

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

ILLINOIS COMMERCE COMMISSION,
On Its Own Motion

v.

COMMONWEALTH EDISON COMPANY
Investigation of Rate Design Pursuant to
Section 9-250 of the Public Utilities Act

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No. 08-0532

IIEC BRIEF ON EXCEPTIONS

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IIEC BRIEF ON EXCEPTIONS

COME NOW the Illinois Industrial Energy Consumers (“IIEC”), by their attorneys, Lueders, Robertson & Konzen LLC and Conrad Reddick, and pursuant to 83 Ill. Adm. Code Part 200.830, and Section 10-111 of the Public Utilities Act (“Act” or “PUA”) (220 ILCS 5/10-111), offer the following Brief on Exceptions to the Administrative Law Judges’ (“ALJs”) Proposed Interim Order (“PO” or “Proposed Order”) dated February 1, 2010.

INTRODUCTION

IIEC agrees with and supports substantial portions of the Proposed Order. However, it respectfully seeks modification of the Proposed Order to (i) clarify the Proposed Order’s correct decision to require Commonwealth Edison Company (“ComEd”) to modify its cost of service study (“COSS”) to assign certain distribution system facilities to its secondary system (PO at 38-39), and (ii) clarify the Proposed Order’s language as it relates to its conclusions on the primary/secondary issues. (*Id.*). IIEC also recommends certain technical and grammatical corrections to the Proposed Order.¹

IIEC respectfully takes exception to the Proposed Order’s: (i) decision to approve the use of a coincident peak (“CP”) demand allocator instead of a non-coincident (“NCP”) demand allocator for allocation of the cost of primary lines and substations, and (ii) the conclusion that customer information costs are in some measure related to usage, and that ComEd should be directed to incorporate usage in the assignment of these costs to all rate classes in the next rate case. (PO at 76-77).

¹ The IIEC request for clarification and the technical and grammatical corrections make up Exception 1.

To the extent IIEC has not discussed a specific issue in its Brief on Exceptions, it should not be considered to have abandoned or waived that issue. It relies on the arguments made in its Initial Brief of November 20, 2009 and its Reply Brief of December 7, 2009, unless specifically stated otherwise herein.

Exception 1

II. PRIMARY/SECONDARY COST ANALYSIS

H. Commission Analysis and Conclusion

The Proposed Order provides sorely needed coherence and consistency in the way ComEd identifies primary and secondary customers, services, and facilities for purposes of its COSS. The changes mandated by the Proposed Order are necessary to achieve the Commission's "explicit policy objective of assigning costs where they belong." (Initiating Order, Sept. 10, 2008, at 2). The Proposed Order's functional determinations, *i.e.*, focusing on what functions the assets or expenses serve, align the primary/secondary divisions of ComEd's delivery service customers, distribution system costs, and distribution subsystem facilities, correcting the sometimes conflicting designations that arise under ComEd's purely definitional approach.

The Proposed Order's consistent, functional basis for primary or secondary designations should prevent mis-allocations of costs like those that precipitated this proceeding. The Proposed Order's consistent functional approach facilitates assignment of costs where they belong -- including proper assignment of the costs of primary distribution system facilities used exclusively for secondary service and proper allocation of facilities costs incurred to provide both. These costs and their assignment were shown to be problematic under ComEd's current approach.

The Proposed Order's functional determinations of cost responsibility are advances in the Commission's enforcement of the PUA's express statutory requirement that delivery service rates be cost based. (220 ILCS 5/16-108(c)). The Proposed Order's reasoning consistently implements that functional approach to identify those costs properly attributable to customers served at primary voltages, and to distinguish them from costs properly attributed to customers served at secondary voltages. For example:

- "According to our reading of ComEd's tariffs, they [customers (that) receive secondary voltage service from transformers fed by primary voltage circuits] should be considered secondary service customers" (PO at 39);
- "... we agree that line transformer costs should not be allocated to customers taking service at primary voltages" (PO at 38);
- "... ComEd's current method of allocating transformer costs is not appropriate. When the exiting voltage of the transformer is secondary, the transformer can only serve secondary customers and should be allocated as a secondary system expense (*sic*)" (*Id.*);
- "customers requiring transformation down to the secondary level should pay rates that reflect an allocation of transformer costs" (PO at 39); and
- "... the transformer can only serve secondary customers and should be allocated as a secondary system expense (PO at 38)."

