

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

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

**COMMONWEALTH EDISON COMPANY'S
PRETRIAL MEMORANDUM ON REHEARING**

In accordance with the schedule approved by the Administrative Law Judge (“ALJ”) on April 13, 2011, as modified by the ALJ’s notice on April 15, 2011, Commonwealth Edison Company (“ComEd”), by its attorneys, submits this Pretrial Memorandum.

INTRODUCTION

On March 23, 2011, the Illinois Commerce Commission (“Commission”) granted the respective Applications for Rehearing of the Illinois Competitive Energy Association and Retail Energy Supply Association. Those Applications sought rehearing regarding the February 9, 2011 Amendatory Order and February 23, 2011 Order upon Emergency Motion for Clarification (collectively, the “Amendatory Orders”), which adopted a single, blended uncollectibles rate for residential and nonresidential customers with demands under 400 kilowatts (kW).

BACKGROUND

Section 16-118(c) of the Public Utilities Act requires ComEd to provide a new tariffed service whereby a retail electric supplier (“RES”) may, at its option, sell to ComEd receivables for power and energy service for certain of its customers at a discount rate. In particular, the statute provides that “[t]he discount rate shall be based on the electric utility’s historical bad debt

and any reasonable start-up costs and administrative costs associated with the electric utility's purchase of receivables.” 220 ILCS 5/16-118(c).

To set the bad debt portion of the discount rate, ComEd proposed to apply the same supply-related uncollectible cost factors set forth in Rider UF – Uncollectible Factors (ILL. C.C. No. 10, Second Revised Sheet No. 267 *et seq.*) (“Rider UF”) that it applies to its own supply charges (*i.e.*, Purchased Electricity Charges) under Rate BES (ILL. C.C. No. 10, Original Sheet No. 10 *et seq.*), ComEd’s fixed price bundled electric service tariff. Rider UF establishes two separate supply-related uncollectible cost factors, the base uncollectible cost factor and the incremental uncollectible cost factor, for each of three distinct customer groupings – residential customers; nonresidential customers to which the Watt-Hour Delivery Class, Small Load Delivery Class, Medium Load Delivery Class, or Large Load Delivery Class is applicable; and all other customers (*e.g.*, nonresidential customers with demands in excess of 1,000 kW or served from high voltage lines, and lighting customers). Under this approach, the applicable supply-related uncollectible cost factors would be applied to develop the discount rate in Rider PORCB – Purchase of Receivables with Consolidated Billing (“Rider PORCB”) based on the delivery class of the customer whose receivables are purchased by ComEd. Furthermore, because the applicable incremental supply uncollectible cost factors in Rider UF, and in turn, ComEd’s supply charges will be updated annually for application beginning with the June monthly billing period (*see* ILL. C.C. No. 10, 1st Revised Sheet No. 267.13 and 2nd Revised Sheet No. 21), the percentage reduction reflected in the discount rate also would be updated annually during the June billing period. Garcia Dir., ComEd Ex. 1.0.

The Commission’s Amendatory Orders, however, require the application of a single uncollectibles factor to all customers eligible to be enrolled by a RES under Rider PORCB in

lieu of using the three distinct uncollectibles factors derived from Rider UF that are applicable to these eligible customers.

STATEMENT OF CONTESTED ISSUES

ComEd witness Mr. Garcia explains that adopting the originally proposed three uncollectible factors creates a level playing field for RES-supplied customers on Rider PORCB using PORCB for their supplied customers; helps avoid creating artificial barriers to customer switching; is more reflective of the true costs and bad debt exposure because it charges the uncollectible factor applicable to that customer segment; and is conducive to switching in all the applicable customer segments for which Rider PORCB was intended and use of PORCB by more RESs. ComEd Ex. 12.0.

