

DIRECT TESTIMONY

of

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Director
Office of Retail Market Development
Illinois Commerce Commission

Commonwealth Edison Company

Proposal to Establish Rider PORCB
(Purchase of Receivables with Consolidated Billing)

Docket No. 10-0138

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1 **Witness Identification**

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

3 A. My name is Torsten Clausen. My business address is 160 N. LaSalle Street,
4 Suite C-800, Chicago, Illinois 60601.

5 **Q. By whom are you employed and in what capacity?**

6 A. I am currently employed as the Director of the Office of Retail Market
7 Development of the Illinois Commerce Commission (“ICC” or “Commission”).

8 **Q. Please describe your educational and occupational background.**

9 A. I graduated in 1997 from the University of Giessen, Germany with a Bachelor of
10 Arts in Business and Economics. In May of 2000, I was awarded a Master of
11 Science degree in Economics from the University of Wyoming. I joined the Staff
12 of the Illinois Commerce Commission (“Staff”) in June of 2000 as a Policy Analyst
13 in the Telecommunications Division, where I also worked from October of 2003
14 until February of 2006. From March of 2002 until October of 2003 and from
15 February of 2006 until February of 2008 I was employed as a Policy Advisor in
16 the Commission’s Chairman and Commissioners’ Section. Since February of
17 2008 I have been the Director of the Commission’s Office of Retail Market
18 Development.

19 **Q. Have you previously testified before any regulatory bodies?**

20 A. Yes. I have testified before the Commission on several occasions.

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

22 A. I have reviewed and analyzed Commonwealth Edison's ("ComEd") testimony and
23 proposed tariffs. I have also reviewed data request responses provided by the
24 Company. The purpose of my testimony is to make recommendations regarding
25 ComEd's proposed tariffs.

26 **Q: Please explain some of the terminology you will be using in your**
27 **testimony.**

28 A: In order to limit the use of acronyms, I am using the term "implementation costs"
29 when I am referring to what ComEd calls the Purchase of Receivables
30 Development and Implementation Costs ("DICs") and the Billing Systems
31 Modification and Implementation Costs ("BSMICs"). I generally view those costs
32 to be of the type that Section 16-118(c) refers to as "start-up costs." Also, when
33 discussing issues that are similar to the ones found in the AIU tariff
34 investigation¹, it might be helpful to view AIU's "POR related UCB/POR Start-Up
35 Costs" as a close equivalent to ComEd's DICs and AIU's "UCB related UCB/POR
36 Start-Up Costs" as a close equivalent to ComEd's BSMICs.

37 Unless otherwise noted, I am using the term "Customer Charge" when
38 referring to what ComEd calls the Purchase of Receivables ("POR") Adjustment
39 and the Consolidated Billing ("CB") Adjustment. ComEd's proposed Rider RCA

¹ ICC Docket Nos. 08-0619/0620/0621 (Cons.) ("AIU tariff investigation").

40 revisions incorporate both the POR and the CB Adjustment into the retail
41 customer's Customer Charge."

42 In addition, while ComEd chose to name its new tariff Rider PORCB, it serves the
43 same purpose as Ameren's UCB/POR tariffs, which is implementing the
44 requirements of Section 16-118(c) and (d.)

45 **Background of the tariff filings**

46 **Q. What prompted the filing of the instant tariffs?**

47 A. In November of 2007 the General Assembly amended the Public Utilities Act (the
48 "Act") by passing Public Act 95-0700. The requirements contained in Public Act
49 95-0700 are designed to remove certain barriers to competition for residential
50 and small commercial customers in Illinois.

51 **Q. Does the proposed Rider PORCB satisfy all of the requirements applicable
52 to ComEd under Public Act 95-0700?**

53 A. No. It is expected that other provisions will be implemented through future tariff
54 filings. Many retail electric suppliers ("RES") expressed a desire to focus initially
55 on the service addressed in the instant tariff filing, namely, the UCB/POR service
56 that combines the utility consolidated billing ("UCB") requirement of Section 16-
57 118(d) of the Act with the purchase of receivables ("POR") requirement of
58 Section 16-118(c) of the Act.

59 **Q. Do you view the requirements of Sections 16-118(c) and (d) of the Act to be
60 separate and independent of each other?**

61 A. Yes. Although I am not a lawyer, given that the utility consolidated billing service
62 requirement of subsection (d) makes no reference to the purchase of receivables

63 requirement of subsection (c), and vice versa, it appears reasonable to assume
64 that ComEd is required to offer one service without tying it to the other.

65 **Q. You stated that there might be additional tariff filings in the future that**
66 **implement other provisions of Public Act 95-0700, such as “stand-alone”**
67 **UCB, “stand-alone” POR, and the purchase of uncollectible receivables**
68 **requirement of Section 16-118(e) of the Act. What potential impact will**
69 **those future filings have on the instant tariff provisions?**

70 A. It is not clear at this point what level of demand there will be for services other
71 than ComEd’s proposed PORCB service and what additional changes to
72 ComEd’s systems and processes might be necessary. Staff plans to address
73 these topics during the ongoing workshop process. However, it is certainly
74 possible that those future services will utilize some of the modifications to
75 ComEd’s systems and processes that were necessary for the provision of the
76 PORCB service in the instant filing. As a result, I recommend that the
77 Commission note in the Order in this Docket that future tariff filings pursuant to
78 Public Act 95-0700 could impact the level of the proposed Consolidated Billing
79 (“CB”) Adjustment and the Purchase of Receivables (“POR”) Adjustment, as well
80 as the PORCB discount rate.

