

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.)

Rebuttal Testimony on Rehearing of
ROBERT GARCIA
Manager – Regulatory Strategies and Solutions
Commonwealth Edison Company

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TABLE OF CONTENTS

I. Introduction and Purpose..... 1

A. Identification of Witness 1

B. Purpose of Rebuttal Testimony 1

C. Summary of Conclusions 1

II. Recovery of Uncollectibles Associated with Purchase of Receivables 2

A. Proposed Methodology..... 2

B. Methodology Adopted in the Clarifying Order 3

1 **I. Introduction and Purpose**

2 **A. Identification of Witness**

3 **Q. Please state your name.**

4 A. Robert Garcia.

5 **Q. Are you the same Robert Garcia who submitted direct testimony on rehearing in**
6 **this proceeding?**

7 A. Yes. My direct testimony on rehearing is ComEd Ex. 12.0.

8 **B. Purpose of Rebuttal Testimony**

9 **Q. What is the purpose of your rebuttal testimony?**

10 A. The purpose of my rebuttal testimony is to respond to the direct testimony on rehearing
11 of Staff of the Illinois Commerce Commission (“Staff”) witness Torsten Clausen (Staff
12 Ex. 1.0) and Dominion Retail Inc. (“Dominion”) witness James L. Crist (Dominion Ex.
13 JC-1.0 R).

14 **C. Summary of Conclusions**

15 **Q. In summary, what are your conclusions?**

16 A. Commonwealth Edison Company’s (“ComEd”) proposed use of the uncollectible factors
17 derived from Rider UF – Uncollectible Factors (“Rider UF”) is reasonable and consistent
18 with the recovery of such costs from the overwhelming majority of mass market
19 customers receiving fixed-priced supply from ComEd today. No party has provided
20 sufficient justification for the Illinois Commerce Commission (“Commission”) to require
21 ComEd to charge Retail Electric Suppliers (“RESs”) a different bad debt rate to serve a
22 customer under Rider PORCB – Purchase of Receivables with Consolidated Billing

23 (“Rider PORCB”) than it would have charged such customers had they remained on
24 ComEd fixed-price supply. Further, I provide rebuttal to the following claims made by
25 Dominion witness Mr. Crist: (1) residential customers will benefit from a blended
26 discount rate; (2) residential competition levels will be improved; (3) use of Rider
27 PORCB to serve non-residential customers has not been harmed by the recent changes to
28 the bad debt rate; (4) the credit practices of individual RESs serving residential customers
29 warrant a lower bad debt rate for non-residential customers; and (5) potential gaming of
30 PORCB warrants an unspecified increase in bad debt rate applicable to the purchase of
31 receivables for non-residential customers. My rebuttal testimony articulates why each of
32 these claims is unsubstantiated.

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

34 **A. Proposed Methodology**

35 **Q. Referring to the position taken in his direct testimony, Staff witness Mr. Clausen**
36 **again concludes that ComEd’s approach of separate bad debt rates is “neither right**
37 **nor wrong.” Clausen Dir., Staff Ex. 1.0, 2:33. Is that a fair assessment of ComEd’s**
38 **proposal?**

39 **A.** No. The Commission has approved on several occasions, most recently in ICC Docket
40 No. 10-0467, the separate uncollectible factors (which I will refer to simply as “bad debt
41 rate” to be consistent with terminology used in the governing statute) set forth in Rider
42 UF for use and application to all customers taking fixed-price supply service under Rate
43 BES – Basic Electric Service. As of April 2011, roughly 98% of all customers eligible to
44 be enrolled by a RES in Rider PORCB (nearly 3.8 million customers in total) have been
45 and currently are subject to the application of these bad debt rates to their fixed-price

46 supply charges from ComEd. Therefore, while it is conceivable that a better bad debt
47 rate structure may be devised at the conclusion of this proceeding, it would be unfair and
48 inconsistent for the Commission to conclude that ComEd's proposed approach to
49 recovering bad debt risk from RESs is "not right" or somehow unreasonable, considering
50 it is the rate design in effect for nearly all customers today.

