detail to the unjustified “phase-in” that Mr. Crumrine alluded to in his direct
184 testimony. (*See* ComEd Ex. 11.0 at 7, lines 134-42.)

185

186 **Q. Would it be appropriate for the Commission to adopt the “mitigation”**
187 **approach outlined in ComEd's rebuttal testimony?**

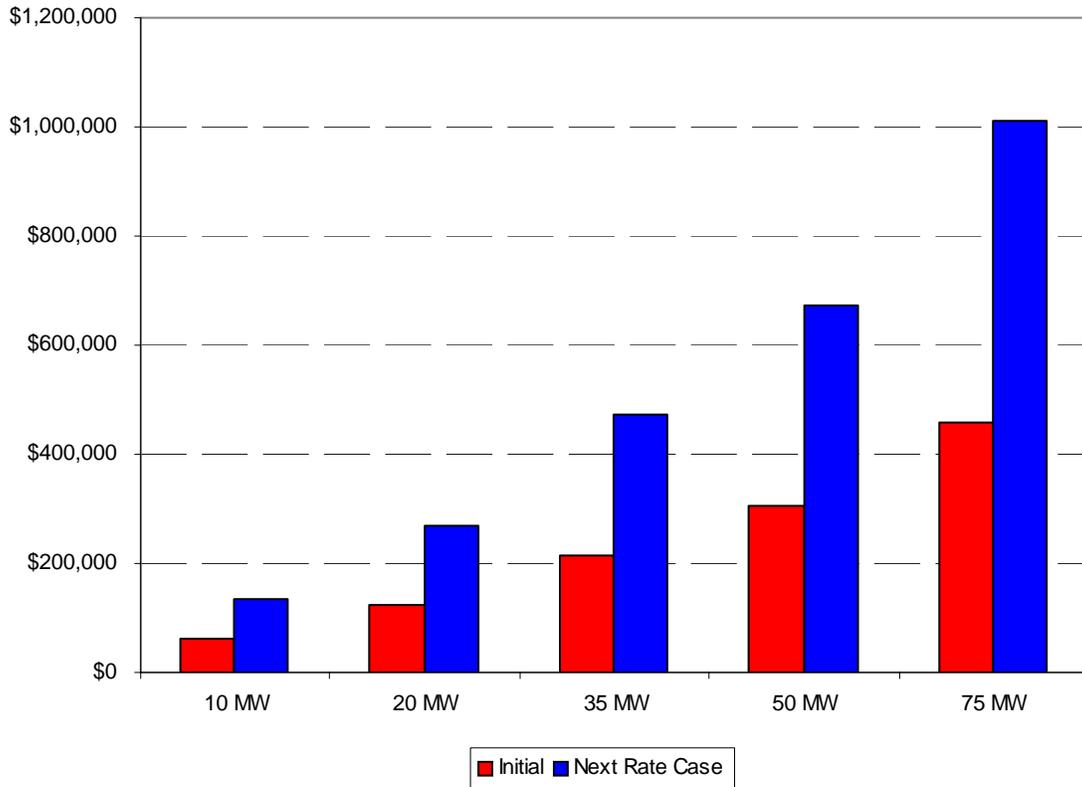
188 A. Absolutely not. ComEd appears fixated on the concepts of “mitigation,” “phase-
189 in,” and asserted “cross-subsidies.” However, these concepts **assume** that ComEd
190 has accurately determined the costs for serving its customers. It has not. To the
191 contrary, numerous intervenors have identified flaws in ComEd's cost study for
192 the over-10 MW customers, and ComEd even seems to admit that its cost study is
193 flawed when it comes to evaluating the actual cost to serve its 79 largest
194 customers. (*See* IIEC Ex. 1.0 at 16, lines 289-96; IIEC Ex. 3.0 at 3, lines 19-27;
195 DOE Ex. 1.0 at 9-10, lines 185-225. *See also* ComEd Ex. 33.0 at 3, lines 59-64.)

196

197 **Q. How would the proposed “mitigation” plan impact over-10 MW high voltage**
 198 **customers?**

199 A. As shown in Table 1, the immediate annual DFC cost impact for the 26 Extra
 200 Large High Voltage Customers would range up to \$459,000 (for customers with a
 201 demand of 75 MW), and would escalate to an **over \$1,000,000 annual increase**
 202 following the next rate case, assuming that ComEd receives a 10% increase in that
 203 case.

