

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

**REBUTTAL TESTIMONY
OF**

JEFFREY MEROLA

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, INC.

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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STATE OF ILLINOIS

BEFORE THE ILLINOIS COMMERCE COMMISSION

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

REBUTTAL TESTIMONY OF JEFFREY MEROLA

I. INTRODUCTION

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

2 **A.** My name is Jeffrey Merola. I am a Vice President of Intelometry, Inc. My
3 business address is 363 North Sam Houston Parkway East, Suite 1100, Houston,
4 Texas 77060.

5
6 **Q Are you the same Jeffrey Merola who submitted Direct Testimony to the**
7 **Illinois Commerce Commission (“Commission”) in this proceeding?**

8 **A.** Yes. I presented Direct Testimony on behalf of the coalition to Request Equitable
9 Allocation of Costs Together (“REACT”)¹, REACT Ex. 3.0.

10

11

II.

12 **PURPOSE OF TESTIMONY AND GENERAL CONCLUSIONS**

13 **Q. What is the purpose of your rebuttal testimony?**

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.

14 A. The primary purpose of my rebuttal testimony is to reiterate that ComEd has
 15 improperly allocated *supply-related* costs to its proposed *delivery services* rates.
 16 In doing so, I respond to portions of the rebuttal testimony of Paul R. Crumrine, a
 17 witness for Commonwealth Edison Company (“ComEd”).

18
 19 **Q. Please summarize your conclusions.**

20 A. Overall, the fundamental problems with ComEd’s proposal identified in my
 21 Direct Testimony remain. Simply stated, under ComEd’s proposal, **substantial**
 22 **supply-related costs would be recovered through ComEd’s proposed delivery**
 23 **services rates.** ComEd’s approach would result in considerable costs associated
 24 with supply procurement for ComEd’s bundled services being recovered through
 25 ComEd’s proposed delivery services rates, rather than through a bypassable tariff.
 26 This means that under ComEd’s proposed rates, distribution customers who do
 27 not obtain their supply from ComEd would be forced to pay ComEd for costs that
 28 should be allocated to ComEd’s supply customers. More specifically, I have
 29 reached the following conclusions:

- 30 1. **The Commission should direct ComEd to remove supply-related costs**
 31 **from its proposed delivery services rates.** The Commission should examine
 32 in this proceeding the way in which ComEd has proposed to recover through
 33 its delivery services rates substantial costs associated with supply
 34 procurement.
- 35 2. **The Commission should require justification and transparency related to**
 36 **ComEd’s recovery of supply-related costs.** ComEd should be required to
 37 provide a full cost justification of the internal administrative and operational
 38 costs associated with supply procurement through a transparent process that

39 allows input from all stakeholders. Contrary to ComEd’s assertions, the
 40 process advocated by ComEd lacks transparency, and does not allow for
 41 meaningful stakeholder input. ComEd’s Rider-PE filing on March 13, 2008 is
 42 further evidence that the process is flawed.

43 **3. ComEd appears to have made a conscious decision not to gather relevant**
 44 **data.** A properly justified and transparent process requires the gathering and
 45 analysis of relevant data. However, it appears that ComEd has not done this.
 46 ComEd has not cultivated sufficient data to allow for accurate assumptions to
 47 enable proper allocation of significant costs to the supply function. At best,
 48 ComEd’s approach to data collection and analysis appears to be selective and
 49 self-serving.

50 **4. ComEd has improperly allocated entire categories of costs.** ComEd has
 51 improperly proposed that **all** costs associated with Billing, Customer Support
 52 (including Call Center Operations), and Credit and Collections should be
 53 recovered as part of its delivery services rates and has allocated **no** shared
 54 services expenses to the supply procurement costs. These substantial costs
 55 should be partially allocated to a bypassable rate to ensure that the supply-
 56 related portion of these costs is recovered only from customers that receive
 57 supply from ComEd.

58 **5. Other utilities appropriately allocate supply administration costs to**
 59 **bypassable tariffs; ComEd does not.** A review of the cost recovery
 60 associated with supply administration for other utilities demonstrates that in
 61 other restructured electric markets, costs associated with Billing, Customer
 62 Support (including Call Center Operations), and Credit and Collections are
 63 being recovered through bypassable tariff mechanisms.

64 **6. ComEd’s delivery services rates are improperly inflated because its**
 65 **supply administration costs are artificially low.** The review of supply
 66 administration rates of other utilities also demonstrates that ComEd’s recovery
 67 of administrative costs associated with supply procurement is far below the

68 cost recovery allotted for similar costs in other markets. This comparison
 69 confirms that ComEd’s recovery of supply related administrative costs
 70 appears to be artificially low -- substantially lower than the costs allocated by
 71 other utilities, resulting in ComEd improperly inflating its delivery services
 72 rates.

73 **7. ComEd should substantially increase the supply administration costs that**
 74 **it is recovering in Rider PE, and accordingly decrease its delivery services**
 75 **charges.** ComEd should increase the supply administration costs reflected in
 76 its March 13, 2008 Rider PE rate filing from \$11,958,572 to \$76,818,580 --
 77 that is, ComEd’s supply administration costs should increase by 642% -- and
 78 should decrease its delivery services revenue requirements by the identical
 79 dollar amount.

