

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Commonwealth Edison Company :
: **13-0387**
Revenue-neutral tariff changes :
related to rate design :

ORDER

December 18, 2013

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I. INTRODUCTION

A. Procedural History

On April 30, 2013, Commonwealth Edison Company (“ComEd”) filed with the Illinois Commerce Commission (the “Commission”), pursuant to Section 16-108.5(e) of the Public Utilities Act (the “Act”) (220 ILCS 5/16-108.5(e)), the following tariff sheets: ILL. C. C. No. 10: 6th Revised Sheet No. 34; 4th Revised Sheet No. 40; 8th Revised Sheet No. 65; 7th Revised Sheet No. 66; 5th Revised Sheet No. 67; 4th Revised Sheet No. 75; 3rd Revised Sheet No. 99; 3rd Revised Sheet No. 100; 3rd Revised Sheet No. 101; 3rd Revised Sheet No. 184; 4th Revised Sheet No. 204; 3rd Revised Sheet No. 205; 1st Revised Sheet No. 206; 3rd Revised Sheet No. 274; 3rd Revised Sheet No. 275; 3rd Revised Sheet No. 276; 2nd Revised Sheet No. 276.1; Original Sheet No. 276.2; 1st Revised Sheet No. 320; 1st Revised Sheet No. 325; 8th Revised Sheet No. 367; and 2nd Revised Sheet No. 430. The tariff filing was made for the Commission and all stakeholders to consider revenue-neutral tariff changes related to cost allocation and rate design. The tariff filing was accompanied by direct testimony and attached exhibits.

Notice of the tariff filing was posted in ComEd’s business offices and published in a secular newspaper of general circulation in ComEd’s service area, as evidenced by publisher’s certificates, in accordance with the provisions of 83 Ill. Admin. Code Part 255.

The Commission suspended the tariff filing on June 5, 2013. On September 18, 2013, the Commission issued a Resuspension Order, suspending the tariff sheets to and including December 26, 2013.

In response to the Company’s filing, the following parties filed Petitions to Intervene, which were granted by the Administrative Law Judges (“ALJs”): Kroger Co. (“Kroger”); the Commercial Group (“CG”); the Chicago Transit Authority (“CTA”); the Northeast Illinois Regional Commuter Railroad Corporation and the Commuter Rail Division of the Regional Transportation Authority, collectively known as Metra (“Metra”) (collectively, CTA and Metra are “CTA/Metra”); the Coalition to Request Equitable

Allocation of Costs Together ("REACT"); Citizens Utility Board ("CUB"); Abbott Laboratories, Inc., Thermal Chicago Corporation, Caterpillar Inc., Chrysler Corporation, Sterling Steel Company, Enbridge Energy, LP, Ford Motor Company, and ExxonMobil Power & Gas Services, Inc. (collectively styled as the "Illinois Industrial Energy Consumers" or "IIEC"); Nucor Steel Kankakee, Inc. ("Nucor"); The Building Owners and Managers Association of Chicago ("BOMA"); and the United States Department of Energy ("DOE") (collectively, all of the foregoing parties are the "Intervenors"). The City of Chicago ("City") and the Attorney General of the State of Illinois ("AG") filed appearances in this matter.

Pursuant to notice duly given in accordance with the law and the rules and regulations of the Commission, a status hearing was held in this matter before duly authorized ALJs of the Commission on June 20, 2013. Ten days prior, notice of the status hearing had been provided by the Chief Clerk of the Commission to municipalities in ComEd's service area, in accordance with the requirements of Section 10-108 of the Act, 220 ILCS 5/10-108. A subsequent status hearing was held before the ALJs at the Commission's Chicago offices on September 23, 2013.

Evidentiary hearings were held on September 24-25, 2013. At the evidentiary hearings, ComEd, the Staff of the Commission ("Staff"), AG, City and CUB (collectively, "City/CUB"), CG, CTA, Metra, IIEC, Kroger, and REACT entered appearances and presented testimony, either by live witness(es) or through affidavit(s). Certain additional materials were received into the record thereafter by order of the ALJs. On September 25, 2013, the ALJs marked the record "Heard and Taken."

The following witnesses testified on behalf of ComEd: Christine M. Brinkman, C.P.A., Director, Rates & Revenue Policy; Charles S. Tenorio, Manager, Regulatory Strategies and Solutions; Bradley L. Bjerning, Principal Regulatory Specialist; Michael F. Born, P.E., Manager, Distribution Capacity Planning; Ronald E. Donovan, P.E., Vice President, Customer Channels; Philip Q. Hanser, Principal, The Brattle Group; and Michael T. O'Sheasy, Vice President, Christensen Associates Energy Consulting, LLC.

The following witnesses testified on behalf of Staff: William R. Johnson, Rates Department, Financial Analysis Division; Alicia Allen, Rate Analyst, Rates Department, Financial Analysis Division; and Greg Rockrohr, P.E. (California), Senior Electrical Engineer, Energy Engineering Program, Safety and Reliability Division.

The AG presented the testimony of Scott J. Rubin.

City/CUB presented the testimony of Edward C. Bodmer.

CG presented the testimony of Steve W. Chriss.

CTA presented the testimony of James P. Harper.

CTA/Metra presented the testimony of James G. Bachman.

IIEC presented the testimony of Robert R. Stevens and Amanda M. Alderson.

Kroger presented the testimony of Neal Townsend.

Metra presented the testimony of Lynnette Ciavarella.

REACT presented the testimony of Bradley O. Fults, Harry L. Terhune, P.E. and Jeffrey Merola.

Initial Briefs were filed on October 11, 2013, by ComEd, Staff, AG, City/CUB, CG, CTA, IIEC, Kroger, and REACT. Reply Briefs were filed on October 18, 2013, by ComEd, Staff, AG, City/CUB, IIEC, REACT, CTA, and Metra. Draft Proposed Orders or Position Statements were filed on October 23, 2013.

The ALJs Proposed Order was served on November 8, 2013. Briefs on Exceptions were filed November 18, 2013. Replies to Exceptions were filed November 25, 2013.

B. Legal Standards

The scope of this proceeding is limited to considering revenue neutral tariff changes to the allocation of delivery service costs among ComEd's rate classes and possible changes to the rate design formula of Rate DSPP - Delivery Service Pricing and Performance ("Rate DSPP") in accordance with provisions of subsection 16-108.5(e) of the Act.

Section 16-108.5(e) of the Act provides:

Nothing in subsections (c) or (d) of this Section shall prohibit the Commission from investigating, or a participating utility from filing, revenue-neutral tariff changes related to rate design of a performance-based formula rate that has been placed into effect for the utility. Following approval of a participating utility's performance-based formula rate tariff pursuant to subsection (c) of this Section, the utility shall make a filing with the Commission within one year after the effective date of the performance-based formula rate tariff that proposes changes to the tariff to incorporate the findings of any final rate design orders of the Commission applicable to the participating utility and entered subsequent to the Commission's approval of the tariff. The Commission shall, after notice and hearing, enter its order approving, or approving with modification, the proposed changes to the performance-based formula rate tariff within 240 days after the utility's filing. Following such approval, the utility shall make a filing with the Commission during each subsequent

3-year period that either proposes revenue-neutral tariff changes or re-files the existing tariffs without change, which shall present the Commission with an opportunity to suspend the tariffs and consider revenue-neutral tariff changes related to rate design.

C. Background Information Concerning Railroad Class

Metra

Metra is a local public entity and unit of local government that provides commuter rail service over 500 track miles that serve approximately 240 stations in the Counties of Cook, DuPage, Lake, Will, McHenry and Kane. Metra is governed by the Commuter Rail Board under the Regional Transportation Authority Act, 70 ILCS 3615. In 2011, Metra provided more than 81 million annual passenger trips. (Metra Ex. 1.0 at 3:36-37.)

Part of Metra's system consists of electric train service. Metra's electric train service district is powered by electricity delivered by ComEd and commonly known as traction power.

The electricity delivered to Metra's electric train service district is billed by ComEd pursuant to the rates established for the Railroad Delivery Service Class ("Railroad Class" or "Railroad Delivery Class"). There are only two members of the Railroad Class, Metra and the CTA. (*Id.*) Traction power is uniformly delivered to the Railroad Class at 12.5 kV.

CTA

The CTA, an Illinois municipal corporation, operates the second largest public transportation system on the North American continent. (CTA Ex. 1.0 at 2:28-30.) ComEd delivers electric power and energy to all of the CTA's facilities including bus garages, rapid transit passenger stations, repair shops, offices, and the rapid transit train system. (*Id.* at 2:40-42.)

In this docket, the CTA's intervention focuses on ComEd's delivery of traction power, that is, the power and energy used to propel the CTA's rapid transit cars. The rapid transit system has 1,200 rapid transit cars, which operate over eight routes, and serves 144 passenger stations with about 224 miles of track. The CTA trains make about 2,100 trips each day with 956 rail cars required for weekday service. (*Id.* at 2-3.)

The use of mass transit reduces the level of total energy consumption and provides environmental benefits because mass transit is much more efficient than an individual driving a car or truck. (*Id.* at 6:125-128.) The CTA replaces the equivalent of about 400,000 vehicles on regional roads each weekday. A full eight-car rapid transit train replaces more than 600 cars. Switching from driving to public transit can reduce an individual's carbon emissions by about 4,800 pounds per year. (*Id.* at 6:132-135.)

The services provided by the CTA eliminate 6.7 million metric tons of carbon per year in the Chicago region.

The Commission has repeatedly recognized the benefits that the Railroad Class provides to ComEd's service area and affirmed the public policy that, in setting the rates for the Railroad Class, these societal benefits must be considered.

II. COST OF SERVICE AND INTERCLASS ALLOCATION ISSUES

A. Overview

ComEd's Position

In its direct filing, ComEd presented eight embedded costs of service studies ("ECOSSs"): the Rate Design Investigation ("RDI") ECOSS, the ECOSS submitted in Docket No. 13-0318, the 2013 Formula Rate Update proceeding ("2013 FRU"), and six additional illustrative ECOSSs. The RDI ECOSS is consistent with the ECOSS submitted to support the compliance filing made in accordance with the Commission's Order in Docket No. 10-0467, ComEd's last general rate case ("the 2010 Rate Case"), but has been updated to (1) reflect ComEd's proposed updated standard meter service allowances and meter rentals; (2) remove references to two out of date cost categories; (3) incorporate updated information pertaining to distribution losses; and (4) use the revenue requirement originally presented in the 2013 FRU Case.

Staff and certain Intervenors stated their positions concerning the submitted ECOSSs, and ComEd either verified the accuracy of the ECOSSs or prepared additional ECOSSs to address various proposals.

ComEd states that it has not taken a position regarding any ECOSS but has expressed concerns regarding certain proposals seeking to further segment the current Commission-approved ECOSS, as discussed further in Section II.C. of this Draft Order. ComEd adds that ultimately, the Commission should approve a cost of service study that is based on the Commission's long-standing commitment to cost causation principles. ComEd believes that this will ensure that costs are allocated to customer classes fairly, with appropriate consideration of the impacts, practicality, and fairness of the methodologies and approaches proposed.

Staff's Position

ComEd provided a RDI ECOSS, a 2013 FRU ECOSS and six illustrative ECOSSs. (Staff Ex. 1.0 at 5:110-112.) Some of the ECOSS were provided in response to Commission directives from prior Orders. The Company took no position with respect to the relative merits of the methodologies applied in any of the ECOSS. (ComEd Ex. 3.0 at 38:623-625.) Various parties provided additional proposed ECOSSs for Commission consideration and some parties simply provided proposed adjustments

to be incorporated into a final Commission-approved ECOSS. Each of the various proposals are discussed in the remainder of this brief.

Staff recommends that the Commission adopt the ECOSS that is the same as the RDI ECOSS except that it employs all the findings and recommendations presented in the CA Distribution Study other than those pertaining to the allocation of costs associated with 4 kV facilities and also includes the indirect uncollectible cost allocation factors in accordance with the Indirect Uncollectible Cost Study. Staff's proposed ECOSS can be found in Staff Ex. 4.0, Attachment 4.01.

REACT's Position

REACT argues that although ComEd continues to rely on a faulty ECOSS, and Staff largely accepts ComEd's approach without offering any independent analysis, REACT has provided new, updated, and credible analysis that directly conforms to the Commission's prior directions and provides a persuasive evidentiary basis to order modifications to the ComEd ECOSS and associated rate design in this proceeding.

REACT's Initial Brief sets out the relevant history of Commission decisions in ComEd's last two rate cases (Docket Nos. 07-0566 and 10-0467) as well as a special investigation proceeding that the Commission initiated to further examine, *inter alia*, rate design issues (Docket No. 08-0532). (See REACT Initial Brief ("IB") at 12-17.) According to REACT, the case history shows not only the Commission's relatively high level of skepticism about the accuracy of ComEd's historic ECOSS (noting that it failed to allocate costs to cost causers, and observing that was "difficult to imagine" ComEd's allocation of customer care costs was accurate), but also the Commission's straightforward direction for further study of cost allocation issues, segmentation of costs and refinement of the ECOSS. (See Docket No. 07-0566, Order at 213 (Sept. 9, 2008); see *also* Docket No. 08-0532, Order at 38-39, 67 (Apr. 21, 2010); Docket No. 10-0467, Order at 176, 264 (May 24, 2011).)

REACT states that notwithstanding the Commission's prior directive for "further refinement" of the ECOSS, ComEd has admitted that it has made zero further refinements to its ECOSS since the 2010 ComEd Rate Case. (See Tr. at 246:7-11; REACT Cross Ex. 10.) In contrast, REACT -- through the analysis of its expert witnesses Harry Terhune and Jeffrey Merola -- actually provided further refinement to the ECOSS. (See *generally* REACT Exs. 2.0, 3.0, 5.0, 6.0.) Cross-examination confirmed that no party takes issue with the substantive analysis provided by Mr. Terhune in this proceeding. (See *e.g.*, Tr. at 126:20-127:12 (Staff witness Mr. Johnson); 250:24-251:15, 253:9-14 (ComEd witness Mr. Bjerning); 328:11-21 (ComEd witness Mr. O'Sheasy); 292:8-293:11; (Kroger Co. witness Mr. Townsend); 305:14-306:7 (Commercial Group witness Mr. Chriss).) No party cross-examined Mr. Merola.

IIEC's Position

IIEC argues that ComEd's ECOSS studies could be improved by further refinement of the segregation of primary and secondary voltage costs. Specifically, IIEC argues that since single-phase distribution assets exist and function exclusively or nearly exclusively to serve customers taking service at secondary voltages, customers served at transmission voltage or primary voltage should not be allocated portions of those costs. IIEC has recommended that the Commission initiate further investigation of the segregation of primary and secondary costs, and in the meantime, take a partial step towards the reallocation of those costs by assigning 10% to 20% of those costs to secondary customers.

IIEC also opposes alteration of the current allocation of combination poles (poles serving both primary and secondary voltage lines). IIEC notes that currently 50% of combination pole costs are allocated to primary and 50% to secondary. IIEC opposes ComEd's proposal that the poles be allocated 100% to primary or "shared" costs.

Finally, IIEC supports the use of the RDI ECOSS but does not object to the Commission's use of the Illustrative ECOSSs presented in ComEd Exhibits 3.12, 3.16, 3.17 and 3.18. IIEC finds the RDI ECOSS to be the most consistent with the study last approved by the Commission.

B. Potentially Uncontested Issues

1. Indirect Uncollectible Costs

ComEd's Position

In the 2010 Rate Case Order, the Commission directed ComEd to "include the segregated indirect uncollectible costs in a cost of service study" in ComEd's next rate case. *Commonwealth Edison Co.*, Docket No. 10-0467, Order at 20 (May 24, 2011). ComEd states that it met the Commission's directive through the preparation of the Indirect Uncollectible Cost Study. (ComEd Ex. 3.08.) The results of the study are reflected in the ECOSS identified as ComEd Ex. 3.16. ComEd notes that both Staff and the AG recommend that the Commission-approved ECOSS in this proceeding should include the results of this study and that no other party commented on this study.

Staff's Position

The Commission stated that in the next rate case or rate design case "ComEd shall include the segregated indirect uncollectible costs in a cost of service study in the manner that Mr. Bodmer (City of Chicago witness) set forth in his rebuttal testimony." Docket No. 10-0467, Order at 204. ComEd provided an indirect uncollectible cost study (ComEd Ex. 3.08) that reviewed the customer operations costs recorded in the Uniform System of Account ("USOA") numbers 901 – Supervision, Account 902 – Meter Reading Expenses, and Account 903 – Customer Records and Collection Expenses.

The costs from the USOA were identified by project and department and separated by payroll and non payroll portions for ECOSS purposes. ComEd classified the costs into categories for determination of indirect costs. The Company then incorporated the information into an illustrative ECOSS. (*Id.* at 2-3.)

AG witness Scott J. Rubin proposed that the Indirect Uncollectible Cost Study be incorporated into the final Commission-approved ECOSS. (AG Ex. 1.0, 3:51-55.) Staff witness William R. Johnson agreed that the Indirect Uncollectible Cost Study should be incorporated into the final Commission-approved ECOSS. (Staff Ex. 4.0 at 12:273-275.) Mr. Johnson stated that it is clear from the 2010 Rate Order that the Commission believes there are costs associated with uncollectible accounts. Staff stated that the Company has provided an indirect uncollectible cost study in this proceeding, and its results should be incorporated into the final Commission approved ECOSS. (*Id.* at 13:279-308.)

City/Cub witness Edward C. Bodmer stated that ComEd correctly classified certain costs as indirect uncollectible costs. (City/CUB Ex. 1.0 at 12:195-199.)

Commission Analysis and Conclusion

Pursuant to the Commission's decision in the 2010 Rate Case Order, Docket 10-0467, ComEd included in the instant proceeding an Indirect Uncollectible Cost Study. (ComEd Ex. 3.08.) The AG and Staff recommend that the Commission approved ECOSS in this proceeding incorporate the results of the Indirect Uncollectible Cost Study. The Commission finds that the ECOSS should incorporate the results of the Indirect Uncollectible Cost Study.

C. Potentially Contested Issues

1. Cost Allocation of Primary/Secondary Distribution System

a. Studies and Analysis Performed Regarding Changes to Cost Allocations to Primary Service

(i) Extra Large Load and High Voltage Over 10 MW

ComEd's Position

Subject to ComEd's concerns expressed in Section II.C.1.b. herein regarding the related REACT study, ComEd does not take a position with respect to REACT's proposal that the allocation in the ECOSS in the Shared Distribution Lines sub-function to the Extra Large Load ("ELL") Delivery Class and customers in the High Voltage Delivery Class with loads over 10 megawatts ("HV Over 10 MW") be reduced by one-third, or \$9,261,212. ComEd notes that REACT did not indicate to which other customers those costs should be reallocated.

Staff's Position

The Commission directed ComEd to perform an investigation of the ELL customer classes. Included in that study should be an assessment as to whether these customers use 4 kV service, and if so, to what extent. (Docket No. 10-0467, Order at 191.) ComEd utilized a consulting firm, Christensen Associates Energy Consulting ("CA Energy Consulting") along with SAIC (formerly Patrick Energy Services Inc.) and PEI (Patrick Engineering Inc.) to assist ComEd in addressing some of the Commission's directives, including the cost allocation to primary service (*i.e.*, 4 kV service). CA Energy Consulting and SAIC together are referred to as "the project team." (ComEd Ex. 3.07, at 1.) To meet the directive, ComEd provided an illustrative ECOSS that removed the 4kV service to the Railroad Class and the ELL classes which includes the ELL and High Voltage ("HV") over 10 megawatt classes (ComEd Ex. 3.12), but did not provide a separate ECOSS for each class individually. Therefore, according to Staff, if the Commission were to decide to eliminate the 4 kV costs for the Railroad class only, there is not a proposed ECOSS available that identifies those results. Likewise, Staff states that if the Commission were to decide to eliminate the 4 kV costs for the ELL and HV classes only, there is not a proposed ECOSS available that identifies those results. Staff notes that the Company accomplished the goal of removing costs associated with 4 kV by separating the "shared distribution substations" and "shared distribution lines" cost allocation categories in the ECOSS into "at or below 4 kV" and "over 4 kV" cost allocation categories.

According to Staff, REACT witness Harry L. Terhune did not specifically propose that any ECOSS be approved by the Commission. Mr. Terhune argued that with regard to the ELL class and the HV over 10 megawatt class there are certain groups of facilities that the ELL class and HV Over 10 MW customers would either never use or use to a *de minimis* level as part of receiving service from primary voltage distribution lines. (REACT Ex. 2.0 at 40:931-941.) He argued that with respect to the ELL and HV 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 ELL class customer who requires standard three phase service for a load in excess of 10 MW. (*Id.* at 40:934-938.) Further, in the case of customers 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 this *de minimis* use. (REACT Ex. 2.0 at 40:931-941.) In essence, Staff asserts, REACT is proposing that the ELL and HV classes not be allocated costs associated with facilities that are not used to provide service to those customers. (*Id.* at 8:169-172.)

Staff witness Mr. Johnson explains the repercussions of selectively eliminating some costs for one class. Mr. Johnson explains that the distribution system is a large interconnected system that serves all customers. (Staff Ex. 4.0 at 16-17:385-387.) Accordingly, Mr. Johnson argues it is not feasible to take a system that serves approximately 3.8 million residential, commercial, and industrial customers geographically scattered throughout a vast area of approximately 11,400 square miles

and identify the exact components of that system that serves each customer and allocate those costs precisely such that only cost causers shoulder all their respective costs. (*Id.* at 16-17:387-398.) Mr. Johnson recommends that the Commission exercise caution when considering a request, such as REACT's for certain segments of the distribution system to be excluded from the revenue requirement for one class without applying the same approach consistently to all other classes. (*Id.* at 18:423-426.) Otherwise, Mr. Johnson states the result may be the reallocation of costs between classes that is not equitable because each class' full responsibility for costs associated with the distribution system have not been precisely or accurately taken into account in a consistent manner. Accordingly, Staff recommends the Commission reject REACT's proposals regarding the allocation of the primary/secondary distribution system. (*Id.* at 18:426-431.)

REACT's Position

REACT asserts that no party questions REACT witness Mr. Terhune's expertise regarding the ComEd delivery system. REACT points out that Mr. Terhune – an electrical engineer who worked at ComEd for over 30 years – has established himself through his analyses in both this proceeding and the 2010 ComEd Rate Case as a highly knowledgeable expert regarding ComEd's distribution system. (See REACT Ex. 2.0 at 2:16-18:432; Tr. at 371:9-379:9; see *also* REACT Exs. 2.3-2.6.) According to REACT, Mr. Terhune's analysis includes:

- A highly detailed explanation of ComEd's electric delivery system, including a description of the key elements of the physical delivery chain that transports electricity from generators and external markets to end-use customers in ComEd's system. (REACT Ex. 2.0 at 9:179-18:432.)
- A discussion of the relationship between the delivery system elements and ComEd's customer classes. (*Id.*)
- An explanation of the distinctions between "standard" and "non-standard" service, including cost implications relating to same. (*Id.* at 10:243-18-432.)
- A description of the three main categories of additional new quantitative data (and sub-sets under each category) that had become available through discovery in this proceeding regarding the ELL and HV Over 10 MW classes. (*Id.* at 18:436-20:473.) The categories include: (1) new detail of the facilities that are included and excluded in ComEd's Shared Distribution Lines costs; (2) additional detail regarding the usage of specific facilities by customers in the ELL and HV Over 10 MW classes; and (3) details regarding the costs of single, two, and three phase lines. (*Id.* at 18:445-20:473.)

- A conclusion that, “[T]he new data confirm that the ELL and HV Over 10 MW customer classes receiving Standard Service, or receiving non-Standard Service via Rider NS, either do not use certain types of facilities, or only use them to a *de minimis* extent, and thus should either not be charged for those facilities or should be charged only in proportion to that *de minimis* use of such facilities compared to the use of those types of facilities by other customer classes.” (*Id.* at 20:476-81.)
- A detailed description of the impact of the new information that led to that conclusion, including a careful and comprehensive discussion of his analysis, tying back the new information to the detailed description of the ComEd distribution system and specific facilities previously identified, with a focus on ComEd's highly inaccurate allocation of costs for "Shared Distribution Lines." (*Id.* at 20:483-33:781.)
- A recommendation based on the analysis that the Commission order a revised allocation of a portion of cost responsibility (*i.e.*, 36%) for Shared Distribution Lines currently borne by the ELL and HV Over 10 MW classes. (*Id.* at 38:900-39:911.)

REACT asserts that no party has provided any substantive criticism of Mr. Terhune's analysis or offered an alternative analysis. Nor, according to REACT, does any party suggest that Mr. Terhune's analysis is inconsistent with the Commission's prior direction for "further segmentation of costs" and "refinement" of the ECOSS. (Docket No. 10-0467, Order at 176, 264.)

REACT notes that no party contests ComEd's admission that the result of Mr. Terhune's proposed reallocation adjustment would be a cost shift in the range of \$9 million, which in the context of ComEd's approximately \$2.3 billion overall revenue requirement is less than a .5% modification. (Tr. at 254:12-255:3 (ComEd witness Mr. Bjerning); REACT Ex. 5.0 at 12:250-58.) Nor, according to REACT, does any party contest ComEd's rate design witness who confirmed that the impact of such an allocation modification on the average residential customer would amount to an annual rate increase of no more than \$2.58. (Tr. at 429:10-431:13 (ComEd witness Mr. Tenorio).)

As a final point, REACT notes that no party contests that the small impact that ComEd's other customers would experience as a result of proper cost allocation stands in stark contrast to the impact that the ELL and HV Over 10 MW class customers would experience under continued application of ComEd's flawed ECOSS. REACT's evidence showed that ComEd's largest customers have faced increases of up to many millions of dollars since 2007 under the flawed ECOSS that ComEd continues to advance. (Tr. at 419:21-429:4 (ComEd witness Mr. Tenorio).)

In sum, according to REACT, Mr. Terhune's detailed analysis -- a highly credible refinement of the ComEd ECOSS -- stands as unrebutted evidence in this proceeding for an immediate adjustment to ComEd's ECOSS.

The Commercial Group's Position

CG argues that regardless of the ECOSS adopted by the Commission in this proceeding, the Commission should incorporate the methodology employed in IIEC Ex. 2.1 for assignment of 10 percent of Shared Distribution Lines cost to the Secondary Distribution Lines function.

Witness Terhune testifies that over one-third of the costs allocated under the "Shared Distribution Lines" function represent costs of single-phase and two-phase facilities that have little usefulness in providing service to large load ratepayers. REACT Ex. 2.0:771-776. He recommends reducing by one-third this allocation to the ELL and HV Over 10 MW classes. (*Id.* at 777-781.) Mr. Stevens for IIEC likewise estimates that approximately 25 percent of ComEd's overhead primary costs and 33 percent of ComEd's underground primary costs are related to single-phase facilities and should be re-allocated. (IIEC Ex. 1.0:206-210.)

Mr. Terhune states the difficulty came in determining what to do about the over-allocation of Shared Distribution Lines cost to the larger load customers. Because of REACT's narrow focus on rate classes with 10MW and higher demand, Mr. Terhune suggests that one-third of the allocation of Shared Distribution Lines cost presently allocated to the ELL and HV Over 10 MW classes be "spread over all classes." (REACT Ex. 5.0: 255-258.) However, according to the Commercial Group, this would cause customers in the Large and Very Large Load ("VLL") classes to receive an increased allocation of Shared Distribution Lines cost even though under Mr. Terhune's own analysis these classes should receive a lower allocation of Shared Distribution Lines cost. (Mr. Terhune testified that single-phase or two-phase lines are not capable of serving the standard service requirements of Large or VLL customers. (Tr. at 373:21-374:3, 374:24-375:7.) Plainly, the Commercial Group argues, this result would be both unfair and unreasonable. Further, the Commercial Group asserts that these classes already are paying more than ComEd's ECOSS indicates they should and would continue to do so under rate designs that are not 100 percent ECOSS.

