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

CORRECTED REBUTTAL TESTIMONY
OF

JEFFREY MEROLA

ON BEHALF OF THE COALITION TO

REQUEST EQUITABLE ALLOCATION OF COSTS TOGETHER

REACT

COMPRISED OF:
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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.	**:**	

CORRECTED REBUTTAL TESTIMONY OF JEFFREY MEROLA

I. INTRODUCTION

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

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

Q Are you the same Jeffrey Merola who submitted Direct Testimony to the Illinois Commerce Commission ("Commission") in this proceeding?

A. Yes. I presented Direct Testimony on behalf of the coalition to Request Equitable Allocation of Costs Together ("REACT")[1], REACT Ex. 3.0.

II.

PURPOSE OF TESTIMONY AND GENERAL CONCLUSIONS

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.

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

Q. Please summarize your conclusions.

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

1. **The Commission should direct ComEd to remove supply-related costs from its proposed delivery services rates.** The Commission should examine in this proceeding the way in which ComEd has proposed to recover through its delivery services rates substantial costs associated with supply procurement.

2. **The Commission should require justification and transparency related to ComEd's recovery of supply-related costs.** ComEd should be required to provide a full cost justification of the internal administrative and operational costs associated with supply procurement through a transparent process that

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

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

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

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

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

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

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

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

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

- Unfairly forcing all customer classes to improperly pay for <u>supply</u> procurement costs even though many of those customer classes are <u>not even eligible</u> to obtain their supply from ComEd;
- Inappropriately "double charging" customers who choose to purchase energy from a RES for services that ComEd provides to customers receiving supply from ComEd; and
- Hampering competition for residential and small commercial customers by creating an artificially low, and therefore distorted price comparison for ComEd bundled customers who shop for alternative suppliers.

Although ComEd now has somewhat modified its proposal and has abandoned its proposed Rider SAC, the "bottom line" remains. Even ComEd's current proposal would require RES customers to foot part of ComEd's supply-related bill. Such cross-subsidization would hamper, and potentially even prevent, competition from developing for residential and small commercial customers. ComEd previously has stated that it supports development of a robust competitive market for residential and small commercial customers,[2] but those proclamations ring hollow when ComEd proposes in this proceeding to allocate costs in a way that would undermine the development of competition for residential and small commerical customers.

Fairness and sound regulatory policy dictate that ComEd's supply customers, and only ComEd's supply customers, should pay ComEd's supply-related bill.

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

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

[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.

Q. In his rebuttal testimony, Mr. Crumrine asserts that ComEd "absolutely" does not have any motive to discourage residential and small commercial customers from switching suppliers.[3] Do you agree with his statement?

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

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

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

[3] *See* ComEd Ex. 30.0 at 60, lines 1342-43.
[4] Rider PE, Original Sheet No. 637, filed on January 14, 2008.

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

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

III.

COMED'S RECOVERY OF COSTS RELATED TO SUPPLY PROCUREMENT

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

A. ComEd asserted in rebuttal testimony and in response to data requests, that beginning June 1, 2008, certain costs associated with supply procurement will be recovered through the following tariff mechanism:

Rider PE – Purchased Energy

ComEd now indicates that Rider PE will recover costs associated with energy, capacity, renewable resources, transmission service, ancillary services,[5] short and long-term load forecasting, scheduling, contract negotiation and management, risk management, accounting, settlements, financial management, transaction management,[6] and credit support[7] for fixed price bundled customers.

Rate BES – Basic Electric Service

ComEd now indicates that Rate BES will recover costs associated with supply-related uncollectible expenses[8] for fixed price bundled customers.

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

ComEd now indicates that Rate BES-H will recover costs associated with energy, capacity, renewable resources, transmission service, ancillary services and the "Company's internal administrative and operational costs associated with the procurement of electric power and energy" for hourly price bundled customers.[9] Rate BES-H also will recover costs associated with supply-related uncollectible expenses for hourly priced bundled customers.

Rider AAF - Accuracy Assurance Factors

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

Various Distribution Rates

ComEd now indicates that credit and collections, billing, and customer support (including call center operations) are not recovered through

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

bypassable charges, and are thus only reflected in ComEd's delivery services rates – i.e., they are 100% recovered through delivery services rates.[10]

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

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

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

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

A. Absolutely not. As the Commission is well aware, retail competition for residential and small commercial customers has not developed in Illinois. As a result, if the Commission wants to promote retail competition for the benefit of all customers, a "business as usual" approach is a recipe for failure. A key impediment to retail choice for these customers is the improper allocation of supply procurement costs to delivery services rates. The question of appropriate cost allocation for providing services to residential and small commercial customers must be confronted if the Commission wants a vibrant and sustainable competitive retail electric market to develop where competitive suppliers, not the regulated utility, provide retail electric service to consumers.

