

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission :
On Its Own Motion :
-vs- :
Commonwealth Edison Company : ICC Docket No. 08-0532
: :
Investigation of Rate Design Pursuant :
to Section 9-250 of the Public Utilities Act :

DIRECT TESTIMONY
OF

BRADLEY O. FULTS

ON BEHALF OF THE COALITION TO

REQUEST EQUITABLE ALLOCATION OF COSTS TOGETHER

REACT

COMPRISED OF:

A. FINKL & SONS, Co.
ALSIP PAPER CONDOMINIUM ASSOCIATION
AUX SABLE LIQUID PRODUCTS, LP.
THE CITY OF CHICAGO
COMMERCE ENERGY, INC.
FLINT HILLS RESOURCES, LLC
INTEGRYS ENERGY SERVICES, INC.
THE METROPOLITAN WATER RECLAMATION DISTRICT
OF GREATER CHICAGO
PDV MIDWEST REFINING LLC
UNITED AIRLINES, INC.
WELLS MANUFACTURING, INC.

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DIRECT TESTIMONY OF BRADLEY O. FULTS

I. INTRODUCTION AND QUALIFICATIONS

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

2 A. My name is Bradley O. Fults. I am the Managing Principal at Progressive Energy
3 Solutions, LLC (“Progressive Energy”), an energy consulting firm that specializes in
4 energy planning, energy pricing, contract negotiations, strategic planning, and other
5 energy matters for large commercial, institutional, and industrial companies, including
6 many customers with facilities served by Commonwealth Edison Company (“ComEd”).
7 My address is 8908 Prestwick Circle, Brooklyn Park, MN 55443.

8
9 **Q. On whose behalf are you testifying?**

10 A. I am testifying on behalf of the coalition to Request Equitable Allocation of Costs
11 Together (“REACT”).¹ REACT brings together some of the largest and most prominent
12 industrial, commercial, and governmental energy users in the Chicago area, together with

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

13 retail electric suppliers (“RESs”) that serve various commercial and industrial customers
14 and that are interested in providing service to residential customers in the service territory
15 of Commonwealth Edison Company (“ComEd”). REACT actively participated in all
16 phases of the predecessor case to the instant proceeding - that is, ICC Docket No. 07-
17 0566 - and presented substantial expert testimony and argument in support of fair,
18 accurate, and equitable rate design that (1) avoids penalizing the largest customers based
19 upon a fundamentally flawed cost study; and (2) allocates Customer Care Costs in a
20 manner that respects principles of cost causation, encourages the development of retail
21 electric competition for residential customers, and treats all customers fairly. After
22 analyzing the testimony and the revised Embedded Cost of Service Study (“ECOSS”)
23 that ComEd presented in the instant proceeding, the diverse members of REACT
24 continue to recognize that their interests align in opposing ComEd’s proposed inequitable
25 cost allocation. As a result, this group continues to request equitable allocation of costs
26 together, or “REACT.”

27

28 **Q. What are your responsibilities in your present position?**

29 A. My area of concentration at Progressive Energy is in customer energy supply
30 procurement, utility rate evaluation, and analysis. I assist large commercial and industrial
31 customers by evaluating energy supply pricing and procurement, energy risk
32 management, utility rate structures, rate options, rules of service, and on-site generation
33 options for such customers. This evaluation typically involves elements such as
34 reliability of supply, standby fuels, cogeneration gas supplies, penalty avoidance, proper
35 tariff application, proper application of rules and regulations, and other energy related

36 issues. Prior to 2002, I was employed as a Senior Project Manager within the Energy
37 Solutions Group with Alliant Energy Integrated Services and its predecessor, and had
38 many of the same responsibilities.

39

40 **Q. Please state your educational qualifications.**

41 A. I received a Bachelor of Science Degree in Business Administration with a
42 comprehensive major in Management Information Systems from the University of
43 Wisconsin-Eau Claire in 1982.

44

45 **Q. Please discuss your experience in the Illinois retail electric market.**

46 A. I regularly advise customers in the ComEd service territory about procurement of energy
47 supply, including both electricity and natural gas. For more than 20 years, I have
48 provided technical support and utility industry analysis to some of the largest
49 commercial, institutional, and industrial energy customers in northern Illinois. I track
50 and analyze regulatory and energy supply issues that affect those customers' energy
51 costs, such as those implicated by the proposals ComEd made in ICC Docket No. 07-
52 0566 and in this proceeding.

53

54 Since before the inception of competition in the Illinois retail electric market, I have been
55 assisting some of ComEd's largest customers in understanding the impact of ComEd's
56 rate proposals. Over the years, I have assisted a wide array of commercial and industrial
57 customers in reviewing and analyzing their competitive supply options and RES
58 proposals, and have worked closely with a number of customers to evaluate ComEd's

59 increases in delivery services rates, market value energy charges, power purchase option
60 rates, and customer transition charges. I also have worked with customers to analyze the
61 impact of ComEd joining PJM Interconnection.

62

63 **Q. Have you previously testified before the Commission?**

64 A. Yes. My resume, attached to this testimony as REACT Exhibit 1.1, includes a list of
65 proceedings in which I have provided expert testimony.

66

67 **Q. Did you present testimony in ICC Docket No. 07-0566 on behalf REACT?**

68 A. Yes. In that proceeding, together with Edward Bodmer and Jeffrey Merola, I presented
69 testimony on behalf of REACT that addressed, among other things, a) the potential cost
70 impact of proposed increases in excess of 100% by ComEd in its distribution costs for its
71 largest customers; b) improper cost allocation of procurement costs to the delivery
72 service rates, and; c) proposed riders that would further increase costs to customers. My
73 Direct, Corrected Supplemental Direct, and Rebuttal Testimony, and exhibits thereto
74 submitted into evidence in ICC Docket No. 07-0566 are incorporated by reference herein
75 as if they were attached as REACT Exhibits 1.2, 1.3, and 1.4, respectively.² Among the
76 points that REACT made were:

77 **First**, ComEd's proposal attempted to disproportionately allocate costs to its very
78 largest customers. ComEd was proposing a **more than a 129% increase** in the
79 overall delivery services rates it charges these customers.

