

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY)
) Docket No. 07-0566
Proposed general increase in electric rates)
)

REPLY BRIEF OF THE COMMERCIAL GROUP

The Commercial Group hereby responds to the initial post-hearing briefs of various parties on cost of service and allocation issues. In short, although several parties correctly suggest that ComEd’s CCOS study would be improved by Mr. Stowe’s primary/secondary study analysis, ComEd’s study is a suitable foundation for setting costs. Whatever study is adopted, rates should be set at cost. In determining whether to deviate somewhat from cost, the Commission should not focus solely on the rate impact between current and proposed rates as some parties suggest, but the total impact of the current rate subsidies and the proposed rate increase of this case. Across-the-board rate increase proposals would impose unreasonable rate subsidy burdens on the Medium, Large, and Very Large Load customer classes and should be rejected.

VIII. COST OF SERVICE AND ALLOCATION ISSUES

C. Embedded Cost of Service Study Issues

1. Appropriate Study

The Commercial Group agrees with ComEd that its CCOS study is reliable enough for setting class rates (see ComEd Initial Brief, p. 91). That some parties suggest improvements to ComEd’s study is to be expected. The Commercial Group itself recommends that primary/secondary costs could be better differentiated in the CCOS study and that IIEC witness

Stowe's study would be an improvement.¹ However, as Staff points out in its initial brief (p. 100), "this is not a sufficient deficiency to make ComEd's cost of service study an unsuitable foundation for setting rates." No matter what cost study is used, however, the Medium, Large, and Very Large customer classes deserve rate relief, as the rates are above cost in all of the cost studies in evidence. CG Ex. 2.0 (Baudino rebuttal), p.6 Table 1.

5. Customer-specific cost of service recommendations

The Commercial Group agrees with ComEd that the numerous customer-specific cost studies that have been requested could be very costly to perform. ComEd Initial Brief, pp. 96-98. REACT stated in its initial brief (p. 23) that Commercial Group witness Mr. Baudino "admitted the feasibility of customer-specific cost-of-service studies." This is not true. At the hearing, counsel for REACT had Mr. Baudino read ComEd data responses and say aloud what those data responses said in print. Mr. Baudino simply repeated ComEd's data response as to whether it might be "technically possible" or "theoretically possible" for ComEd to collect costs for certain customers. Tr. 1649-54. Whether such cost collection is "feasible" in terms of obtaining valuable cost data at a reasonable cost and effort is another question altogether, as is Mr. Baudino's independent opinion as to whether it may be feasible. The Commercial Group believes that ComEd should identify and directly assign as many costs as can feasibly be studied and determined. That being said, determining what specific costs each customer incurs is in Mr. Baudino's words "extremely difficult, if not impossible." Tr. 1645, lines 20-22. Based on the record in this case, ComEd's failure to perform one or more of the requested customer-specific cost studies does not render ComEd's CCOS Study invalid.

¹ If the Commission agrees that some minimum distribution costs should be captured as customer costs, the Commission should adopt the results in Mr. Stowe's Table 8, IIEC Ex. 3.0, p. 49. If not, the Commission should adopt the results in Mr. Stowe's Table 7, IIEC Ex. 3.0, p. 25.

D. Rate Impact Analysis

In their testimony and briefs, a number of parties compared existing rates to new rates proposed in this proceeding and argued whether those proposed rates might cause “rate shock.” When considering the proposed increases from existing rates, the Commission should not shut its eyes to the cumulative rate impact from long-standing subsidies. Perhaps the greatest rate shock would be for customers that already subsidize other customers to see those subsidies grow even larger.

In its initial brief (p. 9), the Commercial Group showed that ComEd’s schools, homeless shelters, commercial customers, and small industrial customers have already borne a heavy subsidy burden of hundreds of millions of dollars since 2001. Figures 1 and 2 of BOMA’s initial brief (p. 12) demonstrate a similar fact – that ComEd’s customers with electric loads of between 400 KW and 3000 KW (i.e., customers in the Large and Very Large Load classes) have suffered the largest percentage distribution rate increases of any ComEd customer groups from 1999 to 2007.

Across-the-board increase advocates would have the Commission focus only on the delta between existing and proposed rates. But what about those rates that are already too high? What about the delta between rates in 1999 and the proposed rates? The Small, Medium, Large, and Very Large Load customer classes are already paying above cost rates and could see their subsidy burden increase to \$63.6 million each year under any the “across-the-board” rate increase proposals. Commercial Group Initial Brief, p. 10. It is not fair for those classes to bear the impact of even greater subsidies for the sole purpose of presenting rates as increasing by the same percentage.

E. Interclass Allocation

1. Across-the-board increase

The Commercial Group agrees with ComEd (Initial Brief, p. 100) that the across-the-board increase should be rejected because it is not cost-based and because “fairness is more likely to be achieved when an objective standard, such as an ECOSS, is used to set rates.” In arguing for an across-the-board increase, Staff proposes a subjective standard for setting rates based on which customers “can more easily absorb increases in delivery services costs.” Staff Initial Brief, p. 101. It is unclear how a class’s relative ability to absorb rate increases could be measured in a fair, meaningful and transparent manner. Perhaps a class’s inability to organize and advocate with regards to rate increases would be used as “evidence” of an ability to absorb a rate increase. Of course, classes with more ratepayers, each of which individually may have fewer dollars at stake, might not organize as well as customer groups with very high individual load. However, ability to absorb rate increases (or willingness and ability to organize and advocate) is not a fair, objective way to set rates; cost is the fairest basis for setting rates.

In their initial briefs, IIEC (pp. 68-76), REACT (p. 29), CTA (pp. 19-20), and Metra (p. 7) all cite positively one or both of IIEC witness Stowe’s cost studies. These parties’ positions become untenable, however, when they advocate an across-the-board solution that would penalize the customers that are above cost in every cost study in the record, including those of Mr. Stowe. In fact, both of Mr. Stowe’s studies show that rates of the Medium, Large, and Very Large Load customer classes are above cost or even further above cost than under ComEd’s study:

Comparison of Class Relative Rates of Return from CCOS Studies

Source - CG Ex. 2.0 (Baudino rebuttal), p.6 Table 1.

	ComEd COSS	Stowe Prim/Sec Voltage	Stowe Prim/Sec Volt. plus MDS
Medium Load	1.31	1.19	2.94
Large Load	1.30	1.47	3.33
Very Large Load	1.37	2.74	4.83

If the fundamental problem with ComEd's cost study is corrected by Mr. Stowe's improvements, as these parties suggest, how could the fair remedy be for these above-cost customer classes to pay even greater subsidies under the across-the-board proposal? The across-the-board proposals are fundamentally unfair to the Medium, Large, and Very Large Load classes and should be rejected.

2. Other Rate Moderation/Mitigation Proposals

Whatever cost study the Commission adopts, it should base rates on cost. If the Commission then determines that any of the three largest load customer classes deserve some rate relief (either for cost or non-cost public policy reasons), the Commission should not add to the subsidy burden of customer classes that are already well above cost in every cost study in the record. Instead, to the extent there should be a deviation from cost to accomplish some societal benefit, such subsidy should be spread as broadly as possible and particularly to customers that are not currently paying their fair share of costs.

XII. CONCLUSION

WHEREFORE, the Commercial Group respectfully requests that the positions advocated in the Commercial Group's initial and reply post-hearing briefs be adopted.

Respectfully submitted this 16th day of June, 2008.

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