80

81 **Q. What are the consequences of ComEd’s improper allocation of supply**
 82 **procurement costs to its delivery services rates?**

83 A. As explained in my direct testimony, improper allocation of supply procurement
 84 costs to the delivery services rates has several negative consequences, including:

- 85 • Unfairly forcing all customer classes to improperly pay for supply
 86 procurement costs even though many of those customer classes are not
 87 even eligible to obtain their supply from ComEd;
- 88 • Inappropriately “double charging” customers who choose to purchase
 89 energy from a RES for services that ComEd provides to customers
 90 receiving supply from ComEd; and
- 91 • Hampering competition for residential and small commercial customers by
 92 creating an artificially low, and therefore distorted price comparison for
 93 ComEd bundled customers who shop for alternative suppliers.

94

95 Although ComEd now has somewhat modified its proposal and has
 96 abandoned its proposed Rider SAC, the “bottom line” remains. Even
 97 ComEd’s current proposal would require RES customers to foot part of
 98 ComEd’s supply-related bill. Such cross-subsidization would hamper, and
 99 potentially even prevent, competition from developing for residential and
 100 small commercial customers. ComEd previously has stated that it supports
 101 development of a robust competitive market for residential and small
 102 commercial customers,² but those proclamations ring hollow when ComEd
 103 proposes in this proceeding to allocate costs in a way that would undermine
 104 the development of competition for residential and small commercial
 105 customers.

106
 107 Fairness and sound regulatory policy dictate that ComEd’s supply customers,
 108 and only ComEd’s supply customers, should pay ComEd’s supply-related bill.

109
 110 **Q. Does ComEd have an incentive to improperly allocate supply costs?**

111 A. Perhaps. It appears that ComEd has both the means and the potential motive to
 112 attempt to improperly allocate supply costs to its delivery services customers.

113

² See, e.g., ComEd Ex. 30.0 at 60, lines 1342-43; ComEd Press Release, Residential Electric Suppliers Poised to Enter Illinois Market: Consumers to Benefit From Increased Competition, Choice, November 8, 2006, available at <http://www.exeloncorp.com/aboutus/news/pressrelease/comed/NR+110806+choice.htm>; Moving Competition Forward, available at <http://www.exeloncorp.com/NR/rdonlyres/66BEF0AD-BABB-42F6-8D4A-0471D623F2E4/1998/P200620Brochure.pdf>; Energy Education: Customer Choice, available at http://www.exeloncorp.com/ourcompanies/comed/comedres/energy_education/customer_choice.htm.

114 **Q. In his rebuttal testimony, Mr. Crumrine asserts that ComEd “absolutely”**
 115 **does not have any motive to discourage residential and small commercial**
 116 **customers from switching suppliers.³ Do you agree with his statement?**

117 A. Obviously, I do not have personal knowledge of ComEd’s business motives.
 118 However, the cost recovery mechanisms at issue in this proceeding are not all the
 119 same. Some provide for a mark-up or return and others, such as Rider PE, do not.
 120 Thus, it is rational to say that it does appear that ComEd would be put at a
 121 disadvantage if it seeks to recover certain costs from its delivery services rates
 122 rather than through Rider PE.

123

124 **Q. Why do you believe moving costs into Rider PE may put ComEd at a**
 125 **disadvantage?**

126 A. Rider PE specifies that ComEd recovers “the costs incurred” ... “in procuring a
 127 supply of electric power and energy for the applicable customer classes with no
 128 mark-up or return.”⁴ In other words, ComEd is not permitted to earn a mark-up or
 129 return for costs under Rider PE, even though it may be permitted to earn a mark-
 130 up or return for the same costs under its delivery service rates. Therefore, it
 131 would seem that ComEd would be at a disadvantage if it shifts costs that it is
 132 permitted to earn a return on within a distribution rate to Rider PE, where it
 133 cannot earn a return.

134

³ See ComEd Ex. 30.0 at 60, lines 1342-43.

⁴ Rider PE, Original Sheet No. 637, filed on January 14, 2008.

135 **Q. Are there any other incentives that ComEd may have to retain customers on**
 136 **bundled supply?**

137 A. It is my understanding that ComEd’s affiliate Exelon Generation provides a
 138 substantial portion of the wholesale requirements to meet the Supplier Forward
 139 Contracts and the Financial Swap. If ComEd loses bundled supply customers,
 140 this would presumably impact Exelon’s profitability as the volume associated
 141 with their Supplier Forward Contract would be reduced as customer load
 142 migrates, particularly if the wholesale price of electricity drops. This may provide
 143 a corporate incentive, particularly from an Exelon perspective, for ComEd to try
 144 to retain bundled service customers, and deny residential and small commercial
 145 customers opportunities to achieve savings in the competitive market, at least
 146 until such time as the Exelon Generation Supplier Forward Contracts expire.

147

148 **III.**

149 **COMED’S RECOVERY OF COSTS RELATED TO SUPPLY PROCUREMENT**

150 **Q. ComEd has withdrawn Rider SAC. In light of that development, please**
 151 **explain your understanding of how ComEd now proposes to recover the**
 152 **substantial costs associated with supply procurement.**

153 A. ComEd asserted in rebuttal testimony and in response to data requests, that
 154 beginning June 1, 2008, certain costs associated with supply procurement will be

155 **Rider PE – Purchased Energy**

156 ComEd now indicates that Rider PE will recover costs associated with energy,
 157 capacity, renewable resources, transmission service, ancillary services,⁵ short

⁵ See ComEd Ex. 30.0 at 57, lines 1271-77.

158 and long-term load forecasting, scheduling, contract negotiation and
 159 management, risk management, accounting, settlements, financial
 160 management, transaction management,⁶ and credit support⁷ for fixed price
 161 bundled customers.