80

² In ICC Docket No. 07-0566, my Direct Testimony (REACT Exhibit 1.0) with accompanying exhibits (REACT Exhibits 1.1-1.2) were filed on ICC eDocket on February 11, 2008. My Corrected Supplemental Direct Testimony (REACT Corrected Exhibit 4.0) with accompanying exhibit (REACT Exhibit 4.1) was filed on ICC eDocket on May 6, 2008. My Rebuttal Testimony (REACT Exhibit 5.0) was filed on ICC eDocket on April 8, 2008.

81 **Second**, ComEd’s proposal improperly allocated costs related to the *supply* of
82 energy to the *delivery services* rates of ComEd’s customers.

83
84 **Third**, ComEd proposed unjustified riders that would result in ComEd further
85 misallocating costs to the detriment of its largest customers and the competitive
86 retail electric market.

87
88 **Q. Are the points raised by REACT in ICC Docket No. 07-0566 relevant to issues in**
89 **this proceeding?**

90 A. Yes. The flaws that REACT identified in ComEd’s ECOSS, analysis, and approach all
91 generally remain. At base, ComEd still has not demonstrated what its largest and high
92 voltage customers have done that would justify a massive, disproportionate rate increase.

93

94 **II.**

95 **PURPOSE AND CONTEXT OF TESTIMONY**

96 **Q. What is the purpose of your testimony in this proceeding?**

97 A. My testimony:

- 98 • Introduces the members of the REACT coalition;
- 99 • Identifies REACT’s concern regarding certain assumptions that ComEd made in
100 preparing its revised ECOSS;
- 101 • Explains the potential massive, disproportionate increase in delivery service rates
102 by ComEd to its largest customers implied by ComEd’s flawed revised ECOSS;
103 and
- 104 • Shows the potential cost impact and the long term impact of significantly
105 increasing costs to REACT members.

106

107 **Q. Please summarize your recommendations.**

108 A. The Commission should:

109 1. **Reject ComEd’s revised ECOSS for purposes of setting rates for the over-10**
 110 **MW customers.** ComEd’s revised ECOSS is fundamentally flawed, and
 111 certainly does not provide adequate justification for the massive, disproportionate
 112 rate increases to Extra Large Customers and High Voltage Customers that would
 113 result if the Commission were to adopt it as a basis to allocate rates. ComEd has
 114 had several opportunities to correct its flawed ECOSS and has done nothing to
 115 remedy many of the problems identified by the intervenors, the Administrative
 116 Law Judges, and the Commission in ICC Docket No. 07-0566. Indeed, many of
 117 the same problems date back to ComEd’s 1999 rate case (Docket No. 99-0117).

118 2. **Order ComEd to perform individual cost of service studies for Extra Large**
 119 **customers and High Voltage customers based on the facilities installed to**
 120 **serve these customers.** This concept was suggested in ICC Docket No. 07-0566.
 121 It is now clear that achieving a fair and reasonable cost allocation for the largest
 122 of ComEd’s customers will require individualized cost studies.

123 3. **Consider engaging an independent company, at ComEd’s expense, to develop**
 124 **an appropriate cost of service study.** Given ComEd’s unwillingness or inability
 125 to date to provide specific information that would justify the figures reflected in
 126 its ECOSS, the Commission should consider whether it might be appropriate to
 127 hire a company to independently review ComEd’s facilities, books and records,
 128 and conduct an open, transparent process that would better enable the
 129 Commission to determine how ComEd’s costs should be allocated to its customer
 130 classes.
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III.

**THE COMMISSION INITIATED
THIS SPECIAL INVESTIGATION TO ALLOW
COMED TO CORRECT FLAWS IN ITS ORIGINAL ECOSS**

Q. What is your understanding of why the Commission ordered a special investigation of ComEd’s Cost of Service Study?

A. In ICC Docket No. 07-0566, ComEd’s last rate case, ComEd requested rate increases in excess of 100% for its customers in the Extra Large Customer Class, High Voltage Classes, and Railroads. Testimony presented by REACT and other intervenors representing large customers showed that the significant rate increases were not appropriate and not supported by the evidence, and certainly not by the ECOSS that ComEd presented in that proceeding. REACT posed a straightforward question: what did the over-10 MW customers do to deserve such a massive, disproportionate increase? ComEd never answered that question. There was no basis for the large increases, and ComEd failed to show that the increases were justified. The Commission expressed considerable doubt, to say the least, about the validity of ComEd’s ECOSS in the last rate case, noting its “substantial deficiencies.” (See ICC Docket No. 07-0566, Sept. 10, 2008 Order at 213, quoted in Sept. 10, 2008 Initiating Order in the instant proceeding at 1.)

Accordingly, when the Commission approved ComEd’s ECOSS in its September 10, 2008 Order, it did so knowing that ComEd’s ECOSS was deficient in multiple respects, including, but not limited to, the failure of the ECOSS to separate and properly allocate primary and secondary service costs to large customers. As the Commission recognized, proper assignment of primary and secondary distribution

158 costs likely would reduce the total cost allocation to customers in the Extra Large
159 Load, High Voltage, and Railroad delivery classes.