The Commercial Group argues that the IIEC provides a workable solution that avoided this unfairness. Although Mr. Stevens later testified that assigning 20 percent of primary voltage costs to secondary customers would still be a conservative approach toward resolving the over-allocation of Shared Distribution Lines cost to higher load classes, IIEC witness Alderson performed an even more conservation adjustment of only 10 percent of Shared Distribution Lines functional costs to the Secondary Distribution Lines function. (IIEC Ex. 2.0: 21-25.) The Commercial Group states that this conservative approach would result in a fairer allocation of costs to all larger load classes, from Medium through HV, than simply addressing over-allocations to two classes. Further, the Commercial Group points out that ComEd examined the

methodology of IIEC 2.1, found no errors, and replicated the study as ComEd Ex. 7.02. (ComEd Ex. 7.0 at 15:241-243.) Unless and until a more complete study can be performed, the Commercial Group recommends the incorporation of the IIEC Ex. 2.1 methodology into the final ECOSS adopted in this proceeding.

Commission Analysis and Conclusion

REACT proposes that the Commission adopt adjustments to the allocation of the Shared Distribution Lines costs to the ELL and HV Over 10 MW customer classes. REACT argues that data confirms that the ELL and HV Over 10 MW customer classes either do not use certain types of facilities, or only use them to a *de minimis* degree. As such, according to REACT, these customer classes should either not be charged for those facilities, or only be charged for the *de minimis* proportion of such use of those facilities. Accordingly, REACT recommends that the Commission reduce approximately 36%, roughly \$9 million, of the costs for Shared Distribution Lines currently borne by the ELL and HV Over 10 MW customer classes.

ComEd does not take any position regarding REACT's recommendation; however, ComEd raises concerns regarding the basic fairness of allowing parties to identify equipment that either does not serve them or serves them in some *de minimis* manner. ComEd argues that the ECOSS cannot accommodate every such instance without becoming increasingly disaggregated and complex.

Staff agrees with ComEd's concerns, and argues that the Commission should reject REACT's proposal. Staff argues that the distribution system is a large interconnected system, and as such, if costs associated with certain components are excluded from allocations to certain customers, then the Commission must also consider whether all other component costs were taken into consideration. Staff argues it is not feasible to have a distribution system where each component is identified so that each customer only bears the costs associated with their specific service. Staff urges the Commission to be cautious when segmenting certain costs for one class without applying the same approach across the classes.

The Commercial Group argues that REACT's proposal is too narrowly focused on the ELL and HV Over 10 MW customers. The Commercial Group states that, under the REACT proposal, customers in the Large and Very Large Load classes will receive an increased allocation of Shared Distribution despite the fact that REACT's witness agrees that the larger load classes should be allocated less.

The Commission agrees that REACT's proposal is too narrowly focused on a subset of customers and leans toward what parties have termed "allocation by exclusion". The Commission applies cost causation principles to rate design issues. Nevertheless, the distribution system is large and highly complex. As Staff notes, it is not feasible to have a distribution system that maps the use of each customers' facilities so that each customer is only allocated costs for the facilities, or portions thereof, that the customer uses. Furthermore, as ComEd states, REACT does not suggest which

delivery classes should be responsible for absorbing the approximately \$9 million reduction to the ELL and HV Over 10 MW customers, nor does REACT discuss cost allocation adjustments for any *de minimis* use of facilities that operate at 4 kV or are in a single-phase or two-phase configuration. Accordingly, the Commission rejects REACT's proposal.

(ii) Single-Phase/Three-Phase (Shared) Primary Separation

ComEd's Position

Subject to ComEd's concerns expressed in Section II.C.1.b. herein regarding the related IIEC study, ComEd does not take a position with respect to IIEC's proposal that 20% of primary costs should be reassigned to single-phase, resulting in reallocating costs from the Shared Distributions Lines sub-function to the Secondary Voltage Distributions Lines sub-function in the ECOSS. ComEd notes that IIEC's proposed adjustment would shift \$54.26 million in costs away from the nonresidential sector. Of that amount, residential customers would absorb a \$52.57 million cost increase, with the balance, \$1.69 million, being allocated to lighting customers.

ComEd also states that CG recommends that the Commission approve the original IIEC proposal that would reassign 10% of primary costs. ComEd notes that this proposal would shift \$27.13 million in costs away from the nonresidential sector. Of that amount, residential customers would absorb a \$26.28 million cost increase, with the balance, \$0.85 million, allocated to lighting customers. ComEd adds that within the nonresidential sector, the Watt-Hour and Small Load delivery classes would see increases in cost allocations while the other classes would see decreases in cost allocations.

Staff's Position

Various parties are proposing cost allocation by phase of service. (IIEC Ex. 1.0 at 2:27-31; React Ex. 2.0 at 40:931-941.) For example, REACT witness Terhune argues that certain groups of facilities that the ELL and HV customers would either never use or use to a *de minimis* level should not be allocated to them. (REACT Ex. 2.0, 40:946-948.) He argues that one-phase, two-phase and 4kV primary voltage distribution facilities should not be included in the revenue requirement of an ELL class customer who requires standard three-phase service. Likewise, for customers receiving non-standard service, which may include a *de minimis* utilization of 4kV, single or two-phase primary service connections, the allocation of costs to their customer class should be in proportion to this *de minimis* use. (*Id.* at 40:931-941.) REACT proposes an adjustment whereby the ELL and HV classes Shared Distribution Line proportion would be decreased by 36%. (*Id.* at 38-39:902-911.) However, REACT does not offer a mechanism to allocate that 36% to other classes.

IIEC witness Robert R. Stephens argues that "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 at 2:27-31.) Mr. Stephens recommends that the Company segregate the primary delivery system costs into single-phase and three-phase components and then assign the single-phase costs exclusively to secondary customers. He recommends that 10% of the primary costs be allocated to single phase. (*Id.* at 11:234-238, 247-249.)

Company witness Bjerning expressed concern that a study like the one proposed by IIEC would consider only the extent to which primary voltage customers do not use single-phase primary lines and would not likewise consider the extent to which secondary voltage or single-phase customers do not use or require a three-phase primary voltage configuration. (ComEd Ex. 7.0 at 27-31:454-457.) Mr. Bjerning notes that a similar concern was addressed by Staff witness Mr. Peter Lazare who testified in Docket No. 10-0467. Mr. Lazare reviewed the same type of proposal from IIEC and concluded:

I consider it one-sided because Mr. Stowe has failed to examine the full implications of his argument. He focuses solely on the costs that he believes primary customers should avoid but ignores those additional costs that primary customers may create on the system.

* * * * *

[The proposal] should be rejected. If primary customers should not be held responsible for the costs of single phase lines, then secondary customers should not have to bear the additional expense of three phase service required to serve the end-uses of primary customers. Mr. Stowe’s argument looks at only one side of the equation and generates a result that does not reflect the total cost picture for primary and secondary customers.

(Docket No. 10-0467, Staff Ex. 26.0 at 16:355-358, 17:384-389.)

Mr. Bjerning agreed with Mr. Lazare that such proposals are one-sided. (ComEd Ex. 7.0 at 28:474-478.) Mr. Bjerning further explained that to perform an analysis that may possibly not be considered one-sided, which considers the extent to which customers in all delivery classes use or do not use single-phase primary lines versus three-phase primary lines, would be a complicated “path of service” or “allocation by exclusion” study and would most likely raise concerns with parties that represent secondary voltage and single phase customers. (*Id.*)

Additionally, ComEd witness Michael T. O’Sheasy identified two major problems with primary service level costs being allocated in cost of service according to phase of

service (*i.e.*, single, two, and three phase). (ComEd Ex. 11.0 at 10:201-203.) First, Mr. O'Sheasy explained that one should not allocate by phase of service because 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. (*Id.* at 10:204-205.) According to Mr. O'Sheasy, it is complicated, not always determinative, and the paths can change over time. Mr. O'Sheasy states that 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*, Mr. O'Sheasy argues, *level of service* is the typical cost of service methodology in use by utilities. Mr. O'Sheasy states that 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. (ComEd Ex. 11.0 at 10:204-212.)

Second, Mr. O' Sheasy explained that 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. (ComEd Ex. 11.0 at 11:213-216.) 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. (CTA/Metra Joint Ex. 1.0 at 16:361-366.) 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 by 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 ECROSS becomes increasingly more disaggregated and complex. This is a reason why the industry normally uses "average" rate-making with levels of service. Staff states that, while it is reasonable to investigate creating more differentiated levels of service, Mr. O' Sheasy recommended against using of path of service and/or allocation exclusion. (ComEd Ex. 11.0 at 11:219-227.)

Staff recommends the Commission reject REACT's and the IIEC's proposals regarding the separation of the distribution system into Single-Phase/Three-Phase (Shared) Primary Separation. (Staff Ex. 4.0 at 18:429-431.) The proposals relating to separating service by phases offered by REACT and IIEC involve taking certain percentages of the shared distribution lines and reallocating them away to other classes. REACT is proposing approximately 36% of shared distribution line costs be removed from the ELL and HV classes. (REACT Ex. 2.0 at 38-39:902-911.) Staff states that IIEC recommends either 10% or 20% (IIEC is not clear on this point) of shared distribution line costs be allocated to Secondary customers. (IIEC Ex. 1.0 at 11:247-249; IIEC Ex. 3.0 at 3:5.) If one party proposes that costs associated with certain components of the distribution system not be allocated to its customers, one must consider whether the allocation of all other system component costs have also been taken into consideration. REACT and IIEC's proposal, which shifts costs in the shared distribution lines to other classes, is a prime example. It is Staff's understanding

that all of the proposed ECOSS (For example ComEd Ex. 3.01 (RDI ECOSS) pages 11-12 of Schedule 2a) identify the “Shared Distribution Lines” category and allocate it to all classes. However, HV Distribution Substations, HV Distribution Lines, and Shared Distribution Substations are also allocated to all classes. Likewise, Secondary voltage distribution substations, Secondary voltage transformers, and Primary voltage transformers are allocated among all classes other than the Railroad class. REACT and IIEC believe they are not responsible for some of the costs associated with the “Shared Distribution Lines” category and that those costs should be removed from the pool of “Shared Distribution Lines” costs before their portions are allocated to them. As Staff argues, other categories of costs are allocated to all classes, and if REACT’s and IIEC’s arguments were applied consistently to other classes as well, there may be other costs that would not be assigned to those classes on that basis. According to Staff, REACT and the IIEC argue that, when viewed in isolation, they are not the cost causers for one portion of the distribution system; however, in doing so, they fail to consider the entire, combined system as a whole. One cannot piecemeal the components of the distribution system without creating inequities for other classes. The point is that the distribution system is an integrated system and all classes incur costs on the system that cannot be specifically assigned. If all costs could be directly assigned, allocations would not be necessary. Distribution system facilities are a cohesive system put in place to serve all customers together, not just one segment of customers.

For all of the foregoing reasons identified by Staff and the Company, the Commission should reject REACT’s and the IIEC’s proposals regarding the separation of the distribution system into Single-Phase/Three-Phase (Shared) Primary Separation.

IIEC’s Position

IIEC argued throughout this proceeding that single-phase distribution assets exist and function to serve, exclusively or nearly exclusively, customers who take service at secondary voltages. In ComEd Docket No. 10-0467, IIEC introduced the concept of further segregating primary system voltage costs between single-phase and three-phase, noting that these two systems serve largely different, but overlapping customer groups and noting the cost causation for these components differ. Specifically, IIEC found that single-phase facilities exist, and function to serve, exclusively or nearly exclusively customers who take service at secondary voltage. IIEC points out that in Docket 10-0467 only 8 of the 936 primary voltage customers were served by single-phase primary circuits. Therefore, IIEC argues that cost-causation principles suggest that customers served at higher voltages, such as transmission voltage or primary voltage, should not be allocated single-phase primary system costs.

IIEC recommends the Commission direct ComEd and all interested parties to review segregating the primary delivery system costs into single-phase and three-phase components and assigning the single-phase costs to secondary customers, who IIEC argues makes exclusive use of the same. IIEC also recommends the parties conduct an investigation or workshop to discuss the best method to estimate the single-phase primary costs to be assigned to secondary customers.

IIEC proposes, pending an investigation or workshop, the Commission take a step in the refinement of ComEd's ECOS Studies by assigning 10% to 20% of primary voltage costs to secondary customers in this case.

The Commercial Group's Position

See discussion in Section II.C.1.a.(i) *supra*.

Commission Analysis and Conclusion

IIEC argues that the costs of single-phase primary distribution circuits are incurred predominantly to serve secondary voltage customers. According to IIEC, customers served at higher voltages should not be allocated single-phase primary system costs. IIEC states a study will need to be performed to segregate primary voltage system costs between single-phase and three-phase sub-functions. In the interim, IIEC proposes to allocate 10% to 20% of the single-phase primary system costs to secondary voltage customers.

The Commission agrees with Staff and ComEd that allocation by phase of service requires determining the path of service for specific customers, which is highly complex and not usually done in the industry. Moreover, the Commission notes that even if the path of service were established for each specific customer or group of customers, the path of service would change over time. Additionally, there is the added difficulty, once the path of service is defined for specific customers, of allocating the costs accordingly. The issue of performing a study to further segregate single-phase and three-phase is addressed in Section II.D. The Commission rejects IIEC's proposal to make an interim allocation of 10% to 20% of the single-phase primary system costs to secondary voltage customers.

(iii) Cost Allocation of Combination Poles

ComEd's Position

In the 2010 Rate Case Order, the Commission directed ComEd to "work with Staff on this issue [primary/secondary] to develop a scientifically-significant representative of its direct observations..." of various distribution facilities in ComEd's system. (Docket No. 10-0467, Order at 180-181.) ComEd commissioned Christensen Associates Energy Consulting, LLC ("CA") to perform a study in response to that provision and to summarize the results of its efforts in a report, *Meeting Commonwealth Edison's Distribution Allocation Requirements from the Illinois Commerce Commission Order 10-0467*, (the "CA Distribution Study"). The CA Distribution Study is ComEd Ex. 3.07. ComEd notes that as part of CA's field review of combination poles, sizes of the poles and equipment on these poles were observed and recorded in compliance with the directive. In its report, CA recommends changes to cost allocations for (1) weather resistant wire, (2) percent of poles with secondary voltage facilities attached, and (3) 100% shared costs cost assignment for combination poles. With respect to combination

poles specifically, CA recommended that the methodology for allocating the costs of combination poles, which allocated 50% to shared costs and 50% to secondary costs in the ECOSS, should be changed to allocate 100% to shared costs and 0% to secondary costs. (ComEd Ex. 3.07 at 11-12.) Combination poles in ComEd's distribution system carry equipment that serves the secondary and primary voltage levels.

CA found that the proper allocation of combination pole costs should rest on the purpose the poles were installed to serve rather than anything it observed in its examination of the poles themselves. ComEd notes that CA's recommendation takes account of the fact that a primary voltage system is necessary to serve the secondary voltage system efficiently and was based on CA's interviews with ComEd's engineering department, as well as the experience of CA's project team. ComEd adds that under CA's recommendation, secondary customers, who are apportioned shared costs, still are responsible for an appropriate portion of the costs. Hence, ComEd agrees with Staff's recommendation that the Commission adopt CA's determination concerning combination poles.

Staff's Position

The Commission's Order in Docket No. 10-0467 noted that ComEd was previously directed in Docket No. 08-0532 to use direct observation or sampling and estimation techniques of its system to develop more accurate and transparent differentiation of primary and secondary costs in its next rate case, but that it failed to do so. Therefore, according to Staff, ComEd was directed to utilize direct observation in its next rate case. The project team found that for poles that carry both primary and secondary lines ("combination poles"), ComEd allocated 50 percent as secondary costs and 50 percent as primary or shared costs in Docket No. 10-0467. CA's recommendation is to remove the 50/50 split of combination pole costs across secondary and primary voltage services and instead allocate 100 percent of combination pole costs as shared costs. The reason for their recommendation is that a combination pole exists to accommodate primary lines first and foremost. The attachment of secondary lines is a convenience for secondary service. The utility would not be able to transmit power efficiently if it did not have the primary service level at the pole's location (*i.e.*, a utility cannot have secondary service without primary service). (ComEd Ex. 3.07 at 11.)

Staff witness William R. Johnson explained that it is clear from the 2010 Rate Order that the Commission wants to consider a more accurate and transparent differentiation of primary and secondary costs. The Commission stated:

It is not disputed that the Commission ordered ComEd to use direct observation or sampling and estimation techniques of its system to develop more accurate and transparent differentiation of primary and secondary costs.

(Docket No. 10-0467, Order at 180.)

Additionally, Staff's position in the Order, which is the impetus for the Commission's directive, was stated as follows:

The Commission's concern was that ComEd's engineering estimates were "very inaccurate," making it incumbent upon ComEd to use all available tools to improve the accuracy of its analysis. Staff opines that clearly, direct observation, which would entail physical inspections to confirm engineering judgments" is one such tool that should not be dismissed out of hand.

(Docket No. 10-0467, Order at 177.)

Mr. Johnson explained that physical inspections were to be used to confirm whether the engineering judgment, which was based upon a review of maps, was a good representation of primary and secondary costs. (Staff Ex. 4.0 at 6:132-134.) The project team found through direct observation that the combination poles exist to accommodate primary lines first and foremost. (ComEd Ex. 3.07 at 11 (emphasis added).) The attachment of secondary lines is a convenience for secondary service. The utility would not be able to transmit power efficiently if it did not have the primary service level at the pole's location (*i.e.*, a utility cannot have secondary service without primary service). (*Id.*) In addition, the project team found that the height and class of pole is dictated by the primary service requirements, and not the secondary service requirements. The pole height is generally determined by clearances for primary voltage wire and space requirements for cable TV/telephone facilities. (*Id.*)

Staff concluded that, for the reasons identified above, the allocation of combination poles to shared costs is a better representation of how primary and secondary lines are utilized. Additionally, allocating one hundred percent of combination poles as shared costs presents a more accurate and transparent differentiation of primary and secondary costs than does the 50/50 split. Therefore, Staff recommends the Commission accept CA Energy Consulting's recommendation to remove the 50/50 split of combination pole costs across secondary and primary voltage services and instead allocate 100 percent of combination pole costs as shared costs. (Staff Ex. 4.0 at 7:150-153.)

CTA/Metra witness James G. Bachman believes that ComEd's consultant inappropriately substituted its judgment for ComEd's engineers' judgment with relation to direct observation in the CA Distribution Study. (CTA/Metra Joint Ex. 1.0 at 11:242-273.) Mr. Bachman does not agree with the project team's recommendation to allocate 100% of combination poles as shared costs. He believes there was no reason or study objective to replace ComEd engineering judgment with consulting engineering judgment. (*Id.* at 11-12:264-273.)

IIEC witness Robert R. Stephens also objects to the Company's proposal to allocate 100% of combination poles as shared costs. Mr. Stephens believes that the secondary system "benefits" from the existence of the poles and, absent the primary facilities, the secondary system would account for significant, but yet unspecified, costs as well. Until and unless a more specific apportionment of this economy of scale and scope can be accomplished, Mr. Stephens argues the prior allocation of combination poles on a 50/50 basis between the primary and secondary voltages is more reasonable. He further asserts assigning 100% of the cost to one service voltage or the other is unreasonable and represents a fundamental flaw in the reasoning contained in the study. (IIEC Ex. 3.0 at 12-13.)

ComEd witness O'Sheasy disagreed with other parties' rejection of the allocation of combination poles to 100% shared costs. He opined that under the 50/50 split: (1) 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 (2) secondary voltage customers are responsible for a share of the 50% of pole costs directly allocated to the primary service level. He stated CA's recommendation means that 100% of the costs of combination poles will be allocated between all primary and secondary service level customers based upon ComEd's "shared" allocation. (ComEd Ex. 11.0 at 5:99-107.) Mr. O'Sheasy also stated IIEC witness Stephens was incorrect in claiming that the secondary system "benefits" from the existence of the poles and, absent the primary facilities, the secondary system would account for significant, but yet unspecified, costs as well. A primary voltage system is necessary to serve a secondary voltage system efficiently. Therefore, he argues it is not reasonable to contemplate a secondary voltage system without a primary voltage system. (ComEd Ex. 17.0 at 4:84-86.)

For all these reasons identified by Staff and the Company, Staff believes it is clear that the Commission should accept CA Energy Consulting's recommendation to remove the 50/50 split of combination pole costs across secondary and primary voltage services and instead allocate 100 percent of combination pole costs as shared costs.

Metra's Position

In the prior ComEd general delivery services rate case, which was Docket No. 10-0467, ComEd allocated the cost of poles carrying both primary voltage and secondary voltage lines fifty percent to primary costs and fifty percent to secondary costs. Metra asserts ComEd did so based on the judgment of its engineers. The 10-0467 Order accepted the argument made by Staff, and directed ComEd to use direct observation to allocate the cost of combined poles.

Metra argues that absent evidence as to the relative benefit of shared poles for primary and secondary voltage service, the 50/50 allocation proposed by ComEd engineers is the most logical. Metra states that if no pole was there, and a pole was required for primary voltage service, a pole to carry primary voltage only would have to be installed and the entire cost would be allocated primary voltage service. Conversely, Metra continues, if there was no pole and a pole was required for secondary voltage

service, a pole to carry secondary voltage would have to be installed, and the entire cost of the pole would be allocated to secondary service costs. As ComEd explained in Docket No. 10-0467, a 50/50 split of the costs for combined poles is appropriate “because a pole with both types of facilities is equally important to the delivery of the primary voltage and the secondary voltage.” (Docket No. 10-0467, Alongi Rebuttal Testimony (Corrected) at 34:774-776.)

Metra asserts that primary voltage customers do not use voltage at secondary levels, and therefore should not pay costs associated with service facilities delivering voltage at secondary levels. According to Metra, those costs should be paid by secondary voltage customers, who are the only ones who use or benefit from secondary voltage facilities. In contrast, Metra argues, both primary and secondary voltage customers benefit from facilities carrying voltage at primary levels, and those costs are shared.

Metra concludes that the costs of combined poles should be allocated on a 50/50 split basis as ComEd recommended and did in the last general delivery services rate case.

CTA’s Position

The CTA argues that the Commission should reject ComEd’s proposed shifting to primary service 100 per cent of the costs for combined poles. Instead, CTA asserts, the Commission should maintain the current 50/50 split between primary and secondary service.

CTA explains that, as part of the cost allocation distribution study, ComEd faced the question of how to allocate combined poles, which are poles that carry both primary and secondary equipment. In Docket No. 10-0467, ComEd allocated the cost of the poles 50/50, that is, 50 percent of the cost to primary and 50 percent of the cost to secondary. According to CTA, ComEd based the allocation in Docket No. 10-0467 on its engineering judgment. In Docket No. 10-0467, ComEd was directed in its next rate design case to use direct observation to allocate the costs for the combined poles.

For this case, ComEd hired CA to review ComEd’s previous distribution study. CTA argues that, rather than following the Commission’s directive to use direct observation to allocate the costs for primary and secondary equipment on the poles, CA used its judgment in place of use ComEd’s engineering judgment to allocate the cost for combined poles. CTA states that CA allocated the costs for the combined poles almost 100 percent to primary service with a relatively small allocation to secondary service. Christensen used its judgment even though CA observed in its report that “it appears that ComEd was reasonably accurate in estimating cost shares.” (CA Report, ComEd Ex. 3.07 at 12.) In other words, CTA avers, CA failed to use direct observation and simply substituted its own judgment for ComEd’s engineering judgment, a judgment that CA found was “reasonably accurate.” By doing so, CTA argues, CA’s treatment of secondary service on the combined poles ignores the reality that the equipment for

secondary service must be attached to some pole in order to provide service to the secondary level customer. CTA concludes that this substitution is not appropriate, is contrary to the Commission's directive, and should be rejected.

According to CTA, Staff witness Mr. Johnson adopted ComEd's recommendation because he erroneously assumed that the 100 percent allocation recommendation was based on direct observation as required by the Commission. CTA asserts that the correct 50/50 allocation is available in ComEd Ex. 3.07 Table 2.3 at pages 12-13. CTA argues that a 50/50 allocation is appropriate and should be used in assigning the cost of combined poles to primary and secondary service. CTA concludes that ComEd's request to assign 100 percent of the allocation to primary service should be rejected.

IIEC's Position

IIEC argues that the Commission should reject any change in the method of allocation of combination poles used to carry primary and secondary voltage lines and retain the current 50/50 allocation method. (IIEC IB at 6-10; IIEC RB at 10-14.)

IIEC objects to the proposed alteration of the current allocation of combination poles. IIEC notes that combination poles are power poles on the ComEd system that carry both primary voltage and secondary voltage. IIEC points out that ComEd has historically split the cost of these poles 50%/50% between primary and secondary costs ("50/50 Allocation") on the grounds that a pole with both secondary and primary facilities was equally important to delivery of primary voltage and secondary voltage service. IIEC believes this to be a reasonable approach.

In response to ComEd's consultant's recommendation, IIEC states that allocating 100% of the costs to primary service has the net effect of reducing the cost to secondary service. IIEC notes that ComEd has significant investment in combination poles that would be affected by the change in the assignment method. IIEC originally asserted that approximately \$252 million in plant cost is affected by the change in allocation of combination poles. IIEC points out that in its reply brief ComEd argues the actual plant cost value affected by the changed allocation is \$151 million.

IIEC objects to the substitution of judgment of the consulting firm hired to analyze the cost allocation of combination of poles for the judgment of ComEd engineers on the appropriate allocation of combination pole costs. IIEC asserts that it makes little sense to disregard their judgment in favor of that of an outside consultant who is not familiar with how ComEd engineered the system.

IIEC asserts that the CA Distribution Study is flawed. IIEC notes that the Study opines that combination poles exist to accommodate primary lines first and foremost in direct contradiction of ComEd's own engineering conclusion that the poles with primary and secondary facilities were equally important to the provision of both primary and secondary voltage service. Therefore, according to IIEC, a 50/50 Allocation is appropriate.

IIEC asserts the allocation proposed in the CA Distribution Study (100% to primary service) also ignores the fact that in the absence of combination poles it would be necessary to provide poles for those secondary facilities. IIEC notes that ComEd witness O'Sheasy acknowledged on cross examination that in the case of a secondary circuit without any primary poles in close proximity, ComEd would be required to install poles for that secondary circuit.

IIEC argues the economies of scale are ignored by the CA Distribution Study. The secondary system does benefit from the existence of these combination poles, however, absent the presence of the primary poles and their availability for use for secondary facilities, there would be significant, and as yet unspecified, costs for the secondary system. IIEC concludes these costs must be considered in determining any change to the allocation of the cost of combination poles in this case. IIEC finds that until the costs are properly considered, the 50/50 Allocation approach to the assignment of these costs is the most reasonable approach as compared to simply assigning costs 100% to primary service.

REACT's Position

REACT supports the view that the costs associated with combination poles that carry both secondary and primary voltage facilities ought to be allocated between secondary and primary customer classes. (REACT RB at 18.) Accordingly, REACT supports the position advocated by IIEC, CTA, and Metra to retain the current 50%/50% split of combination pole costs between secondary and primary voltages. (*Id.*) REACT indicates its belief that IIEC, CTA, and Metra make a persuasive case that the 50%/50% approach, rather than the ComEd proposal to allocate 100% of the combination pole costs as shared costs, more closely aligns with cost causation principles, is supported by the preponderance of record evidence on the subject in this proceeding, and conforms with common sense. (*Id.* at 18-19; see also IIEC IB at 6-10; CTA IB at 5-6; Metra IB at 4-5.) REACT notes, in particular, that the notion that the attachment of secondary lines to a combination pole is merely "a convenience for secondary service" (Staff IB at 14) appears to be inconsistent with the reality of efficient distribution planning. (REACT RB at 19; IIEC IB at 8-9.)

Commission Analysis and Conclusion

ComEd and Staff both support adoption of the CA Distribution Study's recommendation to allocate 100% of combination poles – poles carrying both primary and secondary equipment – entirely to the primary service level. Previously, the Commission expressed concerns regarding the accuracy of using engineering estimates to differentiate between primary and secondary costs. In Docket No. 10-0467, the Commission directed ComEd to "use all available tools to improve the accuracy of its analysis." One such tool related to Staff's opinion that direct observation, which would entail physical inspections of the poles, could be used to confirm engineering judgments.

The CA Distribution Study addresses the issue of direct observation to allocate a subset of costs for which ComEd previously used engineering estimates. The CA Distribution Study found that direct observation could provide information regarding the number of combination poles, but it cannot provide information regarding cost allocation of combination poles. The CA Distribution Study further states that “the combination pole exists to accommodate primary lines first and foremost” and that “attachment of secondary lines is a convenience for secondary service.”