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

52 **Q. In supporting the bad debt rate adopted in the Order Upon Emergency Motion for**
53 **Clarification ("Clarifying Order"), Dominion witness Mr. Crist suggests that "a**
54 **blended charge helps the residential customers by producing a lower rate." Crist**
55 **Dir., Dominion Ex. JC-1.0 R, 8:190-91. Does Mr. Crist provide any explanation**
56 **regarding how the Rider PORCB discount rate, which is applicable to RESs and not**
57 **directly to residential customers, will help residential customers?**

58 A. No. While it is clear how a lower bad debt rate benefits a RES exclusively supplying
59 residential customers through a reduction in its cost of service, Mr. Crist offers no
60 explanation regarding how the blended rate will translate into direct benefits for
61 residential customers. For regulated utilities, a reduction in costs, whether as a result of
62 improved efficiency or reduced input costs, ultimately is captured as a reduction to the
63 revenue requirement and, in turn, rates through the ratemaking process. With respect to
64 RESs, however, Mr. Crist, has not demonstrated that, or the extent to which, the resulting
65 savings actually will be passed through a RES to its customers – and not retained by such
66 a RES as additional profit. Short of performing a cost of service analysis for unregulated
67 RES supply offerings, which is seemingly not possible, it cannot be concluded that
68 residential customers will benefit directly from a blended bad debt rate.

69 **Q. Mr. Crist suggests that “a lower rate would encourage competition” for residential**
70 **customers. Crist Dir., Dominion Ex. JC-1.0 R, 8:193-97. How does ComEd**
71 **respond?**

72 A. It is undisputed that the bad debt risk associated with residential customers is generally
73 greater than that of non-residential customers. Therefore, applying an artificially low bad
74 debt rate, one that is set below ComEd’s cost (*i.e.*, risk exposure) of serving residential
75 customers, undoubtedly would create slightly greater headroom for RESs to compete
76 against the Rate BES fixed-price supply charges resulting from the State’s procurement
77 process and the application of Rider UF thereto. More specifically, this would artificially
78 improve RESs’ ability to compete against Rate BES by under 0.67% of charges billed to
79 residential customers based on ComEd’s 2010 bad debt experience. However, no
80 evidence has been produced that a less than 1% improvement in the margin for RESs will
81 make a material difference in the level of residential competition relative to the
82 alternative proposal in this case. And, to the extent it would, such a pricing policy begs
83 questions as to the sustainability of any increase in residential competition that may
84 result. Indeed, to the extent that charging RESs an artificially low bad debt rate is
85 actually needed to promote residential “competition,” one should question who actually
86 would benefit on net from such artificially induced “competition” in the long run – the
87 RESs, which Dominion implicitly suggests need to be propped up, or customers, which
88 will have to cover any shortfalls in cost recovery. Fortunately, Illinois Competitive
89 Energy Association (“ICEA”) witness Mr. Wright and Retail Energy Supply Association
90 (“RESA”) witness Mr. Boston both have assured the Commission that such artificial

91 support is not needed. Wright Dir., ICEA Ex. 3.0, 5:87-9; Boston Dir., RESA Ex. 1.0,
92 8:156-9:167.

93 **Q. In an attempt to justify the higher bad debt charges to RESs serving non-residential**
94 **customers under the blended bad debt rate, Mr. Crist cites the Rider PORCB usage**
95 **levels by RESs serving non-residential customers before and after the Clarifying**
96 **Order to support his conclusion that “non-residential customers are not**
97 **significantly deterred by a blended rate.” Crist Dir., Dominion Ex. JC-1.0 R,**
98 **16:381-94. Do you concur with this assessment?**

99 A. No, I do not. It would be highly speculative to draw any conclusions from the raw Rider
100 PORCB usage statistics because it is too early in the rollout of Rider PORCB to do so. In
101 fact, with this one exception, Mr. Crist reaches a similar conclusion. *See id.* (“...I do not
102 conclude anything else from this data, as it is data from very early in the enrollment
103 process.”)

104 Furthermore, reliance on such data draws an incomplete picture of RESs’
105 response to the changes resulting from the Clarifying Order. It is entirely unclear, based
106 on the usage data alone, how RESs have responded to date, or will respond in the future,
107 to the changes made to the bad debt portion of the discount rate in the Clarifying Order.
108 For example, some RESs might be working through or putting on hold the execution of
109 their post-Rider PORCB implementation marketing plans hoping to see the decision
110 reversed in this proceeding, while others might have already reversed course on their
111 plans to use Rider PORCB to serve non-residential customers. Indeed, the Rider PORCB
112 usage data does not capture the number of non-residential customers that would have
113 been enrolled on Rider PORCB at this point, but for the changes made by the Clarifying

114 Order. Moreover, RESs with existing credit and billing functions may respond
115 differently from those completely reliant on Rider PORCB. Thus, in addition to it being
116 too early to tell, far more information than just the usage statistics is needed to reach any
117 conclusions regarding the impact of the Clarifying Order.