81 **Q. How does the instant tariff filing differ from the tariff filing the AIU made to**
82 **implement the requirements of Sections 16-118(c) and (d)?**

83 A. ComEd’s proposed tariff filing differs from the ones proposed by AIU in many
84 ways. See *Final Order*, ICC Docket Nos. 08-0619/0620/0621 (Cons.) (August
85 19, 2009) (“AIU Order”). Aside from the fact that the filing occurred almost 14

86 months after AIU's filing, ComEd's proposed tariffs feature several substantive
87 differences. I will describe the following ten differences in detail below and I will
88 make recommendations regarding those aspects of ComEd's proposed tariffs.

89 The differences are as follows:

- 90 1. Cost recovery is proposed through a fixed per bill charge rather
91 than through a fixed percentage of the purchased receivables.
- 92 2. Unlike AIU's tariffs, the proposed uncollectibles portion of the
93 discount rate varies by customer class.
- 94 3. A proposed ten-year cost recovery period as opposed to AIU's five-
95 year period.
- 96 4. The estimated implementation costs are more than five times
97 higher than AIU's estimates.
- 98 5. There is no proposed cut-off date for the incurrence of
99 implementation costs.
- 100 6. The proposed tariffs do not specify any true-up after the end of the
101 10-year cost recovery period.
- 102 7. There is no estimate of the initial monthly charge for all eligible
103 customers provided in ComEd's direct testimony.
- 104 8. The proposed cost recovery does not rely on customer switching
105 estimates.
- 106 9. The timing of the tariff filing results in a lesser need to incorporate
107 extended rescission period into utility tariffs.
- 108 10. The proposed Rider PORCB does not allow for RES bill inserts

109

110 **ComEd's proposed \$0.50 fixed per bill charge**

111 **Q. When it comes to the recovery of implementation costs, what is the biggest**
112 **difference between ComEd's proposal and the recovery method approved**
113 **by the Commission in the AIU UCB/POR tariff investigation?**

114 A. Under AIU's UCB/POR program, there is one discount rate for the receivables
115 purchased by the electric utility, regardless of customer class and amount of the
116 receivables. Under ComEd's proposal, the number of potential discount rates is
117 almost limitless. As a result, the Commission is being asked to judge the
118 reasonableness of not one discount rate, as was the case in the AIU tariff
119 investigation, but that of a wide range of discount rates, depending on the
120 amount of receivables purchased.

121 **Q. Please explain.**

122 A. Unlike in the AIU tariffs, ComEd is not proposing to recover the implementation
123 costs as a percentage of the purchased receivables. Instead, ComEd is
124 proposing to recover the implementation costs through a fixed per bill charge.
125 The proposed fixed per bill charge of fifty cents creates a discount rate that is
126 different from the purchased receivables of one RES customer to the next. For
127 example, the fixed per bill charge of fifty cents represents a larger portion of \$40
128 worth of purchased receivables than that of \$400 worth of receivables.

129 **Q. How exactly does ComEd's proposed calculation of the discount rate**
130 **work?**

131 A. ComEd's proposed tariffs do not contain the calculation of the discount rate in a
132 direct way. Instead, the tariffs show how the discounted amount of purchased
133 receivables are being calculated. Using the formula provided in ComEd Ex. 1.1
134 on Sheet No. 397, the discount rates can be calculated by using the applicable
135 Rider UF – Uncollectible Factors, the fixed charge of fifty cents, and an assumed
136 amount of receivables. For purposes of calculating the PORCB discount rates,
137 one must look up in Rider UF the Uncollectible Factors for residential and
138 nonresidential supply charges. In order to calculate the respective Uncollectibles
139 Factors, I used ComEd's existing Rider UF and its recently filed related
140 informational filing.² The following two examples illustrate the calculation:

141 Example (A): Assume the electric utility purchases the monthly
142 receivables of a residential customer of a RES. The relevant Uncollectibles
143 Factor for a residential customer is 1.0229. Using the formula contained in
144 ComEd Ex. 1.1 on Sheet No. 397, this translates into a 2.239% uncollectibles
145 portion of the discount rate. Now assume that the monthly RES supply charges
146 for that customer, which become the receivables purchased by the electric utility,
147 are \$40. The total discount rate for that customer's receivables for that particular
148 month is 3.489%. The 3.489% is comprised of the 2.239% uncollectibles portion
149 and the 1.25% per bill charge as a result of the fifty cents fixed charge ($\$.50/\40
150 $= 0.0125 = 1.25\%$).

151 Example (B): Assume the electric utility purchases the monthly
152 receivables of a nonresidential customer of a RES. The relevant Uncollectibles

² See Rider UF and the attached ComEd response to Data Request TC 1.01.

153 Factor for a nonresidential customer is 1.0078. Using the formula contained in
154 ComEd Ex. 1.1 on Sheet No. 397, this translates into a 0.774% uncollectibles
155 portion of the discount rate. Now assume that the monthly RES supply charges
156 for that customer, which become the receivables purchased by the electric utility,
157 are \$400. The total discount rate for that customer's receivables for that
158 particular month is 0.899%. The 0.899% is comprised of the 0.774%
159 uncollectibles portion and the 0.125% per bill charge as a result of the fifty cents
160 fixed charge ($\$.50/\$400 = 0.00125 = 0.125\%$).

161 **Q: Why is ComEd's proposed residential PORCB discount rate so much**
162 **higher than AIU's?**

163 A: One primary reason is the fact that Ameren has a combined UCB/POR discount
164 rate whereas ComEd proposes to have a residential discount rate and a non-
165 residential discount rate.³ The percentage of "bad debt" or uncollectibles is
166 generally higher for residential customers than it is for non-residential customers.
167 By combining the electric utility's historical uncollectibles experience for
168 residential and non-residential customers (up to 400kW demand), Ameren's
169 UCB/POR discount rate is higher for non-residential customers and lower for
170 residential customers than what it would have been with separate discount rates
171 for the two customer classes. ComEd's alternative approach is neither right nor
172 wrong. Nonetheless, it is important to point out the difference, which makes it
173 even more critical to ensure that ComEd's residential PORCB discount rate level

³ Technically, as explained above, ComEd is proposing a wide range of discount rates depending on the amount of individual receivables purchased.