160

161 **Q. What did the Commission order in initiating the instant proceeding?**

162 A. The Commission ordered ComEd to prepare a revised ECOSS to address the questions
163 and remedy the deficiencies identified by the Commission – as a result of the evidence
164 presented by REACT and other intervenors – in ICC Docket No. 07-0566. The
165 Commission ordered ComEd to analyze the following specific components of its ECOSS:

- 166 1. Separation of costs by primary and secondary voltage level;
- 167 2. Customer Care costs to a residential customer taking service from a Retail Energy
168 Supplier versus a customer taking supply from ComEd;
- 169 3. How usage impacts customer data management costs, installation costs, service
170 drops, and customer information costs and whether factors other than the number
171 of customers in a class should be taken into account in the assignment of these
172 costs to rate classes;
- 173 4. Allocation of uncollectible debt expense costs across all residential classes;
- 174 5. How account ownership and maintenance responsibilities of street lighting in the
175 City of Chicago and other municipalities impact costs and how these costs are
176 allocated.
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IV.

COMED’S REVISED ECOSS REMAINS FUNDAMENTALLY FLAWED

Q. Has anything changed in ComEd’s revised ECOSS to address the problems identified by the Commission in the last ECOSS, as related to ComEd’s over-10 MW customers?

A. No. The same problems exist. ComEd did very little to modify its ECOSS, its analysis or its overall approach. As a result, ComEd is claiming that, if the revised ECOSS were applied, the distribution facilities charge for over-10 MW customers needs to be **increased by an additional 80% for Extra Large Customers, an additional 62% for Over 10-MW High Voltage Customers and an additional 66% for Railroad Customers.** According to ComEd, almost all of the proposed distribution cost increases for these customers would be reflected in their distribution facilities charges.

Q. What costs did ComEd review for determining the primary secondary service cost split ordered by the Commission in the instant proceeding?

A. ComEd reviewed only costs in the following four Uniform System of Accounts (“USOA”) accounts for separating primary and secondary costs.

- a. 364 – Poles, Towers, and Fixtures,
- b. 365 – Overhead Conductors and Devices,
- c. 366 – Underground Conduit, and
- d. 367 – Underground Conductors and Devices.

It is unclear if other USOA accounting categories contain any primary or secondary service costs or whether other costs, such as the distribution substation costs in account

204 362 are properly allocated to large customers. For example, ComEd's response to DOE
205 Data Request 2.01 identifies ComEd plant investment for each high-voltage customer and
206 total costs are included in the revised ECOSS at Exhibit 3.1, Schedule 1a, page 1.
207 However, a review of ComEd's revised ECOSS Exhibit 3.1, Schedule 2a, page 6: 78-81,
208 shows that ComEd has allocated additional costs for high voltage stations, distribution
209 lines and distribution substations – even though ComEd separately identified and
210 allocated costs for these high voltage customers.

211

212 **Q. Have costs allocated to High Voltage Customers changed in ComEd's revised**
213 **ECOSS?**

214 A. Not in any meaningful way. Total costs allocated to the high voltage customer class
215 essentially remain unchanged. ComEd's illustrative rates shown by ComEd Witness
216 Alongi in Exhibits 1.3B and 1.4B continue to suggest that the distribution facilities
217 charge in effect prior to the Final Order in Docket No. 07-0566 for high voltage
218 customers should be increased from \$1.09 per kW to \$2.01 per kW (*see* ComEd Ex. 1.0,
219 page 14). In Docket No. 07-0566 ComEd was attempting to increase the distribution
220 facilities charge from \$1.09 per kW to \$2.11 per kW. (*See* ICC Docket No. 07-0566,
221 ComEd Ex. 32.0, Table R3, at 8.)

222

223 **Q. Why is it that ComEd is essentially repeating its prior request?**

224 A. ComEd's reallocation of the costs in accounts 364 through 367 did absolutely nothing to
225 modify or lower the potential rate increases for high voltage customers or justify the large
226 increases. Basically, ComEd is simply saying the ECOSS approved in ICC Docket No.

227 07-0566 is appropriate for the high voltage customers. The bottom line is that ComEd's
228 revised ECOSS did not analyze the costs to high voltage customers in the way that is
229 obviously suggested by the Commission's pointed criticism of the ECOSS in ICC Docket
230 07-0566 and reflected in the Initiating Order in the instant proceeding.

231

232 **Q. Does the revised ECOSS affect the rates that would be charged to ComEd's over-10**
233 **MW customers?**

234 A. Not significantly. ComEd Witness Alongi claims at page 14 of Exhibit 1.0 that the
235 distribution charge as a result of the primary secondary cost reallocation for Extra Large
236 Customers should be \$5.25 per kW. This is an 8.2% reduction of ComEd's claimed
237 distribution charge of \$5.72 per kW needed for this customer class as claimed in ICC
238 Docket 07-0566. But this misses the much more important point. If the Commission
239 were to accept the revised ECOSS, the distribution facilities charge in effect prior to the
240 Final Order in Docket No. 07-0566 would increase from \$2.46 to \$5.25 per kW which is
241 a **113% increase**.

242

243 **Q. Did ComEd perform any studies to determine what facilities are actually installed to**
244 **serve over-10 MW customers in order to evaluate whether the costs are**
245 **appropriate?**

246 A. No. This is a serious flaw in the ComEd analysis. It appears that ComEd neither
247 consulted analogous studies performed by utilities, consultants, or others in other
248 jurisdictions for guidance, nor undertook any specific study of the actual facilities used
249 by ComEd's largest customers. REACT attempted through discovery to identify these

250 costs -- for example, in REACT Data Requests 2.35 through 2.40 and 4.01 through 4.04.
251 ComEd's responses, though incomplete in places, seem to indicate that ComEd did not
252 undertake any specific study that would reasonably establish the value of the facilities
253 that its largest customers use.