Metra, CTA, REACT and IIEC all oppose allocating 100% of combination poles to the primary service level, and instead recommend that Commission keep the current 50/50 allocation method. The 50/50 allocation method assigns 50% as primary, which are shared costs between primary and secondary service levels, and 50% as secondary service level costs. In other words, secondary service level customers are paying 50% of the costs along with an additional share of the primary service level costs.

CTA argues that CA failed to use direct observation and instead substituted its own engineering judgment for that of ComEd’s engineering judgment. This argument is lacking. Record evidence shows that CA performed a field review and found that direct observation was not useful in determining cost allocation of combination poles. Moreover, CA worked with ComEd in preparing the study, and did not merely substitute its judgment for ComEd’s judgment.

Other opponents of allocating 100% of combination poles to primary service argue that primary service customers should not be responsible for paying for facilities used to provide secondary service. According to the record, however, there would not be secondary service without primary service. (Tr. at 275; ComEd Ex. 3.07 at 11.)

The Commission finds that the CA Distribution Study’s recommendation to allocate 100% of the combination pole costs as shared costs associated with primary voltage service should be adopted.

b. Studies and Analysis Proposed Regarding Future Changes to Cost Allocations to Primary Service

(i) Shared Distribution Line Proportional Cost Assignment Study

ComEd’s Position

ComEd takes no position regarding proposals by IIEC, REACT, and CTA/Metra recommending that the Commission undertake studies to further segment ComEd’s distribution system. However, ComEd expressed concerns regarding these proposals.

ComEd states that the methodologies suggested by IIEC and REACT require determining the path of service for specific customers, but studying paths of service may not be determinative as paths can change.

ComEd also raises concerns regarding basic fairness because REACT, IIEC, and CTA/Metra have only identified equipment that they believe is not used to serve them to the same extent that it serves others, and propose excluding the cost of that equipment from their cost allocation. ComEd argues that there is likely to be equipment that other customers do not use, or only use in a *de minimis* manner, and the ECOSS cannot accommodate every such instance without becoming increasingly disaggregated and complex. ComEd notes that the proposed studies specifically focus on the extent to which certain customers are affected and do not consider all customers who use ComEd's distribution system. As such, these studies are one-sided, seeking to segment the distribution system in a manner that will apparently not be applied even-handedly to all customers and customer classes.

ComEd also expresses concern that the analysis needed to conduct the proposed studies properly, which would consider all delivery classes, would be complicated and resource intensive considering that ComEd has 4.8 million service points connected to nearly 6,400 circuits.

Ultimately, ComEd states that whether to further segment ComEd's distribution system, which is a complex interconnected system that serves all customers, is a policy decision for the Commission. ComEd states that it supports the development of delivery services charges based on the principle of cost causation. However, ComEd believes that principle should be applied in a reasonable and practical matter that is fair to all customer groups.

In response to the REACT suggestion made for the first time in its Initial Brief, that its study be completed in a four month time frame, pointing to the time it claims was required to perform ComEd's Secondary and Service Loss Study (ComEd Ex. 8.02), ComEd notes that the two studies are dissimilar. ComEd further states that with respect to the REACT study, more than four months would be required to retain the proper resources, develop the appropriate scope and sample size, and then to actually complete the work and prepare a report. If the Commission concludes that REACT's study is appropriate, ComEd requests that an inappropriately short timeline not be imposed but that the Commission allow sufficient time to complete the study in a proper manner.

Staff's Position

REACT witness Terhune recommends that ComEd perform a study to determine an allocation of primary distribution facilities amongst the customer classes that reflects the degree to which those classes utilized 4kV lines, as well as single-phase, two-phase, and three-phase lines. (REACT Ex. 5.0 at 16:337-340.)

ComEd witness Bjerning Identified concerns with such a study. He believes such a study only considers the extent to which primary voltage customers do not use single phase primary lines and does not consider the extent to which secondary voltage or single phase customers do not use or require a three-phase primary voltage configuration. (ComEd Ex. 7.0 at 27:454-457.) Mr. Bjerning also explained that such a study would be a complicated “path of service” or “allocation by exclusion” study and would most likely raise concerns with parties that represent secondary voltage and single phase customers. (*Id.* at 28:474-479.)

ComEd witness O’Sheasy identified two major problems with using phase of service to allocate primary level costs, discussed previously in the (ii) Single-Phase/Three-Phase (Shared) Primary Separation section.

Staff opposes the segregation of costs proposed by other parties throughout this proceeding. Staff recommends that the Commission reject such an experiment. (Staff Ex. 4.0 at 18:429-431.) The Commission should exercise caution when considering a request for certain segments of the distribution system to be excluded from the revenue requirement for one class without applying the same approach to all other classes. The result may be the reallocation of costs between classes that is not equitable because each class’ full responsibility for costs associated with the distribution system have not been precisely or accurately taken into account in a consistent manner.

REACT’s Position

REACT points out that in addition to advocating for the immediate reallocation of certain costs, REACT witness Mr. Terhune also recommended that the Commission direct ComEd to undertake a statistically valid Shared Distribution Lines Proportional Cost Assignment Study:

[The Commission should] direct ComEd to perform a statistically valid analysis to determine the proper proportion of Shared Distribution Lines costs to be assigned to each customer class or subclass and incorporate those results into its ECOSS. This statistically valid analysis should, at a minimum, address REACT’s concerns about allocation of single-, two- and three-phase and 4 kV primary distribution line costs.

(REACT Ex. 5.0 at 21:451-56.)

REACT emphasizes that Mr. Terhune confirmed that the study he recommends is realistic and feasible. (*Id.* at 10:196-205.) REACT also points out that ComEd confirmed that the recommended study is feasible. (Tr. at 257:1-9.)

REACT also highlighted ComEd’s recent experience working with outside consultants to prepare rate design-related studies that meet Commission requirements.

(REACT Ex. 5.0 at 10:200-01; see also IIEC IB at 16.) REACT witness Mr. Terhune noted that ComEd has complained before about the potential unfeasibility of Commission-ordered studies, but has been able to complete the studies as ordered. (*Id.* at 10:194-200.) REACT states that this was confirmed at the Evidentiary Hearing where ComEd acknowledged that, although ComEd previously has suggested a parade of horrors that would prevent certain studies, at the end of the day, working with qualified consultants, ComEd has in fact completed the Commission-ordered studies. (Tr. at 260-261.)

The Commercial Group's Position

The Commercial Group takes no position on the feasibility of the additional study recommended by REACT and IIEC to determine a more accurate allocation of Shared Distribution Lines cost. CG states that certainly, however, there is merit to exploring the feasibility of such a study and options for more closely analyzing how Shared Distribution Lines cost can be more closely approximated and allocated to the various classes. In the meantime, CG asserts, the approach in IIEC Ex. 2.1 should be adopted as a conservative estimate and allocation of shared line cost.

Commission Analysis and Conclusion

See Section II.D.

(ii) Single-Phase/Three-Phase (Shared) Primary Separation Investigation/Workshop

ComEd's Position

ComEd's concerns are summarized in Section II.C.b.(i) of this Order.

Staff's Position

IIEC witness Robert R. Stephens argues that "shared" costs in ComEd's ECOSS should be further segregated by single-phase and multi-phase circuits. (IIEC Ex. 1.0 at 9:191-206.) IIEC believes that further investigation of segregating primary costs by phase is warranted. (*Id.* at 10:219-220.)

ComEd opposes the idea of segregating shared primary service into single-phase/three-phase services. As discussed in the previous sections "Shared Distribution Line Proportional Cost Assignment Study" and "Single Phase/Three Phase (Shared) Primary Separation", Staff and ComEd provided various reasons why segregation is not warranted or feasible. However, ComEd indicated that if the Commission supports the analysis it would likely hire an independent party, as it did with CA in the instant proceeding, to work with ComEd, Staff, and interested parties to determine the study scope and requirements and to perform the necessary sampling, cost allocations, and recommendations to meet the Commission's directives. (ComEd Ex. 7.0 at 30:522-525.)

Because of Staff's opposition to further segregation by phase as discussed previously, Staff believes the Commission should reject further investigation on such matter.

IIEC's Position

IIEC believes ComEd's ECOSS require further refinement with regard to segregation of primary voltage system costs between single-phase and three-phase subfunctions to properly reflect cost-causation.

IIEC has proposed such a concept in the past, specifically in Docket No. 10-0467 arguing the two systems serve largely different, but overlapping customers groups and finding the cost causation for these components differ. IIEC argues single-phase facilities exist, and function to serve, exclusively or nearly exclusively customers who take service at secondary voltage. IIEC asserts that cost-causation principles suggest that customers at higher voltages, such as transmission voltage or primary voltage, generally should not be allocated single-phase primary costs.

IIEC believes the Commission should direct the Company and interested parties to review segregation of the primary delivery system costs in to single-phase and three-phase components and assign the single-phase costs exclusively to secondary customers. IIEC recommends the segregation review should include a discussion of the best method to estimate single-phase primary costs to be assigned to the secondary customers. (IIEC IB at 10-18; IIEC RB at 15-21.)

Pending such a review, IIEC urges the Commission to take a modest step forward in refining ComEd's ECOSS, as it relates to this issue, by assigning at least 10-20% of primary voltage costs to secondary customers. IIEC argues it has demonstrated that there is support within the utility industry for segregating primary and secondary voltage facilities and Illinois should begin to explore this refinement. (IIEC IB at 5-6 and 10-18; IIEC RB at 3-9 and 15-20.)

Commission Analysis and Conclusion

See Section II.D.

(iii) CTA/Metra Geographical Study

ComEd's Position

ComEd's concerns are summarized in Section II.C.b(i) of this Proposed Order.

Metra's Position

CTA/Metra Witness James Bachman recommends that ComEd be directed to work with the CTA and Metra, and Staff if appropriate, to prepare a study identifying the

costs of the ComEd system that are within Cook and Will Counties, and the system costs outside Cook and Will Counties. Mr. Bachman states that Cook and Will Counties were selected because those are the geographic limits of the locations in which the two members of the Railroad Class take delivery of traction power billed at Railroad Class rates.

According to Metra, Metra and the CTA pay for the delivery of non-traction power electricity in accordance with rates for the relevant rate class that is geographically diverse and has numerous other members of the class. Unlike that scenario, Metra asserts, the Railroad Class, as the Commission has repeatedly recognized, is a unique class. Metra states that the Railroad Class has only two members who take service at a uniform 12.5 kV; there are public interest considerations associated with setting their rates; the facilities required to serve them already have been identified; and they operate in a limited part of ComEd's geographic system.

Metra points out that ComEd witness Bjerning suggested in his testimony that ComEd does not keep its records in a manner that would enable it to track costs in outlying counties, and it would be very difficult to perform the requested study.

Metra argues that the testimony about the difficulty of performing a study is a familiar refrain that ComEd witnesses repeat each time ComEd is requested to perform a study to refine its cost-causation analysis. (See, e.g., Docket No. 07-0566, Order at 160 (Sept. 10, 2008) (ComEd argued that a primary/secondary cost differentiation is neither practical nor necessary and ComEd's books are not kept in a way that would facilitate the requested analysis); Docket 08-0532 Final Order at 5 (Apr. 21, 2010) (study to eliminate 4 kV costs from Railroad Class costs would be very difficult and time consuming to do); Docket No. 10-0467, Order at 190 (noting that ComEd argues that elimination of 4 kV analysis requested by Railroad Class would be costly, complicated and fraught with assumptions).)

At the hearing, Mr. Bjerning testified that ComEd has an electronic system in place known as the Commonwealth Edison Geographic Information System in which ComEd has mapped its facilities in its entire service territory. (Tr. at 275:23 to 276:13.) While Mr. Bjerning had testified that the study requested by Mr. Bachman would be difficult because "ComEd does not directly track costs for ComEd facilities located in Stephenson, Winnebago and Ogle Counties or other counties that do not directly serve Railroad Delivery Class customers," However, after conferring with his colleagues, Mr. Bjerning was able to confirm that the ComEd Geographic Information System covers and maps the distribution facilities in ComEd's entire service territory, and the only significant gap is the underground secondary service outside the City of Chicago. (*Id.* at 276:2-13.)

Thus, it would appear that ComEd does at least have its distribution facilities identified geographically. Metra urges that the Commission direct ComEd to work with Metra and the CTA, and Staff if appropriate, to perform the requested study.

CTA's Position

CTA argues that because the Railroad Class is unique and serves only in a defined geographic area, the Commission should order ComEd to work with the Railroad Class to determine if this limited geographic area impacts the costs allocated to the class.

CTA asserts that the Railroad Class is distinguishable from all other classes on several levels. First, the class is comprised of only two customers. Second, the two customers take delivery at 12.5 kV. Third, the class members are in a limited geographic area. CTA concludes that because the geographic location of the two customers is set, it may be appropriate to determine if the specific location has an impact on cost causation.

The CTA and Metra take delivery under the Railroad Class rate for traction power from ComEd only in Cook and Will Counties. Even though the ComEd system is an interconnected system, "the impact of an exceptional geographically restricted class of service should be explored because the class is allocated costs incurred for facilities fifty, sixty, and more miles away from the electric service points" of the Railroad Class. (*Id.* at 15:352-354; CTA/Metra Ex. 1.0 at 14:332-15:340.)

"If there is no cost causation, then the cost allocation for the Railroad Delivery Class should exclude those types of ComEd system costs." (*Id.* at 15:357-16:359.) Because this issue has not been subject to any analysis, CTA/Metra witness Bachman recommended that the Commission order ComEd to work with the CTA and Metra to study whether there are any cost causation impacts on the ECOSS results due to the limited geographic service area of the Railroad Class. (*Id.* at 16:363-366.)

According to CTA, ComEd does not deny that the unique features of the Railroad Class and the limited geographic area might raise cost causation issues, but rather it argues that such a study would be difficult to prepare because ComEd does not directly track costs for facilities by geographic location. (ComEd Ex. 7.0 at 22:364-23:367.)

However, Mr. Bjerning testified that ComEd employs the Commonwealth Edison Geographic Information System (CEGIS), which electronically maps most of the company's service territory and the distribution facilities that are in the service territory. (Tr. at 275:23-276:10.) Because CEGIS can identify the equipment, then ComEd "can probably determine the average cost, but you may not specifically be able to identify the specific cost of the equipment." (Tr. at 267:11-14.) Using CEGIS to identify the equipment and determining the average cost is similar to the task that was done by the CTA, Metra, and ComEd in determining the cost of the 4 kV facilities for deletion from the Railroad Class.

Therefore, Mr. Bjerning agreed that "ComEd can investigate that [geographic costs], if the Commission orders." (Tr. at 267:21-22.) As CTA/Metra witness Mr. Bachman noted, the study he is suggesting is "no different in conceptual makeup than

the studies that have been accomplished successfully in the past when ComEd and the Railroad class customers have worked together.” (CTA/Metra Ex. 2.0 at 8:149-151.)

The Commission in its Final Order should require ComEd to work with the Railroad Class to develop a study to explore whether there are geographic cost-causation issues that should be addressed in future ComEd rate design dockets.

The Commercial Group’s Position

CG argues that the Commission should not require ComEd to perform a geographic cost study for the two Railroad customers because all ComEd customers could request similar studies.

CTA/Metra witness Bachman testified that because these two ComEd customers are located only in Cook and Will counties, ComEd should perform a cost study with the goal of potentially eliminating the allocation of any costs to these two customers of distribution facilities located in other counties. (CTA/Metra Ex. 1.0:332-366.) According to the Commercial Group, but any individual (or group) of ComEd customers could argue that it should not be allocated any costs for facilities that are located in geographic areas other than where that customer(s) is located. (Tr. at 270:22 – 271:1.) As Mr. Bjerning succinctly put it, performing such geographic studies for all of the ComEd customers that potentially could make such requests “would be quite complex, considering there’s 3.8 million customers out there.” (*Id.* at 271:2-4.) The Commission should not adopt the CTA/Metra proposal for a geographic cost study.

Commission Analysis and Conclusion

Metra and CTA recommend that the Commission order ComEd to work with the Railroad Delivery Class customers through a study process to analyze whether there are any cost causation impacts on the ECOSS results due to the limited geographic service area of the Railroad Delivery Class. Metra and CTA argue that when assessing cost causation in ComEd’s systems for the Railroad Delivery Class in Cook and Will counties, there may be little or no impacts from system facilities costs incurred in outlying counties.

While ComEd takes no position regarding CTA’s and Metra’s recommendation, ComEd raises concerns regarding the basic fairness of allowing parties to identify equipment that either does not serve them or serves them in some *de minimis* manner. ComEd argues that the ECOSS cannot accommodate every such instance without becoming increasingly disaggregated and complex.

The Commercial Group objects to the CTA/Metra geographical study arguing that if the Commission grants such a study then any individual or group of customers could argue that it should not be allocated costs for facilities in geographical areas other than where the customer is located. Additionally, the Commercial Group argues that such requests would be complex, considering the number of ComEd customers.

The question here is whether to conduct a study to gain information on a particular issue, not whether to adopt a particular study's findings. The Commission finds in this instance it would be appropriate to have more information rather than less. The Commission recognizes that the Railroad Class is unique in that it only has two customers and operates in a specific geographic area. Because there are only two customers in the Railroad Class, the Commission finds that performing a study for the Railroad Delivery Class to analyze whether there are any cost-causation impacts on the ECOSS results due to the Class' limited geographic nature is in accordance with cost-causation principals and Metra's and CTA's recommendation is adopted. In addition, as part of the study, ComEd and the Railroad customers shall develop an ECOSS implementing the results. ComEd shall file this ECOSS in the next rate design investigation proceeding. The Commission also notes that the Commercial Group's objections to the study are essentially on the basis of what parties have termed "allocation by exclusion," nevertheless, the Commercial Group finds merit in conducting other proposed studies by IIEC and REACT that are also arguably allocation by exclusion.

c. Cost Allocation of Facilities that Operate Below 12 kV – Railroad Delivery Class

ComEd's Position

In its 2010 Rate Case Order, the Commission directed ComEd "to study, define and delete from the costs assigned to the Railroad Class the costs that are associated with the 4 kV facilities that are not used to serve the Railroad Class." (2010 Rate Case Order at 191.) ComEd maintains that it complied with the Commission's directive through conducting the CA Distribution Study (ComEd Ex. 3.07); the results of this study are reflected in two ECOSSs, ComEd Exs. 3.10 and 3.12. ComEd notes that the RDI ECOSS is not ComEd's "position." Instead, the RDI ECOSS represents cost allocations based upon current Commission-approved methodologies. It provides a baseline for Staff and Intervenors to compare the various illustrative ECOSSs, which reflect the results of the different Commission directives and Orders. ComEd states it has met the Commission's directive by submitting not one but two ECOSSs that respond to this directive.

Staff's Position

With respect to CTA/Metra, in ComEd's last Article IX rate case, Docket No. 10-0467, the Commission ordered the Company to provide information related to the Railroad class. Specifically, the Commission directed ComEd to:

...develop a new embedded cost of service study for the next rate case that excludes the costs that are associated with facilities below 12 kV from the Railroad Class. This study shall be part of ComEd's initial rate case filing. Failure to comply with any portion of this directive could subject

ComEd to the penalties provided in the Public Utilities Act for failure to comply with a Commission Order.

(Docket No. 10-0467, Order at 191.)

The Company provided information in the instant docket as ordered by the Commission in Docket No. 10-0467. CTA/Metra witness James G. Bachman recommends the Commission eliminate any and all 4 kV system costs from the Railroad Class's revenue requirement. (CTA/Metra Joint Ex. 1.0 at 2-3:45-47.) Mr. Bachman stated that the relatively limited use of the ComEd distribution system by the Railroad Delivery Class should be properly recognized in the ComEd calculation of the Railroad Delivery Class revenue requirement." (*Id.* at 3:61-65.)

Staff witness Mr. Johnson's proposed ECOSS did not remove the costs associated with 12kV and below for the Railroad class. As Mr. Johnson has previously explained, when allocating costs associated with the distribution system among customer classes, care must be taken to recognize that the distribution system is a large interconnected system that serves all customers. Thus, if one party proposes that costs associated with certain components of the distribution system should not be allocated to its customers one must consider whether the allocation of all other system component costs have also been taken into consideration. For example, it is unclear whether there are certain components of the distribution system that are put in place because of certain customers, but yet the costs are recovered from all customers. (Staff Ex. 4.0 at 16-17:385-393.) This is precisely why Mr. Johnson did not remove the costs associated with 12kV and below for the Railroad class.

Staff argues that there appears to be some disagreement over whether the Commission ordered the costs associated with 12kV and below to be removed from the Railroad class going forward or whether ComEd was to provide an ECOSS with the pertinent information removed for the Railroad class for the Commission's consideration in this case. Staff's understanding is that the prior Order does not require the Commission to reach a particular conclusion in this case but that the Commission would make a determination in the present case based on the facts in this case. Regardless, Staff's position is that the Commission should not remove the costs associated with 12kV and below for the Railroad class for the reasons stated.

Metra's Position

The Commission has repeatedly emphasized that there are public interest considerations that must be taken into account to avoid adverse impacts on the two members of the Railroad Class, Metra and the CTA, resulting from ComEd rates. The Commission's prior recognition of the public interest benefits flowing from the Railroad Class provision of public transportation of reasonable costs has been based not only on the recognition of the economic, environmental and social benefits flowing from a reasonably priced public transportation system in the third most populous metropolitan area in the United States, but also has recognized the unique historical contractual

relationships between the Railroad Class and ComEd, and the fact that power flowing through Railroad Class facilities has served other ComEd customers for more than 40 years.

In this docket, the Senior Division Director of Metra's Division of Strategic Capital Planning testified that in 2012 Metra provided more than 81 million passenger trips. (Metra Ex. 1.0 at 3:36-37.) Ms. Ciavarella testified that Metra had performed a historical study using 2006 data reflecting that if Metra's intercity passenger rail services were not available, the Chicago metropolitan area would require 29.3 additional lanes of expressway. (*Id.* at 3:42-49.) Each weekday Metra provides over 300,000 passenger trips with 80% of those trips occurring during the peak travel hours. The commuters who ride Metra to and from work during peak hours obviously are not in cars and, therefore, help reduce congestion on the region's highways, roads and streets. (*Id.* at 4:86-89.)

On average, every Chicago area motorist in Chicago lost 51 hours as a result of traffic congestion in 2011. Overall, Chicago area motorists in Chicago lost a combined 271.7 million hours and 127 million gallons of fuel due to traffic congestion in 2011, at a combined cost of \$6.21 billion. The Report indicated that only travelers in Los Angeles and New York City lost more resources to traffic congestion.

The plan reported that the Chicago region's transit system saves more than 6.7 million metric tons of carbon emissions each year, which is the equivalent to taking one million cars off the road each year based on 2008 data. Without transit, the region's drivers would have consumed 750 more gallons of gasoline and driven 32 million more miles each year.

All of that evidence is uncontroverted and is not challenged by any other witness in this proceeding. There is no question that multiple recent Commission decisions in prior cases have recognized the public interest considerations that must be taken into account in setting ComEd's delivery service rates for the Railroad Class. There also can be no question that the un-rebutted evidence introduced by Metra (and the CTA) in this case justifies continuation of that policy.

The Railroad Class litigated in the ComEd rate design investigation, Docket No. 08-0532, the issue of whether the cost of facilities carrying voltages under 12 kV should be deleted from the costs assigned to the Railroad Class for rate-making purposes. (Docket No. 08-0532, Order at 33-34 (Apr. 21, 2010).) That resulted in a directive in the Commission's Order to ComEd to conduct an analysis for the next rate case of which customer groups are served by which system components, and to consider redefining rate classes on the basis of voltage or equipment usage to better reflect the cost of service. (*Id.* at 40.)

In the next ComEd general delivery services rate case, which was Docket No. 10-0467, the Railroad Class once again argued that it does not use facilities and lines delivering voltage of less than 12 kV, and therefore the cost of such facilities should not

be utilized in determining the Railroad Class' rates. (Docket 10-0467, Order at 185-188.) ComEd vigorously opposed any effort to segment its system for cost causation purposes. (*Id.* at 190.) The Commission rejected ComEd's arguments, and included the following directive in its Order:

The Commission therefore directs ComEd to work with Metra and the CTA, and Staff if appropriate, to study, define and delete from the costs assigned to the Railroad Class the costs that are associated with the 4 kV facilities that are not used to serve the Railroad Class.

(*Id.* at 191.)

The full text of the Commission's order on this issue makes it abundantly clear that the Commission considered and rejected contrary arguments, and directed that ComEd's cost of service study for the next rate case should exclude the costs that are associated with facilities below 12 kV from the costs assigned the Railroad Class.

The Commission's language in the Docket No. 10-0467 Order was simple and direct. It did not tell ComEd to please prepare a study for consideration in the next rate case. It told ComEd, in effect: (1) we reject your argument that it is not appropriate to segment the system and eliminate the costs of under 12 kV facilities from costs assigned the Railroad Class; (2) you shall study, define and delete those under 12 kV facilities costs from the costs assigned the Railroad Class; (3) you shall file an embedded cost of service study carrying out our directive as part of your initial filing in the next rate case; (4) and ComEd, if you do not comply with any part of our directive, you could subject yourself to sanctions. The only witness who testified that the Commission's directives should not be carried out is ICC Staff Witness Johnson. Mr. Johnson's testimony is not credible and should be given no weight because: (1) it is inconsistent with the express language of the Commission's Docket No. 10-0467 Order; (2) it is based on selective quotation from that Order, and fails to address other language that is fatal to Mr. Johnson's interpretations; and (3) it is predicated on a system segmentation argument that the Commission already has rejected with respect to the Railroad Class.

Any Order entered in this proceeding must require ComEd to comply with the Commission's prior order in Docket No. 10-0467, and establish rates for the Railroad Class which are not based on assignment of costs to the Railroad Class of under 12 kV facilities not used to supply traction power to the Railroad Class.

CTA's Position

Regardless of what ECOSS is adopted as a result of this docket, the ECOSS must delete all 4 kV facilities costs from the Railroad Class in order to comply with the Commission's Order in Docket No. 10-0467 because the 4 kV facilities are neither used nor useful in providing service to the Railroad Class.

The Railroad Class receives delivery at the railroad's own traction power substations at 12.5 kV from ComEd. In Docket No. 10-0467, the Commission directed ComEd to work with Metra and the CTA, and Staff if appropriate, to study, define, and delete from the costs assigned to the Railroad Class the costs that are associated with the 4 kV facilities that are not used to service the Railroad Class. ComEd was specifically directed, subject to Commission sanction, to develop a new embedded cost of service study for the next rate case that excludes the costs that are associated with facilities below 12 kV from the Railroad Class. This study was to be made part of ComEd's initial rate case filing.

As part of its filing in this case, ComEd included as Exhibit 3.12 an ECOSS which followed the Commission's order to delete from its cost of service costs associated with facilities at and below 4 kV from the Railroad Class. However, ComEd failed to delete the 4 kV costs for the Railroad Class from the other ECOSS's that it filed. ComEd erroneously used as its Rate Design Investigation (RDI) ECOSS, a study that included charging the Railroad Class for facilities at and below 4 kV—directly defying the Commission's Order in Docket No. 10-0467.

ComEd seeks to avoid the possibility of penalties by the Commission for its failure to comply with the Order in Docket No. 10-0467 by asserting it “is not recommending the approval of any ECOSS in particular.” (Bjerner Rebuttal, ComEd Ex. 7.0 at 20:315-316.) However, by not deleting the 4 kV facilities from the Railroad Class in the RDI ECOSS, ComEd has not followed the Commission's direction. CTA argues that Staff erroneously follows ComEd's failure to delete the 4 kV from the RDI ECOSS. Staff witness Johnson urges the Commission to reverse its position regarding the deletion of the 4 kV facilities from the Railroad Class even though those facilities are neither used nor useful to providing service to the Railroad Class.

The Commission previously has found that because service is provided to the Railroad Class at 12.5 kV, none of the facilities at or below 4 kV are used to provide service to the Railroad Class. Including the 4 kV and below facilities costs in the Railroad Class's rates violates the cost-causation principle. Moreover, CTA asserts, the Commission has found that the Railroad Class, as a provider of mass transit in the region, serves a vital public function—as well as providing energy efficient transportation—so it is bad public policy to place costs on the Railroad Class for facilities that are not used to serve the class.