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

IV.

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

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

A. Given the critical importance of ensuring that ComEd properly allocates costs related to supply procurement to only those customers that receive supply from

ComEd, the Commission must ensure that stakeholders have both a transparent means to review these costs and the allocation methodology, and a mechanism to comment upon and if necessary challenge the cost allocation. Since ComEd now indicates that these costs will largely be recovered through Rider PE, it is important that the process for allocating costs to Rider PE be transparent and allow stakeholder input.

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

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

Q. Does that review process ensure transparency?

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

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

[11] Rider PE, Original Sheet No. 648, filed on January 14, 2008.
[12] ComEd Ex. 30.0 at 56, lines 1252-53.

A. Some details on the Rider PE cost justifications were provided in a response to a data request in this proceeding.[13] However, it is unclear how a stakeholder would gain access to this information absent a proceeding such as this rate case. Further, ComEd provided partial details on the costs embedded in Rider PE. However, key sets of data which contain more detailed work papers were not released.[14] For example, one entry in ComEd's supporting documents states "Fixed Portion of EA and ESSD Costs" and makes reference to work paper SAC4 and SAC4a.[15] Absent the supporting work papers, the reviewer has no idea what costs are actually being recovered through this line item.

Q. Does this process permit stakeholder review?

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

Q. Does this process permit stakeholder input?

A. Apparently not. There is nothing in Rider PE that explicitly allows for stakeholder input. Additionally, while ComEd has stated that other parties can review and ask questions, ComEd has stated that parties other than the Accounting Department of the ICC Staff will not be able to comment on the costs

[13] *See* ComEd Response to REACT Data Request 4.30.
[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.

ComEd seeks to recover under Rider PE.[17] Specifically, ComEd has stated that "ComEd does not envision a 'comment process' being used for such annual proceedings."[18] It is certainly insufficient to allow stakeholders to review the information, but then have no ability to have input on its validity.

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

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

V.

COMED'S RECOVERY OF SUPPLY-RELATED COSTS THROUGH DELIVERY SERVICES RATES

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

A. Yes. At this point, there is no question that ComEd intends to recover substantial supply-related costs through the delivery services rates it has proposed in this

[17] ComEd Response to REACT Data Request 4.20.
[18] *Id*.

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

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

A. Mr. Crumrine attempts to justify ComEd's proposal to recover 100% of the Customer Care Costs through distribution rates by stating that ComEd has to provide these functions "regardless of whether or not a customer is a supply customer."[21] In essence, his argument is that there are no marginal costs associated with providing those functions to customers that take supply from ComEd. In other words, Mr. Crumrine is saying that if ComEd had no obligations associated with procuring or providing power, ComEd's Customer

[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.

Care Costs would be exactly the same. This assertion seems implausible on its face.

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

> It is unclear what the phrases 'costs associated with . . .' or 'costs related to billing the supply portion of bundled customers' charges' are intended to mean with respect to the provision of bundled service (i.e., supply, distribution and transmission). It is unclear to ComEd what aspects of the billing process for bundled service customers, if any, may be considered uniquely supply-related.[22]

ComEd similarly "punted" on substantively identical data requests on customer relations including call center operations[23] and collections.[24]

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

Putting this inquiry aside, even if Mr. Crumrine's statement about ComEd's need to provide certain functions "regardless of whether or not a customer is a supply

[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.

customer" were accurate, it is inconsistent with the allocation methodology ComEd has proposed in this proceeding.

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

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

However, in connection with the analysis of the cost allocation approach for the particular items that we are focusing on here, Mr. Crumrine apparently is endorsing a marginal cost of service approach related to these critical supply related costs. The reason for this analytical shift is not explained by ComEd. The point, however, is quite clear. The attempt to recover Customer Care Costs as

[25] ComEd Ex. 13.0 at 5, lines 104-07.
[26] ComEd Ex. 13.0 at 6, lines 111-15.

100% distribution related and 0% supply related simply cannot withstand scrutiny under an embedded cost of service approach.