204 **Table 1. Annual Impact of ComEd Proposed DFC for**
 205 **Over-10 MW High-Voltage Customers**
 206 **(Initial Impact and “Promised” Impact of Next Rate Case)**
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 208



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Annual increases in Table 1 are calculated by multiplying customer monthly kW by 12 months and by ComEd's proposed increase in the \$/kW distribution facilities charge (proposed DFC less current DFC of \$1.09/kW). (ComEd Ex. 32.0 at 8, 10, Tables R3 and R3A.) “Next Rate Case” increase assumes that the Commission grants ComEd a 10% increase in its next general rate proceeding.

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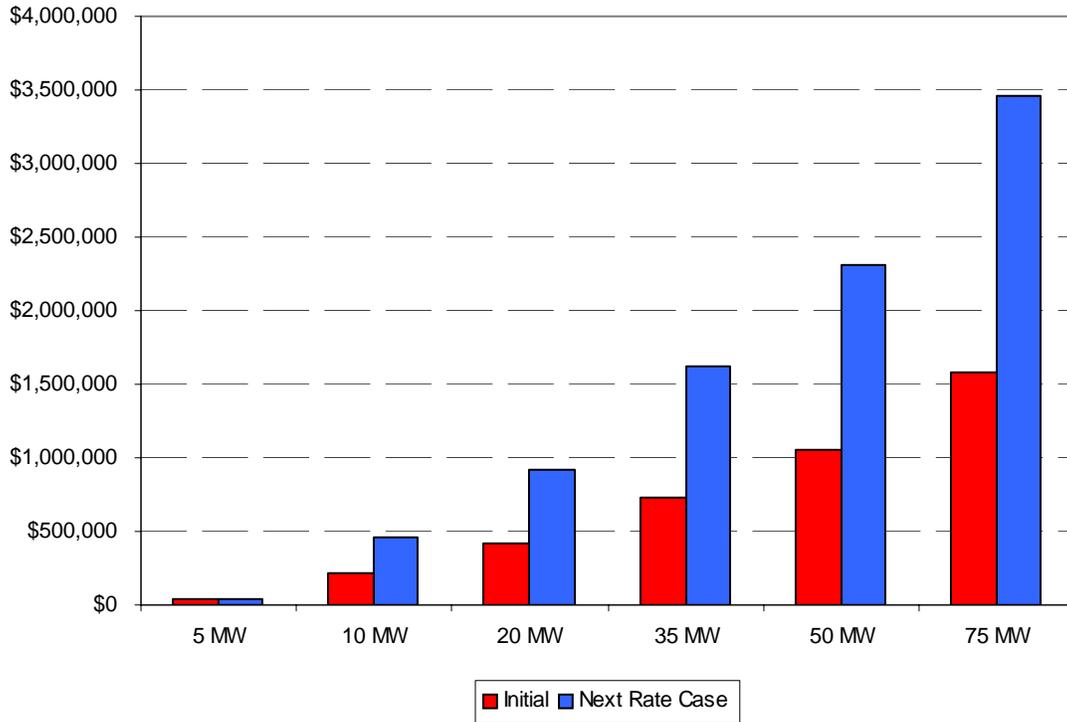
215 **Q. How does the proposed “mitigation” plan impact Extra Large over-10 MW**
216 **customers who are not served via high voltage?**

217 A. As shown in Table 2, those Extra Large customers that are not served via high
218 voltage would still experience immediate annual DFC increases ranging from
219 approximately \$210,000 (for customers with a demand of exactly 10 MW) to
220 \$1,575,000 (for customers with a demand of 75 MW). That is, for customers with
221 demands greater than 75 MW, under ComEd’s proposal, their rates would
222 *immediately increase by significantly more than 1.5 million dollars every*
223 *single year*. Then, in ComEd’s next general rate increase proceeding, in addition
224 to any further rate increase approved by the Commission, ComEd’s “mitigation”
225 proposal would double these annual increase amounts. For the largest customers,
226 the eventual impact would be **increases of in excess of 3.5 million dollars every**
227 **single year**. This compares to an immediate increase of approximately **\$41,400**
228 for a 5 MW customer, that eventually would experience a **\$35,000** increase.

229

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Table 2. Annual Impact of ComEd Proposed DFC for 5 MW and Over-10 MW High-Voltage Customers (Initial Impact and “Promised” Impact of Next Rate Case)



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242

Annual increases in Table 2 are calculated by multiplying customer monthly kW by 12 months and by ComEd's proposed increase in the \$/kW distribution facilities charge (proposed DFC less current DFC of \$2.46/kW). (ComEd Ex. 32.0 at 8, 10, Tables R3 and R3A.) 5 MW customer based upon the current DFC of \$5.22/kW. "Next Rate Case" increase assumes a 10% increase over "Promised" values.