However, the PO would be improved by a clearer statement from the Commission that its fundamental cost of service principles and objectives require a functional determination of cost responsibility for all delivery service costs or facilities, not just those specifically addressed in the Proposed Order. For example, as IIEC showed, ComEd's single-phase primary circuits -- like its line transformers -- are used only to provide service to customers at secondary voltages. (Stowe, IIEC Ex. 4.0 at 16, 27-28). Accordingly, like line transformer costs, the costs of single-phase primary

circuits and other facilities that share that exclusive function also should be directly assigned to secondary service customers. Consistently, the costs of facilities serving primary customers exclusively would be directly assigned to primary service customers. Even if the Proposed Order's analysis is not restated as IIEC proposes, the order should be amended to correct the oversight of not stating explicitly that the costs of single-phase primary circuits should be assigned to secondary services.

IIEC also proposes additional minor clarifications to the Proposed Order. First, because all customers are served by transformers at some point between generation supply and delivery by ComEd's distribution system, some of the Proposed Order's references to "transformers" instead of the more specific term "line transformers" could be confusing.² Accordingly, IIEC proposes that the Order substitute the phrase "line transformers" wherever reference to "transformers" could be ambiguous or problematic. IIEC has identified those instances in its proposed substitute language.

The Proposed Order's statement that "ComEd elected to allocate 100% of line transformers as if this equipment was used exclusively to serve primary customers" is technically inaccurate. Inconsistencies between ComEd's definitions of primary systems and primary customers may be a source of confusion. Though ComEd improperly assigned 100% of the line transformers to its primary system, those costs were then allocated to both primary voltage and secondary voltage customers. (*See*, Heintz, ComEd Ex. 3.0 at 8, stating that primary lines are allocated to all customers

² IIEC notes that other transformers, placed in electric substations, are in separate accounts from line transformers at issue here, and the allocation of these transformer costs is not at issue in this case.

that are not High Voltage customers). IIEC acknowledges that the language in its briefs may have been less than clear on this point. An accurate statement is included in IIEC's proposed language.

In addition, IIEC proposes correction of apparent substitution errors in the Proposed Order's discussion of the division of ComEd's distribution system. (PO at 39). Based on the references to the three subsystem cost identification (primary, secondary and general) process proposed by IIEC witness Stowe and to a formulation of the same concept by Metra and CTA, IIEC understands that this paragraph is intended to address cost -- not rate design -- matters. The testimony of IIEC witness Stowe referenced by the Proposed Order concerned three distinct functions of distribution facilities and the proper assignment or allocation of the associated costs. (Stowe, IIEC Ex. 2.0 at 4-11). Mr. Stowe's testimony (like that of CTA and Metra) focused on the proper assignment and allocation of costs for ratemaking, not on issues of rate design. (*See generally* IIEC Init. Br; CTA Init. Br., Metra Init. Br.). The Proposed Order's substitution of "rates" in place of "costs" in that discussion should be corrected and clarified as IIEC proposes below. A similar change is proposed in substituting the word "cost" for the word "expense" in the Proposed Order's discussion of the proper basis for allocating transformer costs (existing voltages), so that there is no question that capital costs, as well as operating expenses, are to be allocated on a functional basis. (PO at 38).

Finally, to ensure that the ordered workshops are focused and productive, the Commission should more clearly define the assigned tasks. The workshops will be effective only if it is clear that their purpose is to refine implementation of the Commission's functional approach through techniques or procedures identified in the record (*e.g.*, the four-step method described in IIEC witness David Stowe's testimony (*see* IIEC Init. Br. at 25-26; PO at 29) or the sampling ComEd used to

check its engineering judgments (PO at 6, 27-28)) or others developed in the workshops. To be productive, the workshops should not revisit the functional approach or settled determinations of the Commission's Interim Order in this case.