162

163 **Rate BES – Basic Electric Service**

164 ComEd now indicates that Rate BES will recover costs associated with
 165 supply-related uncollectible expenses⁸ for fixed price bundled customers.

166

167 **Rate BES-H – Basic Electric Service – Hourly Energy Pricing**

168 ComEd now indicates that Rate BES-H will recover costs associated with
 169 energy, capacity, renewable resources, transmission service, ancillary services
 170 and the “Company’s internal administrative and operational costs associated
 171 with the procurement of electric power and energy” for hourly price bundled
 172 customers.⁹ Rate BES-H also will recover costs associated with supply-
 173 related uncollectible expenses for hourly priced bundled customers.

174

175 **Rider AAF - Accuracy Assurance Factors**

176 ComEd indicates that Rider AAF is designed to provide for a true-up
 177 mechanism for over or under collections from fixed-price customers.

178

179 **Various Distribution Rates**

180 ComEd now indicates that credit and collections, billing, and customer
 181 support (including call center operations) are not recovered through
 182 bypassable charges, and are thus only reflected in ComEd’s delivery services
 183 rates – i.e., they are 100% recovered through delivery services rates.¹⁰

184

⁶ See ComEd Ex. 30.0 at 58, lines 1286-89.

⁷ See ComEd Ex. 30.0 at 59, lines 1323-24.

⁸ See ComEd Ex. 30.0 at 59, line 1323.

⁹ ComEd Tariff Original Sheet No. 336.3 filed on January 14, 2008.

¹⁰ See ComEd Ex. 30.0 at 58, lines 1295-1310.

185 **Q. ComEd has implied that since it has made a separate filing related to its**
 186 **Rider PE, it is unnecessary for the Commission to review the allocation of**
 187 **supply-related administrative costs in this proceeding. Do you concur?**

188 A. No. ComEd’s proposed delivery services rates are inflated because they
 189 improperly seek to recover substantial supply procurement costs. All of ComEd’s
 190 supply-related costs should be allocated solely to customers who take supply from
 191 ComEd, under the terms of a bypassable tariff. Additionally, costs that ComEd
 192 incurs to support both its supply procurement and its delivery services functions
 193 must be appropriately allocated to each function. It is critical that the
 194 Commission review the recovery of those costs in this proceeding and order
 195 ComEd to move them to be recovered through a bypassable mechanism. Given
 196 ComEd’s withdrawal of Rider SAC that mechanism is now presumably Rider PE.
 197 In addition, it would seem to be in all parties’ best interest to be administratively
 198 efficient and address these issues in this proceeding, as opposed to opening up a
 199 separate investigation proceeding regarding ComEd’s Rider PE filings.

200

201 **Q. ComEd has also suggested that the fact that allocation issues have been**
 202 **litigated in prior proceedings is a reason for the Commission to ignore this**
 203 **issue in this proceeding. Do you agree?**

204 A. Absolutely not. As the Commission is well aware, retail competition for
 205 residential and small commercial customers has not developed in Illinois. As a
 206 result, if the Commission wants to promote retail competition for the benefit of all
 207 customers, a “business as usual” approach is a recipe for failure. A key

208 impediment to retail choice for these customers is the improper allocation of
 209 supply procurement costs to delivery services rates. The question of appropriate
 210 cost allocation for providing services to residential and small commercial
 211 customers must be confronted if the Commission wants a vibrant and sustainable
 212 competitive retail electric market to develop where competitive suppliers, not the
 213 regulated utility, provide retail electric service to consumers.

214

215 If anything, the fact that competitive suppliers have had to litigate this issue
 216 repeatedly suggests that ComEd has not adopted an appropriate allocation
 217 methodology. Indeed, I suspect that this issue would have again been important
 218 to additional RESs who serve commercial and industrial customers, if ComEd
 219 was still providing a standard, annual bundled product to all of its customers.

220

221

IV.

222

**LACK OF TRANSPARENCY AND STAKEHOLDER INPUT REGARDING
 223 COMED'S SUPPLY-RELATED COST RECOVERY**

224

**Q. Please summarize the issue related to the lack of transparency and
 225 stakeholder input regarding ComEd's supply-related cost recovery.**

226

A. Given the critical importance of ensuring that ComEd properly allocates costs
 227 related to supply procurement to only those customers that receive supply from
 228 ComEd, the Commission must ensure that stakeholders have both a transparent
 229 means to review these costs and the allocation methodology, and a mechanism to
 230 comment upon and if necessary challenge the cost allocation. Since ComEd now
 231 indicates that these costs will largely be recovered through Rider PE, it is

232 important that the process for allocating costs to Rider PE be transparent and
 233 allow stakeholder input.

234

235 **Q. In its rebuttal testimony, did ComEd address the transparency of the process**
 236 **to review ComEd’s supply related costs?**

237 A. Yes. As discussed in my direct testimony, Rider PE specifies that ComEd should
 238 conduct a review of its filing “with personnel from the Accounting Department of
 239 the ICC Staff.”¹¹ Mr. Crumrine makes reference to an additional statement in
 240 Rider PE that indicates administrative and operational costs are “subject to
 241 adjustment to the extent that they are found to be unreasonable in the annual
 242 proceeding.”¹²

243

244 **Q. Does that review process ensure transparency?**

245 A. No. An after-the-fact review and cost adjustment process is not a substitute for
 246 up-front, ongoing transparency.