243 **Q. How does the proposed annual DFC increase for the Extra Large and over-**
244 **10 MW High Voltage customers compare to DFC increases for the Very**
245 **Large Customer Class (1-10 MW)?**

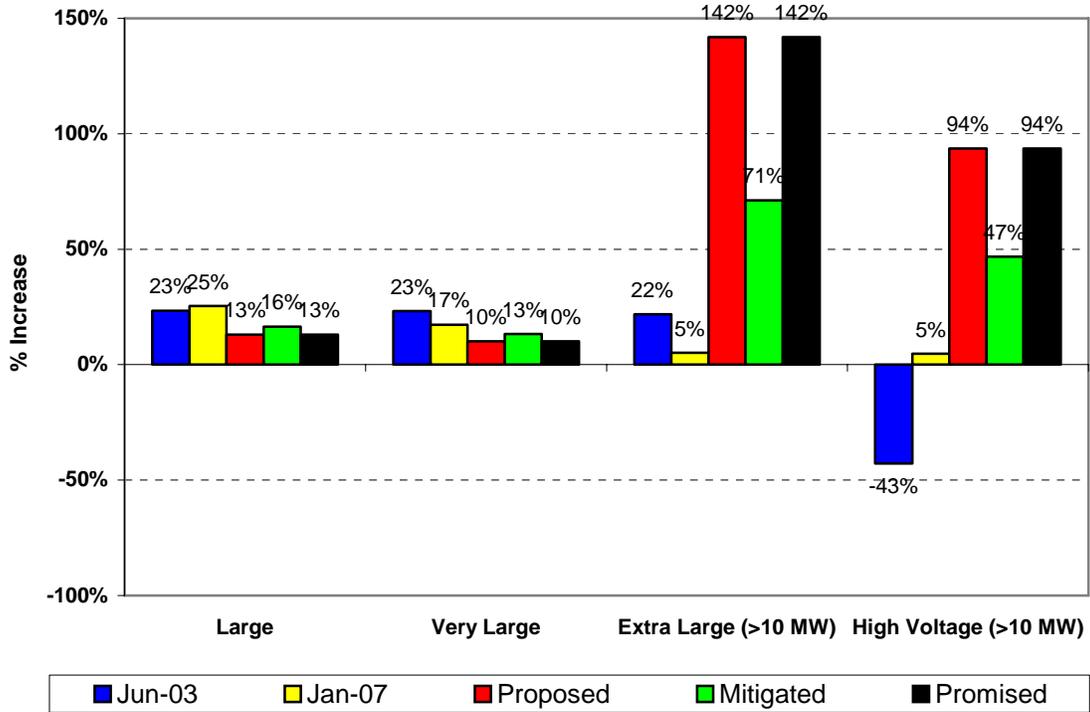
246 **A.** The following Table 3 demonstrates, as a percent increase, the disparate impact of
247 ComEd's present, proposed, and mitigated scenarios. The discrepancy is startling
248 that the proposed DFC increases to the over-10 MW customer classes ranges from
249 94 to 142% versus the proposed increases to the "Large" (16 to 13%) and "Very
250 Large" (13 to 10%) customer classes.

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Table 3. Comparison of Non-Residential Distribution Facilities Charges Increases Since 1999 -- % Increase



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Proposed Charges: ComEd Ex. 32.0, at 8, 11, Tables R3 and R3A; October 1999 Charges: ComEd Tariff ILL. C. C. Original Sheet No. 117.1; June 2003 Charges: ComEd Tariff ILL. C. C. No. 4, Original Sheet No. 119.1; January 2007 Charges: ComEd Ex. 32.0, at 8, Table R3.)

260

V. COMED'S PROPOSED CHANGES TO RIDER SMP

261

Q. You previously provided Supplemental Direct Testimony recommending that Rider SMP be rejected. Do you continue to recommend that Rider SMP be rejected?

264

A. Yes. My Supplemental Direct Testimony identified significant flaws in ComEd's proposed Rider SMP. Other witnesses, including Staff witnesses, likewise opposed ComEd's proposed Rider SMP. As a result, ComEd witness Crumrine submitted rebuttal testimony that proposed several modifications to Rider SMP

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266

267

268 stating that these revisions are based upon the provisions of Part 656 of the
 269 Commission’s rules, and address issues raised by intervenors. (ComEd Ex. 30.0
 270 at 10-13, lines 230-89.)

271

272 **Q. What is your reaction to ComEd’s proposed changes?**

273 A. The fact that ComEd has retreated from its original proposal confirms that
 274 ComEd’s original proposal was clearly inappropriate, but it does not mean that
 275 the modified proposal is somehow now acceptable. The proposed changes are not
 276 extensive enough to provide a sufficient basis for the Commission to approve
 277 Rider SMP. In other words, had the *original* proposed Rider SMP incorporated
 278 all of the changes that now appear in the modified Rider SMP, the rider still
 279 would not be justified – there are just too many problems.