118 **Q. In an attempt to justify the higher charge to RESs serving non-residential customers**
119 **under the blended bad debt rate, Mr. Crist suggests that the bad debt rate**
120 **applicable to non-residential customers may actually be “too low” because RESs are**
121 **not required to place all of their non-residential customers on Rider PORCB and**
122 **may pick and chose the customers they place on Rider PORCB. Crist Dir.,**
123 **Dominion Ex. JC-1.0 R, 16:375-80, 17:402-14. How does ComEd respond?**

124 A. Although it is conceivable that a RES may seek to place its non-residential customers that
125 are high collection risks on Rider PORCB, it is also conceivable that a RES serving
126 residential customers may also place high collection risk customers on Rider PORCB.
127 While one of the reasons for the application of an all-in requirement on RESs serving
128 residential customers was to “help prevent” such activity (*see* Garcia Dir., ComEd Ex.
129 1.0, 26:619-27:635), it by no means prohibits a RES from using Rider PORCB to
130 expressly target their marketing efforts toward residential customers with high collection
131 risks, which could have similar effects on ComEd’s actual bad debt exposure for
132 residential customer receivables. For example, low introductory prices with less than
133 transparent escalation provisions could easily entice customers struggling to pay their
134 electricity bills. Moreover, Staff itself has expressed concerns that Rider PORCB “might
135 encourage RESs to market heavily to customers who cannot meet typical credit
136 standards, because the utility and its customers would be responsible for any bad debts

137 that would be incurred by customers that ultimately do not pay their bills, rather than
138 RESs.” ICC Docket No. 05-0597, Schlaf Reb., Staff Ex. 20.0, 11:248-52. Therefore, the
139 potential for the bad debt portion of the Rider PORCB discount rate to be out of line with
140 ComEd’s actual bad debt experience associated with the purchase of receivables is not
141 limited to non-residential customers and does not justify the imposition of an artificially
142 high bad debt rate on non-residential customers. And, it most certainly does not justify a
143 higher bad rate for the purchase of non-residential receivables that is determined through
144 the weighted averaging or blending of residential and non-residential bad debt rates,
145 which is completely unrelated to the concerns regarding the potential for the gaming of
146 Rider PORCB identified by Mr. Crist.

147 Nevertheless, the potential for gaming of Rider PORCB and the consequences of
148 such gaming are important issues that were extensively discussed during and after the
149 Office of Retail Market Development (“ORMD”) workshops and warrant continued
150 monitoring by Staff and the Commission. In fact, the all-in provision and other
151 provisions are scheduled to be revisited through the ORMD workshop process under the
152 Agreement ComEd reached with ICEA and RESA. *See* ComEd Ex. 1.3 at 2.

153 **Q. Mr. Crist suggests that because Dominion’s existing customers are credit screened**
154 **and Dominion expects to continue this practice, Dominion “should have a customer**
155 **base with a lower uncollectible factor than the average ComEd residential**
156 **customer” and, therefore, the blended bad debt rate is more reflective of the risk**
157 **associated with the purchase of receivables from Dominion. Crist Dir., Dominion**
158 **Ex. JC-1.0 R, 19:455-62. How does ComEd respond?**

159 A. It is my understanding that Section 16-118(c) of the Public Utilities Act requires the
160 discount rate to be based on “the electric utility's *historical* bad debt” – not an individual
161 RES’s bad debt experience. 220 ILCS 5/16-118(c) (emphasis added). This, of course, is
162 a legal matter that will be taken up in briefs, as needed. Therefore, the credit screening
163 practice of a single RES, such as Dominion, is irrelevant. Further, it is worth noting that
164 Mr. Crist has not demonstrated that Dominion does in fact have a lower residential bad
165 debt rate than ComEd; he merely speculates that Dominion “*should* have a customer base
166 with a lower uncollectible factor” as a result of its credit screening practice. Crist Dir.,
167 Dominion Ex. JC-1.0 R, 19:455-62 (emphasis added).

168 **Q. Do you have any suggestions regarding the determination of the blended bad debt**
169 **rate, or more specifically, the uncollectible factor (“UF”), pursuant to the discount**
170 **rate formula set forth in Rider PORCB?**

171 A. Yes. Through ComEd’s experience with the data requests in this proceeding and separate
172 inquiries from RESs, it became apparent that the results of the annual application of the
173 discount rate formula, specifically the update of the UF, is not as transparent as it should
174 be. Therefore, in the event the blended bad debt rate is upheld by the Commission,
175 ComEd recommends that the Commission direct ComEd to submit future annual UF
176 updates to the Commission through informational filings and amend Rider PORCB
177 accordingly through a compliance filing. In the event the Rider UF-based bad debt rate
178 proposal proposed by ComEd and supported by ICEA and RESA is restored at the
179 conclusion of this proceeding, no such filing will be necessary, as an informational filing
180 is already required under Rider UF.

181 **Q. Does this conclude your rebuttal testimony?**

182 A. Yes.