

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Commonwealth Edison Company,)	
Proposal to establish Rider PORCB)	Docket No. 10-0138
(Purchase of Receivables with Consolidated Billing) and)	
to revise other related tariffs.)	(Rehearing)
(tariffs filed January 20, 2010))	

Direct Testimony on Rehearing of
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May 20, 2011

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1 **I. Introduction and Purpose**

2 **A. Identification of Witness**

3 **Q. What is your name?**

4 A. Robert Garcia.

5 **Q. Are you the same Robert Garcia who submitted direct, rebuttal and surrebuttal**
6 **testimony in this proceeding?**

7 A. Yes. My direct testimony is ComEd Ex. 1.0; my rebuttal testimony is ComEd Ex. 3.0;
8 and my surrebuttal testimony is ComEd Ex. 6.0.

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

10 A. I am employed by Commonwealth Edison Company (“ComEd”) as its Manager,
11 Regulatory Strategies and Solutions.

12 **B. Purposes of Testimony**

13 **Q. What are the purposes of your direct testimony on rehearing?**

14 A. The purposes of my direct testimony are to:

15 (1) Expound upon the relevant portions of my direct testimony that describe how
16 ComEd, with the support of the Illinois Competitive Energy Association
17 (“ICEA”), the Retail Energy Supply Association (“RESA”) and the Citizens
18 Utility Board (“CUB”), proposed to recover uncollectibles amounts associated
19 with the purchase of receivables through the proposed discount rate and explain
20 why that method is appropriate; and

21 (2) Address why the averaging of residential and non-residential discount rates, as set
22 forth in the Order Upon Emergency Motion for Clarification (Feb. 23, 2011)
23 (“Clarifying Order”), is not appropriate.

24 **C. Summary of Conclusions**

25 **Q. What conclusions are reached in your direct testimony?**

26 A. Adopting the originally proposed three uncollectible factors creates a level playing field
27 for ComEd and Retail Electric Supplier (“RES”) – supplied customers on Rider PORCB
28 – Purchase of Receivables with Consolidated Billing (“Rider PORCB”) using PORCB
29 for their supplied customers; helps avoid creating artificial barriers to customer
30 switching; is more reflective of the true costs and bad debt exposure because it charges
31 the uncollectible factor applicable to that customer segment; and is conducive to
32 switching in all the applicable customer segments for which Rider PORCB was intended
33 and use of PORCB by more RESs.

34 **II. Recovery of Uncollectibles Associated with Purchase of Receivables**

35 **A. Proposed Methodology**

36 **Q. Can you review how ComEd proposed to determine the percentage reduction for
37 the recovery of uncollectible costs associated with the purchase of receivables?**

38 A. Yes. I presented this methodology in my direct testimony, as follows:

39 As shown in Rider PORCB (ComEd Ex. 1.1 at Sheet No. 397), ComEd proposes
40 to apply the same supply-related uncollectible cost factors set forth in Rider UF –
41 Uncollectible Factors (ILL. C.C. No. 10, Second Revised Sheet No. 267 *et*
42 *seq.*)(“Rider UF”) that it applies to its own supply charges (*i.e.*, Purchased
43 Electricity Charges) under Rate BES (ILL. C.C. No. 10, Original Sheet No. 10 *et*

44 *seq*), ComEd’s fixed price bundled electric service tariff. Rider UF establishes
45 two separate supply-related uncollectible cost factors, the base uncollectible cost
46 factor and the incremental uncollectible cost factor, for each of three distinct
47 customer groupings, residential customers; nonresidential customers to which the
48 Watt-Hour Delivery Class, Small Load Delivery Class, Medium Load Delivery
49 Class, or Large Load Delivery Class is applicable; and all other customers (*e.g.*,
50 nonresidential customers with demands in excess of 1,000 kW or served from
51 high voltage lines, and lighting customers). The applicable supply-related
52 uncollectible cost factors will be applied to develop the discount rate in Rider
53 PORCB based on the delivery class of the customer whose receivables are
54 purchased by ComEd. Furthermore, because the applicable incremental supply
55 uncollectible cost factors in Rider UF, and in turn, ComEd’s supply charges will
56 be updated annually for application beginning with the June monthly billing
57 period (*see* ILL. C.C. No. 10, 1st Revised Sheet No. 267.13 and 2nd Revised
58 Sheet No. 21), the percentage reduction reflected in the discount rate also will be
59 updated annually during the June billing period. Garcia Dir., ComEd Ex. 1.0,
60 14:333-15:351.