174 does not become extremely high for residential customers who use less
175 electricity than the average residential customer.

176 **Q: Why should the Commission be concerned about the proposed fixed**
177 **charge per bill?**

178 A: Participation in the ComEd PORCB program is voluntary for the RESs. The
179 electric utility's offering of the PORCB tariff, however, is not voluntary and, while
180 the amount eventually approved by the Commission is unknown at this point,
181 certain implementation costs will have to be recovered. Staff recommends that
182 the Commission do its part to ensure that the PORCB participation by the RESs
183 be as high as possible. A successful PORCB program will not only help the
184 Commission carry out its statutory mandate of promoting "the development of an
185 effectively competitive retail electricity market that operates efficiently and
186 benefits all Illinois consumers,"⁴ it will also increase the likelihood that the
187 PORCB implementation costs are being recovered from participating RESs.

188 As shown in the examples above, the proposed fixed per bill charge
189 creates effective PORCB discount rates that vary greatly from customer to
190 customer. A fixed per bill charge that results in a relatively high discount rate for
191 customers who are consuming relatively small amounts of electricity each month
192 has the potential to discourage RESs from signing up those customers. The
193 larger the monthly customer supply charges, the smaller the effective PORCB
194 discount rate will be. All else being equal, it is not hard to imagine that a PORCB
195 participating supplier will want to focus on signing up customers that leave the

⁴ Section 20-102 of the Public Utilities Act.

196 supplier with the highest percentage of net receivables (the amount of the
197 receivables sold to the electric utility minus the PORCB discount rate). In Staff's
198 view, such an outcome would not be desirable, as it may exclude many
199 residential customers from receiving competitive supply offers.

200 **Q: Please explain why the Commission should avoid creating a disincentive**
201 **for RESs to serve relatively low usage customers.**

202 A: First, as mentioned above, the POR and UCB requirements of Sections 16-
203 118(c) and (d) have presumably been created in order to foster a competitive
204 retail electric market for residential and small commercial customers. The
205 availability and widespread use of PORCB would be a major part in the
206 Commission's goal, and mandate, of promoting the development of an effectively
207 competitive retail electricity market that operates efficiently and benefits all Illinois
208 consumers. Approving a PORCB discount rate (or, to be more correct, a range
209 of discount rates) that has the potential to exclude a portion of residential and
210 small commercial customers from receiving competitive electric supply offers
211 could stand in the way of fulfilling the Commission's goal and mandate.

212 Second, the Commission should try to maximize the potential for PORCB
213 implementation cost recovery from the participating RESs. Again, all else being
214 equal, if a fixed per bill charge prompts participating RESs to sign up fewer low
215 usage customers, the resulting revenue from the fixed per bill charge applicable
216 to those purchased receivables could be less than the revenue collected under a
217 method that does not prompt RESs to sign up fewer low usage customers. In
218 addition, the fixed per bill charge does not allow for increased cost recovery from

219 RESs signing up high usage customers. Instead, the fixed per bill charge
220 becomes a less significant portion of the effective discount rate the larger the
221 amount of the purchased receivables. To illustrate, a RES that sells AIU a
222 customer's receivables in the amount of \$600 will contribute approximately \$4.10
223 to AIU's recovery of its UCB/POR implementation costs. Under ComEd's
224 proposal, a RES with the same customer will contribute fifty cents to ComEd's
225 recovery of its implementation costs. To put it differently, Staff is concerned that,
226 under ComEd's fixed per bill charge proposal, the effective discount rate has the
227 potential to be too high for some portion of customers and to be too low for other
228 portions of customers.

229 **Q: What is your recommended alternative to the fixed per bill charge?**

230 A: I recommend that the Commission order the recovery of the implementation
231 costs from participating RESs through a fixed percentage charge, just as the
232 Commission approved in the AIU tariff investigation. Doing so will ensure that
233 the cost recovery contribution from RESs is proportionate to the amount of the
234 receivables being sold to the electric utility. A fixed percentage charge ensures
235 that \$500 worth of receivables purchased by the utility results in the same
236 amount of cost recovery contribution regardless of whether the RES sold monthly
237 receivables of ten customers with \$50 apiece or whether the RES sold \$500
238 worth of monthly receivables of just one customer.

239 **Q: What initial level of a fixed percentage charge do you recommend?**

240 A: I recommend that the Commission incorporate the same level of cost recovery as
241 it did in the AIU tariff investigation. AIU's initial percentage charge for the

242 recovery of costs other than uncollectible costs is 0.68%. In other words, AIU's
243 initial discount rate is 0.68% plus the most recent Commission-approved
244 uncollectible costs. Until the latest AIU rate case, the Commission approved
245 uncollectible cost factor was 0.82%, resulting in an initial discount rate of 1.5%.
246 According to an informational filing made by AIU on May 28, 2010, the most
247 recent AIU rate case increased the Commission approved uncollectible costs to
248 1.06%, resulting in a new discount rate of 1.74%. Applying the same 0.68% to
249 ComEd's PORCB tariff would result in an initial residential discount rate of 2.92%
250 (2.239% uncollectibles factor plus 0.68% cost recovery) and an initial non-
251 residential discount rate of 1.454% (0.774% uncollectibles factor plus 0.68% cost
252 recovery).