254

255 **Q. Was the issue of what facilities are installed to serve Extra Large customers and the**
256 **allocation of those facilities to Extra Large customers raised in Docket No. 07-0566?**

257 A. Yes. REACT witness Edward Bodmer testified about the desirability and the feasibility
258 of requiring ComEd to undertake specific studies about specific facilities. Mr. Bodmer
259 testified that ComEd is capable of making customer rate computations and did it for more
260 than 6,000 ratepayers when calculating customer-specific stranded costs charges. (*See*
261 ICC Docket No. 07-0566, REACT Exhibit 2.0, page 19) Mr. Bodmer's Direct and
262 Rebuttal Testimony, and the exhibits thereto submitted into evidence in ICC Docket No.
263 07-0566 are incorporated herein as if they were attached REACT Exhibits 1.5 and 1.6,
264 respectively.³

265

266 It was also pointed out in ICC Docket No. 07-0566 that if adopted, these huge rate
267 increases will be forever. Of course, that remains the case with respect to the revised
268 ECOSS – which would result in huge increases – at issue in the instant proceeding.
269 Given the potentially massive increases for these large customers, the benefits of
270 providing costs on transparent basis far outweigh the implementation costs.

271

³ In ICC Docket No. 07-0566, Mr. Bodmer's Direct Testimony (REACT Exhibit 2.0) and accompanying exhibits (REACT Exhibits 2.1-2.5) were filed on ICC eDocket on February 11, 2008. Mr. Bodmer's Rebuttal Testimony (REACT Exhibit 6.0) was filed on ICC eDocket on April 8, 2008.

272 **Q. Please explain why you believe that ComEd’s allocations of costs associated with**
 273 **primary and secondary facilities are flawed.**

274 A. There are a number of fundamental problems with ComEd’s approach. As an initial
 275 matter, ComEd’s excessive use of estimated data, alleged “engineering judgment,” and
 276 assumptions is highly problematic. As a general rule, actual data rather than estimates
 277 should be used wherever possible. If estimates are used, it is important to explain why
 278 the actual data is unavailable and why the estimate is reasonable. ComEd has failed to
 279 provide such explanations.

280
 281 **Q. What are some of the estimates that ComEd made in preparing its revised ECOSS ?**

- 282 A. The following are some examples of ECOSS estimates made by ComEd:
- 283 • ComEd estimated the number of poles in its service territory that may contain
 284 secondary facilities based on some limited data contained in ComEd’s Geographical
 285 Information System (“CEGIS”). ComEd estimated that 57% of poles are wooden and
 286 50 feet in height or less, and that 50% of these poles contain secondary service
 287 facilities. All other wooden poles and non-wooden structures contain only primary
 288 service facilities.
 - 289
 - 290 • ComEd assumed that 85% of the overhead conductors and devices are primary.
 - 291
 - 292 • ComEd assumed that 5.1% of the underground conduit within the City of Chicago is
 293 secondary. ComEd further assumed that 1.0% of the underground conduit is
 294 secondary outside the City of Chicago.
 - 295
 - 296 • ComEd assumed that “Non-Unitized” equipment assigned a specific address is
 297 primary. Other non-unitized costs are assigned as secondary using an average
 298 secondary percentage derived from all other classified facilities that were assigned as
 299 secondary in each USOA account.

300

301 **Q. Please explain whether these and other estimates that ComEd has incorporated into**
302 **its revised ECOSS are reasonable.**

303 A. For several reasons, some of the estimates used by ComEd in its revised ECOSS are not
304 reasonable.

305

306 **First**, for some estimates, there is no verification, independent or otherwise, about the
307 accuracy of the estimates. For example, in its allocation of overhead conductors and
308 devices, ComEd simply asserts that 85% of the wire outside the City of Chicago is used
309 for primary facilities based on the fact that there are fewer open wire secondary
310 installations than there are inside the City of Chicago. There is no explanation, much less
311 verification, as to why that analysis is appropriate.

312

313 **Second**, at least one of ComEd's assumptions defies common sense. As discussed
314 further below, the use of data from ComEd's service inside the City of Chicago is not
315 transferable to locations outside the City of Chicago. Geography, user density, and age
316 of equipment are just a few of the differences that render this methodology invalid.
317 Indeed, one of the specific topics that the Commission is investigating in this proceeding
318 is the way in which ComEd's ECOSS should be modified to take into account the unique
319 characteristics of customers inside the City of Chicago.

320

321 **Third**, an implicit assumption is made in some circumstances that costs that ComEd has
322 not specifically identified as being secondary must be primary. This introduces bias to
323 the cost allocation that inappropriately adds cost to the primary allocation account.

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Fourth, some estimates are not verifiable, and therefore invalid. ComEd’s assumptions about underground conduit allocation, noted above, are one example of this. This example also appears to be biased in terms of over allocation to primary distribution.

Lastly, ComEd presented no evidence that its estimates conform to best practices in the industry. The cost allocation methodology was not compared to any other practices, let alone best practices. Certainly, other utilities have faced similar issues in developing their rates. ComEd’s failure to investigate how other utilities have allocated similar costs is reflective of an apparent lack of effort to address the concerns raised in ComEd’s 2007 rate case, and reflected in the Commission’s Final Order.

Q. Can you explain how ComEd’s reliance upon data from inside the City of Chicago improperly skews its ECOSS calculations?

A. Yes. One of the primary drivers behind ComEd’s revised ECOSS is the application of data related to the service that ComEd provides inside the City of Chicago; ComEd relies upon this data to allocate its costs between primary and secondary service. However, ComEd’s experience inside the City is not transferable to regions outside the City since, among other things, customer density, proximity to transmission lines, and age of equipment are different within and outside the City.

