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8/20/09
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STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY	)	
	)	
Petition to approve an Advanced Metering	)	Docket No. 09-0263
Infrastructure Pilot Program and associated tariffs	)	
	)	

REBUTTAL TESTIMONY OF MICHAEL L. BROSCH

ON BEHALF OF THE

PEOPLE OF THE STATE OF ILLINOIS

AND AARP

DATED: AUGUST 7, 2009

AG/AARP Exhibit 3.0

OFFICIAL FILE
I.C.C. DOCKET NO. 09-0263
AG/AARP Exhibit No. 3.0
Witness
Date 8/20/09 Reporter

Q. Please state your name, occupation and address.

A. My name is Michael L. Brosch. My business address is Utilitech, Inc., P O Box 481934, Kansas City, Missouri 64148-1934.

Q. Are you the same Michael Brosch who previously submitted Direct Testimony on behalf of the Attorney General and AARP in this Docket?

A. Yes. My qualifications are set forth in AG/AARP Exhibit Nos. 1.1 and 1.2.

Q. What is the purpose of this Rebuttal Testimony?

A. In this testimony I respond to the Direct Testimony of ICC Staff witness Dianna Hathhorn regarding the amortization period to be afforded any regulatory asset created to allow recovery of retired meter costs.

Q. What has Ms. Hathhorn proposed with regard to the amortization period for retired meters?

A. In Docket No. 07-0566, Staff had objected to ComEd's proposed 10-year amortization for existing meters prematurely retired in connection with AMI deployment, but at pages 3-5 of her Direct Testimony,[1] Ms Hathhorn now states, "I recommend the Commission accept ComEd's proposal of a 10-year regulatory asset life to recover the undepreciated cost of ComEd's meters that will be retired early in order to implement the AMI pilot." After reciting ComEd's arguments on this matter and noting that ComEd has calculated the average remaining life of existing meters to be 13.69 years, Ms. Hathhorn concludes this section of her testimony with the statement, "I have compared the estimated rate impacts for Rider AMP using

[1] Staff Ex. 2-0 Hathhorn Direct Testimony

the estimated remaining life of 13.69 years versus ComEd's 10-year proposal. I found that the difference in the resulting charges is minimal and therefore withdraw my objection as stated in Docket No. 07-0566 and accept ComEd's proposal of a 10-year regulatory asset life for the retired meters."

Q. Does Ms. Hathhorn provide any quantification of the difference in charges to customers caused by adoption of the 10-year amortization beyond the characterization of this difference as "minimal"?

A. No.

Q. Will the potential impact upon ratepayers be "minimal" if the prematurely retired meter costs are amortized over 10-years?

A. <u>If</u> Staff's revised position adopting ComEd's proposed 10-year amortization period is applied <u>only</u> to the approximately 141,000 meters retired in connection with the AMI Pilot, the incremental ratepayer impacts are approximately $178,000 per year. However, if Staff's acquiescence to the ComEd position is ultimately applied to a future, full deployment scenario for AMI, the cost differences become much larger. For this reason, Staff's recent acceptance of a 10-year amortization period is not of minimal importance to ratepayers.

Q. Please explain how the amortization period approved by the Commission impacts amortization expenses chargeable to ratepayers.

A. Quantification of the amortization impacts <u>for the pilot program</u> can be observed in ComEd Ex. 5.01. Page 1 of the Company's Exhibit 5.01, which shows quarterly "Amortization of Meter Reg Asset" amounts for the AMI Pilot Rider AMP charges in column (I) of $165,142, which is equivalent to $660,568 per year. The development of this cost estimate is set forth at page 3 of ComEd Ex. 5.01, where an "Estimated Book Value when Retired" amount is calculated in the Total amount of $6.6 million at lines 16-28. The proposed 10-year amortization of this estimated $6.6 million regulatory asset equates to the estimated $660 thousand in annual amortization expenses.[2] If the amortization period is set equal to ComEd's estimated remaining life for the existing meters of 13.69 years, the annual amortization would be $6,600,000/13.69 years or about $482,000. This difference creates about $178,000 of added expenses for ratepayers.

Q. What happens to this annual difference in amortization expense caused by the shortened amortization period of 10 years if ComEd ultimately replaces all of its existing meters as part of a full deployment of AMI?

A. The value of this amortization period issue ultimately depends upon how many of ComEd's existing meters are prematurely retired as part of AMI deployment. Referring to the values set forth in ComEd Ex. 5.01 at page 3, we can see that existing meters number 3,612,800 in total, with an estimated accumulated cost book value of $346,255,224 less accumulated depreciation of $142,764,667. These investment values indicate a net book value for Meters and Installations at March 31, 2009 of approximately $203 million. If we assume the timing of full deployment of AMI will be distributed equally around an assumed mid-point date of March 31, 2012[3], an additional three years of depreciation on the existing meters

[2] ComEd Ex. 5.01 divides the $6.6 million regulatory asset valuation estimate for 141,000 meters at line 28 by the meter count and ten year amortization period to arrive at an estimated amortization cost "per meter" of $4.68 per year.