253 **Q: Are you concerned about the impact a residential PORCB discount rate of**
254 **2.92% might have on supplier participation, especially when compared to**
255 **AIU's discount rate?**

256 A: While it is impossible to speculate at what discount rate level a supplier might
257 decide not to take advantage of the purchase of receivables option, the
258 Commission should keep in mind that the proposed \$0.50 fixed per bill charge
259 creates even higher discount rates for residential receivables below \$73.50.
260 Below that amount, the \$0.50 fixed per bill charge equals a percentage charge
261 that is higher than the 0.68% charge I am proposing. While the resulting 2.92%
262 residential discount rate is substantially higher than Ameren's UCB/POR discount
263 rate, I am concerned about an even higher discount rate for the receivables of
264 less than the \$73.50 threshold.

265 **Q: How likely is it that purchased receivables for residential customers will be**
266 **less than \$73.50?**

267 A: Based on current prices and recent usage levels, one could reasonably assume
268 that a large percentage of residential customers would be paying less than
269 \$73.50 in RES supply charges. Using an average monthly residential
270 consumption of 700kWh⁵ and a hypothetical RES charge of 9 cents/kWh⁶, the
271 resulting average monthly receivables would be \$63. If the Commission were to
272 approve ComEd's proposed \$0.50 per bill charge, the effective PORCB discount
273 rate would be 3.03% for that hypothetical average customer. Of course, all
274 receivables with amounts less than that average would be subject to an even
275 higher PORCB discount rate.

276 **Q: Is ComEd's proposed fixed per bill charge more in line with the way the**
277 **costs are being incurred?**

278 A: ComEd has not provided any type of detailed breakdown of its implementation
279 costs, so I cannot provide a definitive answer. However, it is my understanding
280 that the activities to develop and implement the systems and procedures for the
281 purchase of receivables as well as the activities to modify ComEd's billing
282 systems are required regardless of the number of bills generated pursuant to
283 Rider PORCB. In other words, ComEd's implementation costs are likely to be
284 primarily driven by the desired functionalities and less by the number of

⁵ According to my calculations, the simple average usage of a residential ComEd customer was actually 669 kWh for the calendar year 2009.

⁶ Looking at ComEd's Purchased Electricity Charges for the coming 12 months, a RES rate for supply and transmission services charges of 9 cents/kWh would actually be higher than ComEd's rate, not taking into account any Purchased Electricity Adjustments. It is likely that some RESs would offer a rate that is equal or lower than ComEd's rate, resulting in an average receivables amount of less than \$63. Also, for simplicity's sake, I am limiting my example to non-electric space heat customers.

285 customers or bills using the new functionalities. I do not believe that ComEd
286 estimated the number of bills to be issued pursuant to Rider PORCB when it
287 developed its implementation cost estimate. To be clear, I do not claim that the
288 fixed percentage alternative I am proposing here is more in line with the way the
289 implementation costs are being incurred. The reality appears to be that the
290 inherent nature by which these costs are caused is probably not an ideal
291 guideline for the Commission to determine the proper cost recovery method.
292 Moreover, the Commission approved a percentage-based cost recovery method
293 in the Ameren Order.

294 **Q: Apart from looking at the way costs are incurred, what other aspect could**
295 **the Commission take into account when deciding on a cost recovery**
296 **method?**

297 A: Given that the Rider PORCB is an optional service for the RESs, RESs will likely
298 use the service only when it makes financial sense to do so. The Commission's
299 goal should be to make the Rider PORCB a service that will be used in a
300 substantial and widespread manner. The more Rider PORCB is used, the more
301 money that can be collected, through the PORCB discount rate, from
302 participating RESs. While dependant on the specifics of individual RES service
303 offerings, all else being equal, it can be generally assumed that the more electric
304 supply a RES is selling, the higher its revenues and ultimately its profits. It would
305 be reasonable to assume that a RES' revenue and profits are more strongly
306 positively correlated to the amount of electric supply sold than to the number of
307 customers it serves. Consequently, I believe it is reasonable to assume that a

308 RES's profit is driven more by the amount of revenue it generates than by the
309 number of customers it serves.

310

311 For example, assume that a hypothetical RES "A" has 100 customers, where
312 each customer uses an average of 800 kWh per month. Further assume that a
313 hypothetical RES "B" has also 100 customers, but the average customer of RES
314 "B" uses an average of 8,000 kWh per month. It is highly likely that RES B
315 generates significantly more revenue and profit than RES A. Under ComEd's
316 fixed per bill charge, both RESs would pay exactly the same amount towards the
317 recovery of the Rider PORCB costs. Under my proposed percentage-based cost
318 recovery, all else being equal, RES B would contribute significantly more towards
319 the cost recovery than RES A. However, the relative contribution (on a
320 percentage basis) from both RES A and B would be the same. This is one of the
321 reasons I am recommending that the Commission consider the proposed
322 alternative percentage-based cost recovery as more reasonable than ComEd's
323 proposed fixed per bill charge.

324

325 **A proposed ten-year cost recovery period as opposed to AIU's five-year period**

326 **Q: Do you believe the proposed ten-year cost recovery period for all eligible**
327 **customers is reasonable?**

328 **A:** While the Commission approved a five-year cost recovery period for all eligible
329 customers in the Ameren UCB/POR case, I believe a ten-year cost recovery
330 period for all eligible customers in this case is not unreasonable. ComEd's

331 estimated implementation costs are several times higher than Ameren's
332 UCB/POR implementation costs and a longer cost recovery period for all eligible
333 customers brings the resulting customer charges (i.e., the CB Adjustment and
334 the POR Adjustment) to a level that is comparable to Ameren's UCB/POR
335 Program Charge.