CTA concludes that the Commission should use for designing rates in this case the ECOSS shown in ComEd Ex. 3.12, which properly excludes costs for facilities at or below 4 kV from the Railroad Class and fully complies with the Commission's Order in Docket No. 10-0467.

Commission Analysis and Conclusion

Prior to this proceeding, the Commission directed ComEd “to study, define and delete from the costs assigned to the Railroad Class the costs that are associated with the 4 kV facilities that are not used to serve the Railroad Class.” (2010 Rate Case Order at 191.) In an effort to accomplish this, the Commission directed ComEd to develop a new ECOSS for the next rate case excluding the costs associated with the 4 kV facilities not used in serving the Railroad Class. The Commission further stated that ComEd would be subject to penalties should it not comply with this directive. In this proceeding, ComEd provided two illustrative ECOSS that separate costs into “at or below 4kV” and “over 4kV” cost categories.

Staff argues that it is unclear whether the 2010 Rate Case Order required that these costs be removed from the Railroad Class. Staff further argues that the Commission should not remove the costs associated with 12 kV and below for the Railroad Class. Specifically, Staff argues that, when allocating costs associated with the distribution system among customer classes, care must be taken to recognize that the distribution system is a large interconnected system that serves all customers.

The Commission finds, consistent with its express directive in Docket No. 10-0467, that costs for facilities at or below 4 kV should be excluded from the Railroad Class.

2. Cost Allocation by Sector versus Delivery Class

ComEd’s Position

In the Commission’s Order in Docket No. 11-0498, the Commission directed ComEd to provide an analysis of “the impact on customer classes of reallocating NCP-related delivery costs using a single NCP allocator for the residential sector.” (Docket No. 11-0498 Order at 8.) ComEd states that it submitted two ECOSSs to meet the Commission’s directive. The first ECOSS, ComEd Ex. 3.17, uses non-coincident peak (“NCP”) allocation factors that are determined based on delivery classes for nonresidential and lighting customers, but reduces the NCPs for the residential delivery classes proportionately so that the sum of these individual NCPs equals a single weather normalized residential sector NCP. The other ECOSS, ComEd Ex. 3.18, uses NCP allocation factors, which are determined based on the three customer sectors, residential, nonresidential, and lighting.

ComEd states that it takes no position on which allocation factors the Commission-approved ECOSS ultimately utilizes, however ComEd notes that the current allocation by a “utility’s rate classes” is consistent with Section 285.5110 of the 83 Illinois Administrative Code.

Staff's Position

The Commission's Order in Docket No. 11-0498 directed ComEd to provide, in the next proceeding addressing revenue neutral delivery service rate design issues, an analysis of the impact on customer classes of reallocating non-coincident peak ("NCP") related delivery costs using a single NCP allocator for the residential sector. (*Commonwealth Edison Co.*, ICC Order Docket No. 11-0498, 8 (April 18, 2012).) The class NCP is based on the maximum demands of the individual classes of service regardless of when those demands occur. AG witness Scott J. Rubin stated that in the 2010 Rate Docket he recommended that ComEd should first allocate non-coincident demand costs to the residential sector as a whole. Then, those residential demand costs should be reallocated among the residential rate classes. (AG Exhibit 1.0, 6:128-130.) Currently, each class in the residential sector (*i.e.*, Single Family With Electric Space Heating ("SFH"), Single Family Without Electric Space Heating ("SFNH"), Multi Family With Electric Space Heating ("MFH"), and Multi Family Without Electric Space Heating ("MFNH")) has its own separate individual NCP.

ComEd provided two studies related to the allocation of distribution facilities costs by a single NCP allocation factor by sector. The first ECOSS, ComEd Ex. 3.17, allocates certain distribution facilities costs by a single NCP allocation factor for the entire group of residential customers ("residential sector"). The second ECOSS, ComEd Ex. 3.18, allocates certain distribution facilities costs by a single NCP allocation factor for the entire group of residential customers, a single NCP allocation factor for the entire group of non-residential customers, and a single NCP allocation factor for the entire group of lighting customers. (ComEd Ex. 3.0 at 6:112-121.) Mr. Rubin pointed out the Commission's Order in the 2010 Rate Order was silent on whether the non-residential sector should also be used. However, he recommends that the allocation of ComEd's revenue requirements to each rate class should be based on an ECOSS that uses the results of the all sector NCP analysis. (AG Ex. 1.0 at 7:154-156.)

Staff witness Johnson identified concerns with Mr. Rubin's proposal. Staff witness Johnson explained that Mr. Rubin's proposal to apply an NCP analysis to customer sectors is inconsistent with the fact that those customer sectors are each separated into several separate customer classes for cost-of-service purposes. For example, ComEd has SFH, SFNH, MFH, and MFNH residential classes. Mr. Rubin is not making a proposal to change the make-up of the residential classes. In fact, he is proposing the same four classes with separate and distinct distribution facilities charges ("DFC"). DFC charges typically recover demand related costs on a kWh basis. According to the "Electric Utility Cost Allocation Manual" January 1992, page 22, once the customer classes to be used in the cost allocation study have been designated, the functionalized and classified demand costs are allocated among the customer classes on the basis of demands imposed on the system during specific peak hours. Traditionally, this means that each class' individual demands are utilized for cost allocation purposes. Separating the residential sector into four classes for cost of service purposes but then allocating their costs based upon a single grouping allocator (*i.e.*, residential sector), as Mr. Rubin proposes, moves away from, rather than closer to,

cost causation. The SFH, SFNH, MFH, and MFNH classes should be responsible for their respective individual NCP demands. (Staff Ex. 4.0 at 11:243-244.)

Likewise, since Mr. Rubin is proposing that the allocation of ComEd's revenue requirements to each rate class should be based on an ECOSS that uses the results of the all sector NCP analysis, using a single NCP allocation factor for the entire group of non-residential customers (*i.e.*, Watt-Hour, Small Load, Medium Load, Large Load, Very Large Load, ELL, and HV) would not represent the demands each non-residential class is individually placing on the system. Therefore, Mr. Johnson recommends the Commission reject Mr. Rubin's proposal to include the all sector NCP analysis into the final Commission approved ECOSS. (*Id.* at 12:254-255.)

AG's Position

The Commission's order in ICC No. 11-0498 directed ComEd to conduct a non-coincident demand ("NCD") study using the residential sector, without stating specifically whether the non-residential sector should also be used. (See Docket No. 11-0498, Order of April 18, 2012 at 8.) ComEd performed the study two ways, with ComEd Ex. 3.17 showing the results of the residential sector demand and ComEd 3.18 showing the results of an all-sectors demand analysis. Mr. Rubin does not take issue with the results of these demand studies. (*Id.*)

As Mr. Rubin testified, both NCD studies showed fewer NCD costs being allocated to the residential sector, with the residential sector demand analysis showing a reduction in the residential cost of service of \$4,030,000 and the all-sector analysis showing a reduction in the residential cost of service of \$2,392,000. (AG Ex. 1.0 at 7, citing ComEd Ex. 3.17 and 3.18.) The reason for Mr. Rubin's recommendation is to avoid controversy over the fact that consolidating residential customers into a single sector may be unfair if the same consolidation is not performed for non-residential customers as well.

Mr. Rubin modified the cost of service study that ComEd performed for Staff in WRJ 7.01 (which included the results of the primary-secondary plant study and the indirect uncollectibles study, the result of which Mr. Rubin is not challenging) to include the changes in demand allocators that are required to reflect the results of the sector-based demand study. He did so by modifying Schedule 2b of the study (Allocation Factors) to use the NCD allocators from ComEd Ex. 3.18, as shown in AG Ex. 1.01C. (AG Ex. 1.0 at 8; AG Ex. 1.01C.) The effect of including the results of all three studies, was to allocate approximately \$7,959,000 less of ComEd's revenue requirement to the residential sector. (See ComEd Ex. 7.0 at 11; AG Ex. 1.01C.) AG believes that the Commission should adopt Mr. Rubin's recommendations in this regard to reflect that reduction in revenue responsibility to the residential sector. It is the overall class (what ComEd calls a "sector"), not the customer's rate schedule that is the primary driver of cost incurrence. Furthermore, as Mr. Rubin testified, using a sector analysis results in fewer non-coincident demand costs being allocated to the residential sector. He pointed out that the residential only sector analysis shows a reduction in the residential cost of

service of \$4,030,000 (as demonstrated in ComEd Ex. 17), while the all sector analysis (ComEd Ex. 18) shows a reduction in the residential cost of service of \$2,392,000, compared to ComEd's base case analysis. The AG notes that although the all-sector analysis is less favorable to residential customers, Mr. Rubin endorsed it as more equitable to non-residential customers. (AG Ex. 1.0 at 7.)

Commission Analysis and Conclusion

In Docket No. 11-0498, the Commission ordered ComEd to:

[P]rovide, in the next proceeding in which revenue neutral delivery service rate design issues are properly addressed, all parties thereto with an analysis of the impact on customer classes of reallocating NCP-related delivery costs using a single NCP allocator for the residential sector.

(Docket No. 11-0498, Order at 8.)

Currently, each class in the residential sector has its own individual NCP. To comply with the Commission's directive, ComEd provided two ECOSS regarding the allocation of distribution facilities costs by a single NCP allocation factor by sector. ComEd Ex. 3.17 allocates distribution facilities costs by a single NCP allocation factor for the entire residential sector. ComEd Ex. 3.18 allocates distribution facilities costs by a single NCP allocation factor for the residential sector, a single NCP allocation factor for the non-residential customers, and a single NCP allocation factor for the lighting customers (what ComEd terms the "all-sectors demand analysis").

ComEd takes no position regarding this issue; however, ComEd notes that the current allocation by a "utility's rate classes" is consistent with Section 285.5110 of the Illinois Administrative Code.

The AG recommends adopting AG witness Mr. Rubin's modified cost of service study which incorporates the results of an all-sectors non-coincident peak demand analysis as well as including results of the CA Distribution Study and the Indirect Uncollectibles Study. According to Mr. Rubin, the residential customers' demands are overstated when using the current allocation method. The AG argues that ComEd should first allocate NCD costs to the residential sector as a whole and then reallocate among the residential rate classes.

Staff argues that the AG's recommendation is not reasonable and moves away from cost causation. Staff witness Mr. Johnson states that the current allocation method means that each class' individual demands are utilized for cost allocation purposes. Whereas, Staff asserts, the AG's proposal would allocate costs based upon a single grouping allocator.

The Commission agrees with Staff's assessment that the AG's recommendation appears to move away from cost-causation. Accordingly, the Commission declines to adopt the AG's recommendation.

3. Other Cost Allocation Issues

a. Railroad Cost Allocation Adjustment (related to ComEd's Use of Railroad Customer Facilities)

ComEd's Position

In Docket No. 10-0467 at 275, a \$648,104 credit was provided to the Railroad Delivery Class for ComEd's use of its traction power stations. ComEd takes no position on this issue and is not recommending maintaining, modifying, or eliminating the annual credit to the Railroad Delivery Class. ComEd agrees with Staff that to the extent the Commission directs ComEd to perform work to reduce ComEd's dependence on the use of railroad electric traction power substation equipment to serve other customers, then it would appear that the underlying rationale for the credit, as provided by the Commission in the 2010 Rate Case Order, would no longer exist.

Staff's Position

See Section VI.C.

Metra's Position

Metra's basic position on this issue is that there has been no change in circumstances to justify a modification or alteration to the cost credit established in Docket No. 10-0467.

CTA's Position

CTA states that all of the ECOSs presented by ComEd in this docket include a credit to the Railroad Class to compensate the CTA and Metra for the use by ComEd of CTA and Metra-owned facilities to serve other ComEd customers. CTA argues that this credit is appropriate and should not be modified.

The looped service that the Railroad Class provides to ComEd to serve other customers is more fully discussed in Section VI.C below. CTA states that, since the last rate case, there has been no change in the way that ComEd uses the Railroad Class facilities to serve other ComEd customers and there are no current plans that would result in any changes to the delivery system during the time that the rate design approved in this case would be in effect.

Therefore, CTA argues, any discussion of modifying, reducing, or eliminating the credit for the use of the facilities owned by the CTA and Metra is premature and should be rejected. CTA maintains that the current credit should remain in place.

Commission Analysis and Conclusion

See Section IV.C. of this Order.

b. Residential Cost Allocation Adjustment

ComEd's Position

ComEd states that it appropriately defines fixed costs and its allocation of customer costs on a customer basis is reasonable. ComEd argues that City/CUB's claim that ComEd has applied an overly broad approach to measuring "customer-related costs" in the ECOSS is incorrect. ComEd states that City/CUB's proposal to reduce the allocation to the Multi Family Without Electric Heat ("MFNH") Delivery Class by 20% or \$55 million and increase allocation of these costs to Single Family Without Electric Heat ("SFNH") Delivery Class by 4% or \$42 million, with the \$13 million difference being allocated to residential space heating customers is based on a faulty premise.

ComEd asserts that City/CUB's analysis incorrectly measures "fixed" or "embedded" customer costs as only the direct costs of meters and the cost of paper and stamps associated with sending customer bills. ComEd states that City/CUB, in focusing solely on the purchase price of the meter and cost of postage, ignore many related costs including infrastructure, personnel, and services required to render the charges on a customer bill. ComEd argues that City/CUB thus arbitrarily limit the definition of "fixed costs" and leave out very real costs that ComEd incurs in properly serving customers.

ComEd observes that the Commission previously reviewed and approved ComEd's allocation of customer costs, namely in Docket No. 08-0532 ("the 2008 RDI Case"). In that proceeding, ComEd's allocation of customer costs on a customer basis was generally found to be reasonable.

ComEd notes that, in their initial brief, City/CUB continue to maintain that only for the residential sector, the only costs that should be regarded as being customer-related are the costs of standard meters and the costs of printing and sending bills. ComEd adds that while they never presented a proposed ECOSS in this proceeding, it appears that City/CUB intend for several other costs to be allocated to the three customer sectors on the basis of customer-related factors, and only after the portion of these other costs has been allocated to the residential sector as being customer-related, that the portion then be allocated among the four residential delivery classes on the basis of usage. ComEd states that this proposal seems contradictory by having costs first allocated using customer-related factors among the sectors, but then, being further allocated among the four residential delivery classes within the residential sector on a different basis. ComEd adds the proposal appears incomplete because it is silent with respect to how these other costs should be allocated among the delivery classes within the nonresidential sector and among the delivery classes within the lighting sector.

Because the proposal only applies to the residential sector, City/CUB appear to intend for these other costs to continue to be considered customer-related and the current allocation methodology continue being used when addressed among the three customer sectors and within the nonresidential and lighting sectors.

City/CUB's Position

City/CUB note that in the Commission's previous ComEd rate design investigation, Docket No. 10-0467, the Commission explicitly encouraged ComEd to look carefully at how the utility defines low-use consumers as a group. City/CUB explain that the Commission's order was part of its admonition to ComEd to examine the impact of its SFV rate design on low-use residential consumers and the appropriateness of a separate sub-class for those consumers. Under state law requiring evidence-based and cost-based delivery service rates, City/CUB argue that ComEd failed to address the Commission's Docket No. 10-0467 Order by neglecting or refusing to define a sub-class of low-use ratepayers whose costs could be studied.

City/CUB aver that because of the way ComEd's cost of service studies are conducted, any investigation of the appropriateness of a new rate sub-class requires ComEd to define that sub-class and include at least one of the many cost of service studies that ComEd provided. However, City/CUB note that none of the ECOSs that ComEd provided in this proceeding included a separate sub-class of low-use residential ratepayers. Therefore, City/CUB conclude that the Commission must find that ComEd did not perform the investigation that the Commission ordered.

Nevertheless, City/CUB present evidence of cost characteristics for the low-use residential sub-class that show that sub-class' distinct costs required to serve the consumers within the sub-class. Moreover, City/CUB note that ComEd failed to prove that low-use residential consumers share the relevant cost-characteristics with other residential consumers such that their assemblage with high-use residential consumers results in just and reasonable rates. See 220 ILCS 5/9-201(c). City/CUB point to the analysis of witness Edward Bodmer, who determined that low-use consumers' costs are, in fact, distinctive, and are not reflected in ComEd's SFV rate design. CUB/City note that Mr. Bodmer's analysis demonstrates that the costs ComEd incurs to serve low-use consumers are lower than the costs incurred by ComEd to serve the rest of the residential class members. City/CUB note that ComEd provided no relevant empirical evidence to refute Mr. Bodmer's findings. Thus, City/CUB argue that ComEd failed to meet its statutory burden of proof. 220 ILCS 5/9-201(c).

City/CUB aver that one of the major cost categories mis-apportioned by ComEd's SFV rate design is demand costs. City/CUB note that ComEd's Residential Usage and Bill Impact Study acknowledges that distribution costs are driven by peak demand, not the number of consumers. (ComEd Ex. 2.33 at 17.) City/CUB show how ComEd's SFV rate design transforms these demand-related costs into customer account costs (irrespective of the level of demand of those accounts) for cost recovery, despite ComEd's rate design expert admitting that residential consumer demand costs continue

to be caused by demand even when demand is not directly measured. (Sept. 25 Tr. 482:23-483:5.) Therefore, City/CUB argue that the demand related costs imposed on ComEd's distribution system by residential consumers should be recovered through the available measure which best correlates with demand -- usage. City/CUB note that more than 99% of variation in peak load can be explained by variation in usage. (City/CUB Ex. 2.0 at 7:143-144.)

With respect to non-demand related costs, City/CUB show how ComEd's ECOSs are flawed because they fail to account for the specific cost characteristics attributable to low-use residential consumers and they apportion costs on the basis of accounts with no justification. City/CUB notes that the record evidence demonstrates lower cost characteristics attributable to low-use residential consumers because low usage is closely correlated with (1) high density; (2) better load factors; (3) older housing stock and distribution equipment; (4) less tree trimming; and, (5) more overhead lines. City/CUB note that ComEd did not rebut Mr. Bodmer's conclusions with respect to the identified cost-drivers except for load factors. On that issue, City/CUB argue that ComEd's load factor analysis is inferior to City/CUB's because it utilizes a measure of peak that is not recognized in ComEd's ECOSs and inappropriately uses different peak dates for different customers. City/CUB argue that ComEd fails to meet its burden of proof with respect to evidence-based cost-based delivery service rates by attributing non-demand related costs on the basis of customer accounts. Instead, City/CUB show how the simple test of splitting an existing account into two is a more logical and evidence-based way to determine which costs actually increase on the basis of the number of ComEd accounts. Thus, City/CUB propose a corrected allocation to reduce the "customer related" costs for multi-family non-space heat consumers by \$55 million and to increase those costs for single family non-space heat consumers by \$42 million, with the remaining costs allocated to space heating consumers.

Despite ComEd's concerns, City/CUB show why Mr. Bodmer did not include the cost of service lines in his calculation because he counted those costs as distribution related and believed that they should be allocated on the basis of usage as should the costs associated with consumer complaints, stolen electricity, and relocation of facilities. City/CUB notes that ComEd fails to establish that any of the non-demand related distribution costs increase in proportion to the number of ratepayer accounts. Taking note of ComEd's admitted corporate objective to ensure "revenue stability," City/CUB caution the Commission to view ComEd's functionalization of the costs in its ECOSs as "customer related" with skepticism. (See ComEd Ex. 5.0 at 8:164-9:181.)

City/CUB point out that ComEd's "customer related" costs represent more than 50% of the entire cost of delivery services for multi-family ratepayers and more than 32% of the entire cost of delivery services for single family ratepayers. (City/CUB Ex. 1.0C 58:827-830.) City/CUB demonstrated that ComEd's testimony failed to establish that any of the costs identified increase in proportion to the number of ratepayer accounts. (City/CUB Ex. 2.0 866-869.) City/CUB argue that repeated conclusory statements from a previous proceeding do not meet ComEd's burden to prove that its costs are evidence and cost based. City/CUB note that ComEd could have, but did not,

perform an objective statistical analysis to test its theory that \$458 million worth of costs are caused by the mere existence of residential ratepayer accounts. City/CUB aver that ComEd's anecdotal stories of vacation homes and mansions co-located with apartment buildings do not comprise an objective analysis and fail to rebut Mr. Bodmer's findings.

City/CUB point to the Commission's previous decisions in Dockets No. 10-0467 and Docket No. 08-0532 to illustrate the Commission's policy of dealing with ComEd's functionalization of certain expenses as "customer related," when, in fact, those costs relate more to some other billing determinant such as revenue or usage. City/CUB note that the Commission's previous decisions to uncollectible account and customer information expenses from the default "customer related" bucket establishes Commission policy acknowledging that costs unrelated to the number of accounts or demand can be allocated on the basis of some other billing determinant such as revenue or usage. (Docket No. 10-0467, Order at 204 (May 24, 2011); Docket No. 08-0532, Order at 76-77 (Apr. 21, 2010).)

Among other costs, City/CUB point out that Mr. Bodmer explained that meter reading costs do not change much when an account is split in two; executive compensation hardly changes; the need to pay for advertising does not double; and the costs of market research, stolen electricity, reconnecting ratepayers, providing technical services to ratepayers, relocating facilities, regulatory strategy, administrative costs, and billing system costs do not increase in proportion to the number of customer accounts. Yet, City/CUB note, ComEd's method of functionalizing its costs in its various ECOSs treats all of these costs as directly account related, such that a doubling of those accounts would double those expenses. City/CUB conclude that ComEd's method is not based on empirical data, not based on objective statistical analysis, lacks any policy justification, and is inferior to the method of allocating those costs on the basis of some other billing determinant such as revenue or usage.

Commission Analysis and Conclusion

City/CUB propose an allocation to reduce the "customer related" costs for multi-family non-space heat consumers by \$55 million and to increase those costs for single family non-space heat consumers by \$42 million, with the remaining costs allocated to residential electric space heating customers. City/CUB argue that ComEd's method of "functionalizing" its costs in its ECOS is flawed because it treats customer related costs as directly account related, and does not take into consideration other billing determinants such as revenue or usage.

While ComEd takes no position regarding this adjustment, ComEd does raise concerns with City/CUB's proposal. ComEd states that City/CUB only focused on the capital cost of the meter and postage for bills, and not on associated overhead costs. ComEd states that the overhead costs that City/CUB ignored are real costs that the Company incurs in serving customers, such as operation, maintenance, depreciation,

labor, general plant, taxes and rate of return. Furthermore, ComEd states that City/CUB's proposal has contradictory features and is incomplete.

According to City/CUB, its proposed adjustment is intended to correct ComEd's failure to examine cost-characteristics related to serving low-use ratepayers and failure to properly categorize costs unrelated to the existence of ratepayer account. The Commission notes that the Order in Docket No. 10-0467 required ComEd to provide evidence that demonstrates whether the impacts on the low-use sub-group of the SFV rate design are such that it would be appropriate to have a new class cost of service. The Commission finds that ComEd has not complied with this directive. City/CUB raise definite concerns regarding the low-use sub-group and how ComEd's customer related costs are allocated and the Commission would echo its previous direction to the utility to provide the requested information. It is unclear to the Commission why ComEd failed to comply with that direction in the current proceeding. If the Commission does find that these costs should be reallocated for the policy reasons put forth by City/CUB in the next proceeding, it would benefit all parties to have an allocation based on the most accurate numbers.

As ComEd notes, the City/CUB proposal would allocate customer related costs first to the residential, non-residential, and lighting sectors on the basis of currently used customer related allocation factors, then allocate the costs among the residential sector based on usage, while still allocating the customer related costs within the non-residential and lighting sectors based on currently used customer related allocation factors. City/CUB maintain that in the residential sector all the customer related costs must be allocated on the basis of revenues or energy usage with the exception of the meter and billing postage. The Commission does not agree with City/CUB's assertion and declines to adopt City/CUB's proposed residential cost allocation adjustment. The Commission further orders ComEd to conduct and provide an ECOSS with a distinct low-use subclass of each residential delivery class.

D. Overall ECOSS Recommendation

ComEd's Position

ComEd states that the record contains substantial information to assess whether, and to what extent, ComEd's current Commission-approved ECOSS should be modified. ComEd has not taken a position or made a recommendation regarding which proposed modifications should be adopted. Whether ComEd's delivery service ECOSS should be further studied or segmented, if at all, is a policy decision for the Commission to determine. ComEd recommends that the Commission apply the long-standing principals of cost causation in a reasonable and practical manner that is fair to all customer groups, as well as consider the nature of ComEd's distribution system, in that it is a complex, interconnected network built to serve all customers. ComEd notes that if the Commission directs ComEd to make adjustments to historical weather normalized billing determinants in the 2013 FRU Case, the ECOSS will be revised to provide for the incorporation of those adjustments in the determination of allocation factors, as applicable.

Staff's Position

Staff argues the Commission should be cautious when considering parties proposals that claim they do not use certain components of the system and therefore should not be allocated certain costs. As Staff and other parties have pointed out, the distribution system is an integrated system whereby all classes contribute to the use of the whole distribution system. Thus, the Commission should exercise caution when considering a request for certain segments of the distribution system to be excluded from the revenue requirement for one class without applying the same approach to all other classes. The result may be the reallocation of costs between classes that is not equitable because each class' full responsibility for costs associated with the distribution system have not been precisely or accurately taken into account in a consistent manner. ComEd has provided various ECOSS alternatives for the Commission to consider. While some parties claim that ComEd's ECOSS are faulty, Staff believes its proposal is a fair and equitable basis for the allocation of costs to classes. Therefore, Staff recommends an ECOSS that is the same as the RDI ECOSS except that it employs all the findings and recommendations presented in the CA Distribution Study other than those pertaining to the allocation of costs associated with 4 kV facilities and also includes the indirect uncollectible cost allocation factors in accordance with the Indirect Uncollectible Cost Study be approved by the Commission. Staff's proposed ECOSS can be found in (Staff Ex. 4.0, Attachment 4.01.)

City/CUB's Position

City/CUB believe that the Commission should order ComEd to engage in a three-step analysis to create a proper ECOSS. First, City/CUB argue that the Commission should order ComEd to compute the true costs that are caused by having a ComEd residential ratepayer account. Second, City/CUB aver that the Commission should order ComEd to re-classify its cost of service by separating the costs truly caused by the existence of a ratepayer account from the other costs ComEd incorrectly classifies as customer related. Third, City/CUB argue that the Commission should order ComEd to allocate the costs that ComEd separates in the Second step on the basis of usage rather than the number of ratepayers for the Residential Sector.

IIEC's Position

IIEC notes ComEd has presented eight separate ECOS Studies in this proceeding. IIEC supports the use of the RDI ECOS study (ComEd Ex. 3.01), but would not object to the Commission's use of the Illustrative ECOS studies presented as ComEd Exhibits 3.12, 3.16, 3.17 and 3.18. IIEC believes the RDI ECOS study appears to be most consistent with the study last approved by the Commission. IIEC finds the other studies adopt various minor changes to which IIEC has no objection.

IIEC opposes the use of ECOS studies presented as ComEd Exhibits 3.10 and 3.14. IIEC finds these studies make use of the CA Distribution Study relating to a

change to the allocation of combination poles, which has been discussed in Section II. C. 1. a. (iii).

IIEC objects to Staff's recommendation to use the RDI ECOS study modified to reflect the findings and recommendations presented in the CA Distribution Study other than those related to the allocation of the cost of 4 kV facilities presented as Staff Exhibit 4.01. IIEC argues the CA Distribution Study is flawed as relates to the allocation of combination poles and therefore should not be incorporated in any ECOS study in this regard.

IIEC supports the use of ComEd's RDI ECOS study and opposes the use of ComEd's ECOS studies presented as ComEd Exhibits 3.10 and 3.14, as well as the Staff ECOS study presented as Staff Exhibit 4.01.

REACT's Position

REACT summarizes two recommendations resulting from Mr. Terhune's engineering analysis of ComEd's system as follows:

First, Mr. Terhune recommended that, in this proceeding, the Commission "direct ComEd to make reasonable adjustments to the allocation of Shared Distribution Lines costs to the ELL and HV over 10 MW customer classes based upon my analysis and ComEd's own engineering judgment." (REACT Ex. 5.0 at 21: 448-50.) ComEd's own witnesses confirmed that the approximately \$9 million reallocation would be less than a .5% adjustment across the board in the context of the overall \$2.3 billion revenue requirement. (See Tr. at 254:12-255:3 (ComEd witness Mr. Bjerning); see *also* REACT Ex. 5.0 at 12:250-58.) REACT argues its recommended modification to the ECOS is supported by unrebutted, credible, and compelling evidence and should be implemented now.