280

281 **Q. Please summarize the flaws that remain in Rider SMP.**

282 A. The flaws include:

283 1. **Rider SMP is inappropriately broad.** The definition of System
 284 Modernization Project in the proposed Rider SMP tariff includes such general
 285 items as “any project, for which there are capital investments (a) that *the*
 286 *Company classifies* as pertaining to the improvement of the Company’s
 287 distribution system for the purposes of enhancing service...,” which may
 288 include “(6) implement[ing] *innovative* or otherwise *novel* approaches to
 289 providing electric service to retail customers or increasing operational

290 efficiency.” (ComEd Ex. 30.01, Ill. C.C. No. 4, First Revised Sheet No. 626)
291 (emphasis added).

292 2. **Savings achieved by Rider SMP projects would not be passed along to**
293 **customers.** The Advanced Metering Infrastructure (“AMI”) program alone
294 could produce annual savings of \$110 million. Yet, ComEd witness Crumrine
295 objects to Staff witness Hathhorn’s proposal to pass through to customers the
296 cost savings from each SMP project. (See ComEd Ex. 30.0 at 17-18, lines
297 382-415.)

298 3. **The revised review period is still inadequate.** ComEd is proposing to invest
299 over \$800 million in Rider SMP projects, and has suggested that it be allowed
300 to increase rates by 5% each year. The Commission would have to thoroughly
301 review the costs, benefits, and justifications for Rider SMP projects, ensuring
302 that costs are accurately allocated to the customer classes that benefit, and
303 checking that supply-related costs are properly attributed to ComEd’s bundled
304 service customers. The Commission also would have to make sure that
305 ComEd’s SMP programs are truly programs that are not already being
306 implemented or would not be implemented without Rider SMP. The
307 Commission should not allow Rider SMP to become a funnel to unload a
308 variety of new, unjustified projects and costs on its ratepayers. The very
309 customers that would ultimately pay for these projects, **and assume all risks**
310 **that the projects are successful**, should be able to review and provide
311 comment in a manner and under a time-frame that is consistent with normal
312 Commission practice and procedure.

- 313 4. **Rider SMP still would create customer confusion.** Customers would see
 314 higher monthly bills due to increases resulting from SMP projects. However,
 315 it is likely that they would not see any direct or cost savings benefits. This is
 316 confusing.
- 317 5. **ComEd has failed to address the potential for competitive service issues**
 318 of SMP as currently proposed or future projects that have yet to be proposed.
 319 It remains unclear what new “innovative” programs or “novel approaches” to
 320 providing electric service ComEd would propose in the future or how these
 321 programs would be used by ComEd or its affiliates. These issues should be
 322 thoroughly considered before ComEd receives approval for a broad range of
 323 potential projects.
- 324 6. **ComEd has failed to address the fact that some of the proposed SMP**
 325 **projects may be duplicative.** Some of the SMP projects may duplicate what
 326 customers, ComEd, and retail electric suppliers already have installed or are
 327 already offering to reduce customers’ energy costs. Many non-residential
 328 customers are already participating in PJM Demand Response Programs
 329 through either ComEd or Retail Energy Suppliers. Additionally, many
 330 customers already have invested in advanced metering equipment in their
 331 facilities. It is unclear how ComEd proposes to recognize such actions.

332

333 **Q. If the Commission nevertheless were inclined to consider Rider SMP, are the**
334 **changes proposed by ComEd sufficient?**

335 A. No. Assuming that the Commission was inclined to consider Rider SMP, the
336 proposed changes by ComEd are insufficient. Substantial issues remain that
337 ComEd has failed to address in a meaningful manner. Even the *modified*
338 proposed Rider SMP has the following problems:

339 1. **Who gets the savings?** The modified proposed Rider SMP does not allow
340 customers to enjoy any of the cost-savings benefits of SMP projects. The risk
341 that no savings will be achieved from SMP projects would be borne by
342 ratepayers. For example, ComEd shows that the AMI program will provide
343 over \$145 million in cost savings and benefits (ComEd Ex. 15.2 at 6.) If these
344 estimated savings and benefits are either overstated or not achieved after the
345 AMI project is implemented, customer costs will have simply increased with
346 no off-setting future benefit achieved. Yet, if savings are achieved by ComEd
347 through SMP projects, ComEd gets 100% of those saving – i.e., ComEd
348 enjoys higher profits. ComEd has no risk by proposing and implementing any
349 Rider SMP project. This situation is inequitable on its face.