336 In addition, the Commission gave itself the flexibility to approve cost
337 recovery periods other than the five years proposed by Ameren in its UCB/POR
338 case for the type of costs associated with billing system changes. While Ameren
339 argued that the Commission approve a five-year cost recovery period because
340 the assets in question can only be book depreciated over a five-year basis, Staff
341 recommended that the Commission avoid using Ameren's accounting rationale
342 as the basis for adopting a five-year cost recovery period. Staff concluded that
343 the cost recovery period should meet broader public interest demands and
344 circumstances differ from one situation to the next. The Commission adopted
345 Staff's recommendation when it stated the following in the final Order:

346 The Commission finds that utilizing a simple five-year amortization period
347 for UCB/POR start-up costs is sufficient in this instance. Having reviewed
348 the reconciliation language in the proposed tariffs, the Commission is
349 satisfied that it is reasonable regarding UCB/POR start-up costs. In
350 coming to this conclusion, the Commission considered AIU's argument
351 that the typical book accounting life for IT investments is five years, but
352 does not consider it definitive.

353 AIU Order, at 35.

354 Accordingly, Staff finds the proposed ten-year cost recovery to be reasonable in
355 this situation.
356
357

358 **The estimated implementation costs are more than five times higher than AIU's**
359 **estimates**

360 **Q. Why are ComEd's estimated implementation costs more than five times**
361 **higher than AIU's estimates?**

362 A. According to ComEd witness Mittelbrun, the estimated costs to implement the
363 system and business process changes required by Sections 16-118(c) and (d)
364 are \$15.8 million. (ComEd Ex 2.0, at 14.) Of this estimate, \$3.2 million are
365 attributed to the purchase of receivables and \$12.6 million are attributed to the
366 billing system modifications. This compares to approximately \$3 million in total
367 implementation costs incurred by AIU up until December 31, 2009. ComEd did
368 not provide any detailed break-down of the estimated implementation costs and it
369 stated that it cannot know why its estimated implementation costs are
370 significantly higher than AIU's because it "does not know what work Ameren
371 needed to complete to enable a purchase of receivables program." ComEd
372 Response to Data Request TC 1.14.

373 **Q: Shortly before 9pm on the day before your direct testimony was due,**
374 **ComEd filed revised responses to nine separate Staff data requests. Did**
375 **Staff have sufficient time to review those nine revised data request**
376 **responses in order to fully analyze the potential impact on Staff's direct**
377 **testimony?**

378 A: The self-evident answer is no. Staff, accordingly, reserves the right to revise its
379 recommendations in its rebuttal testimony in the event that the revised data
380 request responses warrant such action. However, I would like to note that a

381 cursory review of those revised data request responses show that ComEd has
382 significantly revised its implementation cost estimate. As stated in the revised
383 response to Staff Data Request TEE 1.02, ComEd increased its estimate of costs
384 that are attributed to the purchase of receivables by over 42%, from
385 approximately \$3.2 million to approximately \$4.5 million. In addition, as stated in
386 the revised response to Staff Data Request TEE 1.04, ComEd increased its
387 estimate of costs that are attributed to the billing system modifications by almost
388 40%, from approximately \$12.6 million to approximately \$17.6 million. This
389 brings ComEd's estimate of total implementation costs from approximately \$15.8
390 million to more than \$22.1 million, more than seven times the amount AIU
391 incurred as of December 31, 2009. Moreover, and equally concerning to Staff, is
392 the fact that ComEd, in a data request response submitted on May 7, 2010,
393 admits to not having "determined the amounts of DICs and BSMICs incurred to
394 date"⁷. In that response, ComEd stated that it "will include these values in an
395 updated response to this DR or in its rebuttal testimony if and when additional
396 details are determined." However, while ComEd provided significantly increased
397 implementation cost estimates on the very eve of Staff's direct testimony date,
398 ComEd did not revise its statement that it has not determined the amounts of
399 implementation costs incurred to date.

400
401 **Q. Is ComEd asking the Commission to approve its implementation costs at**
402 **this time?**

⁷ ComEd response to Staff Data Request RP 1.02.

403 A. No. As stated by Mr. Mittelbrun, “ComEd is providing these preliminary cost
404 estimates for informational purposes only, and is not requesting approval of
405 these costs in this proceeding.” ComEd Ex. 2.0, at 14. Staff does not disagree
406 with this position, especially in light of the fact that the implementation is still
407 ongoing at this point. As explained by Staff witness Ebrey, Staff expects the
408 costs to be reviewed during the Rider PORCB reconciliation proceedings.
409

410 **There is no proposed cut-off date for the incurrence of implementation costs**

411 **Q. Has ComEd proposed to limit the incurrence of implementation costs to a
412 certain period of time?**

413 A. No. As opposed to AIU’s original tariff filing, ComEd did not specify an end date
414 to the incurrence of implementation costs. Staff believes such a “cut-off” date is
415 important in order to differentiate between initial implementation costs, referred to
416 as “reasonable start-up costs” in Section 16-118(c), and ongoing administrative
417 costs. As further explained by Staff witness Ebrey, Staff is proposing a cut-off
418 date of December 31, 2011. This date is more than 4 years after the effective
419 date of Public Act 95-0700.
420

421 **The proposed tariffs do not specify any true-up after the end of the 10-year cost
422 recovery period**

423 **Q: Apart from the proposed ten-year cost recovery period, what other major
424 cost recovery difference exists between ComEd’s proposal and the Ameren
425 UCB/POR tariff investigation?**

426 A: ComEd's direct testimony provides that:

427 [T]he \$0.50 per bill charge embedded in the discount rate will remain in
428 effect until all costs (i.e., DICs, AOCs, BSMICs and BSAOCs), including
429 reimbursements for any portion of such costs borne by customers with
430 demands under 400 kW, are recovered from the RESs taking service
431 under RIDER PORCB, after which the amount may be reduced.

432
433 ComEd Ex. 1.0 (Garcia), at 22.

434
435 Similarly, proposed Original Sheet No. 393 states that "ultimately, all such costs
436 are to be recovered from the RESs taking service under this rider."