Second, Mr. Terhune recommended that the Commission "direct ComEd to perform a statistically valid analysis to determine the proper proportion of Shared Distribution Lines costs to be assigned to each customer class or subclass and incorporate those results into the ECOS." (REACT Ex. 5.0 at 21:451-54.) The evidence establishes that the suggested study is feasible, that ComEd possesses the relevant information and technical knowledge, and that increased accuracy in cost assignment will result. (See *id.* at 15:305-19:409.) The Initial Briefs of ComEd and Staff show that objections to the suggested study mischaracterize what Mr. Terhune advocates, and ComEd has openly admitted that it can perform the study. (See Tr. at 257:1-9 (ComEd witness Mr. Bjerning); see *also* Tr. at 129:2-131:15 (Staff witness Mr. Johnson).) REACT's recommended study is supported by unrebutted, credible, and compelling evidence, and should be ordered in order to further refine ComEd's ECOS methodology.

The Commercial Group's Position

The Commercial Group does not recommend any particular ECOSS but does recommend that the ECOSS ultimately adopted should include the allocation methodology of IIEC Ex. 2.1. In addition, as discussed in Section IV *infra*, whatever ECOSS is adopted, CG asserts the Commission should set rates based on the costs established in such ECOSS.

Commission Analysis and Conclusion

In Docket No. 10-0467, the Commission directed ComEd to perform various studies including a primary/secondary distribution plant study. (See CA Distribution Study, ComEd Ex. 3.07.) In this docket, ComEd provided multiple illustrative ECOSSs including an illustrative ECOSS, ComEd Ex. 3.10, which incorporates all the findings and recommendations presented in the CA Distribution Study. Specifically, the ECOSS in ComEd Ex. 3.10 includes the CA Distribution Study's recommendations regarding: (1) use of direct observation; (2) sampling circuits; (3) treatment of assets used to serve the ELL Delivery Class; and (4) allocation of costs associated with 4 kV facilities. (ComEd Ex. 3.0 at 23.)

The Commission previously ordered ComEd to delete costs associated with 4 kV facilities assigned to the Railroad Class that are not used to serve the Railroad Class. This directive recognizes the economic, environmental and social benefits flowing from a reasonably priced public transportation system in a populous metropolitan area. The Commission must consider the potential adverse impact of utility rate increases on entities that provide public transportation, a cost that may very well be passed on to those who use the public transportation system or the taxpayers who help to fund it. Our commitment to a policy of encouraging conservation, efficient energy use and the environmental benefits of affordable public transportation has not lessened since our decision in Docket No. 10-0467. The CA Distribution Study attempts to address the Commission's directive by identifying and separating the costs into "at or below 4 kV" and "above 4 kV" primary voltage categories. ComEd, Metra, and CTA argue that the ECOSS including the CA Distribution Study's recommendations regarding the treatment of 4kV facilities complies with the Commission's directive. This is true, but only in part. The CA Distribution Study's treatment of 4 kV facilities does delete 4 kV costs from the Railroad Class; however, it also deletes some costs to ELL customers as well. Therefore the Commission finds that ComEd failed to comply with the Commission's directive in Docket No. 10-0467. The Commission accepts the deletion of "at or below 4 kV costs for the Railroad Delivery Class only. The Commission directs ComEd to provide a compliance ECOSS that incorporates all Commission findings from this Order including the deletion of the "at or below 4 kV" costs from the Railroad Delivery Class.

Both REACT and IIEC recommend conducting further studies related to how primary or secondary voltage customers use primary distribution facilities in 4 kV single-phase or three-phase configuration. According to ComEd, such studies would require a highly complex study of the almost 4.8 million meter points connected to almost 6,400

circuits. Then, a further study would be required to precisely determine which costs are related to single-phase, two-phase, three-phase, 34 kV, 12 kV or 4 kV configurations. Additionally, ComEd asserts that such studies would require numerous assumptions to assign such costs. While we note that ComEd has the capability to perform such studies, the Commission agrees that such studies are highly complex. Moreover, the Commission finds that allocation by “path of service” is not the industry norm and can easily become an unsustainable process because the distribution system is constantly changing. As such, the Commission rejects both REACT’s and IIEC’s proposed future studies.

While it is apparent in the evidence presented in this case that certain groups of facilities are not used by larger load customers, segmenting the cost allocation by phase of service does not appear to be practicable. There is also some question as to whether any attempt to segment according to phase of service would be equitable or accurate. Thus, the Commission rejects the changes to cost allocations to primary service as proposed by REACT and IIEC as discussed in Section II.C.1.a. The Commission would note that the same policy concerns that apply to the Railroad Delivery Class, do not apply here.

City/CUB did not support any particular overall ECOSS. Instead, City/CUB recommends the Commission go through a three-step process to create a new ECOSS by making modifications to the allocations in the Residential Sector. City/CUB’s proposed recommendations are discussed in Section II.C.3.b. and are rejected.

Overall, the Commission adopts the recommendations of the CA Distribution Study as indicated above, and the Indirect Uncollectible Cost Study. Finally, in the event the Commission directs ComEd to make adjustments to historical weather normalized billing determinants in the 2013 formula rate update proceeding, Docket No. 13-0318, the Commission finds that the ECOSS approved in this proceeding be revised to provide for the incorporation of those adjustments in the determination of allocation factors, as applicable.

III. CUSTOMER CARE COSTS

ComEd’s Position

ComEd states that customer care costs are not supply-related and are incurred in response to the needs of its delivery service customers. ComEd adds that its customer care costs have increased even though the number of customers that have switched to a retail electric supplier (“RES”) supply has increased.

ComEd argues that REACT’s proposal to shift \$109 million out of ComEd’s delivery service revenue requirement and into ComEd’s supply charges should be rejected. ComEd states that REACT has come before this Commission on three other occasions seeking to reallocate a portion of customer care costs to the supply function, and each time, the Commission has rejected REACT’s proposal. (See Docket Nos. 07-

0566; 08-0532; and 10-0467.) ComEd asserts that REACT has articulated no change in circumstances that would justify the adoption of this proposal.

Finally, ComEd argues that the REACT adjustment is improper because it seeks to reduce ComEd's Commission-approved delivery service revenue requirement in delivery service charges. ComEd states that the proposal is not revenue requirement neutral and thus, outside the scope of this proceeding.

Staff's Position

The Commission should reject REACT's recommendation for the Commission to order ComEd to: (a) assess the level of customer care costs borne by ComEd providing supply services to its customers; and (b) order the Company to subtract these costs from Rate RDS and recover them in its supply rates.

The Commission previously addressed the allocation of customer care costs between delivery services and supply functions in other dockets. This was an issue in Docket No. 05-0597, when a coalition of alternative energy suppliers ("CES") unsuccessfully requested that approximately 25% of ComEd's customer care costs be allocated to the supply function. This proposal was rejected by the Commission:

The Commission finds CES' recommendation to allocate no less than one-fourth of call center costs to supply, to the extent CES still supports this recommendation, to be unsupported and unsubstantiated. Accordingly, that proposal is hereby rejected.

(Commonwealth Edison Co., Docket No. 05-0597, Order at 257 (July 26, 2006).)

The issue arose again in Docket No. 07-0566, where REACT proposed to reallocate 40% of certain customer care costs to ComEd's supply function. *(Commonwealth Edison Co., Docket No. 07-0566, Order at 170 (September 10, 2008).)* While the Commission did not adopt the REACT proposal in that case, it stated that the issue was to be considered further in the Rate Design Investigation proceeding, Docket No. 08-0532. In Docket No. 08-0532 the Commission stated the following with respect to ComEd's customer care costs:

ComEd is directed to file an embedded cost of service study for these costs and to also include the results of its avoided cost study. This will give the Commission the opportunity to review and compare both methodologies and reach a decision based on all the relevant information.

(Docket No. 08-0532, Order at 69.)

The directive specifically referred to the filing of such study in its next rate case filing, which was Docket No. 10-0467.

Two types of studies were provided in Docket No. 10-0467. One, a Switching Study was provided that determined the share of customer care costs that are supply related by assessing whether they are sensitive to the number of customers switching to supply service furnished by Alternative Retail Electric Suppliers (“ARES”). The second was the Allocation Study which used an embedded cost approach to allocate customer care costs between supply and distribution functions. The Commission approved the Switching Study. ComEd witness Mr. Donovan provided the results of the Switching Study as ComEd Ex. 9.01. The Switching Study found that if customer switching were to increase from 1% to 10% or even 100% the Company does not incur significant differences in customer care costs for bundled and unbundled customers. In fact, it appears that as more customers migrate to alternative supply, there is a net increase in costs to ComEd.

REACT witness Jeffrey Merola states that customers who receive supply service from a RES are paying for customer care services they do not receive. He suggests that this is a cross subsidy from customers that receive supply service from a RES to ComEd’s supply customers. (REACT Ex. 3.0 at 15:326-330.) He also maintains that ComEd’s customer care costs should be allocated based on the function that incurs the costs and only customer care costs related to ComEd’s delivery services function should be recovered through Rate RDS and customer care costs related to ComEd’s supply function should be recovered through by-passable supply rates. *Id.* at 16:351-358. Therefore, he recommends the Commission order ComEd to: a) assess the level of customer care costs borne by ComEd providing supply services to its customers and b) order the Company to subtract these costs from Rate RDS and recover them in its supply rates.

Staff witness Johnson is not convinced that the Commission should reexamine this issue at this time. First, the Switching Study from Docket No. 10-0467 found that the cost of providing customer care did not decrease as the number of customer switches increased to 100%. Second, if there is a net cost increase to ComEd under the 100% switching scenario as the Switching Study indicates, there would be no justification for allocating costs away from the distribution function. Third, until the provision of power and energy is declared a competitive service, ComEd is the default supply service provider (220 ILCS 5/16-103(c)); thus, it must stand ready to serve customers that have chosen to receive supply service from a RES. No matter how many customers switch away from ComEd for supply service, ComEd must incur the necessary costs to stand ready to serve them if and when they return to ComEd. Fourth, ComEd witness Mr. Donovan provided some examples of increased costs associated with customer care costs. He identified that the Customer Contact Center (“Call Center”) had an annual expense in the 2010 case of \$25.8 million and the annual expense in this docket is \$36.6 million. He stated that the increase in Call Center spending is a result of responding to customer phone calls. The total number of calls received increased by over 1 million between 2010 and 2012. (ComEd Ex. 9.0 at

16:328-335.) This indicates an increase in customer care costs even though the number of customers that have switched to a RES has increased. Therefore, Staff recommends that the Commission reject Mr. Merola's proposal. (Staff Ex. 4.0 at 35:826.)

ComEd witness Donovan in Surrebuttal testimony also stated that Mr. Merola's arbitrary apportionment of certain of these costs between supply and delivery does not establish that any of those costs are attributable to supply. If they were, these costs would decline as ComEd's former supply customers switch to RES supply. The costs have not declined; they have increased. Of ComEd's 3.8 million customers, only 1.2 million customers receive supply from ComEd. (ComEd Ex. 15.0 at 3:61-66.)

REACT's Position

REACT describes the effect of the passage of the Electric Service Customer Choice and Rate Relief Law of 1997, under which Illinois electric utilities were redefined to have two distinct functions -- a supply function and a delivery function. (See 220 ILCS 5/16-101, *et seq.*) With that re-definition, it became important to identify the costs associated with each function, since RESs would compete against the utility's supply function, while the delivery function would remain a state-sponsored monopoly. According to REACT, if that cost allocation were improperly skewed by including costs associated with supply in the utilities' delivery services rates, the RESs would be competing against an artificially deflated supply rate. REACT notes that in 2007, when it appeared that the benefits of the competitive market might be expanded to the mass market, the way in which the costs were allocated between the supply and delivery functions drew increased scrutiny, with a particular focus upon customer care costs. (REACT Ex. 3.0 at 9:190-206.) REACT emphasizes that now that competition has enveloped the mass market, it is again appropriate for the Commission to revisit the issue of the way in which customer care costs are allocated. (*Id.* at 9:207-10:215.)

REACT explains that customer care costs represent those costs ComEd incurs to provide customer service to support both its supply function and its delivery function. (*Id.* at 5:90-92; Tr. at 73:7-9, 15 (ComEd witness Ms. Brinkman).) As REACT explained in its written testimony, and as ComEd confirmed at the Evidentiary Hearings, customer care costs include the calculation and generation of bills, tracking and maintaining customer information, mailing of bills, responding to customer phone calls, metering services, payment processing, credit and collections, and general customer relations activities. (REACT Ex. 3.0 at 5:92-96; Tr. at 73:10-15 (ComEd witness Ms. Brinkman); *see also* Tr. at 134:20-135:4 (Staff witness Mr. Johnson).) This includes not only the costs associated with direct customer interaction, but also the cost of computer systems and infrastructure to support these business activities. (REACT Ex. 3.0 at 5:96-98.)

REACT explains that in this proceeding, ComEd seeks the Commission's approval to continue to recover all of its customer care costs through its delivery services charges. Specifically, ComEd has proposed to recover 100% of its customer care costs through its delivery services rate, Rate RDS. (See *id.* at 10:219-220.)

REACT maintains that this is inappropriate, because it is very clear that less than 100% of ComEd's customer care costs are attributable to ComEd's delivery function. Therefore, consistent with cost causation principles, it would be improper to allow ComEd to continue to recover all customer care costs through its delivery services rate, according to REACT. (See *id.* at 10:220-222.)

REACT emphasizes that it is not making a proposal to shift 100% of customer care costs from the current recovery category to a wholly new category. Rather, based on a analysis of the available data, REACT seeks a reallocation of about a third of overall customer care costs from the delivery function to the supply function. (*Id.* at 36-37.) REACT states that ComEd will continue to recover 100% of its customer care costs, but those costs will be allocated consistent with cost causation principles. (*Id.* at 40-41.)

REACT emphasizes that in the 2010 ComEd Rate Case the Commission specifically stated that the subject of customer care costs should be re-examined as market conditions evolve. REACT observes, however, that ComEd and Staff both assert that the Commission should not even look at the issue of how customer care costs should be recovered. REACT notes that ComEd goes so far as to suggest that the Commission is prohibited from examining this issue.

REACT argues that ComEd has completely ignored the issue of proper allocation of customer care costs both in this proceeding and in its business practices. REACT points to ComEd's admissions that it has not even attempted to track which customer care costs are attributable to its supply function and which are attributable to its delivery function. (REACT IB at 36, *citing* REACT Ex. 6.1 (ComEd Data Request Responses confirming ComEd's lack of tracking).) REACT also points to ComEd's admission that it did not perform any update or study to attempt to allocate customer care costs subsequent to its 2010 Rate Case. (REACT IB at 36, *citing* REACT Cross Ex. 12 Donovan (*see specifically* ComEd's Response to REACT Data Request 3.04 included in that cross exhibit).) Rather, according to REACT, notwithstanding the significant evolution of market conditions, ComEd continues to simply lump 100% of its customer care costs into its delivery services rates, while allocating 0% of its customer care costs to its supply rates. (REACT IB at 36-37, *citing* REACT Cross Ex. 12 Donovan (*see* ComEd's Responses to REACT Data Requests 3.06, 4.16, and 4.17 included in that cross exhibit).)

REACT states that in sharp contrast to ComEd, REACT witness Mr. Merola has reexamined the data and provided an updated estimate of the appropriate allocation of customer care costs. (REACT IB at 37, *citing* REACT Ex. 6.0 at 23:528-25:574.) In particular, Mr. Merola updated the study that he performed in the 2010 ComEd Rate Case to reflect the ComEd "RDI ECOSS" submitted by ComEd in this case. (REACT IB at 37, *citing* REACT Ex. 6.0 at 23:529-32; 23:539-24:553.) Mr. Merola's updated analysis was presented in REACT Ex. 6.4.

REACT states that Mr. Merola's updated analysis shows that ComEd incurs a total of \$326.8 million in customer care costs, exclusive of metering services. (REACT IB at 37, *citing* REACT Ex. 6.0 at 23:535-36.) Of that amount, approximately \$109 million should be allocated to ComEd's supply function according to REACT. (REACT IB at 37, *see id.* at 23:536-37.) Given the indisputable evolution of the competitive market, and the absence of any viable attempt from ComEd to allocate customer care costs, REACT states that the evidence supports immediate implementation of the allocation advocated by Mr. Merola.

Commission Analysis and Conclusion

Pursuant to the Electric Service Customer Choice and Rate Relief Law of 1997, Illinois electric utilities now have two distinct functions -- a supply function and a delivery function. (See 220 ILCS 5/16-101, *et seq.*)

The parties agree that customer care costs include the calculation and generation of bills, tracking and maintaining customer information, mailing of bills, responding to customer phone calls, metering services, payment processing, credit and collections, and general customer relations activities. This includes not only the costs associated with direct customer interaction but also the cost of computer systems and infrastructure to support these business activities. These costs are allocated to all customers through distribution service tariffs.

REACT argues that a large proportion of these costs are attributable solely to ComEd's bundled supply customers. ComEd asserts that \$0 should be collected from its supply customers for customer care costs. In dockets in 2005, 2007, 2008 and 2010 the Commission has considered this issue.

The Commission notes that ComEd's analyses on all other cost issues are presented as embedded cost studies. On this issue, it has repeatedly emphasized avoided cost studies. It has invariably concluded on the basis of these avoided cost studies that even when there were only a relative handful of delivery service customers, no customer care costs were allocable specifically to its supply customers.

REACT argues that attributing all of these to costs to delivery service customers reduces the supply side cost of service at the expense of delivery service customers. ComEd can charge supply customers less because their rates are in effect subsidized by the total allocation of these costs to parties only responsible for some fraction of them.

ComEd and Staff point out that as the number of delivery service customers has increased, its customer care costs have increased not declined. ComEd contends that this is proof that all customer care costs are properly delivery service costs. The Commission is not entirely convinced. The increase in customer care costs and the concomitant increase in number of delivery service customers does not prove the total absence of costs for ComEd's supply customers. The increase in customer service

costs may only reflect that billing and other services supplied to delivery service customers could be more complex and expensive than those for supply customers. In addition, a simple correlation between number of delivery service customers and the level of customer care costs provides no information regarding cost causation.

ComEd also argues that because this is a proceeding to determine delivery service costs it would improper to reduce the overall assessment of costs. However, If a fraction of customer service costs are attributable only to supply customers, they should be collected from supply customers and not through delivery service tariffs. ComEd can recover its costs, just not from the wrong customers.

Staff argues that as the default supplier, ComEd has an obligation to provide supply service no matter how few supply customers it has. It is entitled to collect customer costs. The Commission agrees that ComEd is entitled to collect its customer care costs and entitled to a profit over and above those costs, but pursuant to long established policy, costs are to be collected from the cost causers, who in this case may include supply customers.

In Docket No. 08-0532, Order at 68-69, the Commission found that REACT's arguments regarding customer care costs had merit, but that specific cost data was lacking. In Docket No. 10-0467, the Commission further recognized that in its switching study ComEd selectively examined categories of costs supporting its customer care cost position while ignoring others that did not. (Docket No. 10-0467, Order at 213.)

In this case, the only numerical information on allocation of customer care costs for bundled customer supply issues is Mr. Merola's analysis on behalf of REACT. His study indicates that ComEd incurs a total of \$326.8 million in customer care costs, exclusive of metering services. He attributes approximately \$109 million of that figure to ComEd's supply function. This number implies that bundled supply customers generate supply related customer care costs roughly equal to their present proportion of ComEd's customer base. This allocation seems inconsistent with a large fraction of customer care costs properly allocated to all customers for distribution related issues. It also overlooks the reality that distribution customers generate more complex bills likely to require more service. ComEd's assertion that there are no customer care costs attributable to its supply customers is equally suspect.

Thus, the record presents the Commission with what it perceives to be two points of view that have been presented to us repeatedly in successive dockets. The record in this case identifies that there may be customer care costs that are attributable to the supply function and should therefore be allocated to the supply function to adhere to cost causation principles. Therefore, the Commission directs ComEd to provide an updated Customer Cost Allocation Study that allocates customer care costs between supply and delivery service functions in the next formula rate update filing. Parties can argue the merits of either accepting or rejecting the results at that time. The Commission directs Staff in the next formula rate case to present analysis to assist the

Commission in determining whether a subset of customer care costs are properly attributable to bundled supply customers.

IV. RATE DESIGN

A. Overview

ComEd's Position

ComEd presented sixteen populated rate designs: ComEd Exs. 2.03, 2.04, and 2.06 through 2.19. These rate designs were based upon the RDI ECOSS and six additional illustrative ECOSSs submitted by ComEd. The various rate designs provide the computations of the individual delivery service charges.

In addition to these rate designs, ComEd prepared and filed additional rate designs (see ComEd Exs. 6.01 through 6.03 and 13.01 through 13.05) to present information related to Staff and Intervenor positions offered in their direct and rebuttal testimonies, as applicable. ComEd states that it has provided extensive evidence upon which the Commission can evaluate the rate implications of all revenue requirement neutral changes related to delivery service rate design that Staff and Intervenors propose.

Based on the evidence presented, ComEd recommends that the Commission retain the Commission-approved SFV rate design structure for residential customers and nonresidential customers in the Watt-Hour Delivery Class. With the exception of the SFV rate design and Illinois Electricity Distribution Tax Charge ("IEDT"), ComEd generally has not taken a position on any rate design issue. Ultimately, ComEd urges the Commission to approve a cost of service study and rate design that appropriately reflects cost causation, ensuring to the extent practical that all customers pay their fair share, with appropriate consideration for other important rate making principles.

Staff's Position

ComEd's rates are determined according to Rate DSPP – Delivery Service Pricing and Performance tariffs in accordance with the provisions of subsection 16-108(e) of the Act. The Company has provided various rate design examples for consideration in this proceeding. It provided a separate rate design based upon the following: 1) RDI ECOSS (at current revenue responsibility, 100% revenue responsibility, and the next step revenue requirement); 2) ComEd Ex. 3.10 ECOSS (at current revenue responsibility and 100% revenue responsibility); 3) ComEd Ex. 3.12 ECOSS (at current revenue responsibility and 100% revenue responsibility); 4) ComEd Ex. 3.14 ECOSS (at current revenue responsibility and 100% revenue responsibility); 5) ComEd Ex. 3.16 ECOSS (at current revenue responsibility and 100% revenue responsibility); 6) ComEd Ex. 3.17 ECOSS (at current revenue responsibility and 100% revenue responsibility); and 7) ComEd Ex. 3.18 ECOSS (at current revenue responsibility and 100% revenue responsibility). The Company states that the revenue

responsibility for any given delivery class in the RDI Rate Design is the same as the revenue responsibility for that delivery class in the 2013 FRU Rate Design. Specifically, the revenue responsibility for the ELL Delivery Class is 71.9%; the HV Delivery Class is 85.3%; and the Railroad (“RR”) Delivery Class is 85.1%. Meanwhile, the revenue responsibility for each of the Small Load (“SL”), Medium Load (“ML”), Large Load (“LL”), and Very Large Load (“VLL”) delivery classes is 101.8%. The revenue responsibility for each of the remaining eight delivery classes is 100%. These revenue responsibilities are in the 2013 FRU Rate Design and maintained in the RDI Rate Design in accordance with the 2010 Rate Case Order. These revenue responsibility percentages, collectively, are referred to as the Current Revenue Responsibility Levels.

Staff notes that one hundred percent revenue responsibility means that the revenue responsibility of a class is equal to the costs allocated to that class in the ECOSS. These rates would be considered fully cost-based for the classes.

Staff then explains next step revenue responsibility is a process that started in a previous docket. In Docket No. 07-0566 the Commission approved a four-step movement towards rates based upon the ECOSS for the ELL, HV, and RR delivery classes. In Docket No. 10-0467, in response to the Commission’s directive for ComEd to address public policy considerations in the rate design applicable to the Railroad Delivery Class, ComEd proposed, and the Commission approved, a ten-step process to move the RR class closer to cost of service through adjustments to the DFC charge in order to mitigate the effects of rate shock. The Commission also adopted the second step movement towards cost based rates for the ELL and HV classes in Docket No. 10-0467.

Last, Staff notes various parties have offered rate design proposals for Commission consideration.

City/CUB’s Position

City/CUB notes that the Commission gave ComEd clear directives regarding its concerns about ComEd’s rate design and its impact on low use residential ratepayers:

However, the Commission takes particular note of arguments regarding the possible disparate impact of a SFV design on low-use customers, especially in the Chicago region. Therefore, in its next rate proceeding, ComEd must provide evidence that demonstrates whether the impacts on the low-use subgroup in the residential customer class are such that it would be appropriate to have a new class cost of service and rate design for that identifiable group. The Commission also encourages ComEd to explore how it defines the low-use customer sub-class.

(Docket No. 10-0467, Order at 232.) City/CUB conclude that ComEd has not provided a meaningful response to either directive.

In comparison, City/CUB point to the analyses of its witness Mr. Bodmer that show the impact of ComEd's SFV rates on low-use consumers in dollar terms and in comparison to the impacts of rate designs used by utilities serving other large metropolitan areas. (See City/CUB Ex. 2.0 at 26, 27, 34.) City/CUB conclude that the analyses demonstrate the disparate impacts of ComEd's SFV rate design between low-use and high-use ratepayers and show how those rates are the most regressive in the nation.

City/CUB aver that ComEd's impact studies focus almost exclusively on comparisons of entire bills, instead of the portion of bills ComEd provides and the Commission regulates. Moreover, City/CUB note that ComEd undertook analyses focused on whether a geographically defined, low-use residential sub-class is appropriate. (Tr. at 495.) However, City/CUB argue that ComEd's interpretation of the Commission's directive is inconsistent with other directives and is unreasonable.

REACT's Position

REACT emphasizes that its expert witnesses demonstrated that there are specific and quantifiable flaws in ComEd's cost allocation and resulting rate design. First, REACT witness Mr. Terhune demonstrated that there are "certain groups of facilities that ELL and HV Over 10 MW customers either never use or use to a de minimis level as part of receiving service from primary voltage distribution lines." (REACT Ex. 5.0 at 21:441-43.) Mr. Terhune recommended a modification to ComEd's ECOSS to account for this analysis -- that modification would reallocate about one-third of the currently allocated Shared Distribution Lines costs (*i.e.*, approximately \$9 million) from the ELL and HV Over 10 MW classes. (REACT Ex. 2.0 at 38:900-39:911; REACT Ex. 5.0 at 12:250-258; REACT IB at 23.) REACT maintains that the ECOSS applied to ComEd's rate design should reflect that modification.

Second, REACT witness Mr. Merola demonstrated that approximately \$109 million of ComEd's \$326.8 million in total Customer care costs should be allocated to ComEd's supply function. (REACT Ex. 6.0 at 23:536-37; REACT IB at 36-37.) REACT maintains that the rate design implemented by ComEd also should reflect that adjustment.

REACT states that all parties appear to agree that the different rate design scenarios before the Commission in this proceeding are all based on the ECOSS approach from the 2010 ComEd Rate Case. (See ComEd Ex. 6.0 at 26:454-61 (ComEd witness Mr. Tenorio); ComEd IB at 24.) REACT asserts that no party contests the fact that the Commission's Order in that case specifically called for further refinement to the ECOSS, yet ComEd openly admits that it has not presented a further refined ECOSS. (See Tr. at 246:7-11 (ComEd witness Mr. Bjerning); Tr. at 133:2-6 (Staff witness Mr. Johnson); Tr. at 294:15-24 (Kroger Co. witness Mr. Townsend).) ComEd confirmed in

its Initial Brief that it is not actually advocating any movement toward "cost" and would accept the modifications to the ECOSS that REACT proposes without any further movement "toward cost." (See ComEd IB at 26; see *also* Tr. at 70:20-71:3 (ComEd witness Ms. Brinkman).) REACT states that despite the fact that this so-called "movement toward cost" would have an enormous and disproportionate cost impact upon ComEd's largest customers, to this day, ComEd has failed to explain what these customers have done to merit such substantial rate increases. Therefore, REACT argues that the Commission should reject any modification of rate design intended as a further movement toward so-called "cost" based on the flawed ComEd ECOSS. (REACT IB at 43-48.)