345 If the City of Chicago is used as a model for the whole and highly variable ComEd region
346 and costs are socialized in the highly variable locations of the ComEd regions, it is
347 difficult to see how ComEd's proposed primary/secondary allocation could be valid.

348

349 **Q. Is there other evidence that ComEd's revised ECOSS contains inaccurate or**
350 **inappropriate assumptions?**

351 A. Yes. ComEd's proposed allocation of primary and secondary costs raises a number of
352 questions that speak directly to the inaccuracy and unfairness of ComEd's revised
353 ECOSS. A look at potential distribution charges that would result if the Commission
354 were to accept this problematic allocation is further evidence of the flaws inherent in
355 ComEd's revised ECOSS. The monthly distribution facilities charge for Extra Large
356 customers under the revised ECOSS would be \$5.25 per kW. For Very Large Load
357 customers the monthly distribution facilities charge would be \$5.07 per kW and for
358 Medium Load customers the monthly distribution facilities charge would be \$5.13 per
359 kW. These costs imply that there is no cost advantage or economies of scale in
360 distributing power at higher (>4,000 volts) vs. lower (\leq 4,000 volts) rates. This does not
361 make sense from a commercial or technical point of view, and provides further evidence
362 that ComEd's proposed primary and secondary cost allocation is flawed.

363

364 **Q. Is there an easy method to audit ComEd's estimates and costs included in its**
365 **ECOSS?**

366 A. Not really. The ECOSS was designed and prepared by ComEd. As far as I know, there
367 were no independent, outside witnesses, or collaborators involved in the process. There

368 was also no audit function to question the validity of assumptions, perform field
369 verification of cost allocations, or even check for calculation errors. In some cases,
370 ComEd merely used “engineering judgment” to allocate costs. While experience and
371 engineering knowledge are crucial components in the cost accounting process, personal
372 judgment can enter into such a process. The potential for personal and corporate bias
373 must be balanced and challenged by independent and verifiable means. This can be
374 accomplished with an independent auditing function. This is especially important
375 considering the far reaching and long-term implications of the ECOSS upon ComEd’s
376 largest customers. Incorrect assumptions in the Extra Large Customer class can result in
377 millions of dollars being improperly allocated to a small number of customers.
378 Especially during these difficult economic times, the Commission should be diligent in
379 ensuring that costs are accurately allocated.

380

381 **Q. Has ComEd accurately allocated costs to its Extra Large customers?**

382 A. No. ComEd’s efforts to date to allocate costs to the Extra Large customer class have
383 been inadequate. There are 79 Extra Large Load customers with 26 of these customers
384 receiving service at high voltage. (See ComEd Exhibit 3.1, Schedule 2a, at 14.) The
385 high voltage customers are typically located near or directly adjacent to transmission
386 lines taking service from a single ComEd substation located on customer property. The
387 distribution equipment is often old, having been installed decades ago and presumably
388 having been fully depreciated. This is confirmed by information disclosed in ComEd’s
389 response to DOE Data Request 2.01, which identifies numerous ComEd facilities with

390 “in service dates” reaching back to the 1950s and 1960s, and with some “in service dates”
391 reaching back as far as the 1940s and even the 1930s.

392
393 Given this data which ComEd readily had available, at a minimum, it would have been
394 prudent for ComEd to perform at least several individual cost of service studies for Extra
395 Large Load customers, in order to confirm the validity of the general outcome, if not the
396 specific results of the ECOSS. However, it is my understanding that ComEd steadfastly
397 has declined to undertake such specific cost of service studies for any reason.

398
399 **Q. Has REACT recommended individual cost of service studies for the Extra Large**
400 **and High Voltage customer classes?**

401 A. Yes. REACT has previously recommended in Docket No. 07-0566 that ComEd conduct
402 individual studies to identify specific, actual equipment and expenses it has experienced
403 for each of the 79 customers in the over-10 MW classes. The REACT recommendation
404 was to evaluate all 53 of the customers in the low voltage group to determine the cost of
405 serving the class in the aggregate. Likewise, ComEd should analyze the actual facilities
406 for all 26 of the customers in the high voltage class and then use the actual data to
407 determine the cost of service for these customers. Once the equipment has been
408 identified, ComEd should compute the actual costs beginning with the net book value of
409 distribution-specific equipment. The net book value would depend on when the
410 equipment was placed in service and the overall cost to serve these customers could then
411 be computed through allocating other items such as operating expenses and taxes. This

412 detailed information would provide a much sounder basis for calculating rates for these
413 classes of customers.

414

415 **Q. Why has ComEd failed to perform any individual cost of service studies?**

416 A. My understanding is that ComEd has refused individual cost of service studies as being
417 too expensive. I challenge that assertion. The equipment serving high voltage customers
418 is typically well defined. After all, ComEd estimates costs of new installations before
419 funding is approved, so calculating equipment costs for existing equipment should not be
420 terribly burdensome. Moreover, in determining whether a cost is too expensive, it is
421 essential to examine what is at stake. Table 2 in the following section of my testimony
422 shows that potential “forever” rate increases could be in the range of \$110,00 to \$2.5
423 million for large customers. Here, the cost implications – for individual companies and
424 institutions, as well as for the State of Illinois – associated with ComEd’s cheaper, clearly
425 flawed analysis are potentially erroneous.

426

427 **Q. Have you attempted to perform an individual cost of service study or review costs to
428 serve REACT members?**

429 A. Yes. However, this is difficult because ComEd has not provided much data that would
430 be necessary to perform such a study, and has not even provided the billing determinants
431 assumed in its revised ECOSS. My understanding is that there is a pending motion to try
432 to obtain some of this additional data, and I will supplement my analysis if and when that
433 data becomes available. Nevertheless, I did review the plant investment costs provided
434 by ComEd in response to DOE Data Request 2.01 for a few of the high voltage REACT

435 members. Based on these customers’ historical billing data, I compared the annual
 436 facilities charges these customers would be assessed under ComEd’s illustrated rates
 437 assuming no mitigation of rates of high voltage customers. (See ComEd Exhibit 1.3B at
 438 2). The results summarized in Table 1 show that the simple payback of revenue divided
 439 by investment ranges from about 1.7 years to 2.4 years.

