ComEd Ex. 11.0

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY	:	
	:	No. 13-0387
Tariff filing to present the Illinois Commerce Commission with an opportunity to consider revenue neutral tariff changes related to rate design authorized by subsection 16-108.5(e) of the Public Utilities Act.	:	

Rebuttal Testimony of

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On Behalf Of
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I. INTRODUCTION

A. Witness Identification

Q. **What is your name and business address?**

A. My name is Michael T. O'Sheasy. My business address is 5001 Kingswood Drive, Roswell, Georgia 30075.

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

A. I am a Vice President at Christensen Associates Energy Consulting, LLC ("CA"). I am providing testimony on behalf of Commonwealth Edison Company ("ComEd") in this proceeding.

B. Summary of Rebuttal Testimony

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

A. The purpose of my rebuttal testimony is two-fold. First, I respond to the direct testimony of Chicago Transit Authority ("CTA") and Northeast Illinois Regional Commuter Railroad Corporation ("Metra") (together, "CTA/Metra") witness Mr. James G. Bachman (CTA/Metra Joint Ex. 1.0) regarding CA's report, *Meeting Commonwealth Edison's Distribution Allocation Requirements from the Illinois Commerce Commission Order 10-0467* ("CA Distribution Study"), ComEd Ex. 3.07. Second, I address proposals relating to cost allocation by phase of service made by Illinois Industrial Energy Consumers ("IIEC") witness Mr. Robert R. Stephens (IIEC Ex. 1.0); and The Coalition to Request Equitable Allocation of Costs Together ("REACT") witness Mr. Harry L. Terhune (REACT Ex. 2.0).

Q. **In brief, what conclusions do you reach?**

A. Mr. Bachman's assertion that CA's recommendation regarding the allocation of costs associated with "combination" poles (i.e., poles carrying equipment that serves both secondary and primary voltage levels) is incorrect because observed data are not helpful in determining how the costs of combination poles should be allocated. In addition, I conclude that the allocation of costs according to phase of service proposed by Messrs. Stephens and Terhune is not standard practice within the electric industry and that such an approach to cost allocation could begin an unsustainable and complex process in which each customer class would seek to exclude specific costs from their cost of service ("COS") due to some aspect of their circumstances.

C. Qualifications and Professional Background

Q. **Please state your qualifications.**

A. As a Vice President at CA, my work includes leading projects relating to cost-of-service that include both embedded cost of service studies ("ECOSSs") and marginal cost of service studies and rate design for electric utilities. I have testified before various commissions on both costing and pricing. I have published numerous articles on pricing in many journals including *Natural Gas and Electricity, TAPPI Journal, Public Utilities Fortnightly, Electric Perspectives, EPRI Journal, Energy Customer Management,* and *The Electricity Journal.* Prior to joining CA, I worked for over twenty years with the electric utilities within the Southern Company electric system in various roles including cost of service and rate design. I received a Bachelors of Industrial Engineering from the Georgia Institute of Technology in 1970. In 1974, I earned a Masters in Business Administration from Georgia State University.

Additional information about my qualifications appears in my resume attached to my testimony as ComEd Ex. 11.01.

II. RESPONSE TO CTA/METRA WITNESS MR. BACHMAN

Q. **What is Mr. Bachman's concern regarding CA's Distribution Study?**

A. Mr. Bachman asserts that CA "inappropriately substituted its judgment for ComEd's engineers' judgment" regarding the allocation of costs associated with combination poles, which are those poles that carry both secondary and primary equipment. (CTA/Metra Joint Ex. 1.0, 11:242-262).

Q. **What was CA's recommendation specifically?**

A. The CA Distribution Study recommendation was to allocate 100% of combination pole costs to the primary service level (which becomes what ComEd refers to as "shared" costs which are allocated to primary voltage and secondary voltage customers)[1], where ComEd had previously been allocating 50% to primary service and 50% to secondary service. (ComEd Ex. 3.07, pages 10-11).

Q. **Why does Mr. Bachman oppose this recommendation?**

A. Mr. Bachman states that "where direct observation was not accomplished, there was no reason or study objective to replace ComEd engineering judgment with consultant judgment." (CTA/Metra Joint Ex. 1.0, 12:270-271).

Q. **Is Mr. Bachman correct that CA did not directly observe combination poles?**

[1] My reference in this testimony to "primary service" means ComEd's shared primary voltage costs that are shared by both primary and secondary voltage customers.

A. No. The field review included recording the types of equipment attached to each observed pole. Many of these observations were of poles to which both primary and secondary lines are attached (i.e., combination poles). The sizes of the poles and equipment on these combination poles were carefully recorded in the direct observations process.