For example, the directive "to workshop whether sampling techniques can be used to allocate costs to customer classes" should prompt efforts (a) to improve the allocation of costs that are not exclusively primary or secondary and appropriate for direct assignment or (b) to refine techniques for identifying facilities used and costs incurred to provide primary service or secondary service or both. The Proposed Order identifies one specific area where such efforts are needed. The workshop participants are expressly instructed to examine allocation of the costs of underground circuits operating at primary voltage. (PO at 38). Those facilities may serve primary or secondary customers, and visual inspection techniques that can be used for overhead circuits are not practical for underground circuits.

IIEC proposes revisions to the language in the Proposed Order immediately below to effect the clarifications and technical changes described above.

Proposed Language

A. The Proposed Order's Section II.H. - Analysis and Conclusions - on primary/secondary issues (PO at 35-40) should be revised as shown below.

II. PRIMARY/SECONDARY COST ANALYSIS

* * * *

H. Commission Analysis and Conclusions

In our Order in Docket 07-0566, the Commission found the failure to separate and properly allocate primary and secondary service costs to be a deficiency in ComEd's ECOSS. Our concern was that although the vast majority of ComEd's customers take service at lower voltages that utilize its extensive distribution system, a small number of customers take service at higher voltages that bypass significant portions of the distribution infrastructure. Their cost of service is therefore lower on a per kilowatt basis. The rates of these primary system customers should reflect this lower cost of service.

We agree with ComEd that the threshold issue in performing a primary/secondary analysis is determining at what point it is reasonable, for cost allocation and rate making purposes, to draw the line between primary and secondary facilities, *i.e.* facilities used to provide service to customers at primary and secondary voltages. ComEd's primary distribution system is defined in its tariffs as consisting of facilities used to distribute electricity at voltages 4kV or higher (phase-to-phase) and less than 69kV (phase-to-phase). The secondary distribution system is defined as consisting of facilities used to distribute electricity at voltages less than 4kV (phase-to-phase).

In its ECOSS, ComEd has identified its distribution costs as either primary or secondary. ComEd chose to consider primary customers as those receiving service directly, or through a transformer, between 4kv and 69kv. It then identified the customers in each of its delivery classes receiving service directly from the secondary distribution system, and those customers that utilize either a transformer receiving service at a primary voltage, or directly through the primary distribution system. ComEd contends that its analysis allowed it to assign what it perceives as appropriate amounts of secondary distribution system costs and primary distribution system costs incurred to serve customers in each delivery class.

ComEd's total investment in distribution facilities as of December 31, 2006 (the test year used in ComEd's 2007 Rate Case) is approximately \$6.3 billion. Based upon ComEd's primary/secondary analysis, 13.5%, or \$850 million, of this investment was assigned to the secondary distribution system. Incorporating the results of ComEd's revised primary/secondary analysis into the ECOSS shifts approximately \$38 million of cost responsibility to the residential classes from other delivery classes. ComEd asserts that larger non-residential customers realize a

reduction of more than \$45 million in cost responsibility resulting from ComEd's revised primary/secondary analysis.

Staff raised an initial concern with whether 4 kV is the proper dividing line between primary and secondary service. Staff notes that the Company has presented a broad definition of primary service that reaches down to 4 kV and includes customers in all classes, even the residential class, based on a strained reading of tariff language.

The bottom line is that there is no hard and fast dividing line between primary and secondary voltages. The separation between the two is based on judgment. ComEd does not cite any general industry standard or principle behind its definitions which also suggests this is a matter of judgment. No party has presented a compelling argument against ComEd's 4 kV dividing line, and we adopt it for determining whether a customer is served at primary or at secondary voltage.

IIEC notes that while ComEd's analysis is nominally predicated on the definitions of primary and secondary service in its tariffs, ~~it~~ ~~it~~ includes as primary customers those whose power is delivered to a line transformer at voltages of 4kV or higher but distributed at far lower secondary voltages. This blurring of the line between primary and secondary service by ComEd is one of the principal areas of contention for IIEC, whose members do not wish to pay for that portion of the distribution system caused by these customers whose service is stepped down by line transformers or otherwise provided by facilities used exclusively to serve secondary customers.