Thus, REACT requests that the Commission order ComEd to modify its ECOSS consistent with the proposals of REACT expert witnesses Mr. Terhune and Mr. Merola. REACT maintains that there should not be any movement toward so-called ECOSS-based rates at this time; the status quo should be maintained until ComEd completes the studies that REACT and other party witnesses are recommending. Further, consistent with the recommendations of REACT witness Mr. Fults, REACT requests that the Commission direct ComEd to modify its method of assessing the Illinois Electric Distribution Tax and prepare a study of the causes of Unaccounted For Energy.

The Commercial Group's Position

The Commercial Group argues that regardless of the ECOSS adopted by the Commission in this proceeding, the costs shown by such ECOSS should be reflected fully in class rates. In the alternative, CG asserts, if the Commission decides to continue its "next step" approach, the Commission should move the non-residential classes halfway to cost, with the exception of the Railroad class, which would be moved one-third of the way to cost.

The Commission commenced its stepped process of eliminating on-going rate subsidies in its Order in Docket No. 07-0566 at 213:

Above, we determined that the proper assignment of primary and secondary distribution costs would likely reduce the total cost allocation to customers in the ELL, HV, and Railroad delivery classes. It would be inconsistent with that finding to accept ComEd's two-step rate increase. Instead, an allocation that more closely reflects a proper cost of service would be reflected in a four-step, gradual movement toward rates based on the ECOSS for Extra Large Load, HV, and Railroad Delivery Classes. ComEd Ex 30.0 at 43-45. Thus, the Commission authorizes a 25% movement toward ECOSS based rates for these customers, instead of a 50% movement.

Thus, CG states, a slower four-step process was implemented because of flaws that the Commission found in ComEd's ECOSS, namely the need to assign primary and secondary distribution costs. The Commission later slowed this process for the Railroad class to a ten-step process in large part out of a concern that a sharp increase to Railroad class rates in any individual case might harm transit customers:

At this time, the Commission declines to raise the rate that the CTA and Metra will incur beyond 10%. The Commission notes that any increase in the rate supplied to these two customers could be passed on to consumers. Also, an increase in the costs incurred by the CTA and Metra, beyond the modest one proposed by ComEd, could limit these providers' ability to provide public transportation to millions of people.

(Docket No. 10-0467, Order at 260-261.) However, as ComEd witness Bjerning points out in his rebuttal testimony (ComEd Ex. 7.0:375-406), the primary/secondary allocation was implemented and the Commission has determined in more recent cases that ComEd's class cost of service study has been "greatly improved" through the input of the various parties. Presumably, CG contends, that study will be improved even further through this current rate design investigation. Therefore, CG argues, this basis for continued slow movement to cost for each class is no longer applicable. In addition, CG asserts, as is evident from Staff Ex. 1.0 Attachment 1.01, taking the next of a 10-step process in this case would result in a rate decrease for the Railroad class and so this basis for the slower process for the Railroad class is also eliminated. CG argues that rates for each class instead should be set in this proceeding at the class cost established by the improved ECOSS ultimately adopted in this case.

Commission Analysis and Conclusion

The Commission has addressed arguments raised by parties in this rate design overview section in other sections of this Order.

B. Potentially Uncontested Issues

The Commission will not address uncontested rate design issues in this Order.

C. Potentially Contested Issues

1. Residential

a. Straight-Fixed-Variable (SFV)

ComEd's Position

ComEd urges the Commission to reject City/CUB's and AG's proposals that would reverse the Commission's decision in May 2011, to adopt a modified SFV rate

design for residential customers. ComEd states that the question of the appropriateness of using an SFV rate design for residential customers was fully litigated and resolved in Docket No. 10-0467, Order at 218-232. ComEd avers that City/CUB and AG have not demonstrated that circumstances have changed since that time to warrant the Commission's reversal of the SFV rate design structure for residential customers. ComEd notes that Staff also disagrees with City/CUB's and AG's proposals and recommends that the Commission retain its current SFV rate design. ComEd agrees with Staff that Docket No. 10-0467 never contemplated that the SFV rate design would be completely eliminated in ComEd's next rate design docket.

ComEd asserts that the Commission has repeatedly recognized that sound regulatory policy encourages the recovery of fixed costs through fixed charges and that the Commission has adopted an SFV rate design not only for ComEd, but for other delivery utilities such as Ameren Illinois and Nicor Gas Company. ComEd observes that the majority of its delivery costs are fixed, thus recovery of such costs through a fixed charge rather than a variable, volumetric charge, is reasonable. ComEd notes that the Commission did not adopt ComEd's SFV proposal in the 2010 Rate Case Order that, ultimately, sought to recover 80% of delivery service costs through fixed charges. Instead, the Commission approved a modified SFV rate design for residential customers that recovered 50% of fixed costs through fixed charges. Nonetheless, ComEd supports maintaining the existing, Commission-approved SFV rate design for residential customers.

ComEd takes issue with City/CUB's alternative approach - a rate design with a 19-tiered fixed monthly customer charge, ranging from \$1.00 to \$43.36, tied to monthly average customer usage for multi family customers and a 17-tiered fixed monthly customer charge, ranging from \$1.00 to \$57.51, tied to monthly average usage for single family customers. The City/CUB proposal also *increases* the variable charges for all customers in three of the four residential delivery classes, specifically by 8.4% for the SFNH, 79.8% for the SFH, and 20.3% for the MFH delivery classes. The Company asserts that not only does this proposal conflict with sound regulatory policy; it will spawn considerable confusion for residential customers and create more administrative costs for ComEd. Likewise, ComEd states that the AG's proposal takes a step back from basing delivery rates on cost-causation principles.

ComEd also responded to various City/CUB and AG claims made to support their respective alternative rate design proposals. First, ComEd asserts that the claims of City/CUB and the AG that an SFV rate design is harming low-use customers has no basis in fact. ComEd points to its study of the impact of SFV rates on low usage customers, wherein ComEd examined the impact on approximately 2.7 million residential customers. In that study, ComEd found that fewer than 84,000 low use customers saw increases of 10% or more in their total electric service bills due to the implementation of the SFV rate design. ComEd also stated that basing delivery service charges on customer usage misses the point: the Company plans and installs facilities based on anticipated maximum demand on those facilities, and these costs are fixed

and do not fluctuate based on the level of customer electricity usage. Thus, ComEd concludes that City/CUB and AG's claims regarding low use customers are misplaced.

Next, ComEd addressed the AG's claims that an SFV rate design diminishes the ability of customers to reduce their electricity usage. ComEd argues that such claims should be rejected. ComEd cites to the Commission's 2010 Rate Case Order wherein the Commission rejected a similar assertion stating, "[t]he Commission is not convinced that an SFV rate design reduces the incentive to conserve electricity." (2010 Rate Case Order at 231-232.) ComEd asserts that nothing associated with an SFV rate design prevents a customer from using less energy, as the decision on how much electricity to use lies with the customer alone. To support this conclusion, the Company points to the same Commission Order wherein the Commission noted that customers have ample incentive to reduce electricity consumption given that the majority of their bill is based on the cost of supply, not the delivery charge. (*Id.* at 231.) ComEd also states that the SFV rate design does not conflict with the Act's energy efficiency goals. ComEd asserts that the AG erroneously invokes Section 8-103 when making this claim, when in fact Section 8-103 has nothing to do with establishing delivery service rates.

Finally, ComEd takes issue with City/CUB's and the AG's claims that ComEd no longer requires SFV rates because it is guaranteed recovery of all of its costs under the Energy Infrastructure Modernization Act ("EIMA"). ComEd states that this claim is expressly refuted by the terms of EIMA. EIMA does not guarantee ComEd's recovery of all its costs. Rather, EIMA's provisions require the reconciliation of actual costs to projected costs; it does not reconcile the Commission-approved revenue requirement for a particular year to the actual revenues collected during that year.

Staff's Position

The Commission should retain the SFV rate design percentages approved by the Commission in Docket No. 10-0467, for the SFNH, MFNH, SFH, MFH, and watt hour ("WH") classes.

The Commission directed ComEd to:

... in its next rate proceeding, ComEd must provide evidence that demonstrates whether the impacts on the low-use subgroup in the residential customer class are such that it would be appropriate to have a new class cost of service and rate design for that identifiable group. The Commission also encourages ComEd to explore how it defines the low-use customer sub-class.

(Docket No. 10-0467, Order at 232.)

In response to this directive, ComEd provided a study titled: "Residential Electricity Usage and Bill Impacts of the Straight Fixed Variable Rate Design." The

study includes a discussion by the Company concerning background, residential electricity usage, SFV rate design bill impacts, and a conclusion. The study also provides tables and charts for SFNH, MFNH, SFH, and MFH identifying residential electricity usage by the average number of customers in each percentile for 2010, the monthly minimum, monthly maximum, and monthly average usage for the percentile, as well as the annual minimum, annual maximum, and annual average usage for that percentile. For the same classes, SFV rate design bill impacts are provided comparing the SFV rate design approved by the Commission in Docket No. 10-0467, and the Company determined rates using the methodology employed for previously effective delivery service charges. (Staff Ex. 1.0 at 39-40:843-854.)

Additionally, the Company provided charts that show for each zip code in the Company's service territory, for which average household income information was available, the splits between (a) customers in Percentile 1 through Percentile 50 and (b) customers in Percentile 51 through Percentile 100 in terms of usage. These charts also provide average household income for the zip code, and the charts are shown with zip codes arranged along the X-axis in order of increasing average household income. Four charts, one for each delivery class, provide summary data for customers in the City of Chicago. For customers in other areas of ComEd's service territory, there are eight charts for each delivery class due to the number of zip codes included in the analysis. (*Id.* at 40:856-865.)

ComEd found that there is no cost basis for creating additional residential delivery classes within ComEd's rate structure. ComEd also found that there is not an inequity that might warrant a restructuring of charges for delivery service within the existing residential delivery classes. (*Id.* at 40:867-870.)

AG witness Scott Rubin analyzed data from ComEd's "Residential Electricity Usage and Bill Impacts of the Straight Fixed Variable Rate Design." (ComEd Ex. 2.33.) Mr. Rubin's analysis included a comparison of SFV rates with 2006 ComEd rates that "were set using traditional principles of cost causation (demand-related costs recovered through the kWh charges)." (AG Ex. 2.0R at 3-4:60-68.) Mr. Rubin assigned each customer to one of 20 groups based on the customer's annual consumption. The 20 groups, known as percentiles, represent the customers who had the lowest annual consumption (5th percentile), the 5% of customers with the next highest annual consumption (10th percentile), and so on. Mr. Rubin's analysis determined whether each group of customers was providing revenues that were greater than or less than the cost to serve the customer group. (*Id.* at 3:44-47; 4:78-80.)

Mr. Rubin found that by moving toward SFV rates in the SFNH class, the lowest use customers received increases about two times the class average, while the highest use customers received increases of less than one quarter of the class average increase. (*Id.* at 6:107-109.) For the MFNH rate class, Mr. Rubin found that low users in the class are providing revenues that are less than the cost of providing service, while larger users are providing revenues in excess of the cost of service. (*Id.* at 10:206-209.) For the SFH rate class, Mr. Rubin found that 30% of customers with the lowest usage

(annual usage less than 15,529 kWh) saw their bills increase, while all other customers had their bills decrease. (*Id.* at 12:248-250.) Mr. Rubin concluded that subsidies within the SFNH, MFNH, and SFH classes would be significantly reduced if the SFV rate design was eliminated and his proposed rate design methodology was approved. (*Id.* at 9:180-184, 11:234-238, 14:297-301.)

City/CUB witness Edward Bodmer examined a range of issues concerning rate design that include an examination of electric bills for various customers based upon their usage and location, and comparison of the rates in effect prior to Docket No. 10-0467 to ComEd proposed rates, as well as the related percent increase in electric bills. According to Mr. Bodmer, rate increases since the Order in Docket No. 10-0467 range from 53% for low-use consumers in the City to 24% for high use consumers outside of the City. (City/CUB Ex. 1.0 at 34:499-501.) He also found that, compared to the rates in effect prior to the Commission Order in Docket No. 10-0467, account charges (customer charges and meter charges combined) for single family ratepayers would increase by 84% if account charges ComEd proposes in this case are approved. For multi-family consumers, the account charge would increase 23%. (*Id.* at 25:378-383.) Mr. Bodmer argues that ComEd's residential rates are unfair, particularly as they affect residential ratepayers in high density areas and consumers who typically use less electricity than other ComEd ratepayers. (*Id.* at 3-4:20-22.) Mr. Bodmer's rate design proposal eliminates ComEd's fixed cost recovery through SFV rate design and implements variable customer charges for residential customers. Mr. Bodmer's customer charges reflect customer related costs that include meter costs, services, and stamps and paper. (City/CUB Ex. 1.1 at 4.)

Staff examined the results of the Company's, the AG's, and City/CUB's analysis of SFV rate design on the residential classes. Staff witness Johnson agreed that SFV rates have different impacts on residential classes compared to non-SFV rates. Staff pointed out that Mr. Rubin and Mr. Bodmer argue for the elimination of the current Commission approved SFV rate design for all current SFV Residential sector classes (SFNH, MFNH, SFH, MFH), an option that the Commission did not indicate was contemplated in Docket No. 10-0467. (Staff Ex. 4.0 at 26:591-595.) Staff recommends the Commission retain the SFV rate design percentages approved by the Commission in Docket No. 10-0467, for the SFNH, MFNH, SFH, MFH, and WH classes. (Staff Ex. 1.0 at 29:630-632.)

Additionally, besides ComEd, no party addressed the effects of SFV rate design for the non-residential Watt-Hour class.

AG's Position

The AG believes that the Commission's recent movement toward, and endorsement of, SFV rates contradicts traditional rate setting of the past and the core tenet that cost causation should guide the design of utility rates. The AG states that the adoption of formula rates, with retroactive rate adjustments, minimizes the utility's risk of under-collection and removes the key justification for SFV rates. Given that SFV has

resulted in an undue and disproportionate burden on consumers with low usage, the Commission should reverse the movement toward SFV in favor of rates that reflect cost of service.

In light of this statutory change, the AG argues that Commission should re-visit its ill-advised focus on ensuring “fixed cost” recovery through steadily increasing customer charges and diminished variable charges. As noted by AG witness Rubin, if there ever was a reason to move toward SFV rates, that reason has disappeared with the legislative enactment that essentially ensures ComEd recovery of its revenue requirement, regardless of the amount of electricity it sells or the way its rates are designed. Thus, there should be no reason to deviate from traditional rate design principles that focus on recovering costs from customers who cause the costs to be incurred.

The AG points out that SFV rates contradict Illinois public policy that favors customer engagement in energy efficiency. In addition to the inequitable cost shifting from high users to low users that is triggered by SFV rates, the marked increase in fixed monthly charges associated with SFV means residential customers have less ability to affect their bill for utility service and less incentive to engage in energy efficiency. The AG cites Section 8-103 of the Act and maintains that this effect contravenes the clear direction from the Illinois General Assembly that utilities engage customers in ratepayer-funded energy efficiency programs and thereby reduce the demand for electricity. The policies to promote customer engagement in energy efficiency support the Commission re-considering and ultimately rejecting its embrace of SFV pricing.

SFV rates reduce a customer’s incentive and ability to reduce their electric usage because they reduce the ability of customers to control the amount of their electric bill. The AG argues that this is even worse for the low-use customer. The AG states that, when a customer can affect only 20% of his or her electric distribution bill, the incentive for the customer to improve his or her efficiency is significantly reduced. Thus, the AG argues, moving toward SFV rates not only shifts costs to low-use customers, it also diminishes customers’ ability and incentive to control their bills through enhanced efficiency efforts. For this reason, too, the AG concludes that the Commission should re-visit its endorsement of SFV rates and adopt Mr. Rubin’s proposed residential rate design.

According to the AG, with respect to residential rate design, the clear, unrebutted evidence shows that low-use customers do not contribute significantly to ComEd’s substantial demand-related costs. The AG asserts that such costs should be recovered from residential customers in relation to the amount of electricity they use. The AG states that the arrival of formula ratemaking is an appropriate time to correct the inequity in ComEd’s residential rates.

According to the AG, AG witness Mr. Rubin’s analysis showed that the SFNH are paying rates in excess of their cost of service. He determined that users in the lowest usage percentile (5%) should be responsible for approximately 2.4% of the class’s total

cost of service. Yet, Mr. Rubin's analysis showed that this percentile group is currently providing 2.8% of the class's revenues.

The AG contends that this analysis demonstrates that the revenues paid by the smallest users exceed the cost of serving those customers by more than 15%. Mr. Rubin noted that under 2006 rates, the smallest users were providing slightly less revenue than they should (2.3% of class costs compared to the 2.4% they should provide). Thus, assuming for purposes of this analysis that ComEd's ECOSS is accurate, some realignment in 2006 rates was necessary to fairly recover revenues from low- and high-use customers, but the SFV-type rates that were adopted since 2006 went much too far. The result is that low use customers are paying too much and high-use customers are paying too little.

In order to eliminate the disparity between revenues and cost causation within the various residential classes, AG witness Rubin proposed a re-alignment of the customer and variable charges that reflect each residential customer class's contribution to demand costs while collecting the same overall level of revenues from each class and eliminating the inequitable cross-subsidy of high usage customers by low usage customers that currently exists.

For the SFNH class, approximately 60.8% of costs are related to demand, so 60.8% of revenues should be recovered through kWh charges. The remaining 39.2% of costs are customer-related, so they should be recovered through the customer charges. The customer charges are then divided between the customer charge and the meter charge to reflect these ratios. Using existing rates, this results in a SFNH customer charge of \$9.61 per month, a meter charge of \$2.89 per month, and a consumption charge of 2.273¢ per kWh. These compare to ComEd's currently effective rates of \$12.23 per month, \$2.89 per month, and 1.955¢, respectively. That is, ComEd's existing customer charge is too high by roughly \$2.62 per month and its existing kWh charge is too low by about 0.318¢ per kWh, assuming the existing revenue requirement.

The AG asserts that the Commission can simply set the percentage of revenues that comes from the fixed and variable charges delineated in AG Ex. 1.01 corrected for each residential rate class and apply the new revenue requirement. These amounts may be modified depending on how the Commission modifies ComEd's cost allocations in its ECOSS. No matter what modifications are made, the information contained in ComEd Ex. 7.01, pdf page 66, (labeled "Schedule 2A"), lines 255-260, should form the cost basis for the demand (variable kWh)/fixed (customer and meter charges) allocation for each residential subclass.

The AG further argues it showed that contrary to the SFNH class, low users in the MFNH class are providing revenues that are less than the cost of providing service, while larger users are providing revenues in excess of the cost of service. (AG Ex. 2.0 at 9.) Thus, the AG claims, some realignment of rates would be appropriate for this rate class.

Mr. Rubin designed rates for the MFNH class using the same approach for the SFNH class. The resulting rates equivalent to existing rates are a customer charge of \$7.37 per month, a meter charge of \$2.89 per month, and a consumption charge of 2.241¢ per kWh. These compare to ComEd's currently effective rates of \$6.21 per month, \$2.89 per month, and 2.536¢, respectively. That is, ComEd's existing customer charge is about \$1.16 per month too low, using ComEd's ECOSS assumptions, and its existing kWh charge is too high by just under 0.3¢ per kWh. (AG Ex. 2.0 at 10.)

The AG contends that the adoption of Mr. Rubin's cost-based rates would realign revenues from each percentile group of MFNH customers with the cost of serving each group of customers within the MFNH class. That result is shown in AG Ex. 2.08. These rates should be adjusted in proportion to the final revenue requirement adopted by the Commission in ComEd's formula rate proceedings, as explained above.

The AG contends that while some realignment of the rates for SFH was called for, once again, the Commission and ComEd went too far in the other direction. The lowest-use SFH customers saw their contribution to revenues increase by nearly 60% between 2006 and 2013, even though the class's total revenue contribution decreased by 3.6%. (AG Ex. 2.0 at 11.)

In order to eliminate the subsidies from the lowest users to the highest users within the SFH class, it is necessary to reduce customer charges and increase consumption charges, as proposed by Mr. Rubin. Mr. Rubin designed rates that would collect the same level of revenues from the SFH rate class, but that would eliminate the disparity between revenues and costs within the class, using the same approach as applied to the other residential rate classes and reflecting the fact that 61.9% of the total cost of service in the SFH class is for demand-related costs, while 38.1% of costs are customer-related. (AG Ex. 2.0 at 12.) The resulting rates equivalent to ComEd's existing rates are a customer charge of \$11.08 per month, a meter charge of \$2.89 per month, and a consumption charge of 1.215¢ per kWh. (AG Ex. 2.0 at 13.) These compare to ComEd's currently effective rates of \$15.13 per month, \$2.89 per month, and 0.998¢, respectively. (*Id.*) That is, ComEd's existing customer charge is about \$4 per month too high and its existing kWh charge is too low by about 0.22¢ per kWh. (*Id.*)

The AG maintains that there is no current need to adjust MFH rates. Mr. Rubin concluded that it was not necessary to redesign the MFH class rates to achieve cost-based rates. He noted that the existing rates for this class are very close to the optimal cost-based rates, and that if a change were made to ensure cost-based rates, it would be fairly minor. (*Id.* at 16-17.) He calculated that the customer charge would need to increase slightly from \$6.81 under present rates to \$7.26. Similarly, the consumption charge would decrease slightly from 1.149¢ per kWh at present to 1.098¢ per kWh. Given the slight nature of these changes, he stated that he did not believe it is necessary to modify the existing rates for the MFH class.

City/CUB's Position

City/CUB argue that ComEd's response to the Commission's directives concerning the impact of SFV rates on low-use residential ratepayers is inadequate because the Company failed to define a low use sub-group, incorrectly and impermissibly added a geographic element to the inquiry which predisposed the analysis to conclude in the negative, failed to create a cost of service study suitable to determine the impacts of SFV rates on low-use residential ratepayers, and allowed ComEd's objective of revenue stability to interfere with and distort its cost analyses.

On the other hand, City/CUB point to Mr. Bodmer's analysis using per kWh price comparisons to demonstrate the impact of SFV on residential consumers – especially the low-use consumers the Commission asked about – which has been harsh, with increases as high as 54% from the level of rates ordered in Docket No. 10-0467. (City/CUB Ex. 1.0C at 34:496-509, Table 3.) City/CUB aver that the increases in customer charges since the introduction of ComEd's SFV rate design have made ComEd's charges the highest among those of major city utilities. (City/CUB Ex. 2.0 at 27.) Moreover, City/CUB note that the harsh impacts of ComEd's high fixed charges on low-use residential ratepayers is worsened by the fact that ComEd lacks lifeline rates to facilitate access to utility services or inverted rates that encourage energy efficiency and reflect costs for different users. (City/CUB Ex. 1.0C at 29.)

City/CUB note that the common pattern among ComEd's price curves is that they are the nation's most regressive, with high prices for low-use and low-income consumers and a consistent downward slope to lower prices for high users, in each residential customer class. City/CUB explain that ComEd's price curves result in these impacts because ComEd's rate design wrongly assumes that: (a) that every residential consumer causes an equal portion of ComEd's demand costs; (b) that corporate overhead costs are related to the number of ratepayer accounts; (c) that the costs of serving low-use consumers are no different from those incurred serving high users; and (d) that there is no alternative rate structure that serves the public interest (including utility financial stability) as well or better.

City/CUB note that there is no dispute that demand is the cause of many of ComEd's distribution costs. City/CUB explain that this means that the costs of wires, local transformers and other facilities used to deliver electricity to ComEd ratepayers are designed and built based on demand and account for the largest category of its distribution costs. (ComEd Ex. 2.33 at 6.) Therefore, City/CUB conclude that demand is the most relevant cost-causer for determining residential distribution rates.

Nevertheless, note City/CUB, ComEd's rate design treats residential ratepayers' demand costs as though they were instead customer costs. (City/CUB Ex. 1.0C at 42:613.) But City/CUB notes that even ComEd admits that demand costs do not change into customer costs, simply because demand is not measured. (Tr. at 483.) Nor did ComEd investigate demand based alternative rate designs, City/CUB point out. City/CUB note that ComEd's rate design expert admitted that ComEd had done no

study of the “ideal” rate design its SFV expert identified. (ComEd Ex. 10 at 7:143.) Therefore, City/CUB conclude that the proposal for tiered customer charges is the only proposal in this record sensitive to cost-causing demand.

City/CUB note that Mr. Bodmer’s analysis of newly available data identified an almost perfectly correlated proxy for demand measurements -- usage -- that permits demand based recovery of demand costs. City/CUB point out that Mr. Bodmer’s analyses establishing the near-perfect correlation between usage and demand were unchallenged by ComEd. Thus, City/CUB aver that using such correlations for rate design essentially replicates the process for identifying reasonable allocators in cost of service studies. City/CUB note that even the SFV expert ComEd hired specifically for this case considers demand based recovery of demand costs more appropriate. (ComEd Ex. 10.0 at 7-8:133-145.) One portion of the City/CUB analysis compares residential consumer usage over the year to usage in the peak month of August by small 10 kWh increments of usage, like the usage bands used in City/CUB’s tiered customer charge proposal.

City/CUB explain that this analysis illustrates the correlation between usage and demand of 99% suggests there is little of consumers’ demand-determining peak usage to be explained by factors other than their usage and there is no amount of peak demand attributable to the bare number of consumer accounts. City/CUB conclude that the fact that the regression curve intercepts the y-axis (usage) at zero implies that none of the variation in peak load (which determines demand) can be explained by the number of customer accounts. (City/CUB Ex. 2.1 at 9.) City/CUB conclude that the Commission should order, for ComEd’s residential ratepayers, a rate design built on cost causation based on the City/CUB proposal for a tiered customer charge.

City/CUB argue that the implementation of ComEd’s formula rates, legislative mandates for energy efficiency and demand response, and the deployment of advanced meters clear the way for demand based rates like those ComEd uses for its non-residential ratepayers and make SFV rates unnecessary. Moreover, City/CUB point out that a rate design based on “variable” costs would be a much better choice as it more closely mimics the three-part rate structure -- variable usage and demand charges and a fixed customer charge-- that is accepted in the industry (and by ComEd’s SFV expert) as the most appropriate rate design for delivery services. (ComEd Ex. 10.0 at 7:141-8:145.) Given the correlation between demand and usage is near-perfect, City/CUB conclude that it is the best proxy for metered demand measurements.

In addition, City/CUB aver that the Commission’s consistent regulatory policy favoring recognition of cost causation in cost allocation and cost recovery impels movement toward a rate structure that is sensitive to the cost-causing demand ComEd’s new advanced meters will measure. City/CUB notes that under ComEd’s SFV rate design, consumers receive no signal at all that relates to ComEd’s most significant delivery services costs -- the costs of its wires, local transformers, and other delivery facilities. Instead, the City/CUB proposal replicates the rate structure that ComEd’s expert identifies as the ideal. Although a structure that recovers demand costs almost

entirely through usage charges would be acceptable to City/CUB, Mr. Bodmer has proposed instead tiered customer charges that recognize the causes of demand costs.

City/CUB note that consumer benefits on which the Commission's approval of AMI deployment was based rested in part on rate structures that allow consumers to save money by controlling their demand. (Docket No. 12-0298, Order at 40, 48.) Yet, without a prompt transition to a demand based rate design, City/CUB argue that consumers' energy related investments will be affected by perpetuation of the SFV rate design, when ComEd has already begun to enable demand based rates that match cost causation with cost recovery. (See Tr. at 211.) Moreover, without a speedy transition to demand based rates, City/CUB point out that delivery service charges will not be reduced when consumers use their advanced meters to control their demand. (Docket No. 12-0298, Order at 40, 48.)

City/CUB argue that its tiered customer charge proposal also advances the state's energy policy favoring energy efficiency and demand management initiatives. City/CUB explain that demand based rates provide consumers with appropriate signals about cost causation and an economic incentive to control demand and demand costs whereas ComEd's SFV rate design reduces those economic incentives, since its customer charges are high, fixed, and uniform, regardless of usage or demand management.

Moreover, City/CUB aver that SFV rates work against the legislative goal to encourage energy efficiency and conservation. (See 220 ILCS 5/8-103.) With both SFV and the energy efficiency/demand management policy in place, City/CUB argue that ComEd ratepayers are compelled to pay for programs to reduce consumption and demand while paying rates that deny the economic benefits of reducing consumption and demand.