437 In the Ameren tariff investigation, only Staff recommended that the
438 Commission allow for the continued possibility of collecting money from retail
439 electric suppliers taking the UCB/POR service even beyond the approved cost
440 recovery period of five years. Specifically, Staff stated:

441 The Commission could decide to leave the discount rate above the level
442 that would be needed to recover Ameren's uncollectible and ongoing
443 administrative expenses beyond the end of the five-year cost recovery
444 period. Doing so would allow for the continued possibility of collecting
445 money from retail electric suppliers taking the UCB/POR service even
446 beyond the initial five years of the service. The revenues can then be
447 used to offset any under-recovery of the actual uncollectible expenses
448 experienced with the purchase of receivables beyond the five-year period.
449 This would lead to a reduction in the UCB/POR Program Charge or even
450 credits to all eligible customers after the end of the five-year recovery
451 period.

452
453 Staff Ex. 3.0, at 13.

454
455 Staff also argued that the Commission would not necessarily have to
456 make a decision in the Order approving the UCB/POR tariffs as to the level and
457 length of any continued "recovery" of implementation costs from the RESs past
458 the five-year cost recovery period.⁸ Staff Ex. 3.0, at 13-14. Staff stated that such

⁸ I am using quotation marks around the term recovery because the implementation costs will have

459 a decision could be made during the final reconciliation process at the end of the
460 five-year cost recovery period because at that time, the Commission has the
461 benefit of knowing the actual percentage of the UCB/POR implementation costs
462 recovered from the retail electric suppliers and from the eligible customers.

463 **Q: Did the Commission adopt Staff's recommendation?**

464 A: Yes. In the Ameren Order, the Commission concluded that it "reserves the right
465 to leave the discount rate above the level that would be needed to recover AIU's
466 uncollectible and ongoing administrative expenses beyond the end of the five-
467 year amortization period." AIU Order at 35.

468 **Q: Do you recommend that the Commission reach the same conclusion in this**
469 **Docket?**

470 A: Yes, for several reasons. First, adopting ComEd's proposal would effectively
471 preclude an issue the Commission will be deciding at the end of AIU's five-year
472 cost recovery period. Second, it appears that, in the AIU tariff investigation, the
473 Commission did not foresee collecting interest charges beyond the five-year cost
474 recovery period. While the adopted so-called Fair Cost Allocation Adjustment
475 ("FCAA") included interest charges,⁹ the FCAA did not change the five-year cost
476 recovery period.¹⁰ For these reasons, I recommend that the Commission make

already been recovered from all eligible customers at that point, with the possible exception of extending the cost recovery period for another year following the final reconciliation after year five.

⁹ While the Commission adopted CUB's proposed FCAA, it rejected CUB's proposed interest rate at a level of AIU's weighted average cost of capital and instead adopted Staff's proposed interest rate level of customer deposits as found in Section 280.70(e)(1) of the Commission's rules (83 IAC § 280.70(e)(1)).

¹⁰ This is evidenced by the fact that Staff's explanation of the FCAA was not challenged by any party in that case. See Staff Ex. 7.0, at 14-19.

477 the same finding as it did in the AIU tariff investigation case with respect to this
478 issue.

479 **Q: The AIU tariffs provide for a final reconciliation at the end of the five-year**
480 **cost recovery period. Do you recommend that something similar be**
481 **included in ComEd's tariffs?**

482 A: Yes, I do. Rider RCA should include language that explains that the
483 implementation costs will be recovered from all eligible customers for no more
484 than ten years, with the following two exceptions. First, there should be a
485 reconciliation for the Consolidated Billing ("CB") Adjustment at the end of year
486 ten in order to allow for the recovery of any potential remaining Billing Systems
487 Modifications and Implementation Costs ("BSMIC") balance through the
488 Customer Charge in the following 12-month period. Second, it appears that the
489 manner in which the POR Adjustment reconciliation is proposed, recovery of
490 DICs through the Customer Charge could extend to the POR application period
491 ending after year 13. If ComEd agrees with these changes, it should provide
492 proposed language effectuating these changes in its rebuttal testimony. If
493 ComEd does not agree with these changes, Staff will provide tariff language to
494 effectuate these changes in its rebuttal testimony.

495

496 **There is no estimate of the initial monthly charge for all eligible customers**
497 **provided in ComEd's direct testimony**

498 **Q: During the AIU UCB/POR tariff investigation, Ameren provided an estimate**
499 **of the initial level of the Customer Charge in its direct testimony. Has**
500 **ComEd done the same in this Docket?**

501 A: No. However, in response to a Staff data request, ComEd provided a calculation
502 that would result in a \$0.05 monthly customer charge during the initial three-year
503 application period. The estimated \$0.05 monthly charge reflects only the CB
504 Adjustment because the POR adjustment is zero for the initial three-year
505 application period. I believe it is important for the Commission to be informed of
506 the level of the monthly customer charge, even if it is only an estimate at this
507 point because the final level of prudently incurred costs is not yet known. Also, if
508 the Commission adopts Staff witness Phipps' recommendations, the initial
509 monthly CB adjustment will be slightly less than the Company's calculation but,
510 because of rounding to the full cent, could still be five cents.

511 **Q: Does your previous answer change in light of ComEd's revised data**
512 **request responses that were filed on the eve of Staff's direct testimony**
513 **deadline?**

514 A: Yes, according to those revised responses, ComEd now estimates that the initial
515 CB adjustment will be \$0.07. However, Staff has not had sufficient time to verify
516 the Company's calculation.