247

248 **Q. Did ComEd disclose the cost justifications associated with its filing of the**
 249 **rates in Rider-PE on March 13, 2008?**

250 A. Some details on the Rider PE cost justifications were provided in a response to a
 251 data request in this proceeding.¹³ However, it is unclear how a stakeholder would
 252 gain access to this information absent a proceeding such as this rate case. Further,
 253 ComEd provided partial details on the costs embedded in Rider PE. However,

¹¹ Rider PE, Original Sheet No. 648, filed on January 14, 2008.

¹² ComEd Ex. 30.0 at 56, lines 1252-53.

¹³ See ComEd Response to REACT Data Request 4.30.

254 key sets of data which contain more detailed work papers were not released.¹⁴
 255 For example, one entry in ComEd’s supporting documents states “Fixed Portion
 256 of EA and ESSD Costs” and makes reference to work paper SAC4 and SAC4a.¹⁵
 257 Absent the supporting work papers, the reviewer has no idea what costs are
 258 actually being recovered through this line item.

259

260 **Q. Does this process permit stakeholder review?**

261 A. ComEd has stated that parties other than the Accounting Department of the ICC
 262 Staff will have the opportunity to review the reasonableness of ComEd's costs
 263 filed in Rider PE and propound questions.¹⁶

264

265 **Q. Does this process permit stakeholder input?**

266 A. Apparently not. There is nothing in Rider PE that explicitly allows for
 267 stakeholder input. Additionally, while ComEd has stated that other parties can
 268 review and ask questions, ComEd has stated that parties other than the
 269 Accounting Department of the ICC Staff will not be able to comment on the costs
 270 ComEd seeks to recover under Rider PE.¹⁷ Specifically, ComEd has stated that
 271 “ComEd does not envision a ‘comment process’ being used for such annual

¹⁴ Worksheet “5 - Supply Administrative Costs” of the spreadsheet “REACT 4.30_Attach 2 (CONFIDENTIAL in Native format)” references a series of work papers SAC1 to SAC12b which were not provided in ComEd’s Response to REACT Data Request 4.30.

¹⁵ Worksheet “5 - Supply Administrative Costs” of the spreadsheet “REACT 4.30_Attach 2 (CONFIDENTIAL in Native format).”

¹⁶ See ComEd Response to REACT Data Request 4.20.

¹⁷ ComEd Response to REACT Data Request 4.20.

272 proceedings.”¹⁸ It is certainly insufficient to allow stakeholders to review the
 273 information, but then have no ability to have input on its validity.

274

275 **Q. Please summarize your continued concerns regarding the transparency of**
 276 **the process ComEd has suggested for recovering its supply procurement**
 277 **costs.**

278 A. The Rider PE filing process is an *ex post* review of certain cost items, which does
 279 not necessarily involve stakeholders. That approach is an insufficient substitute
 280 for a candid disclosure now and in the future of the information necessary to
 281 determine the way in which ComEd should fairly and properly allocate its costs.
 282 In this proceeding, the Commission should clearly articulate the cost allocation
 283 principles to which ComEd must adhere, and should establish a process to allow
 284 stakeholders to confirm that ComEd’s filings conform to those principles.

285

286

V.

287 **COMED’S RECOVERY OF SUPPLY-RELATED COSTS THROUGH**
 288 **DELIVERY SERVICES RATES**

289

290 **Q. Does ComEd intend to recover certain supply-related costs through**
 291 **distribution rates?**

292 A. Yes. At this point, there is no question that ComEd intends to recover substantial
 293 supply-related costs through the delivery services rates it has proposed in this
 294 proceeding. Mr. Crumrine has implied that costs associated with billing,
 295 customer support (including call center operations), and credit and collections

¹⁸ *Id.*

296 costs should not have any portion allocated as supply-related.¹⁹ Further, ComEd's
297 cost justification for the supply administration costs to be allocated to Rider PE
298 shows no allocation of these costs.²⁰ In other words, ComEd apparently views
299 those cost items as properly recovered as if 100% is attributable to the distribution
300 function and 0% attributable to the supply function. For convenience, I will refer
301 to the group of costs associated with billing, customer support (including call
302 center operations), and credit and collections as "Customer Care Costs"
303 throughout the remainder of my testimony.

304

305 **Q. What is Mr. Crumrine's justification for recovering 100% of the Customer**
306 **Care Costs through distribution rates?**

307 A. Mr. Crumrine attempts to justify ComEd's proposal to recover 100% of the
308 Customer Care Costs through distribution rates by stating that ComEd has to
309 provide these functions "regardless of whether or not a customer is a supply
310 customer."²¹ In essence, his argument is that there are no marginal costs
311 associated with providing those functions to customers that take supply from
312 ComEd. In other words, Mr. Crumrine is saying that if ComEd had no
313 obligations associated with procuring or providing power, ComEd's Customer
314 Care Costs would be exactly the same. This assertion seems implausible on its
315 face.

316

¹⁹ See ComEd Ex. 30.0 at 58, lines 1295-1307.

²⁰ See ComEd Response to REACT Data Request 4.30, file "REACT 4.30_Attach 2 (CONFIDENTIAL in Native format).xls."

²¹ ComEd Ex. 30.0 at 58, lines 1300-01.