Q. **Did CA base its recommendation on the data collected during the field reviews?**

A. No, the observed data are not helpful in determining how the costs of combination poles should be allocated between primary and secondary service levels. Specifically, the field observations of whether a pole is a combination pole do not provide any insight as to how the pole should be allocated to primary and secondary service levels. To make this determination, one must investigate what caused the combination poles to be installed, i.e., what caused the cost to be incurred. To conduct such a review, CA questioned ComEd distribution engineering on their construction practices.

Q. **What was the conclusion of this review?**

A. The costs of combination poles should be allocated to service levels based on how the costs are incurred. Based on my experience and conversations with ComEd engineers (and even with other electric utilities' distribution engineers), the size and cost of the combination poles depends directly upon the attachment of primary service and not whether it also happens to accommodate secondary service. The basis for this finding is that the pole exists, first and foremost, to attach primary lines and to meet necessary safety clearances over roadways and from buildings. The attachment of secondary lines is a convenience for secondary service. If, for example, secondary customers asked that their voltage level of service be changed from secondary voltage to primary voltage, the

size and cost of the pole would not normally change. Additionally, a utility would not be able to transmit power efficiently if it did not have the primary service level (i.e., a utility cannot have secondary service without primary service).

Q. **As a result, what do you recommend for the treatment of combination pole costs in cost allocation?**

A. As stated in the CA Distribution Study (ComEd Ex. 3.07, pages 10-11), I recommend that the entire cost of the combination pole should be allocated to the primary service level, which will result in the costs of the pole being paid by customers served at both the primary and secondary service levels.

Q. **How does CA's recommendation of associating 100% of combination poles to the primary service level change the eventual allocation of poles to rate classes/customers relative to ComEd's current methodology?**

A. ComEd currently splits combination poles with 50% allocated to the primary service level and 50% allocated to the secondary service level, which means an entire 50% of the costs of combination poles are not allocated to primary service level customers. In other words, secondary voltage customers bear the entire burden for the one-half of the combination pole costs that is directly allocated to the secondary service level, and additionally secondary voltage customers are responsible for a share of the 50% of pole costs directly allocated to the primary service level. CA's recommendation means that 100% of the costs of combination poles will be allocated to all primary and secondary service level customers based upon ComEd's "shared" allocation.

Q. **Is the recommended allocation appropriate given the Illinois Commerce Commission's directive[2] to use direct observation to assess ComEd's pole cost allocation?**

A. Yes. While CA conducted the required direct observation of the poles and other facilities, CA did not believe that the data it collected provided information that is relevant to the allocation of those combination pole costs to primary and secondary service levels. Rather than simply summarize the data collected and its relevance (or lack thereof) for cost allocation, the CA Distribution Study describes the methods I recommend for allocating combination pole costs, which was based on my industry experience and conversations with ComEd's and other electric utility engineers. (ComEd Ex. 3.07, pages 10-11). It is a logical conclusion and more appropriately reflects cost causation in ComEd's ECOSS.

III. RESPONSE TO IIEC WITNESS MR. STEPHENS AND REACT WITNESS MR. TERHUNE

Q. **Can you please summarize the key concern of Mr. Stephens?**

A. Yes. Mr. Stephens states "single-phase distribution assets exist, and function to serve, exclusively or nearly exclusively, customers who take service at secondary voltages. Hence, cost causation principles suggest that customers at higher voltages, such as transmission voltage or primary voltage generally should not be allocated single-phase primary system costs." (IIEC Ex. 1.0, 2:27-31).

Q. **Can you please summarize the key concern of Mr. Terhune?**

[2] Docket No. 10-0467, Order (May 24, 2011) at 180-181.

A. Yes. Mr. Terhune states that "under the principle that costs should be assigned to their causers, and with respect to the ELLC and MV Over 10 MW customer classes, one- and two-phase and 4 kV primary voltage distribution facilities should not be included in the revenue requirement of an ELLC customer who requires three-phase service for a load in excess of 10 MW. Further, in the case of customer receiving non-standard service, which may include a de minimis utilization of 4 kV, single- or two-phase primary service connections, the allocation of costs to their customer class should be in proportion to the de minimis use." (REACT Ex. 2.0, 40:933-941).

Q. **As found through the CA Distribution Study (ComEd Ex. 3.07, pages 13-20), how are costs separated into levels of service?**

A. Costs are separated into secondary voltage, primary voltage at 4kV or less, and primary voltage above 4kV. However these levels of service are not separated into single phase and three phase costs.

Q. **What are Messrs. Stephens and Terhune proposing?**

A. They propose to further define level of service according to single-phase, dual-phase, and three-phase service.

Q. **Do you have an opinion on their recommendations?**

A. Yes. Based on my experience and the research CA conducted as part of the *Survey of Approaches to Distribution Cost Allocation By Voltage,* ("CA Cost Allocation Survey") ComEd Ex. 3.09, this approach is not commonly used in the electric industry. In addition, I believe that accepting this method of "allocation by exclusion" and "path of service" could lead to a proliferation of similar requests from every customer class,

resulting in increasingly complicated ECOSSs and more contentious regulatory proceedings, with no clear general benefit.