Mr. Garcia testifies that linking the uncollectible cost factors reflected in ComEd's supply charges and the Rider PORCB discount rate puts RES supply offerings via Rider PORCB on a level playing field with ComEd's default supply offerings. For example, if the factor used to gross up ComEd's supply charges for bad debt is lower than the one applied through the discount rate to RESs using Rider PORCB, the RESs using Rider PORCB would be at a disadvantage in their efforts to compete against the default supply rate. This could be particularly detrimental to a RES that does not have adequate billing and bad debt management capabilities to serve the mass market and is, therefore, reliant upon Rider PORCB to some extent for their market participation. For those RESs with alternative means of billing and bad debt management, it may discourage the use of Rider PORCB in favor of less expensive alternatives to the detriment of Rider PORCB cost recovery. RESs with alternative means of billing and bad debt management may view the use of Rider PORCB as being uneconomical relative to their incremental cost to use their own or other outsourced billing and bad debt management operations. *Id.*

Mr. Garcia further explains that, from a historic bad debt perspective, Rider PORCB is required to be offered to RESs serving a relatively diverse group of customers. ComEd's residential bad debt experience differs materially between residential and nonresidential customers, which is reflected in the different Rider UF factors approved for residential, nonresidential and other customer segments as filed under ComEd Tariff Supplement to Rider UF, 1st Revised Sheet 20 Informational Filing. Specifically, the percentage reductions for the recovery of uncollectibles under the proposed method were as follows for the period December 2010 through February 2011: residential 2.24%, nonresidential¹ 0.77% and lighting 0.11%. Thus, utilizing the applicable Rider UF factor in the Rider PORCB discount rate helps avoid over- or under-charging RESs, both collectively and respectively, all else being equal, and is consistent with cost causation principles. *Id.*

Mr. Garcia also identifies a number of reasons why averaging the rates to create a single discount rate for residential and nonresidential customers is inappropriate, including the following: (i) a single uncollectible factor based on a weighted average of residential and nonresidential customers represents a significant departure from traditional ratemaking practices and the principle of cost causation; (ii) this averaging may discourage RESs, particularly those with alternative billing and credit and collections processes, from using Rider PORCB to serve nonresidential customers by rendering the cost of the service uneconomic relative to alternative means of billing and credit and collections; (iii) to the extent that the uncollectibles factor is not reflective of the bad debt risk associated with the customers actually supplied by a RES using Rider PORCB, ComEd may under-recover its bad debt costs associated with the receivables purchased; (iv) this averaging would seemingly tilt the playing field against RESs

¹ Inclusive of all nonresidential customers.

that may be reliant on Rider PORCB to serve the mass market, particularly with respect to nonresidential customers; and (v) in weighing the needs for uniformity in rates amongst utilities (*i.e.* attempts to align ComEd's discount rate to the one approved for Ameren Illinois Utilities) against the needs of the marketplace and customers, the Commission previously has recognized the value in evaluating the strengths and weaknesses of the different approaches and the collaborative efforts of the parties. *See Commonwealth Edison Co.*, ICC Docket No. 10-0138, Final Order (Dec. 15, 2010) at 24-25.

Mr. Garcia also responds to the direct testimony of Commission Staff witness Torsten Clausen and Dominion Retail Inc. ("Dominion") witness James L. Crist. Mr. Garcia notes that no party has provided sufficient justification for the Commission to require ComEd to charge RESs a different bad debt rate to serve a customer under Rider PORCB than it would have charged such customers had they remained on ComEd fixed-price supply. Garcia Reb., ComEd Ex. 13.0. Specifically, Mr. Garcia rebuts each of Dominion witness Mr. Crist's claims, including the unsubstantiated assertions that (1) residential customers will benefit from a blended discount rate; (2) residential competition levels will be improved; (3) use of Rider PORCB to serve nonresidential customers has not been harmed by the recent changes to the bad debt rate; (4) the credit practices of individual RESs serving residential customers warrant a lower bad debt rate for nonresidential customers; and (5) potential gaming of PORCB warrants an unspecified increase in the bad debt rate applicable to the purchase of receivables for nonresidential customers. *Id.*

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Respectfully submitted,

COMMONWEALTH EDISON COMPANY

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