317 ComEd’s responses to data requests on this point are similarly unhelpful. In
 318 response to a specific question about whether ComEd plans “to recover all costs
 319 associated with billing the supply portion of bundled customer’s charges through
 320 Rider PE,” ComEd responded in relevant part:

321 It is unclear what the phrases ‘costs associated with
 322 . . .’ or ‘costs related to billing the supply portion of
 323 bundled customers’ charges’ are intended to mean
 324 with respect to the provision of bundled service
 325 (i.e., supply, distribution and transmission). It is
 326 unclear to ComEd what aspects of the billing
 327 process for bundled service customers, if any, may
 328 be considered uniquely supply-related.²²
 329

330 ComEd similarly “punted” on substantively identical data requests on customer
 331 relations including call center operations²³ and collections.²⁴

332
 333 Of course, it would be possible for the Commission to look at this from the
 334 opposite perspective, and question what additional costs ComEd incurs as a result
 335 of providing delivery services that it would not have if it only provided supply.

336
 337 Putting this inquiry aside, even if Mr. Crumrine’s statement about ComEd’s need
 338 to provide certain functions “regardless of whether or not a customer is a supply
 339 customer” were accurate, it is inconsistent with the allocation methodology
 340 ComEd has proposed in this proceeding.

341

²² ComEd Response to REACT Data Request 3.09.

²³ See ComEd Response to REACT Data Request 3.10.

²⁴ See ComEd Response to REACT Data Request 3.12.

342 **Q. Why do you say that Mr. Crumrine’s statement is inconsistent with ComEd’s**
343 **cost allocation methodology in this proceeding?**

344 A. In this proceeding, ComEd is relying on an embedded cost of service study to
345 justify its allocation of costs. As discussed by ComEd witness Alan C. Heintz, an
346 embedded cost of service study “functionalizes and classifies the utility’s costs to
347 Production (if any), Transmission, Distribution, and Customer-related (“P-T-D-
348 C”) functions.”²⁵ Further, he states that it “utilizes historical relationships among
349 booked costs and the volumes of services delivered by a company. By contrast,
350 for example, a marginal cost of service study employs analyses and estimates of
351 incremental changes in costs, as these changes are related to (caused by)
352 incremental changes in volumes of services forecasted to be delivered in the
353 future.”²⁶

354

355 However, in connection with the analysis of the cost allocation approach for the
356 particular items that we are focusing on here, Mr. Crumrine apparently is
357 endorsing a marginal cost of service approach related to these critical supply
358 related costs. The reason for this analytical shift is not explained by ComEd. The
359 point, however, is quite clear. The attempt to recover Customer Care Costs as
360 100% distribution related and 0% supply related simply cannot withstand scrutiny
361 under an embedded cost of service approach.

362

²⁵ ComEd Ex. 13.0 at 5, lines 104-07.

²⁶ ComEd Ex. 13.0 at 6, lines 111-15.

363 **Q. Has ComEd previously allocated a portion of Customer Care Costs as supply**
 364 **related costs?**

365 A. Yes. In support of the rate for Rider SAC filed in this proceeding, ComEd
 366 allocated \$112,483²⁷ of Account 903 (Customer Records and Collections
 367 Expense) as supply-related. While this represents a minimal allocation (.11% of
 368 the total \$100,156,711²⁸ allocated to this account), it is clear that ComEd has
 369 previously allocated some portion of these costs to a bypassable supply-related
 370 tariff, in contrast to their current position. Thus, the appropriate inquiry for the
 371 Commission in this proceeding is what level of Customer Care Costs should be
 372 allocated to supply procurement.

373

374 **Q. Have you calculated an appropriate allocation?**

375 A. Yes, to the extent possible, I have. My methodology is explained in the following
 376 discussion.

377

378 **Q. What are the total costs related to supply administration that ComEd has**
 379 **allocated to Rider PE in its March 13, 2008 filing?**

380 A. ComEd has allocated \$11,958,572 in costs related to supply administration to
 381 Rider PE; as I calculate in REACT Exhibit 7.2, this would equate to an average
 382 rate of 0.02903 cents/kWh.

383

384 **Q. What are ComEd's Customer Care Costs for fixed price bundled customers?**

²⁷ See ComEd Ex. 12.3_SAC, page 3.

²⁸ See ComEd Ex. 13.1, Schedule 1a, page 10.

385 A. I have calculated ComEd’s Customer Care Costs to be \$162,150,019.

386

387 **Q. Please explain how you calculated this figure.**

388 A. ComEd’s Customer Care Costs are functionalized to the categories “Billing -
 389 Computation & Data Mang.”, “Bill Issue & Processing” and “Customer
 390 Information” in its embedded cost of service study (“ECOSS”). These costs are
 391 then further allocated to each customer class. To compute the total costs for
 392 customer care of fixed price bundled supply, I first extracted the cost allocations
 393 for these functional categories for residential customers and commercial
 394 customers below 400 kW. I then multiplied each customer class’ allocation by
 395 ComEd’s expected retention rate for that class. The details of my calculation are
 396 shown in REACT Exhibit 7.1.

397

398 **Q. What information do you have to confirm that the functional categories of**
 399 **“Billing - Computation & Data Mang.”, “Bill Issue & Processing” and**
 400 **“Customer Information” in ComEd’s ECOSS cover the functions you have**
 401 **consolidated into “Customer Care Costs”?**

402 A. According to the direct testimony of Sally T. Clair, ComEd’s customer service
 403 revenue requirements are grouped into “Customer Service and Information”
 404 expense²⁹ and “Customer Accounts” expense.³⁰ Ms. Clair describes Customer
 405 Service and Information expense as being associated with “costs of such basic
 406 tasks as establishing delivery service, addressing billing questions, resolving

²⁹ See ComEd Ex. 6.0 at 5, line 95.

³⁰ See ComEd Ex. 6.0 at 6, line 122.