350 2. **How are the projects selected?** To a great extent, ComEd’s proposed Rider
351 SMP remains a “blank check” for ComEd to attached special “SMP” status to
352 a very broad range of projects. While ComEd has identified seven Rider SMP
353 projects as a basis to support its need for Rider SMP, it remains unclear
354 which, if any, of the projects ComEd will implement if Rider SMP is not
355 approved. ComEd witness Clair testified that ComEd’s aging demand

356 response program system called “Key Alert System” is out-dated and
 357 experiencing the infrastructure and maintenance pains of an old system. (*See*
 358 ComEd Ex. 23.0 at 27, lines 576-91.) This system was apparently installed
 359 without the need for cost recovery under Rider SMP. Yet, ComEd wants to
 360 include Key Alert System replacement costs under Rider SMP. Each potential
 361 SMP project must be thoroughly reviewed and the merits of whether it should
 362 be a SMP project should not rest within the sole decision of ComEd. If the
 363 Commission were to approve Rider SMP under this proceeding, it should be a
 364 one-time rider only for projects approved in this rate proceeding, tied to a
 365 requirement that ComEd satisfy key performance indicators. After the
 366 projects are implemented, ComEd should be required to present an audit
 367 demonstrating whether the indicators were satisfied, and would be allowed to
 368 roll the costs into base rates charged to the classes of customers that benefited
 369 from the programs only if the indicators are met.

370 3. **Will ComEd be able to use Rider SMP to give itself or its affiliate an anti-**
 371 **competitive advantage in providing competitive services?** Competitive
 372 service issues remain completely unresolved, even under the revisions to
 373 proposed Rider SMP. Consider the Customer Demand Response program, for
 374 example. ComEd offers demand response payments to customers under its
 375 Rider CL7 – Capacity-Based Load Response and System Reliability Program
 376 2008. Retail electric suppliers are offering similar programs. I understand
 377 that ComEd is passing through 100% of the PJM capacity costs. The
 378 Commission should consider whether ComEd would receive an anti-

379 competitive advantage if it is able to recover its program costs from all
 380 customers under Rider SMP.

381

382 **Q. ComEd witness Crumrine cited a recent order in the Peoples Gas Light and**
 383 **Coke Company (“Peoples Gas”), Docket No. 07-0242 as additional**
 384 **justification for approving Rider SMP. How do you respond?**

385 A. I have reviewed the Peoples Gas proposal to accelerate the cost recovery
 386 associated with replacing old cast iron and ductile steal main and ancillary
 387 infrastructure. Although I was not involved in that Peoples Gas rate proceeding,
 388 and I am not offering a legal opinion, my understanding is that the Peoples Gas
 389 proposed Rider ICR, Infrastructure Cost Recovery, is limited in scope and applies
 390 only to accelerate cost recovery for replacement of old pipeline facilities. Peoples
 391 Gas currently has about 2,000 miles of cast iron pipeline and has already replaced
 392 about 1,500 miles over the last 25 years. It is my understanding that this Peoples
 393 Gas rider was only proposed to accelerate Peoples Gas’ pipeline replacement
 394 project and does not apply to any other projects. (Peoples Gas Exhibit JFS-1.0,
 395 Docket No. 07-0241 and 07-0242 Consol., at 3, lines 57-61.)

396

397 **Q. Is it appropriate to justify ComEd’s Proposed SMP by reference to Peoples**
 398 **Gas Rider ICR?**

399 A. No. The two riders are quite different. First, Rider ICR is not overly broad.
 400 Rather ICR specifically identifies “the accelerated replacement of cast iron and
 401 ductile steel main and ancillary infrastructure to ensure a continued safe and

402 reliable gas distribution system.” (Rider ICR, ILL.C.C. No 28, Original Sheet
 403 No. 141; Peoples Gas Exhibit VG-1.1 at 142, Docket No. 07-0241 and 07-0242
 404 Consol.) This is significantly more focused than ComEd’s proposed Rider SMP
 405 language.

406

407 Second, it appears that there are no competitive market issues associated with
 408 Rider ICR. The projects under Rider ICR seem to clearly fall within the scope of
 409 the regulated activities of the utility.

410

411 Third, it appears that there is little, if any, risk of illegitimate or unjustified
 412 projects sneaking into the projects Peoples Gas will perform under Rider ICR.

413

414 **Q. What is your recommendation regarding Rider SMP?**

415 A. Rider SMP should be rejected outright. It is quite clear from the Direct
 416 Testimony of the intervening parties that there is a broad consensus that Rider
 417 SMP is not desirable. The proposed modifications to Rider SMP are insufficient
 418 to address the underlying fundamental problems with Rider SMP.

419 To the extent that the Commission was inclined to continue to consider Rider
 420 SMP, additional proposed changes beyond those suggested by ComEd in its
 421 rebuttal testimony must be incorporated.