517

518 **Proposed cost recovery does not rely on customer switching estimates**

519 **Q. AIU's cost recovery relies on customer switching estimates while ComEd's**
520 **proposed cost recovery does not. In your opinion, is that an advantage or**
521 **disadvantage?**

522 A. In my opinion, ComEd's proposal to not pick a percentage split of costs
523 recovered from participating suppliers versus eligible retail customers is an
524 advantage. While there is nothing inherently wrong with the goal of recovering
525 some percentage of the implementation costs from suppliers and some
526 percentage from eligible customers, it is ultimately just that - a goal. What
527 determines the actual percentage of costs recovered from participating suppliers
528 and eligible customers is the level of participation by suppliers and the level of
529 success with which those suppliers sign up customers using Rider PORCB.
530 AIU's proposed 25/75% split of the recovery of its billing system related
531 implementation costs required the additional step of estimating the number of
532 customers in the UCB/POR program as well as the average rate charged by the
533 suppliers serving those customers. ComEd's proposed cost recovery, regardless
534 of a fixed bill charge or a fixed percentage charge, does not involve such an
535 additional step, and I recommend that the Commission view this aspect of the
536 proposed cost recovery as reasonable.

537

538 **Timing of the tariff filing results in a lesser need to incorporate extended**
539 **rescission period into utility tariffs**

540 **Q: ComEd's filing also proposes revisions to Rate BES, Rate BESH, Rate RDS,**
541 **Rate RESS and Rate MSPS in order to update the rules pertaining to**
542 **switching electric suppliers and open access in the electricity market that**
543 **are applicable to mass market customers. Do you have any**
544 **recommendations concerning those proposed revisions?**

545 **A:** Yes. As ComEd correctly points out, the rulemaking regarding additional
546 consumer protections is currently under way in Docket No. 09-0592, which is the
547 creation of a new Code Part: 412. One of the items for the Commission's
548 consideration in that rulemaking is the proper length of a rescission period for
549 residential and small commercial customers. Staff's proposed rule provides the
550 following:

551 If the customer wishes to rescind the pending enrollment with the RES,
552 the customer will not incur any early termination fees if the customer
553 contacts either the electric utility or the RES within ten calendar days after
554 the electric utility processes the enrollment request. If the tenth calendar
555 day falls on a non-business day, the rescission period will be extended
556 through the next business day.
557

558 Section 412.210 of Staff's proposed Part 412.

559

560 ComEd's proposed revisions incorporate the proposed longer rescission period
561 for certain customer classes. In fact, ComEd gives itself a minimum of 18
562 calendar days to complete a switch request in order to accommodate the
563 proposed ten-calendar rescission period.

564 There are two distinct reasons as to why Staff believes ComEd's proposed tariff
565 revisions should be rejected at this time. First, the issue of the appropriate
566 rescission period is still in front of the Commission as part of the Part 412
567 rulemaking. As Staff has argued in the Part 412 rulemaking, the new rule should
568 include the following clarification (which is similar to the language found in
569 existing Code Part 453.40(c)):

570 In the event of any conflict between this Part and the requirements
571 provided in electric utility tariffs on file with the Commission as of the
572 effective date of this Part, this Part shall control.

573
574 Section 412.30 of Staff's proposed Part 412.

575
576
577 Staff recommends that the issue of rescission periods should be first and
578 primarily addressed in a rule that is applicable to customers of both ComEd and
579 AIU. In the event there are additional details that need to be incorporated into
580 each of the utilities' tariffs, those tariff provisions should be filed after the
581 Commission completes its rulemaking proceeding. In other words, it would seem
582 illogical for the Commission to approve proposed tariff revisions that address the
583 same issues that are currently pending in a rulemaking proceeding, which could
584 invite inconsistent conclusions. Further, not every party participating in the 09-
585 0592 Docket has intervened in this Docket, providing another reason not to rule
586 on those proposed revisions here.

587
588 Second, ComEd's proposal includes the provision to extend this new extended
589 rescission period to customers larger than the statutory definition of a "small
590 commercial customer." As can be seen from comments filed in the Part 412

591 rulemaking, the issue of defining a small commercial customer is a highly
592 contested issue. In that rulemaking, Staff is proposing to use the statutory
593 definition of small commercial customer (non-residential customers with annual
594 usage up to 15,000 kWh) in order to specify the applicability of the new
595 consumer protections. Again, Staff recommends that the Commission use the
596 more generally applicable rulemaking to arrive at its desired conclusion on this
597 matter rather than the instant tariff investigation that is only applicable to ComEd
598 customers.

599 **Q: What additional comment do you have with respect to these new switching**
600 **rules?**

601 A: If I am interpreting the proposed revisions to Rider RDS¹¹ correctly, ComEd is
602 proposing to apply this new proposed 18 calendar day enrollment window to
603 service “drop” requests by a RES as well. A drop request by a RES informs the
604 utility of the termination of the power and energy supply service by such RES for
605 a retail customer for which the RES has been providing power and energy supply
606 service. Even if the Commission were to agree with Staff and approve an
607 extended rescission period for residential and small commercial customers
608 (which Staff recommends in Docket No. 09-0592), I fail to understand the
609 rationale for essentially providing a RES an extended drop period. Extended
610 rescission provisions are generally intended to benefit retail customers and not
611 RESs.

612

¹¹ ComEd Ex. 1.1 at 1st Revised Sheet No.77.

613 **Rider PORCB does not allow for RES bill inserts**

614 **Q. In the AIU Order, the Commission accepted Staff's recommendation to**
615 **provide parity when it comes to the mailing of required bill inserts.¹² Do**
616 **you propose something similar in this Docket?**

617 **A.** Yes, I do. In the Ameren UCB/POR proceeding, Staff and Ameren agreed to
618 revised tariff language that reflects the consistent treatment of required bill
619 inserts in the case of consolidated billing. I propose that something similar be
620 accomplished in this proceeding. ComEd's existing Rider Single Billing Option
621 ("SBO") provides the following:

622 **REQUIRED INFORMATION NOTICES.**

623 The Company may be required from time to time to send
624 information to retail customers receiving delivery service from the
625 Company, and the Company may require that such information is to
626 be sent with such retail customers' bills. If such retail customers
627 receive bills from a RES for which the RES is providing billing of the
628 Company's delivery service, the following requirements apply:

629
630 The Company is required to:

- 631
632 1. reimburse the RES only for the net costs that the Company
633 avoids by not distributing such information; and
634 2. make the information available to the RES in the Company's
635 standard format for distribution to retail customers for which the
636 RES is providing billing of the Company's delivery service.

