

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

ILLINOIS COMMERCE COMMISSION)	
ON ITS OWN MOTION)	
)	
VS.)	
)	Docket No. 08-0532
COMMONWEALTH EDISON COMPANY)	
INVESTIGATION OF RATE DESIGN)	
PURSUANT TO SECTION 9-250 OF THE)	
PUBLIC UTILITIES ACT)	

DIRECT TESTIMONY OF

RICHARD A. BAUDINO

ON BEHALF OF THE COMMERCIAL GROUP

J. KENNEDY AND ASSOCIATES, INC.

May 22, 2009

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

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

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

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

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

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

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

17 In October 1989, I joined the utility consulting firm of Kennedy and Associates as a
18 Senior Consultant where my duties and responsibilities covered substantially the same
19 areas as those during my tenure with the New Mexico Public Service Commission Staff.

20 I became Manager in July 1992 and was named Director of Consulting in January 1995.

21 Currently, I am a consultant with Kennedy and Associates.

22 CG Exhibit 1.1 summarizes my expert testimony experience.

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

24 A. I am testifying on behalf of the Commercial Group, which is an ad hoc association of
25 retail companies that own and operate retail stores within Commonwealth Edison
26 Company's ("ComEd") service territory, including Best Buy Co., Inc., J.C. Penney
27 Corporation, Inc., Macy's, Inc., Safeway, Inc., and Wal-Mart Stores, Inc. These
28 commercial customers of ComEd have a significant positive economic impact on the
29 State of Illinois. The hundreds of retail and distribution centers operated in Illinois by
30 members of the Commercial Group support tens of thousands of Illinois employees. In
31 addition, the group supports thousands of other Illinois businesses as well by purchasing
32 tens of billions of dollars each year of services and supplies from Illinois businesses.

33 The Commercial Group also includes the Illinois Retail Merchants Association
34 ("IRMA"), an Illinois not-for-profit trade association which is recognized as the
35 spokesman for Illinois retailing. Within its membership are retailers in all merchandise
36 lines located throughout this State. Direct membership includes approximately 10,000
37 food and non-food retailers ranging in size from small "mom and pop" businesses to
38 national chains. Subscribing memberships held by local chambers of commerce, retail
39 committees, and shopping center organizations raise IRMA's membership to over 23,000
40 Illinois retailers which account for approximately 85 percent of all retail sales in Illinois.

41 **Q. Generally, what is the electric load profile of the Commercial Group?**

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

44

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

46 A. The purpose of my testimony is to present conclusions and recommendations regarding
47 the cost allocation and rate design testimony filed by Commonwealth Edison Company
48 ("ComEd" or "Company"). In so doing, I will address the prefiled testimony of Company
49 witnesses Alan Heintz and Lawrence Alongi.

50 **Q. Did you present testimony in ComEd's last rate proceeding, Docket No. 07-0566?**

51 A. Yes. I testified on behalf of the Commercial Group.

52 **Q. Please summarize the purpose of this current proceeding.**

53 A. In its Order dated September 10, 2008 in Docket No. 07-0566, the Illinois Commerce
54 Commission ("ICC" or "Commission") set forth its findings that formed the basis for an
55 investigation into "all aspects" of ComEd's current rate design. In Docket No. 07-0566
56 the Commission expressed concerns regarding the Company's filed Embedded Cost Of
57 Service Study ("ECOSS"). Specifically, the Commission found the following on page
58 213 of its Order dated September 10, 2008 in Docket No. 07-0566:

59 The Commission disagrees with Commission Staff and many of the
60 Intervenors that the fairest allocation in this case is an across the board
61 increase. However, as we have noted, the substantial deficiencies in
62 specific elements of the ECOSS render it problematic for purposes of
63 rate setting in this docket. The Commission is keenly aware that
64 ratepayers have been significantly impacted by recent electricity rate
65 increases. The Commission is also aware that the greatest portion of
66 those increases is due to the increase in commodity costs. The
67 Commission is cognizant of the argument that an across the board
68 increase exacerbates existing rate inequities, and agrees that,
69 particularly in a period of rising prices, the elimination, or at the very
70 least, significant reductions in rate inequities are a necessary condition
71 to rate setting. What is unclear, and will remain unclear until an
72 ECOSS is evaluated in compliance with our findings above, is how
73 significant the rate inequities are under this ECOSS.