407 billing disputes, and providing information on service options”³¹ while Customer
408 Account expenses are associated with “meter reading, billing, and revenue
409 management functions.”³² The costs encompassed in these two categories cover
410 two additional items -- meter reading and establishment of delivery service --
411 which I do not categorize as Customer Care Costs. When extracting the data from
412 ComEd’s ECOSS, I removed the meter reading expenses. However, costs
413 associated with the establishment of delivery services are not separated in
414 ComEd’s ECOSS, so I could not remove those costs.

415

416 **Q. How did you determine what portion of the \$162,150,019 customer care**
417 **revenue requirement should be allocated to the supply function?**

418 A. I would have anticipated that ComEd would have developed factors to allocate
419 these costs between the supply and distribution function. However, in reviewing
420 ComEd’s ECOSS and responses to data requests, I was not able to find any
421 information to assist in this analysis.

422

423 **Q. Does ComEd track how much of these costs are related to the supply**
424 **function to enable direct assignment?**

425 A. No. In response to a data request, ComEd stated that it “does not track whether
426 questions, concerns or complaints from fixed-price bundled service customers are
427 related solely to supply charges or solely to distribution charges.”³³

428

³¹ ComEd Ex. 6.0 at 4, lines 80-82.

³² ComEd Ex. 6.0 at 6, lines 114-15.

³³ ComEd Response to REACT Data Request 4.24.

429 **Q. In lieu of having a means to directly allocate these costs to the supply**
 430 **function, what factor did you use to allocate the Customer Care Costs**
 431 **associated with fixed price bundled customers?**

432 A. As a conservative measure, I have assumed 40% of these costs should be
 433 allocated to the supply function.

434

435 **Q. Why do you refer to your allocation factor as conservative?**

436 A. One rational means of allocating these costs would be based on the share of
 437 revenue associated with supply compared to the share of revenue associated with
 438 distribution. Clearly, supply represents a much higher percentage of a customer's
 439 bill than does distribution, and under that methodology the allocation factor would
 440 likely be in the range of 67%. However, I instead used a more conservative
 441 allocation factor of 40%. To develop this factor, I first removed 20% of the total
 442 costs to conservatively account for the fact that some portion of the total costs is
 443 attributable to the establishment of delivery services. I then took 50% of the
 444 remaining (in other words 50% of the remaining 80%) to develop my 40% factor.
 445 The 50% factor is a very reasonable estimate of the percentage of the Customer
 446 Care Costs that are attributable to supply absent better information since it is not
 447 captured by ComEd.

448

449 **Q. Once you apply your factor to the total Customer Care Costs for fixed price**
 450 **bundled customers, how much of ComEd's Customer Care Costs do you**
 451 **conclude should be allocated to the supply function?**

452 A. The resulting allocation of Customer Care Costs to the supply function is
 453 \$64,860,008.

454

455 **Q. How much would the supply administration costs allocated to Rider PE be**
 456 **impacted if the \$64,860,008 you have calculated as being associated with**
 457 **Customer Care for the supply function were added?**

458 A. In ComEd’s recently filed rates for Rider PE, ComEd allocated \$11,958,572 to
 459 supply administration costs, which equates to 0.02903 cents/kWh. Adding the
 460 Customer Care Costs associated with the supply function of \$64,860,008 would
 461 increase the supply administration costs more than sixfold, to 0.18649
 462 cents/kWh.³⁴

463

464 **Q. In reviewing the supply administration costs allocated to Rider PE, are there**
 465 **supply-related costs other than Customer Care Costs that ComEd has failed**
 466 **to allocate to this bypassable rider?**

467 A. Yes. It appears that ComEd has made no allocation of shared service costs from
 468 Exelon Business Services Company to Rider PE. Exelon Business Services
 469 Company provides services through ten practice areas that include Information
 470 Technology, Supply, Commercial Operations, Finance, Human Resources,
 471 Government & Environmental Affairs and Public Policy, General Counsel,
 472 Corporate Secretary, Strategy, and Communications.³⁵ It is unclear why ComEd

³⁴ See REACT Ex. 7.2.

³⁵ See ComEd Ex. 8.0 at 9, lines 182-93.

473 would allocate zero costs associated with these support services to supply
474 administration.

475

476 **Q. What is your recommendation regarding how these shared service costs from**
477 **Exelon Business Services Company costs should be allocated?**

478 A. It is my understanding that Exelon Business Services Company costs are
479 generally allocated to Administrative and General expenses (“A&G”) in ComEd’s
480 ECOSS. The Customer Care Costs I extracted from ComEd’s ECOSS reflect an
481 allocation of A&G expenses to the functional categories of “Billing -
482 Computation & Data Mang.”, “Bill Issue & Processing” and “Customer
483 Information”, which I used in my computation of the Customer Care Costs.
484 Accordingly, I already have allocated a portion of these costs as part of my
485 allocation of the Customer Care Costs.

486

487

VI.

488

RECOVERY OF SUPPLY ADMINISTRATION COSTS
IN OTHER MARKETS

489

490

491 **Q. Have you reviewed how administrative costs associated with supply**
492 **procurement are recovered for other utilities?**

493 A. Yes, I have.

494

495 **Q. What other utilities have you reviewed?**

496 A. I have reviewed how administrative costs associated with supply procurement are
 497 recovered for Central Hudson Gas and Electric, New York State Electric and Gas,
 498 Allegheny Power in Maryland, Baltimore Gas and Electric, and PEPCO
 499 Maryland.