City/CUB also point to Mr. Bodmer's analysis of the pricing policies of utilities serving major metropolitan areas of the country showing that ComEd's SFV rate structure currently imposes the most regressive delivery service prices in the entire nation, from the perspective of ComEd's low income ratepayers. Additionally, City/CUB show that Mr. Bodmer's analysis demonstrated an extremely strong relationship between income and usage. ComEd's conclusion to the contrary is supported only by studies of ratepayers of other utilities, in very different service areas that have income profiles peculiar to each region, vacation climates, distinctive culture and housing stock, and differing uses for fuel sources than ratepayers in ComEd's service territory.

City/CUB aver that their proposal accommodates ComEd's strong desire for recovery through customer charges by proposing demand-sensitive, tiered customer charges that take account of cost-causing demand. Understanding that the ComEd SFV rate design is unavoidably the starting point for any transition to (a) economically efficient demand based recovery of demand costs and (b) more appropriate revenue or usage based recovery of costs that are not directly related to any of ComEd's rates

measures, City/CUB propose an alternative design as a transitional advance toward an ideal demand based rate design.

Commission Analysis and Conclusion

In its Order in Docket No. 10-0467, in connection with the adoption of the SFV rate design, the Commission directed ComEd to:

... in its next rate proceeding, ComEd must provide evidence that demonstrates whether the impacts on the low-use sub-group in the residential customer class are such that it would be appropriate to have a new class cost of service and rate design for that identifiable group. The Commission also encourages ComEd to explore how it defines the low-use customer sub-class.

(Docket No. 10-0467, Order at 232.)

This directive reflected the Commission's concern that the adoption of the SFV rate design might negatively impact low use customers. The Commission indicated that disparate impact of the SFV design on low use customers might trigger changes in service classifications and rate design to address this inequity. The Commission directed ComEd to provide evidence regarding cost of service for low use customers and to explore how it defines the low use customer subclass. In response, ComEd provided data conflating geography and usage. It determined that there are high and low usage customers in all zip-codes. ComEd also determined that some low use customer accounts are seasonal vacation homes or special use accounts. ComEd failed to define a low use customer class, and it failed to provide cost of service data specific to low use customers.

ComEd argued that because an account at a specific location might be a low use customer one year and a high use customer the next due to change of ownership or family circumstance, it could not design its distribution system on the supposition that a low demand area will remain static. While this assertion is true, it has nothing to do with determining whether a group of customers exist who may not be geographically proximate, but make small demands on the distribution system and pay an inequitably high price for service. That is the concern that arises from an SFV rate design that the Commission wanted ComEd to explore. Although ComEd prepared sixteen ECOSSs, none of them provided specific information on the cost of service for low use customers. ComEd assumed that its existing customer classes were appropriate despite our directive to examine their adequacy.

The Commission's directive to provide information on low use customers was to determine whether the SFV rate design results in charges for low use customers in excess of the cost of serving them. Even in the absence of an ECOSS for low use customers or a definition of low use customer, the analysis of the City/CUB and AG witnesses indicate that the increases in ComEd's customer charge integral to SFV rate

design have resulted in charges substantially in excess of the cost of service for low use customers in two residential classes.

Both the City/CUB and AG sponsor rate design adjustments for the residential classes based on the assumption that demand costs are proportionate to usage and more equitably allocate the cost of service than the present SFV. The City/CUB and the AG argue that in the absence of demand meters usage is a good proxy for demand and a reliable indicator of the cost of service. These parties point out that the SFV rate design results in low use residential customers paying more than their cost of service because of the uniform class wide customer charge and lowered consumption charges. Conversely, high use customers in those classes tend to pay less than their cost of service for the same reason. The AG's analysis indicates that the lowest use SFNH customers have been overpaying their cost of service by 40%. Similarly, SFH low use customers' charges have exceeded the cost of service by 20%. This unrebutted analysis contradicts the SFV rate structure assertion that delivery costs are fixed and not impacted by customer usage.

The City/CUB studies indicate that ComEd's current fixed charges are currently higher than those for virtually every major electric utility in the country. Furthermore, it argues ComEd's rates are more regressive than major electric utilities anywhere in the country. It charges high per kilowatt prices for low usage that consistently decline on a per kW basis with increased usage. Thus, its rate structure conflicts with the legislature's energy conservation policy. The City contends that ComEd's rate structure is predicated on the incorrect assumptions that: 1) every residential customer within a class causes equal demand costs; 2) costs of service for low and high use customers are essentially the same; and 3) no alternative rate structure serves the public interest as well.

The City/CUB argue that ComEd incorrectly allocates demand costs to its customer charge. The City/CUB argue that the fixed customer charge should be replaced by sliding scale inclining block customer charges based upon the previous year's usage. The effect of this system would be to make fixed charges proportional to use. Low use/low demand customers would pay less and high use/high demand customers would pay more for their service. Thus, according to the City/CUB, better reflecting the cost of service while rewarding conservation and penalizing high use.

The AG's proposed replacement for the current SFV system gets to a more equitable allocation of costs by a simpler design which reduces customer charges within two residential subclasses and upwardly adjusts the per kilowatt usage charge to reflect what it asserts are more accurate calculations of fixed and variable costs. Similar to the City/CUB proposal, this rate design results in lower customer charges and higher per kilowatt usage charges in two customer classes. According to the AG's evidence, ComEd's present rate structure for the MFH class closely approximates the cost of service and does not require adjustment. The AG contends that the MFNH class is paying slightly less than its cost of service. Its customer charge is a little low and its per

kilowatt charge is a little high. The AG proposal raises the customer charge and lowers the usage charge for the MFNH customer class.

ComEd's argument that system design cannot tolerate equating low usage with low demand is really not the issue. ComEd designs its delivery system for aggregate demand within an area. It is perfectly true that a location or a customer may be low use one year and high use another. However, it is not reasonable or consistent with public policy to structure rates so that the poor, the frugal and the energy efficient are required to subsidize those who are not, when a more equitable method of allocation exists. A more reasonable policy allocates the same aggregate costs so that individual customer costs are reasonably proportionate to the demands that their use places on the system.

Both City/CUB and the AG argue that retroactive rate adjustments occasioned by EIMA and the adoption of formula rates minimize the risk that electric utilities will not recover costs and a return on their investment. They contend, therefore, adjustments to the SFV rate design intended to recover the same revenue more equitably should be considered. ComEd disputes this assertion because actual costs and actual revenues collected are not identical. In any event, the Commission believes it likely that ComEd's financial risks have been reduced due to EIMA. The Commission finds that ComEd's financial integrity is not likely to be impaired by the adjustments to rate design required by this section of this Order.

The Commission finds that the residential rate design suggested by the AG is straightforward and consistent with traditional rate design principles. It rebalances fixed and variable costs and more closely aligns customer's bills with the cost of service, especially for many low use customers. The Commission adopts the parameters put forth by the AG which decrease the fixed customer charge and increase the variable charges for customers in the SFNH and SFH classes. The Commission agrees with the AG that the customer charge for the MFNH class should slightly increase while its per kilowatt charge declines to conform its revenue to the cost of service. Finally, the Commission finds that the proposed customer and variable charges by ComEd under its SFV rate design for the MFH residential subclass are appropriate.

In summary, the Commission adopts the AG's rate design proposal for the Residential classes.

b. Consideration of low-use sub class

ComEd's Position

The 2010 Rate Case Order directed ComEd to analyze the impact of the approved SFV rate design on low-use residential customers. Docket No. 10-0467 at 232. ComEd states that it met this directive by conducting an extensive study that employed a direct comparison of the approved SFV rate design with a non-SFV rate design, using the same revenue requirement. ComEd presented the results of this study in its *Residential Electricity Usage and Bill Impacts of the Straight Fixed Variable Rate Design* ("Residential Usage Study"), ComEd Ex. 2.33.

ComEd notes that for customers with the lowest usage levels in each of the residential classes, the Residential Usage Study showed that in many cases the premises were not occupied for long periods of time or the account was not for residential day-to-day living purposes, but rather for a specific overall residential building purpose, such as an alarm or fire pump. Moreover, the low use customers that experienced the greatest bill increases due to the implementation of the SFV rate design were single family residences with electric heat in the two lowest usage percentiles. Of the 604 total residences in those two percentiles, ComEd observed through the use of aerial photography that 155 appear to be vacation residences.

Based upon its Residential Usage Study, ComEd maintains that the nature of residential customers is not static and unchanging. In its study of the 2.7 million residential customers, ComEd analyzed the usage of the customers by percentile within each of the four residential delivery classes. All 100 of the SFNH percentiles had customers with some zero monthly usages, all 100 of the MFNH percentiles had customers with some zero monthly usages, 73 of the SFH percentiles had customers with some zero monthly usages, and 97 of the MFH percentiles had customers with some zero monthly usages. In many cases, according to data presented by ComEd, usage fluctuated from near zero to several hundred kWh from one month to the next, and significant numbers of customers in the lowest usage percentiles used at least twice as much electricity as their percentile's monthly average usage in at least one month of the year. ComEd found that low average usage does not necessarily indicate steady low usage. Moreover, ComEd asserts that a customer who is among the lowest use customers may experience a life event such as a change in work schedule, marital status, or the birth of a child that would cause the customer to change his or her electricity usage so that the customer would move to a higher usage percentile.

ComEd asserts that it is not the monthly electricity usage, even if that usage is low for several months out of a year, or even if it is consistently low for the current resident, that determines the delivery service facilities the Company must have in place and the costs it must incur to provide electric service to its customers.

ComEd also disagrees with the City/CUB contention that ComEd inappropriately focused attention on geography in its Residential Usage Study. ComEd identified the Commission's concern about "low-use customers, especially in the Chicago region." (2010 Rate Case Order, at 232.) By analyzing customer usage inside and outside the City of Chicago by zip code, ComEd states that it was able to provide data to address the Commission's concern pertaining to customers located in the "Chicago region" as well as the remaining customers located throughout its service territory.

Based upon the results of its Residential Usage Study, ComEd concluded that there is no cost basis for creating additional residential delivery customer classes, nor a pervasive inequity that might warrant a restructuring of delivery service charges.

City/CUB is the only party that claims that ComEd failed to meet the Commission's directive from the 2010 Rate Case Order. ComEd disagrees, pointing to the specific language in the 2010 Rate Case Order, which did not direct ComEd to create a new low use customer sub-class for residential customers. (2010 Rate Case Order, at 232.)

Staff's Position

The Commission, in Docket No. 10-0467, directed ComEd in its next rate proceeding to provide evidence that demonstrates whether impacts on the low-use subgroup in the residential customer class (from SFV rates) are such that it would be appropriate to have a new class cost of service and rate design for that identifiable group. (Docket No. 10-0467 at 232.)

ComEd determined that there is no cost basis for creating additional residential delivery classes within ComEd's rate structure. ComEd also found that there is not an inequity that might warrant a restructuring of charges for delivery service within the existing residential delivery classes. (ComEd Ex. 2.33 at 31.)

City/CUB witness Bodmer found that the Commission's directive respecting establishment of cost-based prices for an identifiable group of low use consumers cannot be accomplished simply by reverting to the rate structure that existed prior to the 2010 rate order or by reducing the account charge and increasing the energy charge." (City/CUB Ex. 1.0 at 83:1364-1367.)

AG witness Rubin did not consider a low-use sub class. There has been no proposal for a low-use sub class by any party. Staff is therefore recommending that no new low-use sub classes be added and that a rate design that retains the SFV rate design percentages approved by the Commission in Docket No. 10-0467, for the SFNH, MFNH, SFH, MFH, and WH classes be continued. (Staff Ex. 1.0 at 29:630-632.)

AG's Position

In performing its analysis of SFV rate design in the Docket No. 10-0467 rate case proceedings, the Commission considered ComEd's proposal to move toward an SFV design that would eventually collect 80% of those costs the Company has described as fixed through fixed charges, chiefly the customer charge, and relegate only 20% of its delivery service costs to its volumetric charge. The Commission stated that it lacked sufficient information on whether ComEd "...incurs a lesser cost in providing delivery service to its Watt-Hour Residential Delivery Class' low-use customers versus higher-use customers." (Docket No. 10-0467 at 232.) The Commission's unease with the absence of any reliable information on cost-causation for ComEd's low-use customers prompted a specific order that ComEd should compile such data for the Commission's use in cost allocation and rate design proceedings.

Thus, the Commission's order recognized that low-use customers may be so negatively impacted by SFV rates that an investigation into the actual costs these customers impose on ComEd's distribution network was needed to determine whether those costs were being accurately reflected in rates. In doing so, the Commission explicitly entertained the possibility that should a "disparate impact of a SFV design on low-use customers" be discovered, ComEd's existing service classifications and rate designs would have to be redesigned to address the inequity. Although the Commission explicitly ordered that "ComEd must provide evidence" on whether a new class cost of service and rate design were necessary for low-use customers, ComEd provided neither information nor analysis responsive to this directive.

The AG argues that ComEd did not establish a definition for "low-use customer" to begin the cost of service inquiry the Commission ordered in the Docket No. 10-0467 Rate Case. Even though the Commission specifically asked ComEd to "...explore how it defines the low-use customer sub-class" (Order at 232), ComEd witness Tenorio insisted that the Company did not need to develop such a definition, because, he stated, "[P]art of the investigation was to see if a definition needed to be developed" and further confirmed that in the variety of rate designs presented by ComEd in this proceeding, there is no subgroup for low-use residential customers in any of them. (Tr. at 472.)

Identifying and defining a low-use customer sub-class would necessarily have to be the first step in complying with the Commission's instructions to determine whether the impacts of SFV rates on any distinctive groups of customers warranted the creation of a new class of service. Yet ComEd did not undertake a definition for a separate subclass for low-use residential customers (Tr. at 471), and instead elected to disregard the very assumption underlying the Commission's analysis, the specific problem that prompted its request for further investigation – that a group of customers characterized by low consumption patterns may be so disproportionately impacted by SFV rates in view of the lower demands their usage placed on the distribution system, that a new class of service might be needed to reflect those lower demands.

As Tenorio explained it, rather than undertake a definition of a new class – which presumably would have to take into account the relationship between usage and demand in order to determine whether a new class of service was needed – ComEd instead relied upon existing classes by reviewing "nearly every residential retail customer in the ComEd service territory by delivery service class, meaning residential, single family with and without space heat, and residential multi-family with and without space heat, and performed a variety of analyses to review those customers and groups as a whole." (Tr. at 471.)

The AG asserts that ComEd did not perform any demand analysis to create an ECOSS for any group of low usage customers. Not only did ComEd elect not to define a sub-group of low-use customers, as the Commission's Docket No. 10-0467 order had directed, ComEd witness Tenorio also testified that the Company made no independent assessment of cost causation in developing their rate designs, as "these are basically

the same rate designs that were initially filed in 10-0467.” (Tr. at 480-81.) ComEd performed no independent demand cost analysis, and its Exhibit 2.33 merely references cost causation without performing any cost causation analysis other than the ECOSS. (Tr. at 480.) The only cost causation ComEd was willing to recognize in response to the Commission’s specific Docket No. 10-0467 order was customer-related costs connected to the existence of a customer account, and Tenorio confirmed that it made no specific demand cost analysis. (Tr. at 481.)

In fact, the ECOSS versions Tenorio received from the Retail Rates group were based on ComEd’s existing rate classes, and no separate ECOSS was performed to comply with the ICC request to provide information regarding low use customers. (Tr. at 470.) So rather than investigate the costs generated by low-use customers’ demands on the distribution network to determine whether a new rate class was needed, as the Commission’s order directed, Tenorio’s testimony reveals that ComEd did the opposite of what the Commission wanted. It assumed that its existing rate classes were appropriate, even though the premise of the Commission’s order was that ComEd’s existing rate classes might not be appropriate.

ComEd’s Table CST S-3 shows percentage changes in total bills as a result of SFV rates for certain low-use customers in the residential class. But the information presented in ComEd’s chart is misleading: total bills don’t provide a picture of the impact of SFV on ComEd’s distribution costs. Under Tenorio’s total bill analysis, the five lowest usage percentiles saw their total bills increase anywhere from 9.4% to 25.2% as a result of the 50/50 SFV rate design. (ComEd Ex. 13.0 at 26, Tables CST-S3.) The revised delivery service analysis chart provided to the AG in discovery, shows the same group actually bore increases in distribution rates much higher than ComEd originally represented, from 17.3% to 29.3%. (Attachment Q, AG Cross Ex. 1 – Tenorio.)

AG witness and rate design expert Rubin began his analysis of the issues raised by the Commission’s Docket No. 10-0467 rate order with respect to impacts of SFV rates on low-use customers by explaining the fundamental need to design rates to reflect customers’ peak demands. Since electric distribution systems are built to meet customers’ peak demands, the ideal method of recovering distribution system costs is through the use of demand meters. In the absence of demand metering for residential customers however, as is the case with ComEd’s residential customer class, Rubin reasons that the fairest method for recovering those costs is in proportion to the amount of energy used by customers, since evidence on the correlation between a residential customer’s annual energy consumption and his or her peak monthly consumption is fairly strong. (AG Ex. 3.0 at 2.)

Rubin’s Revised Supplemental Direct Testimony demonstrated that the Commission’s decision to move toward SFV rates increased rates for the lowest use customers and reduced rates for high use customers in the SFNH and SFH subclasses, in particular. (AG Ex. 2.0R at 5-17.)

Rubin's rate design ultimately proposes to eliminate the negative impacts of SFV rates not only by addressing the disparity between revenues and costs within each residential customer class but by designing rates that more appropriately recover customer-related costs through the customer charge and demand-related costs through the variable kWh charges for all residential classes, reflecting the costs of serving those different customer groups, as discussed in the Rate Design section above. (AG Ex. 2.0R at 8.) That rate design should be adopted by the Commission.

City/CUB's Position

As opposed to ComEd's understanding of the Commission's order in 10-0467, City/CUB argue that the Commission's focus was on how identified low-use consumers are affected by ComEd's rate design, not by geographic location. City/CUB aver that ComEd never seriously examined the merits of a low-use sub-class that was well-defined and unconstrained by zip codes. Instead, City/CUB argue that the Commission should order ComEd to implement a tiered customer account charge that recognizes the distinctive costs required to serve low-use residential ratepayers.

Commission Analysis and Conclusion

See discussion above under Section IV. C.1. a. of this Order.

2. Non-Residential

a. Preliminary Issues

Staff's Position

Staff notes that only two parties presented proposals that addressed both residential and non-residential rate design, the Company and Staff. Some parties offered residential rate design proposals only, while others have offered various revenue responsibility proposals.

REACT's Position

REACT maintains that ComEd's ECOSS -- which forms the basis for its rate design -- is flawed. REACT points to the extensive evidence from its expert witnesses to demonstrate significant flaws in ComEd's ECOSS and the resulting cost allocation and rate design. REACT witness Mr. Terhune has demonstrated that "certain groups of facilities that ELL and HV Over 10 MW customers either never use or use to a de minimis level as part of receiving service from primary voltage distribution lines." (REACT Ex. 5.0 at 21:441-43.) No party contested Mr. Terhune's analysis or conclusion.

Mr. Terhune recommended a modification to the ECOSS based upon his engineering analysis -- that modification would reallocate approximately \$9 million from the ELL and HV Over 10 MW classes. Again, although certain parties apparently dislike

that conclusion, no party contests Mr. Terhune's actual analysis or factual conclusion. Thus, REACT recommends that the ECOSS applied to ComEd's rate design should reflect Mr. Terhune's recommended modification.

Likewise, REACT witness Mr. Merola demonstrated that approximately \$109 million of ComEd's \$326.8 million in total Customer care costs should be allocated to ComEd's supply function. (REACT Ex. 6.0 at 23:536-37.) REACT advocates that the rate design implemented by ComEd should reflect that adjustment as well.

b. Movement Toward ECOSS-Based Rates

ComEd's Position

In the 2010 Rate Case Order, the Commission continued its "next step" process to move nonresidential customers to cost based rates, including increases in revenue responsibility for the ELL, HV and RR Classes and corresponding decreases in revenue responsibility for the SL, ML, LL, and VLL delivery classes. ComEd notes that the next step for the ELL and HV delivery classes would be the third of four steps, which results in the percentage of revenue responsibility to move to 84.2% and 90.7% respectively. The next step for the Railroad Delivery Class would be the second of ten steps, which result in the percentage of revenue responsibility to move to 82.6%. The resulting revenue responsibility percentage for the SL, ML, LL and VLL delivery classes moves to 101.1%.

ComEd has taken no position regarding the movement toward cost based rates for the ELL, HV and Railroad Delivery Classes.

In response to REACT's claims that the ELL Delivery Class and HV Over 10 MW customers "would face enormous rate increases." ComEd showed that the expected increases for the ELL Delivery Class and HV Over 10 MW customers from the 2005 Rate Case Order, under which delivery service charges became effective in 2007, and the 2013 RDI are 50.45% and 29.32% based upon the RDI rate design, respectively. To provide context, ComEd noted its total company increase in revenue requirement over the same period was 42.53% and compared that to increases in costs for other items, such as home heating oil (43%), unleaded gasoline (70%), hospital services (53%), college tuition (43%), bread (34%), and prescription drugs (22%). ComEd adds that ComEd Ex. 6.12 provides information on a dollar basis as well as a cents per kilowatt hour (" $\text{¢}/\text{kWh}$ ") basis in order to provide a unitized basis to make comparisons for all customer classes. Based on this analysis, the Watt-Hour (62.48% increase), Multi Family Without Electric Heat (61.71% increase), and Single Family Without Electric Heat (58.35% increase) classes experienced the greatest changes. Overall the Residential Sector increased by 57.33% and the Nonresidential Sector increased by 28.36%. (*Id.*) ComEd notes that these values do not reflect the impacts of the changes in cost allocation that would result from the adjustments proposed by IIEC and REACT or any impacts from the studies proposed by REACT, IIEC and CTA/Metra.

Staff's Position

The Commission should approve the next step revenue responsibility rate design.

ComEd has stated that it is taking no position as to the relative merits of any of the rate designs in relation to cost allocation in any of the associated ECOSs. (ComEd Ex. 2.0 at 2-3:46-48.) It also stated in its rebuttal testimony that it is not proposing the use of any particular rate design model presented in direct testimony or rebuttal testimony. (ComEd Ex. 6.0 at 2:23-34.)

Kroger witness Neal Townsend recommends that the Commission utilize the next step revenue responsibility rate design for the ELL, HV, and RR classes. (Kroger Ex. 1.0 at 7:153-154.) Mr. Townsend believes it is critically important that the Commission act decisively to eliminate or significantly reduce subsidies in this case. (*Id.* at 151-152.)

IIEC witness Stephens recommends next step revenue responsibility for the ELL and HV classes. (IIEC Ex. 1.0 at 13:300-308.) Mr. Stephens believes the Commission should continue with moving rates towards cost of serve. (*Id.*)

CG witness Steve W. Chriss states that if the Commission determines it appropriate to implement a "next step" towards cost of service, the Commission should move the non-residential classes halfway to cost, with the exception of the Railroad class, which would be moved one-third of the way to cost. Then in the subsequent rate design proceeding all customer classes would move the rest of the way to cost but for the revenues required to move the Railroad class to cost of service over the next two cases. This would implement the Commission's original goal of eliminating interclass rate subsidies in a gradual yet efficient manner. (CG Ex. 1.0 at 6:139-145.)

REACT witness Bradley O. Fults recommends the Commission reject both the next step revenue responsibility and 100% revenue responsibility. Mr. Fults states that it is clear that ComEd's ECOSs contains incorrect assumptions regarding the actual cost to provide service to the ELL and HV over 10MW classes. (REACT EX. 1.0 at 20:462-469.)

Staff witness Johnson's proposed rate design continues the movement towards cost based rates by following the next step revenue responsibility levels approved by the Commission in Docket No. 10-0467 for the ELL, HV, and RR delivery classes. The Commission has ordered a move toward cost-based rates for the ELL, HV, and RR classes. No reason has been presented as to why that should not be continued in this proceeding. Additionally, under Staff's proposed next step revenue responsibility rate design, the classes that are currently subsidizing the ELL, HV, and RR delivery classes (*i.e.*, the SL, ML, LL, and VLL delivery classes) will see their shares of those subsidies decrease. (Staff Ex. 1.0 at 30:646-656.) Staff recommends the Commission approve the next step revenue responsibility rate design in this case.

Metra's Position

In Docket No. 10-0467, the Commission, in recognition of the public interest considerations associated with setting rates for the Railroad Class, ordered that ComEd should adopt a 10-step movement toward setting the Railroad Class' rates at a level designed to ensure full cost recovery, with Railroad Class rates in each of the next nine successive rate cases designed to move the Railroad Class rates to full cost recovery in the tenth rate case. (Docket No. 10-0467, Order at 259-60.) That same philosophy should be followed in this case. But given past history, the Commission should be reluctant to accept at face value ComEd's calculation of the Railroad Class full cost-based rates.

The hearing testimony of ComEd rate witness Lawrence Alongi in Docket 10-0467 demonstrates that ComEd has consistently tried to assign to the Railroad Class inflated costs. The relevant part of Mr. Alongi's testimony in Docket No. 10-0467 shows that the costs ComEd has assigned to the Railroad Class have been inflated and have dramatically decreased with continued refinements in ComEd's cost causation analysis.

<u>Docket Number</u>	<u>ComEd's Initial Calculated Cost to Serve the Railroad Class</u>
05-0597	\$8,521,989
07-0566	\$8,586,072
10-0467	\$5,999,805 to \$6,351,783
13-0387	\$5,688,000

(RDE ECOSS, ComEd Ex. 3.01.)

Metra asserts that the \$5.6 million cost to serve the Railroad Class in ComEd's base RDI ECOSS is significantly inflated because ComEd did not delete from the costs assigned the Railroad Class the costs of under 12 kV facilities, as directed by the Commission in Docket No. 10-0467. Neither the ALJ's nor the Commission should succumb to the rhetoric of ComEd, the Commercial Group or the occasional Staff witness who use the word "subsidy" to describe the failure of the rates assigned the Railroad Class to pay for ComEd's inflated and inaccurate cost assignments to the Railroad Class.

Metra argues that there is absolutely no justification for the Commission to adopt a three step movement toward costs instead of the 10-step process ordered in Docket

No. 10-0467. The 10-step process ordered in Docket No. 10-0467 should remain in place, but the movement should not be calculated based on an inflated and inaccurate cost to serve the Railroad Class.

CTA's Position

Any movement to ComEd's calculated cost of service for the Railroad Class should follow the 10-step process previously approved by the Commission. In Docket No. 10-0467, the Commission accepted ComEd's proposal that, in any movement toward ComEd's calculation of cost-based rates, the Railroad Class movement be implemented using a 10-step process. The Commission has supported this approach:

ComEd's ten-step process to move the Railroad Delivery Class toward cost-based rates is consistent with the Commission's directive in its Order in Docket No. 07-0566, instructing ComEd to implement rates for the Railroad Delivery Class that do not cause rate shock for customers in that delivery class. ComEd extended the four-step process to a ten-step process with respect to the Railroad Delivery Class in order to comply with this Commission directive.

The only witness opposing the continuation of the 10-step process for the Railroad Class is the Wal-Mart witness for the Commercial Group. Steve Chriss, the Energy Regulatory Analyst for Wal-Mart Stores, suggested that the Railroad Class should be moved to what ComEd believes is the cost of service for the Railroad Class.

Mr. Chriss' reasoning for abandoning the Commission-approved 10-step process for the Railroad Class is that, under the current regulatory scheme, ComEd is required to file a rate design case every three years. Prior to the requirement for ComEd to file every three years, there was no requirement for ComEd to file at all. (Tr. at 318/23-319/4.) Therefore, under the current regulatory environment, there is no difference between ComEd's past practice of voluntarily filing every three years and the current law that requires ComEd to file a rate design proceeding every three years. Similarly, there is no justification to abandon the 10-step movement sequence for the Railroad Class approved by the Commission in Docket No. 10-0467 because, based on ComEd's historic filing pattern, the Railroad Class would reach ComEd's calculated cost-based rates in the same time period under the new regulatory structure, which was the original intent.