74 The Commission initiated the current case to address its concerns regarding the
75 Company's ECOSS. The most important concern in my view is the differentiation

76 between primary and secondary voltage levels in the ECOSS and the effect on the
77 allocation of costs to customer classes from such differentiation.

78 In its September 10, 2008 order initiating this current proceeding (Docket No. 08-0532),
79 the Commission directed the Company to provide a revised cost of service study that
80 differentiated costs among primary and secondary customers, along with several other
81 issues related to customer costs, uncollectible costs, and street lighting.

82 **Q. Did you review the revised ECOSS filed by the Company in this proceeding?**

83 A. Yes. Mr. Heintz presented the revised ECOSS in his Direct Testimony and in ComEd
84 Exhibits 3.1, 3.2, 3.3, and 3.4. I also reviewed Mr. Heintz's work papers, including a
85 working version of the revised ECOSS.

86 Mr. Alongi addressed important aspects of the revised ECOSS, including how certain
87 distribution accounts were allocated between primary and secondary voltage levels. Mr.
88 Alongi provided a detailed comparison of the results of the newly revised ECOSS to the
89 ECOSS filed in Docket No. 07-0566. Mr. Alongi's Table 1 on page 9 of his testimony
90 included a comparison of the Commission's approved rates in Docket No. 07-0566 with
91 cost of service-based rates reflecting all of the changes in the revised ECOSS.

92 **Q. Does the revised ECOSS provide a reasonable basis for determining class cost
93 responsibility in this proceeding?**

94 A. Yes. My review of the Company's ECOSS and the associated work papers indicates that
95 the Company's revised study provides a reasonable basis for the Commission to
96 determine customer class cost responsibility in this proceeding. In particular, the
97 revisions that reflect primary and secondary voltage cost allocations are a significant
98 improvement to the ECOSS filed in Docket No. 07-0566.

99 **Q. Why do you say the Company's primary and secondary voltage cost allocations are**
100 **a significant improvement?**

101 A. It is important to identify and functionalize costs associated with primary and secondary
102 distribution facilities because customers who take service at the higher primary voltage
103 levels do not utilize facilities that are designed to serve customers who receive service at
104 the lower secondary voltage levels. The ECOSS filed in Docket No. 07-0566 did not
105 properly separate primary and secondary distribution costs, which resulted in excessive
106 cost allocations to customers who receive service at the primary voltage level.

107 **Q. Please summarize the changes in class cost responsibility that occurred in the**
108 **revised ECOSS.**

109 A. Table 1 below presents a comparison of the class cost responsibilities between the
110 original ECOSS filed in Docket No. 07-0566 and the revised ECOSS that Mr. Heintz
111 presented in this case. Column (4) shows the change in total class cost responsibility that
112 resulted from the revised ECOSS.

(1)	(2) Original <u>ECOSS</u>	(3) Revised <u>ECOSS</u>	(4) <u>Difference</u>
Total Residential	\$ 1,104,263,818	\$ 1,142,335,394	\$ 38,071,576
Watt-Hour	\$ 21,089,971	\$ 21,637,714	\$ 547,744
Small Load	\$ 230,846,635	\$ 238,625,976	\$ 7,779,341
Medium Load	\$ 178,020,923	\$ 167,486,002	\$ (10,534,921)
Large Load	\$ 150,680,621	\$ 138,784,375	\$ (11,896,246)
Very Large Load	\$ 249,241,990	\$ 230,129,592	\$ (19,112,399)
Extra Large Load	\$ 51,935,170	\$ 47,762,762	\$ (4,172,408)
High Voltage	\$ 18,362,199	\$ 18,186,179	\$ (176,021)
Fixt. Incl. Lighting	\$ 21,514,236	\$ 21,648,349	\$ 134,113
Dusk to Dawn	\$ 7,590,183	\$ 8,113,246	\$ 523,063
General Lighting	\$ 759,418	\$ 792,433	\$ 33,015
Railroads	\$ 8,588,836	\$ 7,782,853	\$ (805,983)
Total	\$ 2,042,894,000	\$ 2,043,284,876	\$ 390,876

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The results of the Company's revised ECOSS show a significant reduction in cost

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responsibility for the Medium Load, Large Load, Very Large Load, Extra Large Load,

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and Railroads customers. Residential and Small Load customers have increased cost

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responsibility. High Voltage customers have a slightly lower cost responsibility in the

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revised study.