500

501 **Q. Why did you choose those utilities?**

502 A. In choosing comparable utilities, I looked for utility rates that appeared to break
 503 out costs associated with the administration of supply procurement into a specific
 504 tariff rate. In addition, I looked for utilities that had publicly available
 505 information that provided some detail on what costs had been incorporated into
 506 the development of the rate. These utilities met both requirements.

507

508 **Q. Do any of those utilities specifically allocate costs associated with billing,**
 509 **customer support (including call center operations), or credit and collections**
 510 **to bypassable tariff mechanisms?**

511 A. Yes. Central Hudson Gas and Electric specifically allocates a portion of its costs
 512 associated with credit and collection, call center costs, and administrative and
 513 general expenses to its bundled service customers. Similarly, New York State
 514 Electric and Gas similarly allocates costs associated with customer support and
 515 administrative and general expenses. Publicly available details on the Maryland
 516 utilities are not as specific, but based on the total rate for indirect costs used by
 517 these utilities, it would appear that some portion of these costs have been
 518 allocated to a bypassable tariff mechanism. The table below demonstrates the

519 items that ComEd and the other utilities I analyzed do and do not allocate to a
 520 bypassable tariff:

521 Table 1 – Utilities’ Treatment of Supply Administration Costs

| Utility | Billing | Customer Support & Call Center | Credit and Collections | Rate of Return |
|--|-----------------|--------------------------------|------------------------|----------------|
| ComEd | No | No | No | No |
| Central Hudson Gas & Electric¹ | Probably | Yes | Yes | Unknown |
| New York State Electric & Gas² | Yes | Yes | Yes | Unknown |
| Allegheny Power (MD) | Probably | Probably | Probably | Yes |
| Baltimore Gas & Electric | Probably | Probably | Probably | Yes |
| PEPCO (MD) | Probably | Probably | Probably | Yes |

Notes:

¹The tariff does not specifically say billing, although it generally describes customer care activities.

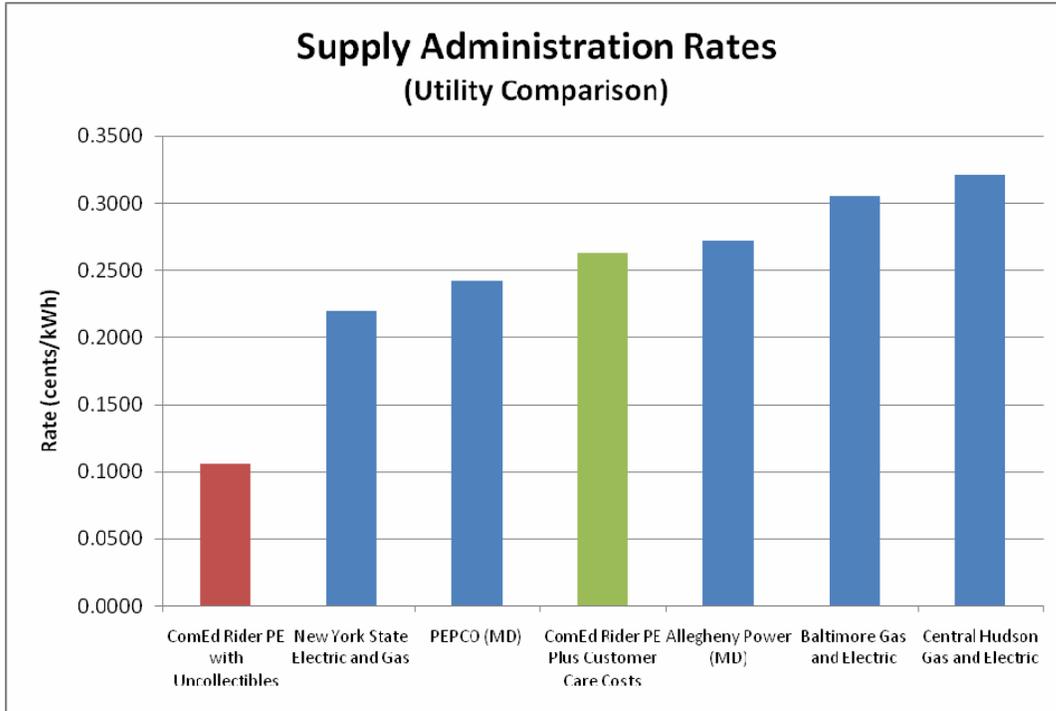
²Tariff states that it covers "Customer Care Costs", have assumed those cover billing, customer support and credit and collections.

522

523

524 **Q. For the utilities you reviewed, what range of rates are charged to residential**
 525 **customers for the indirect costs associated with supply procurement?**

526 **A.** The total rates for the utilities I reviewed ranged from 0.22 cents/kWh to 0.321
 527 cents/kWh. A chart depicting this range is shown below, see REACT Exhibit 7.4
 528 for a summary table.



529

530 **Q. How does this compare with the rate that ComEd has proposed to recover**
 531 **supply administration costs?**

532 A. As I discussed earlier, based on ComEd’s filing of the rates in Rider PE on March
 533 13, 2008, the average rate for supply administration costs is 0.02903 cents/kWh.
 534 Since most of these utilities also include recovery of uncollectible expenses in
 535 these rates, ComEd’s recovery of uncollectible expenses associated with supply
 536 also needs to be added prior to comparing the value to other markets. ComEd’s
 537 recovery of uncollectible supply expenses averages 0.07636 cents/kWh.³⁶
 538 Adding this together with the supply administration rate above yields a total of
 539 0.10539 cents/kWh. This figure is far lower than the supply administration rates
 540 set by the other utilities I examined. This confirms my concern that ComEd’s
 541 recovery of supply-related administrative costs appears to be artificially low.