440
 441 **Table 1.** Annual Distribution Cost Analysis
 442

Company	Company A	Company B	Company C
ComEd Distribution Investment	\$3,363,510	\$1,448,507	\$2,048,830
Annual Billing Units	966,178	315,613	420,370
ECSS Facilities Charge (\$/kW)	\$2.01	\$2.01	\$2.01
Total Facilities Charges (Revenue)	\$1,942,019	\$634,383	\$844,943
Ratio ComEd Investment/Revenue	1.73	2.28	2.42

443

444 **Q. What should the Commission conclude based upon this analysis?**

445 A. This analysis begs the question as to why ComEd’s revenue from these customers is so
 446 high compared to ComEd’s investment in the facilities to serve the customers. As
 447 pointed out earlier in my testimony, much of the distribution investment was installed in
 448 the 1970’s or earlier (in some cases, 40 years earlier), and it should be fully depreciated.
 449 At a minimum, the Commission should conclude that this warrants significant further
 450 investigation prior to any additional increase in the rates to these customers.

451

452 **Q. Do you have any other concerns about the validity of ComEd’s analysis?**

453 A. Yes. Through some of REACT’s data requests I attempted to identify one REACT
 454 member who is a high voltage customer and is not listed on the ComEd request to DOE
 455 Data Request 2.01, which purports to reflect the distribution plant investment by ComEd

456 for its High Voltage customers. My attempt was to understand why ComEd did not show
457 any distribution plant investment for this high voltage customer. ComEd has not
458 provided this information, and I will supplement my analysis if and when that data
459 becomes available. One possible explanation for the lack of any data showing
460 distribution plant investment by ComEd for this customer is that the customer owns all of
461 the distribution service equipment that serves its location. However, if that is the case, it
462 again raises the fundamental question of what this customer has done to have its
463 distribution costs double. It further raises the question as to why such a customer should
464 be paying for *any* distribution related costs.

465

466 **Q. Were you able to prepare a similar analysis for any Extra Large Customers?**

467 A. No. ComEd was unwilling to provide sufficient cost data for facilities installed to serve
468 these customers.

469

470 **Q. Given the concerns you have identified, what conclusions should the Commission
471 reach regarding the validity of ComEd's revised ECOSS?**

472 A. ComEd's revised ECOSS is an invalid basis upon which to establish rates. It suffers
473 from many of the infirmities that led the Commission to criticize the ECOSS in ICC
474 Docket No. 07-0566. ComEd now has been given multiple bites at the apple to present
475 complete, accurate data that could form the basis for appropriate cost allocation; it
476 repeatedly has failed to do so. The invalidity of ComEd's revised ECOSS demonstrates
477 that there must be a new approach. Unfortunately, ComEd has a monopoly on much of
478 the information necessary to perform a comprehensive analysis of the actual costs to

479 serve its largest customers. In order to add transparency to the ratemaking process, the
480 Commission should consider appointing an independent company to develop a
481 comprehensive cost of service study, at ComEd's expense.

482

483 **Q. Please explain your recommendation that the Commission consider appointing an**
484 **independent company to develop a comprehensive cost of service study.**

485 A. The Commission should consider hiring an outside expert to review ComEd's flawed
486 ECOSS, compile additional data from ComEd, and evaluate the actual costs to serve
487 ComEd's largest customers in an open and transparent process. This recommendation is
488 not intended as a criticism of the Commission or its Staff. Indeed, both Staff and the
489 Commission itself raised pointed questions about ComEd's ECOSS in ICC Docket No.
490 07-0566, and the Commission instituted the instant proceeding to get some answers. But
491 the answers have not been forthcoming, and, to date, there has been insufficient
492 transparency in ComEd's ECOSS preparation process to allow for a meaningful review.
493 It is clear that, for whatever reason, both the ECOSS ComEd presented in ICC Docket
494 No. 07-0566 and the revised ECOSS ComEd presented in the instant proceeding have
495 been highly biased against the over-10 MW customers. Therefore, the Commissions
496 should order -- as it has in appropriate circumstances in other proceedings -- an
497 independent firm to fully audit ComEd's facilities, books and records, and use a
498 treatment process to develop a revised ECOSS for ComEd. I would invite Staff and other
499 intervenors to assist in developing the appropriate ground rules for such a comprehensive,
500 independent, transparent investigation.

501

V.

**COMED'S FLAWED REVISED ECOSS WOULD
RESULT IN A MASSIVE, DISPROPORTIONATE RATE INCREASES
TO ITS LARGEST CUSTOMERS AND HIGH VOLTAGE CUSTOMERS**

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508 **Q. Have you reviewed the cost impact of ComEd's illustrative rates presented by**
509 **ComEd witness Mr. Alongi?**

510 A. Yes. Mr. Alongi presented several illustrative examples of rate design in his direct
511 testimony (*see* ComEd Ex. 1.0, page 4 and 5).