637
638 The RES is required to:

- 639
640 1. distribute the information as instructed by the Company to
641 retail customers for which the RES is providing billing of the
642 Company's delivery service; and
643 2. distribute the information in accordance with and subject to
644 any law or order of any governmental agency that has the authority
645 to specify the terms of distribution of such information.
646

¹² AIU Order at 9.

647 However, proposed Rider PORCB does not address the obligations when the
648 roles are reversed; that is, when ComEd sends out a consolidated bill under
649 Rider PORCB, as opposed to the RES sending out a consolidated bill under
650 Rider SBO. If a RES is obligated to include ComEd's bill inserts when the RES
651 bills the customer, it appears reasonable to direct ComEd to include the RES'
652 required bill inserts when ComEd bills the customer. To achieve this
653 recommended consistency, I recommend that the following language be added
654 to Rider PORCB:

REQUIRED INFORMATION NOTICES.

655 A RES may be required from time to time to send information to
656 retail customers receiving electric power and energy supply service
657 from the RES, and the RES may require that such information is to
658 be sent with such retail customers' bills. If such retail customers
659 receive bills from the Company pursuant to Rider PORCB, the
660 following requirements apply:
661
662

The RES is required to:

- 663 1. reimburse the Company only for the net costs that the RES
664 avoids by not distributing such information; and
- 665 2. make the information available to the Company in the RES's
666 standard format for distribution to retail customers for which the
667 Company is providing billing of the RES' electric power and energy
668 supply service.
669

The Company is required to:

- 670 1. distribute the information as instructed by the RES to retail
671 customers for which the Company is providing billing of the RES'
672 electric power and energy supply service; and
- 673 2. distribute the information in accordance with and subject to
674 any law or order of any governmental agency that has the authority
675 to specify the terms of distribution of such information.
676
677

678 **Additional Requirements**

679
680 **Q. Do you have any other recommendations?**

681 A. Yes, I have one last important recommendation. Given that ComEd is currently
682 still in the process of implementing the changes necessary for the provision of
683 the PORCB service, I recommend that ComEd provide an updated estimate of its
684 PORCB start-up costs as of December 31, 2010. Such updated estimate should
685 be provided on or before January 31, 2011 and it should contain, at a minimum,
686 the items described in Staff witness Ebrey's direct testimony. Similarly, I
687 recommend that such a report be filed on January 31, 2012. The January 2012
688 report shall include the actual and final PORCB implementation costs. I
689 recommend that the Commission include this proposed additional reporting
690 requirement in the Order rather than creating new tariff language for this
691 provision because this reporting requirement is of limited duration.¹³

692 **Q. Does this question end your prepared direct testimony?**

693 A. Yes.

¹³ As with the other proposed reporting requirements, such reports should be submitted to the manager of Staff's Accounting Department and the Director of Staff's Office of Retail Market Development.

INCREMENTAL UNCOLLECTIBLE COST FACTORS

Supplement to Rider UF (1)

Duplicate

2008 Incremental Distribution Uncollectible Cost Factors (IDUFs) (2)		
	Applicable Prior to the April 2010 Monthly Billing Period	Applicable Beginning with the April 2010 Monthly Billing Period and Extending Through the December 2010 Monthly Billing Period
IDUF _{R8}	1.000	1.0108
IDUF _{N8}	1.000	1.0037
IDUF _{A8}	1.000	1.0030
2008 Incremental Supply Uncollectible Cost Factors (ISUFs)		
ISUF _{R8} (3)	1.000	1.0070
ISUF _{N8} (3)	1.000	1.0044
ISUF _{A8} (3)	1.000	1.0138
ISUF _{SYS8} (4)	1.000	1.0066

2009 Incremental Distribution Uncollectible Cost Factors (IDUFs) (2)		
	Applicable Prior to the June 2010 Monthly Billing Period	Applicable Beginning with the June 2010 Monthly Billing Period and Extending Through the May 2011 Monthly Billing Period
IDUF _{R9}	1.000	1.0125
IDUF _{N9}	1.000	1.0038
IDUF _{A9}	1.000	1.0003
2009 Incremental Supply Uncollectible Cost Factors (ISUFs)		
ISUF _{R9} (3)	1.000	1.0108
ISUF _{N9} (3)	1.000	1.0054
ISUF _{A9} (3)	1.000	1.0011
ISUF _{SYS9} (4)	1.000	1.0091

NOTES:

- (1) This informational sheet is supplemental to Rider UF - Uncollectible Factors (Rider UF) Sheet No. 267 through Sheet No. 267.16.
- (2) IDUFs are applied in accordance with the provisions of the Monthly Charges section of the Rates and Charges part of Rate RDS - Retail Delivery Service (Rate RDS) and the provisions of the Zero Standard Credit subsection of the Monthly Credit and Charge section of Rider ZSS - Zero Standard Service (Rider ZSS).
- (3) ISUFs are applied in accordance with the provisions of the Monthly Charges section of Rate BES - Basic Electric Service (Rate BES).
- (4) ISUF_{SYS8} and ISUF_{SYS9} are applied in accordance with the provisions of the Monthly Charges section of Rate BESH - Basic Electric Service Hourly Pricing (Rate BESH).