Metra and the CTA also argue that they should not be charged for 4kV service because the railroad class only takes service at 12.5kV. The CTA further contends that it should not be allocated any costs of ComEd's 34.5 kV primary distribution facilities, which ComEd notes, suggests yet a further segmentation of ComEd's primary distribution system.

ComEd disagrees with claims that line transformers should be classified as "secondary." ComEd states that virtually all of its customers require transformers for electric service. Consequently, there is no purpose in trying to categorize each of ComEd's 440,000 line transformers as either primary or secondary.

IIEC contends that ComEd's opposition is based on its lack of sufficient accounting data to conduct a more detailed primary/secondary analysis and on its position that the costs of alternative data collection or estimation processes to permit proper allocations outweigh the benefits of tracking cost causation. IIEC finds that

ComEd's opposition seems to be tied to the perceived inconvenience of categorizing assets in a manner different from its traditional accounting -- though ComEd does not deny that it could modify its approach if so directed. ComEd questions only the cost-benefit balance of doing so.

IIEC concludes that because ComEd's primary/secondary analysis fails to consider the function and cost causation of the elements of its distribution system, relying instead on arbitrary interpretations of definitions to identify the facilities that are to be in the primary and secondary systems, the primary/secondary analysis in this case remains deficient. It contends that ComEd's definitions of its primary/secondary systems are internally inconsistent, and inconsistently applied. IIEC contends that ComEd's primary/secondary analysis categorizes certain facilities as primary distribution facilities even though they are used exclusively to provide service at secondary voltages -- line transformers and single-phase primary voltage level circuits, in particular.

ComEd replied that in order to estimate the cost of the primary circuits used to serve secondary customers, a time consuming and costly special study would be required. IIEC argued that there are reasonable ways to estimate the cost of primary circuits (single phase and multi-phase) used to serve only secondary customers.

In response, IIEC argued ComEd could have easily recognized that approximately 90% of its line transformers are used exclusively to provide service to secondary customers. Estimating these line transformer costs would not be difficult. IIEC points out that data provided by ComEd establishes that \$903 million of the \$1.017 billion in line transformer costs, in FERC Account 368 - Line Transformers, is associated with transformers that serve a secondary voltage. IIEC states that ignoring this useful information, ComEd elected to ~~allocate~~ assign 100% of line transformers as if this equipment was used exclusively to serve primary customers. IIEC points out that ComEd also allocates the cost of equipment associated with these transformers, totaling approximately \$383.6 million, on essentially the same basis.

IIEC also identified "patches" (discussed above) to correct -- on an interim basis -- the problems arising from ComEd's use of a definitional primary/secondary split as a substitute for cost allocations based on cost causation. Of these, we agree that the costs of line transformers and single-phase primary circuits used exclusively to serve customers at secondary voltages ~~costs~~ should not be allocated to customers taking service at primary voltages. Furthermore, we believe that it may be productive to workshop whether sampling techniques can be used to allocate costs to customer

classes for underground circuits operating at primary voltage serving customers only at secondary voltages.

Although ComEd's modified analysis results in \$36 million in revenue requirement being re-allocated to secondary voltage level service, IIEC contends that an additional \$44 million would be re-allocated if the modifications to ComEd's primary/secondary analysis that it recommends were implemented.

Another related concern voiced by Staff, IIEC, REACT, Metra, and the CTA is that the Company relied solely on engineering judgment for many assumptions about primary and secondary costs and made virtually no physical inspections of facilities to verify the reasonableness of those assumptions. The record shows that when ComEd's engineering estimates were compared to a very small number of system inspections they were found to be very inaccurate. While the Company could not be expected to inspect its entire system, some visual analyses would enable ComEd to conform the engineering assumptions that drive its analysis of primary and secondary costs to reality. We direct the parties to workshop the implementation of sampling methods for physical inspections to confirm engineering judgments.