512

513 **Q. Have you performed any further analysis to illustrate the impact that ComEd's**
514 **revised ECOSS would have on customers' rates?**

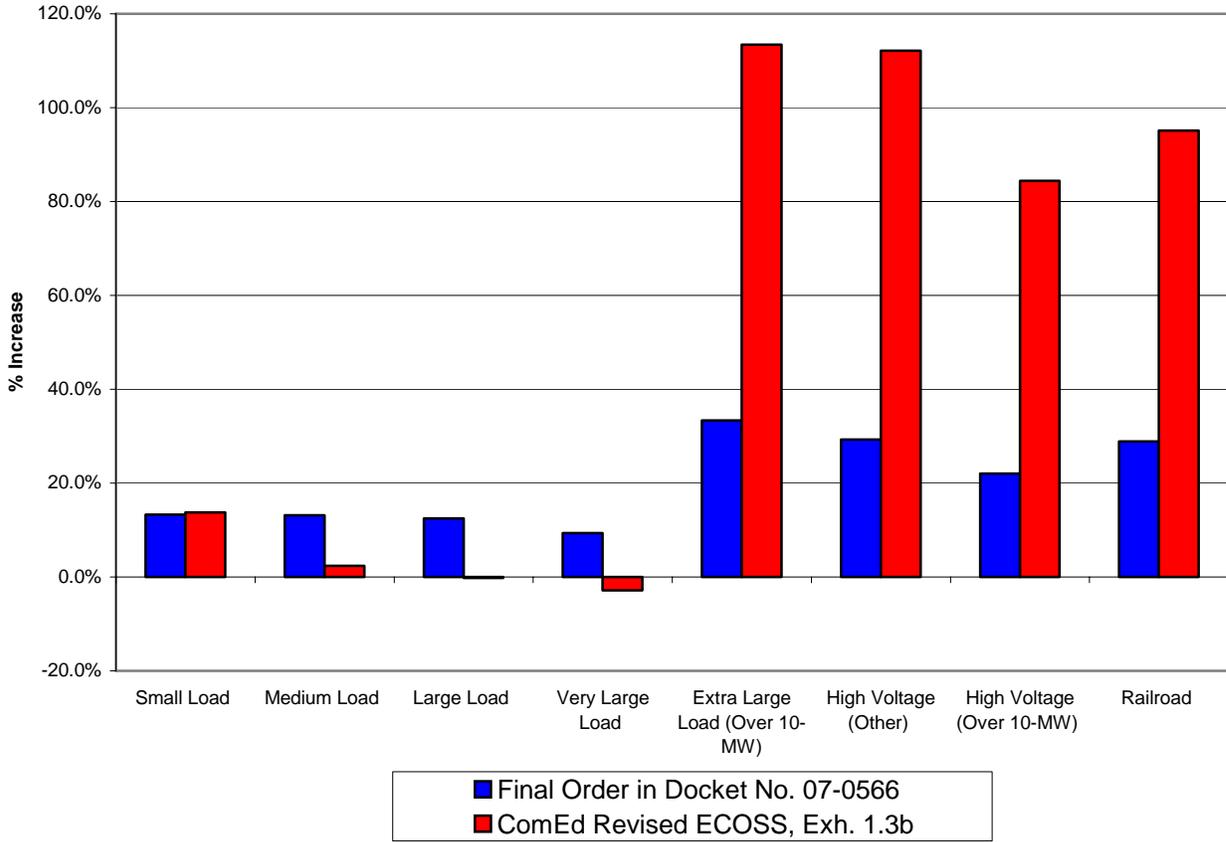
515 A. Yes. Based on Mr. Alongi's examples, I prepared Figure 1 and Table 2 below to show
516 the rate impact to over-10 MW customers by adjusting the revised ECOSS for the
517 primary secondary separation and including the impact of the 25% mitigation cost
518 movement factor ordered by the Commission in ICC Docket No. 07-0566 for the over-10
519 MW size customers and railroads.

520

521 Shown in blue in Figure 1 are the percentage increases in the distribution facilities charge
522 approved by the Commission in ICC Docket No. 07-0566. Shown in red is the total
523 increase over rates in effect prior to the Final Order in ICC Docket No. 07-0566 that
524 would result from application of ComEd's revised ECOSS – this shows a potential cost
525 increase of 113% for the Extra Large non-high voltage over-10 MW customers and
526 approximately 84% for High Voltage over-10 MW customers.

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Figure 1. ComEd’s Proposed Percentage Increase in Non-Residential Customer Class Distribution Facilities Charge Using the Revised ECOSS



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Table 2 summarizes the distribution facilities charges for non-residential customers over time.

Table 2. Summary of Distribution Facilities Charges for Non-Residential Customers

Customer Class	Distribution Facilities Charge (\$/kW-Month)			% Inc. Over Rates in Effect Prior to Final Order in ICC Docket No. 07-0566	
	(a)	(b)	(c)	(d)	(e)
	Pre 9/16/08	Final Order (07-0566)	Revised ECOSS P-S Split *	Final Order (07-0566)	Revised ECOSS P-S Split
Small Load (Less than 100 KW)	\$4.29	\$4.86	\$4.88	13.3%	13.8%
Medium Load (100 KW to 400 KW)	\$5.01	\$5.67	\$5.13	13.2%	2.4%
Large Load (400 KW to 1 MW)	\$5.37	\$6.04	\$5.36	12.5%	-0.2%
Very Large Load (1 MW to 10 MW)	\$5.22	\$5.71	\$5.07	9.4%	-2.9%
Extra Large Load (Over 10-MW)	\$2.46	\$3.28	\$5.25	33.3%	113.4%
High Voltage (Other)	\$2.22	\$2.87	\$4.71	29.3%	112.2%
High Voltage (Over 10-MW)	\$1.09	\$1.33	\$2.01	22.0%	84.4%
Railroad	\$2.46	\$3.17	\$4.80	28.9%	95.1%

* Distribution facilities charges from ComEd Exhibit 1.3B

536

537 **Q. What would the cost impact to over-10 MW customers be if the revised ECOSS**
538 **were to be implemented?**

539 A. As shown in foregoing the Figure 1 and Table 2 above, the cost impact for higher
540 distribution rates would be significant for Extra Large over-10 MW and High Voltage
541 customers.