422

423 **Q. Are there specific revisions that the Commission should require before it**
 424 **approves any form of Rider SMP?**

425 A. Yes. Let me be clear: ComEd has not justified the Commission approving any
 426 form of Rider SMP at this point. However, if ComEd does make such a case,
 427 there are additional revisions that, at a minimum, the Commission should require.
 428 For example, the Commission should:

- 429 1. Ensure that customers enjoy cost saving benefits associated with proposed
 430 SMP projects. For example, anticipated savings should be identified for each
 431 proposed project and be included in formula for calculating Rider SMP
 432 charges. As ComEd proposes its projects, the project timeline should include
 433 a schedule of when savings will be achieved. These savings would then be
 434 included in Rider SMP charges at the appropriate time.
- 435 2. Ensure that any proposed projects by ComEd do not put ComEd or any of its
 436 affiliates at a competitive advantage over Retail Energy Suppliers. For
 437 example, if an SMP project will only benefit a small group of customers, and
 438 other suppliers offer similar services, then it may not be appropriate to recover
 439 those costs from all customers.
- 440 3. Ensure that large customers, many of whom have already implemented
 441 demand response programs and advanced energy monitoring systems, are not
 442 required to pay for projects under Rider SMP that are of no benefit to such
 443 customers.

444 4. Ensure that the project selection process is properly confined and limited. If
 445 the Commission approves Rider SMP, projects should be limited to the ones
 446 identified in this proceeding.

447 5. Ensure that there is sufficient time for Commission oversight. The 180-day
 448 review period is too short, and Staff and other interested parties should be
 449 allowed to suggest changes to SMP projects where appropriate.

450

451

VI. DISTRIBUTION LOSS FACTORS

452 **Q. You recommended in your Direct Testimony that ComEd’s proposal to**
 453 **increase distribution loss factors (“DLF”) should be rejected because it was**
 454 **not supported. How did ComEd respond to your recommendation in its**
 455 **rebuttal testimony?**

456 A. ComEd essentially admitted that it failed to provide any justification for this
 457 proposal in its initial filing or direct testimony. (Source: ComEd Ex. 21.0 at 117,
 458 lines 2373-74.)

459

460 **Q. Did ComEd offer any explanation for the DLF increases in its rebuttal**
 461 **testimony?**

462 A. In his rebuttal testimony, ComEd witness Donnelly asserted that the increases in
 463 DLFs primarily are due to two changes in the way in which ComEd calculated
 464 DLFs.

465

466 First, ComEd has revised its study methodology since the 2003 study for
 467 calculating losses by customer classes. According to Mr. Donnelly, for this 2007
 468 rate case, ComEd used its Geographical Information System (“CEGIS”), rather
 469 than its Passport System, resulting in ComEd identifying precise transformer
 470 location, allowing ComEd to more accurately assign transformer data to customer
 471 classes.

472
 473 Second, ComEd revised the inputs for the calculation of its proposed DLF for the
 474 high-voltage customer classes. This revision is a result of ComEd making an
 475 adjustment to reflect loads served by lines entering high-voltage customers’
 476 premises. The result slightly reduces ComEd’s proposed DLF for high voltage
 477 customers. For high-voltage customers, ComEd relied upon its one-line diagrams
 478 to identify specific data regarding each transformer serving each high-voltage
 479 customer, and used this data to calculate the DLF for these customer classes. (*See*
 480 *ComEd Response to REACT Data Request 5.01.*) For all other customers,
 481 ComEd allocated a percentage of the remaining transformers to each customer
 482 class. Then based on historical load data, ComEd calculated the DLF for each
 483 class.