These same parties found ComEd's judgmental process difficult to understand because most of the employees in various Company departments who provided their engineering judgment for the cost analysis did not testify in the case. Thus, the regulatory process must rely on the understanding of ComEd's estimator about what these individuals considered and how that evidence was used to produce the engineering decisions that support the proposed differentiation of primary and secondary costs for the ECOSS.

The Company's analysis identified several cost accounts that can be separated into primary and secondary components. REACT indicates that ComEd's analysis fails to explain why other accounts are not similarly divisible. Staff had an initial concern that the list of accounts did not include any transformer costs which were collectively classified as primary only. The Company argued that the assignment of a transformer to primary versus secondary should be determined by the voltage of the source-side of the transformer, not the load-side of the transformer.

Based upon ComEd's tariffs and the description of the system provided to us, we find that ComEd's current method of allocating line transformer costs is not appropriate. When the exiting voltage of the transformer is secondary, the transformer can only serve secondary customers and should be allocated as a secondary system cost expense.

ComEd estimates approximately 300 customers (other than high voltage) actually receive power at the primary level while all other customers (excluding high voltage customers) receive power at the secondary level and therefore have their power transformed from a primary down to a secondary level. ComEd argues that making rate adjustments for such a small number of customers is not cost effective. We disagree.

The approximately 300 customers who do not require line transformers to step down their voltage should be identified. As Staff suggests, they should receive a downward rate adjustment reflective of transformation cost savings. The remaining 3.7 million customers requiring transformation down to the secondary level should pay rates that reflect an allocation of transformer costs.

In addition to the 300 primary only customers, other customers including multifamily residential customers receive secondary voltage service directly from line transformers fed by primary voltage circuits. ComEd presently considers these customers to be primary service customers. According to our reading of ComEd's tariffs, they should be considered secondary service customers. We find that the rates charged to these customers should reflect their use of line transformers and some use of the secondary distribution system. Staff indicates that these customers can be easily identified without extensive studies because they have a unique set of meters.

Another concern of Staff and some other parties is that the Company has not actively reviewed studies of primary and secondary costs prepared by other utilities. Staff contends that a review of existing studies might make it easier to determine whether the Company has adopted the most reasonable method of identifying primary and secondary costs. We agree that the allocation methods of other utilities should be examined as part of the workshop process that will be initiated as an adjunct to this proceeding.

IIEC, REACT, Metra and the CTA also argue that rates based upon further voltage differentiation are reasonable and appropriate. IIEC contends this lack of voltage differentiation does not affect all customer classes equally. Some customer classes are predominantly or exclusively made up of customers who take service either at primary voltage or secondary voltage. However, some customer classes include both primary and secondary customers, and under ComEd's rate structure all customers in a class pay the same rates (with the exception of the High Voltage Class). As a result, the cost of service differences between primary and secondary customers, identified in IIEC's modified primary/secondary analysis, cannot be fully reflected in rates. IIEC contends that the information learned in the ECOSS analysis

can be more fully used and rate equity can be more fully realized if there were to be voltage differentiated rates.

IIEC suggests that the system should be divided, and costs ~~rates~~ assigned as either primary or; secondary costs or allocated as general costs ~~rates~~ combining percentages of primary and secondary usage. Metra and the CTA articulate another formulation of this concept. We direct the parties to review this issue in the workshop process.

Consistent with the foregoing, we direct the Staff to initiate a workshop to be led jointly by the Company and Staff, open to all parties, to examine: 1) the use of direct observation or sampling and estimation techniques of ComEd's system to develop more accurate and transparent differentiation of primary and secondary costs; 2) other utilities' methods of differentiating primary and secondary systems and costs; 3) development of function based definitions of service voltages for facilities (other than the line transformers and single phase primary circuits already addressed), including underground circuits operating at primary voltage; 4) an analysis of which customer groups are served by which system service components; and 5) consideration of redefining rate classes on the basis of voltage or equipment usage to better reflect the cost of service.