542

543 In ICC Docket No. 07-0566 the typical Extra Large Customers received annual increases
544 ranging from \$98,400 for a customer with a demand of 10 MW to \$738,000 for a
545 customer with a demand of 75 MW. For high-voltage customers the annual increase
546 ranged from \$28,800 for a customer with a demand of 10 MW to \$216,000 for a
547 customer with a demand of 75 MW. If ComEd's proposed delivery service rates were to
548 be adopted, the annual increase for Extra Large customers would range from \$334,000 to
549 \$2,511,000. For high voltage customers, the increase would range from \$110,000 to
550 \$828,000 per year. If the customer's load is larger than 75 MW, then the annual impact
551 would be even larger.

552 The following Table 3 summarizes this information.

553
 554 **Table 3.** Annual Impact of ComEd’s Proposed Distribution Facilities Charges for
 555 Extra Large and Over 10-MW High Voltage Customers

556 Increase Over Rates In Effect Prior to Final Order in Docket No. 07-0566

558

<u>Customer Size</u>	<u>Final Order, ICC Docket No. 07-0566</u>		<u>Revised ECOSS (Ex. 1.3B)</u>	
	<u>Extra Large</u>	<u>High-Voltage</u>	<u>Extra Large</u>	<u>High-Voltage</u>
10 MW	\$98,400	\$28,800	\$334,800	\$110,400
20 MW	\$196,800	\$57,600	\$669,600	\$220,800
35 MW	\$344,400	\$100,800	\$1,171,800	\$386,400
50 MW	\$492,000	\$144,000	\$1,674,000	\$552,000
75 MW	\$738,000	\$216,000	\$2,511,000	\$828,000

a) Increase calculated by multiplying customer monthly kW x 12 months x \$/kW increase in distribution facilities charge.

559 Any cost increase associated with adopting ComEd’s revised ECOSS would be an annual
 560 cost increase that, absent Commission intervention, would continue forever. Of course,
 561 this excludes any additional future rate increases that would result from the more frequent
 562 rate increases that ComEd has said it anticipates seeking.

564

565 **Q. What conclusion should the Commission reach based upon this analysis?**

566 A. These cost impacts that would result from application of ComEd’s ECOSS are obviously
 567 quite dramatic, and represent exactly the same type of “rate shock” that was at issue in
 568 ICC Docket No. 07-0566 for the over-10 MW customers. The Commission was clearly
 569 troubled by the implications of rate shock in that proceeding.

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Q. Should the Commission continue to be vigilant in guarding against rate shock?

A. Definitely. Since the Commission entered its Final Order in ComEd’s 2007 rate case, the economic conditions in Illinois and the country have deteriorated dramatically. The Regional Economics Applications Laboratory at the University of Illinois reports in its April 30, 2009 Illinois Job Index Report that over the last 12 months, Illinois has lost 232,600 jobs, and 210,500 of those jobs (over 90%) have been lost since September 2008. (See http://www.real.uiuc.edu/IEO/MSA_JobIndex09/apr2009ilmsajobindex.pdf) In March 2009 alone, Illinois lost 39,600 jobs, 28,800 of which were in Chicago. (See *id.*) These numbers reflect the precarious economic times in which we live and certainly confirm that employers in northern Illinois are being hit hard by the economic downturn. Given this reality, it would be an understatement to say that the over-10 MW customers, who are some of the largest employers in the state, would be hurt by rate increases of over 80%, and up to 113%.

The financial impact of further increasing the distribution charges to ComEd’s largest customers would be significant. Many companies, including REACT members, are struggling with the overall downturn in the economy and are being forced to make significant changes. These companies are looking for ways to lower overall costs to maintain profitability and retain jobs for their employees. Increased delivery services charges would exacerbate the situation for these customers. There is no guarantee that companies will be able to pass on higher costs to their customers.

593 The timing of the rate increase that resulted from ComEd's last rate case was difficult.
594 One REACT member recently closed half of its manufacturing facility, others have
595 reduced the numbers of their employees. Now certainly is not the time to be piling
596 unjustified costs on large companies and institutions.

597
598 Most large customers understand that, as a general rule, delivery services costs are likely
599 to increase over time. However, even the largest customers appropriately have a very
600 difficult time understanding why their distribution costs should double when they have
601 changed neither their operations nor their equipment in any manner that would justify
602 substantial rate increases.

603
604 Long term, companies look for ways to lower overall costs and become more efficient.
605 Production at inefficient and high cost plants is either reduced or may be moved to
606 another location. Many companies have sister plants and are competing with each other
607 based on cost of production. As the economy begins to recover, companies that are
608 looking to increase production will have to decide where to locate or expand. Utility
609 costs are an important part of the overall cost of doing business in any particular location,
610 and unjustifiably high delivery services costs will add to economic losses for Illinois.

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VI.

CONCLUSION AND SUMMARY OF RECOMMENDATIONS

Q. Please summarize your overall conclusions and recommendations.

A. The position of REACT can be summarized as follows:

- ComEd’s revised ECOSS is so seriously flawed that it should not be used to set rates;
- ComEd has had several opportunities to address concerns and objections to its ECOSS, and each time ComEd has failed to do so;
- Given the lack of data provided by ComEd, and the methodology that it has employed, it is impossible to fully vet ComEd’s revised ECOSS in this proceeding. ComEd is unwilling and/or unable to provide data allowing intervenors to understand why rates to its largest customers should be increased by over 100%; and
- The Commission should consider hiring an outside expert to review ComEd’s flawed ECOSS, and to evaluate the actual costs to serve ComEd’s largest and high voltage customers.

Q. Does this conclude your direct testimony?

A. Yes.