484

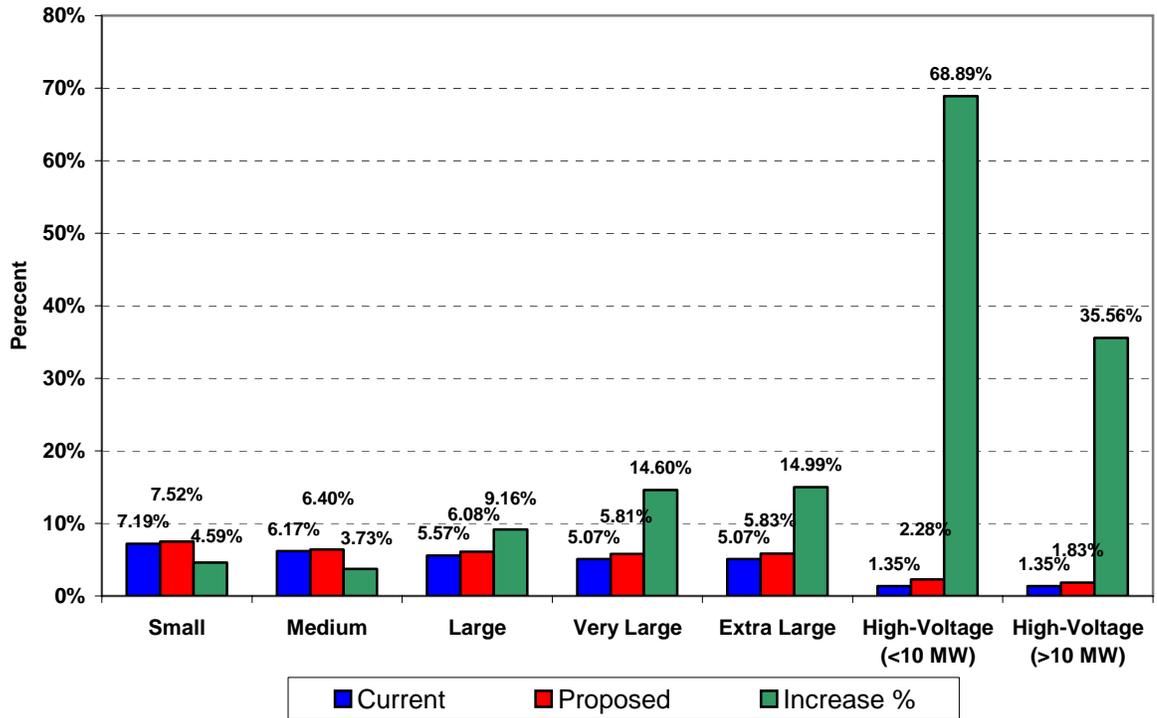
485 **Q. What is the impact of ComEd’s proposed new DLFs?**

486 A. For the over-10 MW high-voltage customers, ComEd’s proposed DLF of 1.99%
 487 is lowered to 1.83%. For high voltage customers having a demand less the 10
 488 MW, the proposed DLF of 3.30% is lower to 2.28%. However, the revised DLF

489 for high-voltage customers still increases loss factors by 69% for less than 10
 490 MW size high-voltage customers and 36% for over-10 MW high voltage
 491 customers. (See ComEd Ex. 32.0 at 53, Table R12.) Table 4 below presents a
 492 graphical representation of the current ComEd distribution line loss factor, the
 493 proposed distribution line loss factor, and the resulting variation percentage
 494 increase.

495

496 **Table 4.** ComEd Distribution Loss Factors for Non-Residential Customers



497
 498

(Source: ComEd Ex. 32 at 53, Table R12)

499

500 **Q. What is the annual cost impact of the proposed distribution loss factors for**
 501 **over-10 MW customers?**

502 A. As demonstrated in Table 5 below, the annual cost impact to over 10-MW
 503 customers of the increase in the DLF ranges from \$12,700 to \$200,000 depending
 504 on customer size, service level and their supplier cost of electricity. This example
 505 assumes an energy cost of only 4.4¢ per kWh, which I believe is significantly
 506 lower than current supplier electric costs.

507

508 **Table 5.** Annual Cost Impact of Proposed Increase in Distribution Loss Factor

Customer Size	Annual kWh	Extra Large	High-Voltage
10 MW	60,000,000	\$20,064	\$12,672
20 MW	140,000,000	\$46,816	\$29,568
35 MW	260,000,000	\$86,944	\$54,912
50 MW	395,000,000	\$132,088	\$83,424
75 MW	600,000,000	\$200,640	\$126,720

Note: Annual increases were calculated by multiplying the difference between the current and proposed line loss factors by \$0.044 and multiplying that number by the annual kWh. (ComEd Ex. 32.0 at 53, Table R12.

509

510 **Q. What recommendation do you have regarding ComEd’s proposed loss**
 511 **factors?**

512 A. ComEd’s proposed changes to its loss factors should be rejected, and ComEd
 513 should be ordered to calculate the loss factor for each of its high-voltage and over-
 514 10 MW customers. ComEd has admitted that it failed to satisfy the basic
 515 requirement that it explain the basis for a proposed increase in its initial filing.
 516 Now that ComEd finally has presented some testimony on the subject, it still has

517 failed to explain why it adopted the methodology that it used for this case. That
518 is, ComEd has continued to propose that DLFs increase for its largest customers
519 at an alarming rate while it has failed to analyze the actual losses that those
520 customers experience, instead stopping short and analyzing losses only to the
521 transformers that serve those customers.