B. In addition, IIEC proposes the Proposed Order's Section VIII - Findings and Ordering Paragraphs - (PO at 83-85) be modified as shown below, (a) to avoid any confusion that may arise from linking transformers to the primary customer/secondary customer distinction and (b) so that they are consistent with the changes in the Commission Analysis and Conclusions section shown above.

VIII. FINDINGS AND ORDERING PARAGRAPHS

* * * *

(4) the ECOSS to be filed by ComEd, in its next rate case and at the completion of the workshop process, should reflect that customers receiving ~~untransformed~~ power at 4kV or higher are primary system customers who should be identified. Rates charged to these customers should be adjusted to reflect that they do not use the secondary distribution system;

(5) the ECOSS to be filed by ComEd, in its next rate case and at the completion of the workshop process, should reflect that customers receiving power ~~through transformers~~ at levels below 4kV should be considered secondary system customers and charged accordingly;

* * * *

IT IS HEREBY ORDERED that the ECOSS to be filed by Commonwealth Edison Company, in its next rate case and at the completion of the workshop process, should reflect that customers receiving ~~untransformed~~ power at 4 kV or higher are primary system customers who should be identified. Rates charged to these customers should be adjusted to reflect that they do not use the secondary distribution system.

IT IS FURTHER ORDERED that the ECOSS to be filed by Commonwealth Edison Company, in its next rate case and at the completion of the workshop process, should reflect that customers receiving power ~~through transformers~~ at levels below 4 kV should be considered secondary system customers and charged accordingly.

Exception 2

III. ISSUES RELATED TO STREET LIGHTING

D. Commission Analysis and Conclusion

The PO rejects the use of the NCP demand allocator historically used for allocation of the costs of distribution substations and primary lines in ComEd’s embedded cost of service study and adopts Staff’s recommendation to allocate these costs on the basis of the CP demand allocator. (PO at 55). IIEC respectfully disagrees.

This issue was originally raised in the context of allegations of inequitable treatment of the lighting class, which constitutes 1.5% of the total distribution services revenue requirement on the ComEd system. It was alleged that the lighting class was “penalized” by the allocation of distribution

substation costs and primary line costs on the basis of NCP demands. (PO at 44; Lazare, Staff Ex. 1.0 at 34). Specifically, it was suggested that this allocation approach failed to recognize the cost benefits to ComEd's distribution system provided by the lighting classes' low on-peak demand. It was claimed that these benefits were not recognized in ComEd's cost of service study because the costs of primary lines and substations are allocated on the basis of NCP demands instead of CP demands. (PO at 49; Lazare, Staff Ex. 1.0 at 35). It was further alleged that the size of these facilities is "more clearly driven by system peak demands, than by the demands of individual rate classes." (*Id.*). To ensure that the lighting class receives "credit" for the benefits it allegedly provides to the ComEd distribution system, the Staff recommended that the CP allocator be used to allocate the cost of distribution substations and primary lines in the ComEd cost of service study. (*Id.*).

The PO relies on the rationale offered by the Staff and the City of Chicago that "[i]ndividual substations and primary lines are not constructed to serve customers within a single class but rather the collective demands of customers for numerous classes . . ." and therefore, ". . . a substation or primary line is not sized to meet the demand of any single class, but rather the collective demands of customers from numerous classes." (PO at 55). It is true that, generally speaking, much of the electrical system is built to serve customers from numerous classes, not single classes. However, this is not a determinative factor in the context of a cost of service study that is designed to establish the cost of serving various customer classes. Such a study is designed to determine each class' cost responsibility. By definition, it must determine and recognize differences in the cost of serving each class. The observation that the utility system is built to serve numerous classes, instead of a

particular class, does not assist in identifying the cost of serving each individual class, and it arguably suggests that class cost of service studies are pointless.

Furthermore, if the irrelevant fact that utility systems are built to serve customers in numerous classes actually suggests that the utility system is sized to meet system peak demands, then the entire system should be allocated on the basis of coincident peak demands. However, even the City and the Staff recognize that portions of the ComEd system are appropriately allocated on the basis of non-coincident peak demands. (*See*, Lazare, Staff Ex. 1.0 and 2.0, generally failing to oppose use of NCP for allocation of other elements of the distribution system; *see also*, Bodmer, City Ex. 2.0 at 31 and 32, using NCP for general distribution).