Q. **Why does single phase service occur at the primary service level?**

A. Primary lines originate out of substations at three-phase service. Subsequently, single-phase taps split off of these three-phase primary lines in order to serve single-phase primary service level customers and/or to serve secondary service level customers requiring single-phase service.[3] In some cases, single-phase primary taps are present simply due to the history of how the utility's primary service level construction practices evolved and may eventually be replaced with three-phase taps if changes occur in the load requirements of the customers utilizing the tap. These procedures are guided by a least-cost objective.

Q. **Did the CA Cost Allocation Survey include any questions regarding the allocation of costs by phase of service?**

A. Yes. CA asked two multi-part questions. The first question was: "Do you allocate the costs for single-phase circuits and three-phase circuits differently such that one class of customers is responsible for the costs of a major portion of such single-phase or three-phase circuits? If yes, are these single-phase circuits and related equipment allocated only to secondary voltage customers? If the secondary voltage customers are allocated the majority of the costs for single-phase circuits, are the three-phase circuits also allocated to the secondary voltage customers and in what manner?"

[3] Occasionally single-phase taps may be converted into three-service phase for delivery to a customer requiring three-phase service using a device called a phase-converter but this is usually just performed for relatively small loads.

The second question was: "For the primary voltage level of service, do you have circuits with single-phase load or just three-phase load? If you have single-phase circuits at primary, do you have: single-phase primary customers being served from these single-phase primary circuits, three-phase customers being served from these single-phase primary circuits with appropriate necessary equipment to enable three-phase service, and/or single-phase secondary customers served from these single-phase primary circuits? For COS allocation purposes do you place the costs of these single-phase primary circuits as part of your primary voltage level of service or do you place these single-phase primary circuits into your secondary voltage level of service?"

Q. **How many utilities were included in the CA Cost Allocation Survey?**

A. CA received sixteen completed surveys. The utilities were distributed across three size categories (defined by the number of customers served) and density categories (defined as the number of customers per transmission mile).

Q. **What were the results of the survey?**

A. CA's Cost Allocation Survey provided the following summary of the responses to the questions above (ComEd Ex. 3.09 at 16): "Distinction between single-phase and three-phase service is not much of a costing issue for the survey respondents… At the primary level, four respondents stated that they had three-phase service only, four stated that they had both types and three indicated that their utility didn't make the distinction. The remainder did not know the exact situation, an indicator that the distinction is not important in their case."

Q. **How would you summarize these findings as they relate to your testimony?**

A. None of the utilities CA surveyed reported engaging in the practice proposed by Messrs. Stephens and Terhune. This supports my conclusion that the allocation of primary service level costs according to phase of service is not standard practice in the electric industry for cost of service.

Q. **Are you familiar with any utility proposing such a separation?**

A. No. Mr. Stephens has offered in his testimony that Wisconsin Electric Power Company ("WEPCO") is proposing such a separation. (IIEC Ex. 1.0, 5:103-115). However, I have not examined WEPCO's methodology for relevance to ComEd.

Q. **Do you believe that primary service level costs should be allocated in cost of service according to phase of service?**

A. No, for two major reasons:

1. Allocating by phase of service requires determining the *path of service* for specific customers, which is time consuming and not commonly done in the industry. It is complicated, not always determinative, and the paths can change over time. These paths may be reflective of the standards in place when installed, yet these standards may change over time with cost efficiency allowing for older equipment to remain in place until a later date. Rather than using *path* of service, *level* of service is the typical cost of service methodology in use by utilities. Typical levels of service utilities use for cost allocation are transmission, primary, and secondary with each service level having its own respective allocator to the utility's rate classes.

2. The proposals of Messrs. Stephens and Terhune amount to allocation by exclusion. That is, they have identified a particular type of equipment that they do not believe serves their customers and they propose excluding that equipment from their cost allocation. The additional proposal by CTA/Metra witness Mr. Bachman to exclude the costs of certain distribution facilities because the geographical location of the facilities does not benefit Railroad customers is a similar allocation by exclusion proposal. However, there may be other customers who also do not use this type of equipment. There may be other types of equipment that are not used universally by all customers at that service level. Allowing this allocation exclusion may invite allocation exclusions to any customer group that can identify types of equipment that it does not use as intensively as its allocation factor would indicate. This may produce a process in which the ECOSS becomes increasingly more disaggregated and complex. This is a reason why the industry normally uses "average" rate-making with levels of service. While it is reasonable to investigate creating more differentiated levels of service, I do not recommend the use of path of service and/or allocation exclusion.

IV. CONCLUSION

Q. **Does this complete your rebuttal testimony?**

A. Yes.