61 **Q. Does ComEd continue to advocate the use of this methodology on rehearing?**

62 A. Yes.

63 **Q. Why is it appropriate to link the three historic bad debt rates used in setting**
64 **ComEd’s supply charges with those used in the PORCB discount rate?**

65 A. As I indicated in my direct testimony, “[t]he direct linkage between the uncollectible cost
66 factors reflected in ComEd’s supply charges and the PORCB discount rate will help

67 avoid creating any artificial barriers to customers switching to RES supply via PORCB
68 and over or undercharging RESs for uncollectibles that might otherwise occur, if such a
69 linkage is not set.” Garcia Dir., ComEd Ex. 1.0, 15:354-357. Further, it will help avoid
70 creating a barrier to the use of Rider PORCB and ultimately the recovery of such startup
71 and administration costs.

72 **Q. Why will this linkage help avoid creating artificial barriers to customer switching to**
73 **RES supply via PORCB or use of PORCB?**

74 A. Linking the uncollectible cost factors reflected in ComEd’s supply charges and the Rider
75 PORCB discount rate puts RES supply offerings via Rider PORCB on a level paying
76 field with ComEd’s default supply offerings. For example, if the factor used to gross up
77 ComEd’s supply charges for bad debt is lower than the one applied through the discount
78 rate to RESs using Rider PORCB, the RESs using Rider PORCB would be at a
79 disadvantage in their efforts to compete against the default supply rate. This could be
80 particularly detrimental to a RES that does not have adequate billing and bad debt
81 management capabilities to serve the mass market and is, therefore, reliant upon Rider
82 PORCB to some extent for their market participation.

83 For those RESs with alternative means of billing and bad debt management, it
84 may discourage the use of Rider PORCB in favor of less expensive alternatives to the
85 detriment of Rider PORCB cost recovery. RESs with alternative means of billing and
86 bad debt management may view the use of Rider PORCB as being uneconomical relative
87 to their incremental cost to use their own or other outsourced billing and bad debt
88 management operations.

89 **Q. Why will this linkage avoid over or undercharging RESs for uncollectibles that**
90 **might occur?**

91 A. From a historic bad debt perspective, Rider PORCB is required to be offered to RESs
92 serving a relatively diverse group of customers. ComEd's residential bad debt experience
93 differs materially between residential and non-residential customers. This is supported
94 by the different Rider UF factors approved for residential, nonresidential and other
95 customer segments as filed under ComEd Tariff Supplement to Rider UF, 1st Revised
96 Sheet 20 Informational Filing. Specifically, the percentage reductions for the recovery of
97 uncollectibles under the proposed method were as follows for the period December 2010
98 through February 2011: residential 2.24%, nonresidential¹ 0.77% and lighting 0.11%.
99 Thus, utilizing the applicable Rider UF factor in the Rider PORCB discount rate helps
100 avoid over or undercharging RESs, both collectively and respectively, all else being
101 equal, and is consistent with cost causation principles.

102 **Q. These differences seem very small. Why do you state that these differences are**
103 **material?**

104 A. The driver of the actual premium paid (in dollars) by a RES for their sale of receivables is
105 the value of the receivables themselves, which is in turn driven by the supply prices
106 charged to, and the kilowatt-hours ("kWh") consumed by, their customers. Holding the
107 supply prices for the different classes eligible for RESs using Rider PORCB relatively
108 constant among RESs, the effects of these seemingly small differences will begin to
109 manifest, on a total cost basis, as more kWhs of customer usage are billed through Rider

¹ Inclusive of all nonresidential customers.

110 PORCB and, on a per customer basis, with the placement of higher use customers
111 supplied by RESs using Rider PORCB.