In fact, there is unrebutted evidence in the record that ComEd designs and sizes its distribution substations and primary lines to meet the demands of its customers, no matter when those demands occur, *i.e.*, the NCP demands of its customers. (Alongi, ComEd Ex. 10.0 at 27). Furthermore, contrary to the Staff and the City's rationale, the industry practice is to allocate the cost of primary lines and substations on the basis of NCP demands, because ". . . load diversity at the distribution level is the factor responsible for sizing of and investment in distribution equipment, not system coincident demands. (*See*, Baudino, Com. Grp. Ex. 2.0 at 3). Indeed, the National Association of Regulatory Commissioners' (NARUC) Electric Utility Cost Allocation Manual indicates:

The load diversity at distribution substations and primary feeders is usually high. For this reason, customer-class peaks are normally used for the allocation of these facilities. (*See*, Baudino, Com Grp. Ex. 2.0 at 4 - quoting the NARUC Manual at 97).

Apparently only two utilities in the entire country use the CP allocator for the allocation of these costs, and no Illinois utility does so. (*See*, Heintz, ComEd Ex. 7.0 at 4-5). Thus, the record is clear that on a ComEd-specific basis, an Illinois basis, and an industry practice basis, the subject costs are allocated on the basis of an NCP allocation factor because NCPs, contrary to the Staff and City rationale, are more cost causative of the sizing of, and investment in, these facilities.

At the same time, use of the CP allocator reduces the costs of primary lines and distribution substations allocated to the Fixture Included Lighting Delivery Class customers from \$1,186,626 (lines) and \$130,905 (substations) to \$29,509 and \$3,255 respectively. The change in allocators reduces the costs allocated to the Dusk-to-Dawn Lighting Delivery Class, from \$4,628,747.00 (lines) and \$510,630.00 (substations) to \$115,031.00 and \$12,690 respectively.³ (ComEd. Ex. 7.1, Sch. 2a at 12; Ex. 11.1 at 3). These changes represent a decrease in the allocation of primary lines and distribution substations costs to the two lighting classes of 97.5%. (Bodmer, City Ex. 2.0 at 15). Thus, customers in these two lighting classes would be allocated next to zero costs for these facilities even though the facilities are absolutely necessary to provide service to them.

IIEC believes the record has not been sufficiently developed on this issue to allow such a major change in allocation factors for primary lines and distribution substations in the context of this case. The Staff and the City recommendation appears to be made on the basis of assumptions, that are apparently contrary to the facts on the ComEd system. Their proposal is inconsistent with State

³ The third lighting class, General Lighting, receives an increase in allocation of the costs of primary lines and secondary substations. (*See*, Bodmer, City Ex. 2.0 at 15).

and national practices. And, given the fact that the appropriate treatment of any perceived inequity for the Lighting Class might be more appropriately addressed through rate design changes, the Commission should not approve a change in the allocator for primary lines and distribution substations as recommended by the City and the Staff, and recommended by the Proposed Order.

Accordingly, IIEC takes exception to the Proposed Order's recommendation that the CP method should be used to allocate the cost of distribution substations and primary lines in the ComEd cost of service study. IIEC's recommended substitute language is shown immediately below:

Proposed Language

A. IIEC proposes that the last two full paragraphs of the Proposed Order's Section III.D.4. - NCP/CP Issue (PO at 55) be deleted and replaced with the language set forth below:

The Commission notes that the Staff and City suggest that individual substations and primary lines are not constructed to serve customers within any single class, but rather to serve customers from numerous classes. They argue that this means that a substation or primary line is not sized to meet the demands of any single class, but rather the collective demands of customers from numerous classes. However, the record also contains evidence that ComEd designs and sizes its distribution substations and primary lines on the basis of non-coincident peak demands, as is the current practice by other Illinois utilities as well as nationally, with one or two exceptions. The Commission is sympathetic to the idea that there should be some recognition given to the benefits that may accrue to the ComEd system from the off-peak demands for electricity associated with the lighting class. However, given the status of the record here, the Commission does not at this time have sufficient information to change the allocation factor used to allocate these costs to all the ComEd customer classes. Therefore, we decline to change the allocation factor for distribution substations and primary lines as recommended by the Staff and the City in this case.