³⁶ See REACT Ex. 7.2.

542

543 **Q. Please describe the costs that Central Hudson Gas and Electric recovers**
 544 **through their bypassable rate mechanism.**

545 A. Central Hudson Gas and Electric has two bypassable components including a
 546 Merchant Function Charge (“MFC”) Administration Charge and the Merchant
 547 Function Charge (“MFC”) Supply Charge. The total MFC charge for a residential
 548 customer is .321 cents/kWh.³⁷

549

550 The two charges recover an allocated portion of the credit and collection function
 551 costs, 50% of procurement-related call center function costs, administrative and
 552 general and rate base items, commodity function costs, and allocated portions of
 553 advertising and promotion function costs.³⁸

554

555 **Q. Please describe the costs that New York State Electric and Gas recovers**
 556 **through their bypassable rate mechanism.**

557 A. New York State Electric and Gas has a bypassable Merchant Function Charge
 558 (“MFC”) of .22 cents/kWh for residential customers.³⁹ It recovers costs
 559 associated with electric commodity related uncollectibles; administrative and
 560 general expenses related to commodity; Customer Care Costs related to

³⁷ See <https://www2.dps.state.ny.us/ETS/jobs/display/download/4562606.pdf>, Leaf 163.5.1 to 163.5.2.

³⁸ See <https://www2.dps.state.ny.us/ETS/jobs/display/download/4562606.pdf>, Leaf 163.5.1 to 163.5.2.

³⁹ See <http://www.nyseg.com/SuppliersAndPartners/pricingandtariffs/electricitytariffs/merchantfunctionchargestatements.html>.

561 commodity; supply procurement expenses; and cash working capital on purchased
 562 power.⁴⁰

563

564 **Q. Please describe the costs that the Maryland utilities recover through their**
 565 **bypassable rate mechanism.**

566 A. For the utilities in Maryland, including Allegheny Power, Baltimore Gas and
 567 Electric, and PEPCO, the utilities all use a single methodology that establishes a
 568 bypassable Administrative Charge.⁴¹ However, there is an adjustment factor that
 569 varies for each utility which results in different rates for each utility. The
 570 Administrative Charge is designed to recover the utility's rate of return, costs
 571 associated with the auction/procurement processes, bill inserts for education,
 572 consultants, incremental system costs, transition costs, and working capital
 573 revenue requirements, uncollectible expenses, and an adjustment to increase the
 574 price to beat for competitive suppliers to assist in developing a competitive
 575 market.

576

577 **Q. What are the supply administration rates for each Maryland utility?**

578 A. The rates are summarized in REACT Exhibit 7.4. They range from 0.242
 579 cents/kWh to 0.305 cents/kWh.

580

581

⁴⁰ See <http://www.nyseg.com/MediaLibrary/2/5/Content%20Management/NYSEG/SuppliersPartners/PDFs%20and%20Docs/120v70.pdf>.

⁴¹ See <http://www.alleghenypower.com/rfp/Maryland/Attachments/8908%20Settlement%20Phase%20I%20.pdf>.

582 **Q. What is your conclusion after comparing ComEd’s proposed Rider PE**
 583 **recovery of supply administration costs to other utilities?**

584 A. It is clear that despite ComEd’s opposition to allocating costs associated with
 585 billing, customer support (including call center operations), and credit and
 586 collections, other markets have concluded much differently. Two of the utilities I
 587 examined clearly delineate recovery of these costs through bypassable rate
 588 mechanisms, and the remaining utilities likely recover these costs given the
 589 magnitude of their bypassable rate. Further, it is clear that ComEd’s failure to
 590 appropriately allocate all supply-related costs to a bypassable rate mechanism
 591 results in a supply rate that is substantially lower than all of the other markets that
 592 I examined. By keeping the costs associated with supply out of a bypassable
 593 mechanism, ComEd is charging supply prices that are artificially lower than their
 594 true supply costs. This situation obviously impedes competition because it puts
 595 RESs at a material disadvantage – through no fault of their own – in their efforts
 596 to compete with ComEd.

597
 598
 599

VII. CONCLUSION

600 **Q. Can you please summarize your findings.**

601 A. The proper allocation of supply-related costs to bypassable tariff mechanisms is
 602 critically important to ensure proper allocation of costs and to enable a successful
 603 competitive market for residential customers. ComEd, by its own admission,
 604 seeks to recover supply-related costs through the distribution rates proposed in
 605 this proceeding. The comparison of ComEd’s rate structure with utilities in other
 606 states demonstrates that ComEd’s supply administration rate, as currently

607 proposed, is extremely low, and nothing in the data presented by ComEd provides
608 any justifiable rationale for this result. Simply stated, ComEd is engaging in a
609 misallocation of supply-related costs.

610 To correct this issue, the Commission must review ComEd's allocation of supply-
611 related costs in this proceeding, and ensure that there is a transparent process that
612 permits stakeholder input moving forward.

613 The Commission should instruct ComEd to allocate a portion of its Customer
614 Care Costs to Rider PE recovery as part of this proceeding. Based on my
615 recommended allocations, this would properly increase the supply administration
616 charges filed by ComEd in its March 13, 2008 Rider PE rate filing from
617 \$11,958,572 to \$76,818,580.

618

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

620 A. Yes.