522

523

VII. RIDER ACT

524 **Q. Please summarize ComEd's original proposed change to Rider ACT,**
525 **Allowance for Customer-Owned Transformers.**

526 A. ComEd originally proposed that Rider ACT be closed to new customers and that
527 existing customers that have been receiving credits for more than 30 years would
528 be removed from Rider ACT and receive a one-time payment equal to one-year's
529 worth of credits based on the average annual credits received during the most
530 recent three years. (*See* ComEd Ex. 12.0 at 22, lines 371-92.)

531

532 ComEd has also proposed a voluntary option for customers who have been on
533 Rider ACT for less than 30 years to receive a payment equal to two years' worth
534 of payments based on the average annual credits received during the most recent
535 three years. These customers could continue on Rider ACT for a maximum time
536 period of 30 years if they do not elect the voluntary payment option.

537

538 **Q. Has ComEd modified its proposal to Rider ACT?**

539 A. Yes. ComEd now proposes, in its rebuttal testimony, to remove the mandatory
540 termination provision in Rate ACT based on concerns raised by REACT, Staff,
541 and DOE. Rider ACT still would be closed to new customers and existing
542 customers would have the option to voluntarily receive the payment equal to two
543 years' worth of payments and terminate service under Rider ACT. If these
544 customers ever take such a payment, they no longer would be able to return to
545 Rider ACT.

546

547 **Q. How do you respond to this proposal to remove the mandatory termination**
548 **provision and close Rider ACT to new customers?**

549 A. ComEd still has failed to justify its proposed revisions to Rider ACT; it simply
550 has failed to make a case for **any** revisions to this rate. It is not sufficient for
551 ComEd simply to assert, without any proof, that a particular rate is inconvenient,
552 especially when ComEd apparently admits that Rider ACT better reflects the cost
553 of serving these customers. If the Commission determines that it is appropriate
554 for ComEd to make changes to the existing Rider ACT, then the proposal to
555 remove the mandatory termination provision, close Rider ACT to new customers,
556 and offer a voluntary termination provision is more appropriate than ComEd's
557 original proposal.

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IX. SUMMARY AND CONCLUSION

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561 The position of REACT can be summarized as follows:

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- The Commission should increase the rates to ComEd’s largest customers by no more than the system-average increase, if any, it approves for ComEd in this proceeding. ComEd’s proposal to “mitigate” only delays a promised rate increase for the over-10 MW extra large and high-voltage customers creating “rate shock.” The enormous, disproportionate impact of ComEd’s proposed rate design on over-10 MW customers remains unjustified and unsupported by ComEd’s cost of service study. The phase-in proposal should also be rejected.
- Substantial evidence in this case confirms that ComEd’s Embedded Cost of Service Study lack credibility with respect to over-10 MW ratepayers. This leaves the Commission with no reasonable alternative but to impose the overall system-wide increase on the two over-10 MW classes. (*See generally* REACT Ex. 6.0.)
- The proper allocation of supply-related costs to bypassable tariff mechanisms is critically important to ensure proper allocation of costs and to enable a successful competitive market for residential customers. ComEd seeks to recover supply-related costs through the distribution rates proposed in this proceeding. (*See generally* REACT Ex. 7.0.)
- The comparison of ComEd’s rate structure with utilities in other states demonstrates that ComEd’s supply administration rate, as currently proposed, is extremely low, and nothing in the data presented by ComEd provides any justifiable rationale for this result. Simply stated, ComEd is engaging in a misallocation of supply-related costs. (*See generally* REACT Ex. 7.0.)

- 588 • ComEd’s revised Rider SMP proposal should be rejected. The proposed
589 revisions to Rider SMP by ComEd are inadequate and the fundamental design
590 of Rider SMP remains flawed. Rider SMP fails to limit the scope of proposed
591 projects and cost recovery for these proposed projects. Cost recovery
592 continues to be flawed under Rider SMP as all benefits and savings will be
593 retained by ComEd, and costs will be recovered from all customers, even
594 customers who do not benefit from specific projects.
595
- 596 • The Commission should reject the revised loss factors for the high voltage and
597 over-10 MW customer classes and maintain the current loss factors until
598 ComEd calculates customer-specific loss factors for these customers.
599
- 600 • Rider ACT should be retained in its present format. ComEd is now proposing
601 to remove the mandatory termination provision, but close the rate to prevent
602 customers from initiating service under Rider ACT after a final order is issued
603 in this proceeding. ComEd has not justified abandoning or closing this rate.
604 As it did in its Order in the last ComEd rate case, ICC Docket No. 05-0597,
605 the Commission should reject proposals to modify Rider ACT. There is
606 simply no basis for changes to Rider ACT.

607

608 **Q. Does this conclude your rebuttal testimony?**

609 A. Yes.