[3] In Docket No. 07-0566, ComEd Ex. 16.0, page 5, Company witness Sally Clair stated "It would take approximately five years to fully deploy AMI. If deployment begins in the fourth quarter of

could be accrued at 3.99% per year, adding $41.4 million to the accumulated depreciation balance, thereby increasing the balance to $184.2 million and reducing the expected regulatory asset to about $162 million.[4]

Amortization of this projected March 31, 2011 existing meter net investment value over 10 years would yield amortization expense of $16.2 million per year, while over 13.69 years the amortization expense would be $11.8 million annually. I do not consider the incremental $4.4 million of annual amortization expense to be charged ratepayers under the 10-year amortization proposal to be minimal or insignificant to overall AMI costs chargeable to customers under Rider AMP or in future base rate cases.

Q. Did ComEd assert in Docket No. 07-0566 that the total number of meters that may be replaced as part of the AMI project could exceed the 3.6 million meter count set forth in ComEd Ex. 5.01?

A. Yes. In her Supplemental Direct Testimony in Docket No. 07-0566, ComEd witness Ms. Sally Clair testified that full deployment of AMI by ComEd would include, "Exchanging customer meters. There are over 4 million devices that will need to be manually replaced."[5] If the total number of existing meters to be replaced by ComEd upon full deployment of AMI exceeds the 3.6 million accounted for in ComEd Ex. 5.01 that were used in the preceding calculations, my

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2008, it would likely be completed in 2013. However, given changes in this schedule that have occurred, a deployment mid-point of 2012 appears reasonable for simplified illustration purposes.

4 Book Cost in Account 370 at 3/31/09 of $346million, less allocated depreciation reserve of $143 million per ComEd Ex. 5.01, less additional depreciation of $13.8 million annually for three years ($346 * 3.99%) equals $161.6 million ($346-143-13.8-13.8-13.8).

5 Docket No. 07-0566, ComEd Ex. 16.0, page 4.

estimates of the ratepayer impact arising from the 10-year versus 13+ year amortization period may need to be increased.

~~**Q. What are the financial impacts to ratepayers should the Commission approve ComEd's request to modify Rider AMP to include recovery of and on investment related to federal stimulus grant projects?**~~

~~A. ComEd has submitted an application to the U.S. Department of Energy for a federal stimulus grant related to new smart grid investments that includes a proposal to install an additional 179,000 AMI meters.~~[6] ~~If the Commission modifies Rider AMP to include recovery of and on federal stimulus projects and requires ratepayers to fund 50% of the Company's smart grid grant proposal investment, as the Company has stated it will request, the annual amortization associated with those additional 179,000 prematurely retired meters, when combined with the 141,000 meter retirement discussed above, would immediately more than double the value of the amortization period issue.~~

Q. What is your recommendation for the appropriate amortization period for existing meters retired prematurely as a result of the AMI pilot and any subsequent phases of AMI deployment?

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[6] ~~At page 14 of ComEd's August 6, 2009 Application for Federal Assistance to the U. S. Department of Energy for "Chicago Area Smart Grid Initiative", the Company states, "Within several weeks following the submission of this SGIG proposal, ComEd will petition the ICC for approval of those additional smart grid features required for the full Project and for inclusion in Rider AMP of a portion of the ComEd SGIG funding match. The new petition would include 179,000 additional advanced meters and related technologies, an increase of in-home displays from 5,600 to as many 55,600 to support the most comprehensive testing yet in the country of customer applications and technology/price combinations. Also included would be significant deployment of distribution automation and demonstration of conservation voltage reduction and of Enhanced Substations. The petition would also include communications support systems consistent with the proposed Project. ComEd will request in the petition that the ICC enter an Order approving the proposal in December 2009."~~

A. I continue to recommend that the regulatory asset created to account for prematurely retired existing meters be amortized over no less than 13 years. One of the goals of this pilot, as I understand it, is to provide information with which to evaluate the costs and benefits of a full deployment of AMI. As these calculations show, the costs rise significantly if an amortization period of ten years is used, particularly if applied to full deployment of AMI. This is one more reason, along with the reasons set forth in my Direct Testimony in this Docket, why an amortization period of no less than 13 years is appropriate.

Q. Does this conclude your Rebuttal Testimony at this time?

A. Yes.