B. Further, in the Proposed Order's Section VIII. - Findings and Ordering Paragraphs, IIEC recommends the deletion (in their entirety) of Finding No. 9 (PO at 84) and the fifth Ordering paragraph (PO at 85). Both provisions of the Proposed Order relate to the use of Coincident Peak Demand to allocate distribution substations and primary lines.

Exception 3

V. ALLOCATION BASED ON USAGE OR THE NUMBER OF CUSTOMERS

D. Commissions Analysis and Conclusion

The Proposed Order concludes that customer information costs, which include costs for market research, demand management and advertising, should be recovered from ComEd customers on the basis of usage. (PO at 77). As part of its rationale for this conclusion, the Proposed Order states “[i]n fact, for costs related to demand management, customers that use more should probably pay more.” (*Id.*). IIEC respectfully disagrees. Demand management is not energy management. By definition, such costs are not usage related. Costs related to demand management, to the extent they are not allocated on a per customer basis, should be allocated on the basis of demand, not energy usage. Customer classes who “use more” demand management service, under the PO’s rationale, would be those with larger demands. Energy usage is generally unrelated to demand management.

In IIEC’s view, it is inappropriate to allocate costs related to demand management on any basis other than class demand or number of customers. IIEC also agrees with ComEd’s position that information costs generally have not been shown to vary with the amount of usage and, therefore, should not be allocated on the basis of usage. (ComEd Br. at 16, ComEd R. Br. at 15-17). IIEC

further notes that the PO fails to cite any evidence to a causal link between the other information costs and customer usage. Under the circumstances, ComEd's current allocation procedure, allocating those costs on a per customer basis, should be retained.

IIEC therefore, recommends the Proposed Order be modified to accept ComEd's proposed allocation of these costs on a per customer basis. Language modifying the Proposed Order appears below:

Proposed Language

A. IIEC recommends that the last full paragraph of the Proposed Order, Section V.D. - Commission Analysis and Conclusion - (PO at 77) be modified to read as follows:

Customer information costs include costs for market research, demand management, and advertising. ComEd asserts that these costs vary according to the number of customer, and are not dependent upon usage. The connection to the number of customers is not readily apparent for these costs. At the same time, the record does not demonstrate any apparent connection between these costs and a customer's usage of electricity. That is, there has been no showing that the level of these costs vary with the amount of electricity used by any customer. In fact, for costs related to demand management, allocation on the basis of demand would probably be more appropriate than allocation based on usage. ~~customers that use more should probably pay more.~~ However, the record does not contain an adequate examination of the proper classification (customer, demand, or usage) of these various costs to make a definitive determination. For this area of costs, the current ComEd method of allocating these costs on a per customer basis should be retained, given the fact that it has not been clearly established that any of these costs vary by the amount of electricity used. ~~the Commission adopts the City's proposal to recover these based on usage.~~

B. IIEC recommends that Finding (10) on page 84 of the PO, Section VII. - Findings and Ordering Paragraphs - be amended to read as follows:

(10) The ECOSS to be filed by ComEd, in its next rate case and at the completion of the workshop process, should separate its customer services costs between residential and non-residential customers ~~and recover its costs related to customer information based on usage;~~

C. IIEC recommends that the sixth Ordering Paragraph on page 85 of the PO, Section VIII. - Findings and Ordering Paragraphs - be amended to read as follows:

IT IS FURTHER ORDERED that the ECOSS to be filed by Commonwealth Edison Company, in its next rate case and at the completion of the workshop process, should separate its customer services costs between residential and non-residential customers ~~and recover its costs related to customer information based on usage.~~

CONCLUSION

For the reasons stated above, IIEC's exceptions to and clarifications of the Proposed Order should be adopted.

Respectfully submitted,

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