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

A. Yes. In support of the rate for Rider SAC filed in this proceeding, ComEd allocated $112,483[27] of Account 903 (Customer Records and Collections Expense) as supply-related. While this represents a minimal allocation (.11% of the total $100,156,711[28] allocated to this account), it is clear that ComEd has previously allocated some portion of these costs to a bypassable supply-related tariff, in contrast to their current position. Thus, the appropriate inquiry for the Commission in this proceeding is what level of Customer Care Costs should be allocated to supply procurement.

Q. Have you calculated an appropriate allocation?

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

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

[27] *See* ComEd Ex. 12.3_SAC, page 3.
[28] *See* ComEd Ex. 13.1, Schedule 1a, page 10.

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

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

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

Q. Please explain how you calculated this figure.

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

Q. What information do you have to confirm that the functional categories of "Billing - Computation & Data Mang.", "Bill Issue & Processing" and "Customer Information" in ComEd's ECOSS cover the functions you have consolidated into "Customer Care Costs"?

A. According to the direct testimony of Sally T. Clair, ComEd's customer service revenue requirements are grouped into "Customer Service and Information" expense[29] and "Customer Accounts" expense.[30] Ms. Clair describes Customer Service and Information expense as being associated with "costs of such basic tasks as establishing delivery service, addressing billing questions, resolving billing disputes, and providing information on service options"[31] while Customer Account expenses are associated with "meter reading, billing, and revenue management functions."[32] The costs encompassed in these two categories cover two additional items -- meter reading and establishment of delivery service -- which I do not categorize as Customer Care Costs. When extracting the data from ComEd's ECOSS, I removed the meter reading expenses. However, costs associated with the establishment of delivery services are not separated in ComEd's ECOSS, so I could not remove those costs.

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

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

[29] *See* ComEd Ex. 6.0 at 5, line 95.
[30] *See* ComEd Ex. 6.0 at 6, line 122.
[31] ComEd Ex. 6.0 at 4, lines 80-82.
[32] ComEd Ex. 6.0 at 6, lines 114-15.

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

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

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

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

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

A. One rational means of allocating these costs would be based on the share of revenue associated with supply compared to the share of revenue associated with distribution. Clearly, supply represents a much higher percentage of a customer's bill than does distribution, and under that methodology the allocation factor would likely be in the range of 67%. However, I instead used a more conservative allocation factor of 40%. To develop this factor, I first removed 20% of the total costs to conservatively account for the fact that some portion of the total costs is attributable to the establishment of delivery services. I then took 50% of the remaining (in other words 50% of the remaining 80%) to develop my 40% factor. The 50% factor is a very reasonable estimate of the percentage of the Customer

[33] ComEd Response to REACT Data Request 4.24.

Care Costs that are attributable to supply absent better information since it is not captured by ComEd.

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

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

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

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

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

A. Yes. It appears that ComEd has made no allocation of shared service costs from Exelon Business Services Company to Rider PE. Exelon Business Services

[34] *See* REACT Ex. 7.2.

Company provides services through ten practice areas that include Information Technology, Supply, Commercial Operations, Finance, Human Resources, Government & Environmental Affairs and Public Policy, General Counsel, Corporate Secretary, Strategy, and Communications.[35] It is unclear why ComEd would allocate **zero** costs associated with these support services to supply administration.

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

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

VI.

RECOVERY OF SUPPLY ADMINISTRATION COSTS IN OTHER MARKETS

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

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

A. Yes, I have.

Q. What other utilities have you reviewed?

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

Q. Why did you choose those utilities?

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

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

A. Yes. Central Hudson Gas and Electric specifically allocates a portion of its costs associated with credit and collection, call center costs, and administrative and general expenses to its bundled service customers. Similarly, New York State

Electric and Gas similarly allocates costs associated with customer support and administrative and general expenses. Publicly available details on the Maryland utilities are not as specific, but based on the total rate for indirect costs used by these utilities, it would appear that some portion of these costs have been allocated to a bypassable tariff mechanism. The table below demonstrates the items that ComEd and the other utilities I analyzed do and do not allocate to a bypassable tariff:

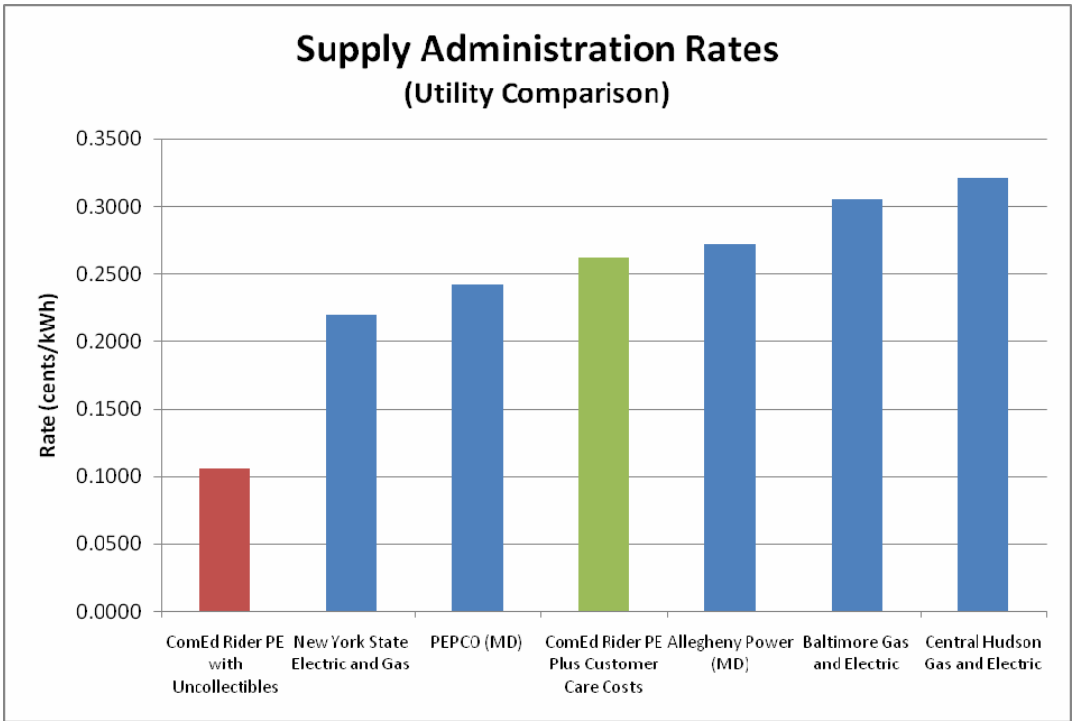
Table 1 – Utilities' Treatment of Supply Administration Costs

Utility	Billing	Customer Support & Call Center	Credit and Collections	Rate of Return
ComEd	No	No	No	No
Central Hudson Gas & Electric[1]	Probably	Yes	Yes	Unknown
New York State Electric & Gas[2]	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:
[1] The tariff does not specifically say billing, although it generally describes customer care activities.
[2] Tariff states that it covers "Customer Care Costs", have assumed those cover billing, customer support and credit and collections.

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

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



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

A. As I discussed earlier, based on ComEd's filing of the rates in Rider PE on March 13, 2008, the average rate for supply administration costs is 0.02903 cents/kWh. Since most of these utilities also include recovery of uncollectible expenses in these rates, ComEd's recovery of uncollectible expenses associated with supply also needs to be added prior to comparing the value to other markets. ComEd's recovery of uncollectible supply expenses averages 0.07636 cents/kWh.[36] Adding this together with the supply administration rate above yields a total of

[36] *See* REACT Ex. 7.2.

0.10539 cents/kWh. This figure is far lower than the supply administration rates set by the other utilities I examined. This confirms my concern that ComEd's recovery of supply-related administrative costs appears to be artificially low.

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

A. Central Hudson Gas and Electric has two bypassable components including a Merchant Function Charge ("MFC") Administration Charge and the Merchant Function Charge ("MFC") Supply Charge. The total MFC charge for a residential customer is .321 cents/kWh.[37]

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

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

A. New York State Electric and Gas has a bypassable Merchant Function Charge ("MFC") of .22 cents/kWh for residential customers.[39] It recovers costs associated with electric commodity related uncollectibles; administrative and

[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/pricingandtarrifs/electricitytariffs/merchantfunctionchargestatements.html.

general expenses related to commodity; Customer Care Costs related to commodity; supply procurement expenses; and cash working capital on purchased power.[40]

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

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

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

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

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[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.

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

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

VII. CONCLUSION

Q. Can you please summarize your findings.

A. 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, by its own admission, seeks to recover supply-related costs through the distribution rates proposed in this proceeding. 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.

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

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

Q. Does this conclude your rebuttal testimony?

A. Yes.