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Q. What does your Table 1 indicate with respect to inter-class subsidies?

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A. Other things being equal, the Company's revised ECOSS shows that the subsidies that

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were being paid by the Medium Load, Large Load, and Very Large Load classes in the

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last case are even greater than they appeared in the last case.

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The Commission ordered rates in the prior case that moved classes toward paying their

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share of the Company's cost of service, but mitigated the impact for larger customers and

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spread the subsidies to the rest of the non-residential classes. According to page 2 of 4 of

126 ComEd Ex. 1.1A, the total subsidies, e.g., differences between EPEC revenues and
 127 revenues generated by the rates that the Commission approved for the Medium Load,
 128 Large Load, and Very Large Load customers are as follows.

	<u>EPEC Revenue</u>	<u>Revs. From ICC Order</u>	<u>Difference Subsidy</u>
Medium Load	\$ 170,936	\$ 177,335	\$ (6,399)
Large Load	\$ 144,588	\$ 150,002	\$ (5,414)
Very Large Load	\$ 239,090	\$ 248,043	\$ (8,953)
Total			\$ (20,766)

129
 130 Although the Commission moved toward cost of service in the last case, \$20.8 million of
 131 subsidies still remained for the Medium Load, Large Load, and Very Large Load
 132 customers based on the last ECOSS (see Table 2). The Company's revised ECOSS in
 133 this case shows that these subsidies are even greater because the true cost to serve these
 134 three classes is \$41.5 million less than that calculated by the ECOSS in Docket No. 07-
 135 0566 (see Table 1).

136 **Q. Did the Commission express concern with inter-class subsidies in Docket No. 07-**
 137 **0566?**

138 A. Yes. The portion of the Order I cited on page 4 of my testimony noted the Commission's
 139 concern regarding inter-class subsidies. The Commission also noted on page 205 of its
 140 Order that “[c]ost-causation principles seek to ensure that all customers are paying their
 141 fair share for distribution service.”

142 **Q. Did the Commission move ComEd's customer classes toward cost of service with its**
143 **Order in Docket No. 07-0566?**

144 A. Yes, although given its concerns about the Company's ECOSS the Commission did not
145 move toward full class cost responsibility in the last case. Instead of moving all classes
146 to cost of service, the ICC ordered a mitigated rate design in which the Distribution
147 Facilities Charges ("DFCs") for the Extra Large Load class, the Railroads class, and the
148 High Voltage class were moved 25% toward cost of service. And, as Mr. Alongi pointed
149 out on page 8 of his Direct Testimony, the remaining non-residential classes are
150 providing over-recovery of costs in order to subsidize other classes.

151 **Q. Can the Commission revise rates based on the results of the Company's revised**
152 **ECOSS?**

153 A. I am not a lawyer but I note that the Commission stated the following on page 2 of its
154 September 10, 2008 Order initiating Docket No. 08-0532:

155 The Commission shall have power, upon a hearing, had upon its own
156 motion or upon complaint, to investigate a single rate or other charge,
157 classification, rule, regulation, contract or practice, or any number
158 thereof, or the entire schedule or schedules of rates or other charges,
159 classifications, rules, regulations, contracts and practices, or any thereof
160 of any public utility, and to establish new rates or other charges,
161 classifications, rules, regulations, contracts or practices or schedule or
162 schedules, in lieu thereof.

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164 The Commission also stated in that Order (p. 3) that it “does not intend to review or
165 consider any changes in the revenue requirements it has most recently determined for
166 ComEd, or to modify its conclusions (other than those related to rate design) in Docket 07-
167 0566.” To me, this implies the Commission intends to revise rates either in this docket 08-
168 0532 or in docket 07-0566 based on its findings and conclusion in this case.

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170 **Q. What is your recommendation with respect to revenue allocation in this proceeding?**

171 A. I recommend that the Commission set rates consistent with the Company's revised
172 ECOSS. This would have the effect of lowering the current charges for the Medium
173 Load, Large Load, and Very Large Load customers. This recommendation results in
174 rates that reflect cost responsibility, that are economically efficient and provide accurate
175 price signals to customers, and that remove subsidies. Rates based on cost to serve are
176 just and reasonable and consistent with past ICC precedent.

177 If the Commission decides that it is reasonable to mitigate increases for the larger non-
178 residential customers, then I recommend that any subsidies be spread to all other
179 customer classes, including residential classes.

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

181 A. Yes.