112 **B. Methodology Adopted in the Clarifying Order**

113 **Q. What are the differences between the methodology proposed by ComEd in its direct**
114 **testimony and the one adopted most recently by the Commission in its Clarifying**
115 **Order?**

116 A. The only, albeit significant, difference between the methodology proposed by ComEd in
117 its direct testimony and the one adopted in the Clarifying Order is that in lieu of using the
118 three distinct uncollectibles factors derived from Rider UF that are applicable to the
119 customers that are eligible to be enrolled by a RES using Rider PORCB, the Clarifying
120 Order requires the application of a single uncollectibles factor to all customers eligible to
121 be enrolled by a RES using Rider PORCB. That factor is based on a weighted average of
122 the bad debt experience of all customers with demands under 400 kW, including
123 residential.

124 **Q. Why is a single discount rate for residential and nonresidential customers not**
125 **appropriate?**

126 A. There are numerous reasons why averaging the rates in this manner is inappropriate.
127 First, a single uncollectible factor based on a weighted average of residential and non-
128 residential customers represents a significant departure from traditional ratemaking
129 practices and the principle of cost causation. All else being equal, averaging the
130 uncollectibles in this manner will result in the overcharging of RESs that use Rider
131 PORCB to serve non-residential customers (to the extent they do, as discussed further
132 below) and the undercharging of RESs that use Rider PORCB to serve residential

133 customers. This is due to the fact that residential customers' bad debt rates have
134 historically been higher than those for non-residential customers. In essence, this
135 averaging results in a rate that is not reflective of the bad debt risk of either of these
136 customer groups.

137 Second, this averaging may discourage RESs, particularly those with alternative
138 billing and credit and collections processes, from using Rider PORCB to serve non-
139 residential customers by rendering the cost of the service uneconomic relative to
140 alternative means of billing and credit and collections. Thus, the rate design employed in
141 this proceeding may not only discourage the use of a legislatively mandated service
142 option for RESs, but also impede the recovery of start-up and administration costs from
143 RESs.

144 Third, as a follow up to my first point, to the extent that the uncollectibles factor
145 is not reflective of the bad debt risk associated with the customers actually supplied by a
146 RES using Rider PORCB, ComEd may under recover its bad debt costs associated with
147 the receivables purchased. While these net actual uncollectible costs will eventually be
148 recovered from all customers with demands under 400 kW through the POR Adjustment
149 set forth in Rider RCA – Retail Customer Assessments, it nevertheless will cause these
150 customers to bear more of the costs of Rider PORCB than is necessary. Further, it
151 exposes ComEd to carrying costs for up to three years until the POR Adjustment may be
152 applied.

153 Fourth, this averaging would seemingly tilt the playing field against RESs that
154 may be reliant on Rider PORCB to serve the mass market, particularly with respect to

155 non-residential customers. Simply put, adding over 1% to a RES's cost of service in an
156 industry with already narrow margins cannot be conducive to business or competition.

157 Lastly, in weighing the needs for uniformity in rates amongst utilities (*i.e.*
158 attempts to align ComEd's discount rate to the one approved for Ameren Illinois
159 Utilities) against the needs of the marketplace and customers, the Commission previously
160 has recognized the value in evaluating the strengths and weaknesses of the different
161 approaches and the collaborative efforts of the parties. *See* Order at 24-25. ComEd
162 respectfully request that it continue to do so on rehearing.

163 **Q. The Clarifying Order implicitly reaffirms the conclusion that “[i]t is also in the best**
164 **interests of Illinoisans in ComEd's service territory if there were one single charge**
165 **for uncollectibles, as opposed to one uncollectible charge for residential customers**
166 **and a different uncollectible charge for commercial customers.” Clarifying Order**
167 **at 2. Do you agree with that conclusion?**

168 A. No. I respectfully submit that the Commission should consider which Illinoisans are
169 helped and which are harmed by this decision. To the extent averaging is intended to
170 induce competition for residential customers, it will come at a cost to the other residential
171 and non-residential customers and to some of the RESs. In our opinion, it is not
172 advisable to artificially induce competition by imposing a cost on all other participants.

173 **Q. Does this complete your direct testimony?**

174 A. Yes.