ComEd witness Charles Tenorio pointed out that, regardless of whatever anomalies might occur in the progression to cost-based rates, at the end of the 10-step process, the Railroad Class would be at ComEd's calculated cost-based rates with the tenth step. Therefore, there is no reason for the Commission to reverse its earlier order that the movement to ComEd's calculated cost of service for the Railroad Class should follow the 10-step process adopted in Docket No. 10-0467.

IIEC's Position

IIEC observes that the Commission authorized a 25% movement toward ECOSS Based Rates for the ELL, HV and Railroad classes in Docket 07-0566. In Docket 10-0467, the Commission approved the second of four steps toward cost of service bringing rates for the ELL and HV classes 33% of the remainder of the way to cost of service as determined by the ECOSS in that case. IIEC, therefore, recommends that consistent with its prior determination, the Commission should approve the next incremental step in the movement toward cost based rates. IIEC suggests that only one party, the Commercial Group, suggested the possibility of moving rates 100% to cost of service in this case. However, IIEC observes that the Commercial Group indicated it was prepared to accept the implementation of the "next step" in the movement toward cost based rates as part of the phased-in approach approved by the Commission in prior cases. IIEC notes that the Staff of the Commission supported the next step approach. According to IIEC, it further reasons that the embedded cost of service study ultimately approved in this case will be the subject of one or more of the refinements proposed in this case and potentially subject to further refinements in a future case. Therefore, all things considered, the Commission should continue with that approach in this case. IIEC observes that most (but not all) parties addressing the issue support the next step approach.

REACT's Position

REACT notes that ComEd has presented several different rate design scenarios in this proceeding, though it professes to not advocate any particular design. (See ComEd Ex. 6.0 at 26:454-61 (ComEd witness Mr. Tenorio); ComEd IB at 26.) REACT highlights ComEd's admission that all of those rate designs are based on the ECOSS approach from the 2010 ComEd Rate Case. (See ComEd Ex. 6.0 at 26:454-61 (ComEd witness Mr. Tenorio).) The Commission's Order in that case specifically called for further refinement to the ECOSS, yet ComEd openly admits that it has not presented a further refined ECOSS. (See Tr. at 246:7-11 (ComEd witness Mr. Bjerning).) Therefore, REACT states that the Commission should reject any modification of rate design intended as a further movement toward so-called "cost" based upon the flawed ComEd ECOSS.

The Commercial Group's Position

CG states that among parties that have addressed this issue, there was fairly broad consensus that the Commission should continue to move toward or all the way to cost-based rates for the various classes. CG witness Chriss testified that after the ECOSS has been improved in this case, rates for each class should be set at cost. (CG Ex. 1.0, p.3:50-52.) Staff witness Johnson (Staff Ex. 1.0: 608), Kroger witness Townsend (Kroger Ex. 1.0:153-157) and IIEC witness Stephens (IIEC Ex. 1.0:306-308) all recommended that the Commission take the next step toward eliminating the interclass rate subsidies among the non-residential classes that have existed for many years. REACT witness Fults (REACT Ex. 3.0:462) initially opposed any movement

toward cost, but he admitted at the hearing that if the Commission implements additional improvements to the ECOSS, REACT would not oppose setting rates at 100 percent of cost as established by that improved ECOSS. (Tr. 367:14-19 (Fults).) So in the end, only CTA/Metra opposes movement of non-residential class rates to class cost, and does so only with respect to Railroad rates.

Non-residential class rates should fully reflect class cost as per the improved ECOSS the Commission adopts in this proceeding.

Regardless of the ECOSS adopted by the Commission in this proceeding, the costs shown by such ECOSS should be reflected fully in rates. As cited above in Section IV.A, the basis for moving more slowly toward eliminating interclass nonresidential rate subsidies was a concern that the ECOSS in 2007 over-allocated some primary costs to the ELL, HV and Railroad classes. (See 2007 Rate Order, at 213.) Assuming that the Commission adopts IIEC Ex. 2.1, this over-allocation will have been substantially addressed in an improved ECOSS. So also, the improved ECOSS adopted in this case would reflect the Commission's decision concerning the appropriate allocation of 4 kV and below facilities to the Railroad class. Accordingly, there no longer would remain any reasonable justification for not moving class rates to cost. In addition, the 2007 Rate Order did not contemplate the legislative move to supplant for a time the traditional ratemaking process with the formula rate process. The statute provides for a rate design investigation proceeding to occur every three years but it appears that on this case's current procedural schedule any "next step" authorized in this current proceeding would not be implemented until January 2015 (ComEd Ex. 1.0:80-83.) That would mean that the subsequent "next step" would not occur until at least 2018, about a decade after the Commission's 2007 Rate Case Order. (CG Ex. 1.0, 5:115-120.)

As ComEd witness Brinkman succinctly put it: "If one customer class does not pay its fair share of costs, another customer class pays more than its fair share of costs." (ComEd Ex. 5.0 at 138-140.) The Medium, Large and Very Large load classes have been paying more than their cost of service for many years and it is only fair that this subsidy burden should be removed, particularly as the original basis for this subsidy burden no longer applies and any final step would not occur for years.

In the alternative, if the Commission decides to implement a "next step" towards cost of service, the Commission should implement the Commercial Group's reasonable "next step" approach of moving non-residential class rates halfway to cost and Railroad class rates one-third of the way to cost.

Having improved the ECOSS in this proceeding, the only potential bases for continuing an interclass subsidy is out of concern for rate shock or, as alleged by CTA/Metra, for public interest concerns. There appears to be little basis for an adjustment for rate shock in this proceeding, but if the Commission desires to make

such an adjustment, the Commercial Group's recommended approach would not result in rate shock.

First, with respect to the ELL and HV Over 10 MW classes, a substantial portion of the overall rate increase REACT alleges these classes have faced from 2007 to present is due to the Commission's decision to allocate the IEDT on a per-kwh basis, which necessarily negatively impacts high load factor customers in these classes. However, as Mr. Fults admitted, higher load factor customers in the ML, LL and VLL classes are also disproportionately affected by an IEDT kwh charge. (Tr. 365:6-10.) Therefore, it is unfair for high load factor customers in the ML, LL and VLL classes to continue to subsidize customers in the ELL and HV classes, particularly where correcting the over-allocation of Shared Distribution Lines costs to the latter classes necessarily should result in a reduction in cost to the ML, LL and VLL classes. So also, REACT witness Fults agreed that even if the Commission continues to allocate IEDT cost on a per kwh basis, if the Commission corrects the ECOSS for any over-allocation of primary system costs to the ELL and HV classes, REACT would "agree to pay 100 percent of the cost as shown as shown by that [improved] ECOSS." (Tr. 367:14-19.)

Second, based on REACT's own calculations (REACT Ex. 1.0, at 22-23), the increases from 2010 price levels that the ELL and HV Over 10 MW classes might face - even under the RDI next step ECOSS (that is not improved in this proceeding) - do not constitute rate shock. As Mr. Fults indicated at the hearing, such an increase for the HV Over 10 MW would only be in the range of 4.3 percent, something Mr. Fults admitted is not a massive increase. (Tr. 365:11 - 367:3 (Fults).) Of course, to the extent that the Commission adopts the IIEC Ex. 2.1 methodology (and/or any other recommendations of REACT), this increase over 2010 levels would be even smaller or result in a class rate decrease, and any increases to the ELL class would also be reduced. Indeed, the major cause of this modest 4.3 percent increase appears to be the overall ComEd revenue increase that all customer classes have experienced from the formula rate update cases. The Commercial Group's "next step" approach would not result in rate shock to ELL or HV classes.

Third, as evident from Staff Ex. 1.0 Attachment 1.01, taking the next of a 10-step process in this case would result in a rate decrease for the Railroad Class and so this basis for the slow 10-step process for the Railroad Class is also eliminated. Assuming that the Commission ultimately adopts recommendations of the Railroad Class in this proceeding, the actual rate decrease for the Railroad class from ComEd's 10-step approach may be substantially larger. Even under the Commercial Group's alternative recommendation of moving Railroad rates one-third of the way to cost, Railroad Class rates would increase only 1.8 percent. (Tr. at 449:7-15.) A 1.8 percent increase can hardly be considered as resulting in rate shock. Plus, if the Commission adopts recommendations of CTA/Metra in this proceeding, the Railroad class might experience a rate decrease even under the Commercial Group's modest one-third approach.

Any subsidy burden for alleged general societal benefits should be spread generally to all rate classes.

To the extent that the Commission determines that one class of customers should be subsidized because of general benefits that class may provide to society, the subsidy burden should also be spread generally to all rate classes.

Alone among the parties, CTA and Metra appear to argue that the Railroad class should be permanently subsidized – even if the Commission adopts every one of the ECOSS proposals of CTA/Metra. (See CTA Ex. 1.0 at 6-8.) But many ratepayers have a positive impact on the environment and are implementing energy efficiency measures. Should a business with a fleet of electric vehicles have to subsidize another pro-environment ratepayer? Is it fair for a retailer that implements energy efficiency measures and supplies all of its facilities with renewable power to be forced to subsidize another ratepayer for that other ratepayer’s alleged positive contributions toward the environment? In any event, should the Commission nevertheless decide that CTA/Metra should be subsidized, the subsidy burden should not be borne solely by a few disfavored classes but instead by all classes. Stated another way, if the subsidy is to recognize a general societal benefit provided by the subsidized class, the subsidy burden should also be general and spread to all other classes.

The Commission should provide ComEd specific guidance on implementing any “next step” in a manner that would more completely accomplish the Commission’s goal of taking gradual, relatively even steps toward class parity.

CG argues that the Commission should correct an irregularity in how “next step” decisions are implemented in order to achieve the Commission’s goal of moving non-residential rates more steadily to cost. ComEd’s reply brief proposals to do so appear to be reasonable corrections.

A separate issue appeared during the course of this proceeding concerning the mechanics of implementing a “next step” Commission decision. For at least one class, the current formula for implementing a next step actually results in that class moving further away from cost, something Mr. Tenorio found surprising. (Tr. at 436:1-5.) Rates for the other two classes that should ostensibly move halfway to cost in this third of the fourth steps, instead move less than halfway to cost. Thus, Table CST-D9 at ComEd Ex. 2.0, page 33 shows the following percentages of cost for the ELL and HV classes in the “next step” approach under the RDI ECOSS:

<u>Class</u>	<u>Current % of Cost</u>	<u>Halfway to 100% Cost</u>	<u>% of Cost After Next Step</u>
ELL	71.9%	85.95%	84.2%
HV	85.3%	92.65%	90.7%

The percentage of cost for Railroad class rates under a 1/10th next step would actually decrease from 85.1 percent to 82.6 percent. (*Id.*) Thus, the next step for the Railroad class would be a step backwards, away from cost. Unfortunately, this problem might only get worse under the current procedural schedule because 1) the two key parts of the compliance formula involve one Distribution Facilities Charge (DFC), or Transformer Charge (TRC) for the HV class, that is based on an earlier ComEd revenue requirement while the other DFC (or TRC) is based on a later and higher revenue requirement, and 2) rates may not be affected by the order in this RDI case until January 2015, at which time the then-existing revenue requirement will very likely be even higher. ComEd described the problem in CG Cross-examination Exh. 1 - Tenorio In such a situation, as Mr. Tenorio indicated at the hearings he would find easier the task of complying with any “next step” decision in this case if the Commission gave a clear indication of how to make the “next step” calculation. (Tr. at 445:19 – 446:5 (a “[c]lear order is always better”).)

According to the relevant ordering paragraph at page 237 of the 2007 Rate Order, the Commission originally began its stepped process toward eliminating interclass rate subsidies by ordering that “Commonwealth Edison Company shall base its rates on the embedded cost of service study, with a 25% movement toward the embedded-cost-of-service-study based rates for the ELL, HV, and Railroad delivery classes.” ComEd then interpreted this order as best it could and complied with the order by adjusting only the distribution facilities charges for the various affected classes. (Tr. at 443:22 – 443:4.)

ComEd described its “next step” compliance process in Commercial Group Cross-examination Exh. 1 (Tenorio). Essentially, the following formula is used for determining the next step TRC (or DFC, for ELL) with “rev reqt” standing for “revenue requirement” and “2” representing the number of steps remaining at the start of this case for the HV class:

$$\text{Current TRC (old rev reqt)} + \frac{\text{Full Cost TRC (new rev reqt)} - \text{Current TRC (old rev reqt)}}{2}$$

With ComEd’s revenue requirement steadily increasing under the formula rate process, the formula nevertheless should work mathematically except that the increase in revenue requirement does not uniformly increase all cost elements. This produces the unexpected results seen in this case.

As Mr. Tenorio indicated, however, “there could be a different formula” for making the next step adjustments but the Commission would need to make clear what it wants ComEd to do. (Tr. at 444:12 – 446:5 (Tenorio).) In its reply brief, ComEd stated:

A way in which to adopt the CG recommendation to move the ELL and HV Delivery Classes halfway to cost would be for the Commission to adopt the 85.95% and 92.65% revenue responsibilities for the ELL and HV Delivery Classes that are listed on page 14 of the CG Initial Brief.

Correspondingly, a way in which to adopt the CG recommendation to move the RR Delivery Class one third of the way to cost would be for the Commission to adopt a 90.07% revenue responsibility for the RR Delivery Class based upon the current 85.1% revenue responsibility for that class. (Citation omitted.) The Commission could then instruct ComEd to determine applicable delivery service charges based upon those revenue responsibilities.

(ComEd RB at 24.)

The Commercial Group recommends that the Commission order ComEd to implement any “next step” process such that Percent of Cost (as per ComEd Ex. 2.0, p.33 Table CST-9) of the ELL and HV classes after the next step is implemented are indeed halfway to cost on a revenue responsibility basis and the Percent of Cost of the RR class moves one-third of the way to cost on a revenue responsibility basis.

Kroger’s Position

This case represents the first opportunity to address cost of service and rate design since SB 1652 was enacted. Given that cost of service and rate design will not be addressed by the Commission for perhaps another three years, it is critically important that the Commission act decisively to eliminate or significantly reduce subsidies in this case.

For a number of years, a subsidy has existed for the ELL, HV, and RR rate classes. In other words, these rate classes do not pay revenues that cover their share of system costs. To make up for this revenue shortfall, customers’ rates in the SL, ML, LL and VLL classes are designed to generate revenues in excess of their costs. The residential, watt hour, and lighting classes pay rates that exactly recover their share of costs.

In Docket No. 07-0566 the Commission initially ordered that the subsidies for the ELL, HV and RR classes be eliminated in four steps. In the 2010 Rate Case the Commission accepted an even more gradual approach for the elimination of the RR class subsidy. As a result, the RR rate group’s subsidy is being phased-out in ten steps, rather than four.

ComEd’s RDI ECOSS generally reflects the cost allocation methodology that has been in use since the 2010 Rate Case for each formula rate update filing. ComEd prepared three different sets of rates based on its RDI ECOSS. In the first set of rates, shown in ComEd Ex. 2.04, the relationship between the rate classes that exists in current rates is maintained, *i.e.* the class subsidies are maintained at current levels. In the second set of rates, shown in ComEd Ex. 2.06, the rates for each class are set to eliminate all subsidies, *i.e.* each class recovers its share of costs. The third rate design, shown in ComEd Ex. 2.07, reflects the next step in the elimination of class subsidies.

Specifically, ComEd's third set of RDI ECOSS rates presented in Exhibit 2.07, is designed to reflect the third step (out of four) in the elimination of the subsidies paid to the ELL and HV classes and the second step (out of ten) in the elimination of the subsidy paid to the RR class.

Kroger supports the cost allocation methodology shown in ComEd Ex. 2.07 which continues the gradual elimination of the subsidies for the ELL, HV, and RR classes. Kroger Exhibit 1.1, which is attached to this Brief, reproduces the revenues determined by ComEd that reflect the next step in elimination of these subsidies based on the RDI ECOSS in this case. In addition, the exhibit shows each class's level above or below its cost of service at these revenues. Kroger encourages the Commission to eliminate the remaining subsidies as soon as practicable. Specifically, the subsidies paid in support of ELL and HV rates should be eliminated in the next rate proceeding, consistent with the four-step approach previously adopted by the Commission.

Commission Analysis and Conclusion

The Commission finds that the record supports the continuation of the “next step” process followed in Docket No. 10-0467, in order to move non-residential customers towards cost based rates. For the ELL class, the Commission concludes that after the effective date of this Order, this should result in revenue responsibility of 84.2%. Further, the new HV class revenue responsibility shall become 90.7%. The Commission also finds, consistent with its ruling in Docket 10-0467, that the rates for the railroad class should be moved to the second of ten steps, bringing that revenue responsibility for that class to 82.6% subject to appropriate adjustments for the removal of 4kV and under costs as separately identified in ComEd Ex. 3.12 in this proceeding. (See Section II C 1. c. of this Order.) The Commission notes that the revenue responsibilities for the SL, ML, LL, and VLL classes should be reduced accordingly.

c. Straight Fixed Variable for Watt-Hour Delivery Class

ComEd's Position

ComEd states that the Commission adopted the modified SFV rate design for nonresidential customers in the Watt-Hour Delivery Class in the 2010 Rate Case Order. ComEd is aware of no proposal that recommends elimination of this rate design for the WH Class. For all the reasons addressed *supra*, ComEd states that the SFV rate design should be retained.

Staff's Position

Staff was the only party to address SFV for the WH Class. Staff recommended that the current SFV rate design methodology utilized for the WH class continue. (Staff Ex. 1.0 at 29:630-633.) However, Staff also proposed that if the Commission were to decide to move away from SFV rate design, then a rate design methodology similar to Mr. Rubin's rate design methodology should be approved, whereby customer, meter

and demand charges should be based upon ECOSS determined customer, meter, and demand costs.

Commission Analysis and Conclusion

The Commission adopted the modified SFV rate design for nonresidential customers in the WH Class in Docket No. 10-0467. However, the Commission is moving away from SFV rate design after reviewing the record in this case. The rate design methodology proposed by AG witness Mr. Rubin for the Residential Classes is approved. The approved rate design bases customer, meter and demand charges upon ECOSS-determined customer, meter, and demand costs. This modified rate design shall also include the Watt-Hour Delivery Class.

3. Street Lighting

ComEd's Position

ComEd states that it has complied with the Commission's 2010 Rate Case Order directive pertaining to the adoption of the Chicago Method in the development of the costs included in the ECOSS used to support delivery service charges. ComEd also responds to City/CUB's claim that ComEd has been charging customers incorrect delivery charges since June 1, 2011, pointing out that the holding in question addressed cost allocation, not rate design.

ComEd notes that Staff has reviewed ComEd's five compliance filings since the 2010 Rate Case Order was issued, and at no time has indicated that a separate set of delivery charges for City of Chicago's lighting customer was required. ComEd also notes that when it is directed to implement charges for a specified group of customers that differ from those applicable to other customers in the same delivery class, the Commission typically provides instruction specifying how charges for other customers should be developed to account for any differences in revenue responsibility. The 2010 Rate Case Order provides no such instruction.

ComEd asserts that the Commission generally avoids developing regional or location specific rates. (See *e.g.*, In re *Commonwealth Edison Co.*, Docket No. 78-0045, Order at 13 (December 13, 1978) (Consolidation of rate schedules for service inside Chicago and service outside Chicago "would reduce confusion and promote better understanding of electric rates" and "make Edison's rates more easily understood and is in the public interest.").)

ComEd notes that in the compliance filings since the 2010 Rate Case Order was issued, City/CUB did not address the delivery service charges for the City of Chicago dusk to dawn lighting customer following those filings or even in their direct testimony in this proceeding. Interestingly, ComEd notes that City/CUB states in their Initial Brief "... no party in either the past or present docket has proposed geographic [residential] rates, and no other ComEd rate class contains a geographic component." However,

ComEd states that this is what their proposal concerning the City of Chicago dusk to dawn lighting customer does.

ComEd states that if it is determined in this proceeding that the delivery service charges for the City of Chicago dusk to dawn lighting customer should be less than those applicable to other municipal dusk to dawn lighting customers, the Commission would need to instruct ComEd on how to allocate the resulting revenue shortfall, as, for example, through increased charges to other municipal customers within the Dusk to Dawn Lighting Delivery Class.

City/CUB's Position

City/CUB point to the Commission's No. 10-0467 order, where the Commission opened its determination on this issue by observing that "despite 18 months of litigation regarding this issue in the Rate Design Investigation docket (Docket 08-0532), ComEd continues to argue that the conclusions reached on this issue in that docket were incorrect." (Docket No. 10-0467, Order at 279.) City/CUB note that the Commission concluded that decision with the following emphatic determination:

So that the record is clear, the "Chicago Method" is again adopted here. The Commission further cautions that use of the "Chicago Method" by other municipalities must take into account alley lighting. Many municipalities in Illinois do not have alleys, and therefore, do not have alley lighting. Other municipalities using this method must state whether they have alleys and appropriately account for the difference used by the City of Chicago and the respective municipality(s).

(*Id.* at 208.) Yet, note City/CUB, for the third time, the Commission must determine in this case whether ComEd has complied with a Commission order issued half a dozen years ago. City/CUB argue that Mr. Bodmer's analysis illustrates that that ComEd has not complied.

City/CUB point to the fact that Mr. Bodmer determined that ComEd made the same calculation for Dusk to Dawn lighting that it did in its pre-Docket No. 10-0467 cost of service studies. Instead of using the accurate cost of serving Chicago (as determined in Docket No. 10-0467) to determine the City's rate, City/CUB note that ComEd computes a class weighted average cost of service, treating all municipalities as though each has Chicago's unique facilities arrangement and installation practices -- despite the Commission's contrary factual finding. (City/CUB Ex. 2.0 at 11:216.) City/CUB explain that the Commission's core holdings have been (1) that the City has costs that are unique among municipalities taking the service and (2) that those cost differences must be recognized in the intra-class allocation of costs supporting just and reasonable rates for Chicago.

City/CUB note that ComEd's response to Mr. Bodmer was to express continued disagreement with the "Chicago Method" approved by the Commission and to claim, but not prove, that it complied with the Commission's order. City/CUB also note that ComEd relies on the acceptance of various ComEd tariff filings by the Commission Staff despite the fact that those filings not being made in adversarial settings or being related to rate design. Moreover, even if Staff reviewed and approved ComEd's compliance tariffs, City/CUB note that those approvals are not contested proceedings and nothing can be gleaned from such approvals.

Commission Analysis and Conclusion

In Docket No. 08-0532, the Commission found that ComEd's allocation of costs for the Dusk to Dawn lighting class was incorrect in several respects regarding the City of Chicago. Among other things, the Commission directed ComEd and the City to determine appropriate costs related to overhead/underground connection ratios. ComEd was also directed to include a specific dollar amount with which ComEd disagreed for secondary costs and the cost of wire. In Docket No. 10-0467, the City raised similar issues. The Commission generally ruled in favor of the City, accepting several of its arguments and calculations. Further, the Commission ruled that amount ComEd charged for alley lighting was "far greater" than the actual cost and that appropriate adjustments should be made.

In this case, the City points out that that ComEd used the same calculation as it did in Docket No. 10-0467 regarding alley lighting even though it was directed to use a different calculation that would result in a lower cost for alley lighting for the City and other municipalities that have alley lighting. ComEd acknowledges that this is the case. ComEd argues that if the Commission affirms its earlier ruling, it will need direction on how to allocate these costs within the Dusk to Dawn class. The Commission stated in Docket No. 10-0467 that within the street lighting class, municipalities with alley lighting should identify themselves in order to pay the lower charge associated with alley lighting.

Consistent with its directive in the Docket No. 10-0467 case, the Commission orders ComEd to inquire of Dusk to Dawn class members regarding the existence and proportion of alley lighting relative to total street lighting and to make appropriate calculations and adjustments lowering the charges for alley lighting and attributing any shortfall to the class as a whole in the next formula rate case.

4. Illinois Electricity Distribution Tax

ComEd's Position

ComEd states that the appropriate methodology to recover the Illinois Electricity Distribution Tax ("IEDT") is through the application of the recently Commission-approved \$/kilowatt-hour ("\$/kWh") charge for all customers. ComEd opposes REACT's and IIEC's proposal that the IEDT should be recovered through the application of a \$/kilowatt ("\$/kW") charge for certain nonresidential customers rather than the current

\$/kWh charge. ComEd asserts that the current methodology used to apply the IEDT is consistent with how ComEd is charged the tax (“\$/kWh”) and the Commission’s finding in the 2010 Rate Case Order. Further, the current methodology is consistent with cost causation principles.

Staff’s Position

The Commission should continue collecting the IEDT on a kWh basis and reject REACT’s proposal to collect the tax through the distribution facilities charge.

Various parties discussed the recovery mechanism of the IEDT. REACT witness Fults believes that ComEd should not be able to recover the IEDT as a per kWh fee, but instead recommends that the tax be collected through the distribution facilities charge. (REACT Ex. 1.0 at 31:699-701.) Mr. Fults argues that large customers who operate 24 hours per day and use the same amount of electricity each hour now pay a disproportionately large portion of the tax. He also states that the IEDT charges no longer have a relationship to ComEd’s invested capital, but rather are just tied to the amount of kilowatts delivered to each customer. (*Id.* at 30:666-669.)

ComEd witness Charles S. Tenorio responded to REACT’s proposal by explaining that ComEd recovers the IEDT in the same manner that this tax is imposed on ComEd, on the basis of total kWh delivered to customers, whether they are residential, nonresidential, or lighting customers. Mr. Tenorio also stated that this issue has already been addressed by the Commission in previous cases. (ComEd Ex. 6.0 at 35:628-631.)

Staff witness Johnson explained that the distribution tax was previously determined by the utilities’ plant investment levels. Mr. Johnson stated that while he is not an attorney, the law quoted below indicates the General Assembly made a decision to change that way of determining the distribution tax effective January 1, 1998:

This amendatory Act of 1997 is intended to provide for a replacement for the invested capital tax on electric utilities, other than electric cooperatives, and replace it with a new tax based on the quantity of electricity that is delivered in this State. The General Assembly finds and declares that this new tax is a fairer and more equitable means to replace that portion of the personal property tax that was abolished by the Illinois Constitution of 1970 and previously replaced by the invested capital tax on electric utilities, while maintaining a comparable allocation among electric utilities in this state for payment of taxes imposed to replace the personal property tax.

(35 ILCS 620/1a, P.A. 90-561, eff. 1-1-98.)

This passage indicates that the statute was amended to create a tax determined by usage, instead of a tax based upon invested capital. Sales, rather than plant investment, now determines how much distribution taxes the utilities pay. Changes in the amount of plant in service for a utility do not affect the amount of distribution tax paid. If ComEd's level of deliveries goes up relative to other electric utilities in Illinois, its share of distribution taxes increases. If ComEd's relative level of deliveries goes down, its share of the distribution tax total declines. Since the level of deliveries, not plant in service, determines the amounts of distribution taxes for utilities each year, usage should be the basis for allocating these costs. (Staff Ex. 4.0 at 37:864-873.)

Additionally Mr. Johnson noted the Commission's conclusion regarding the collection of the IEDT in Docket No. 10-0467:

In the Ameren rate cases, the Commission reviewed the legislative history of the Public Utilities Revenue Act ("PURA") and determined that the General Assembly intended "to replace the invested capital/plant in service tax with a kWh tax in response to the changing nature of the Illinois electric utility industry." (Ameren Order at 243). The legislature was anticipating that vertically integrated utilities like ComEd and Ameren might shed their generation assets (a significant part of plant in service), an event that has, in fact, occurred.

The Commission agrees with Staff that since the IEDT is related to usage, cost causation principles would argue for recovery through a per-kWh charge from all customers. The proposed change would have no impact upon residential, watt-hour and lighting customers because costs associated with the Illinois Electricity Distribution Tax are already recovered through per kWh DFCs for these customers. This is not a tax imposed on customers but rather is directly imposed on ComEd. Therefore, 70 ILCS 3605 does not apply to the IEDT tax imposed on ComEd and the Commission finds that the CTA is responsible for this tax.

In light of the Commission's prior treatment of the Illinois Electricity Distribution Tax in the Ameren Order, the Commission adopts ComEd's proposal to modify its rate design to provide a separate volumetric charge for the recovery of the Illinois Electricity Distribution Tax and uncollectible costs associated with the application of the tax for all of the reasons stated herein.

(Docket No. 10-0467, Order at 285.)

Staff believes it is clear from the law and the Commission's analysis and conclusion in Docket No. 10-0467 that the IEDT should be charged on a kWh basis. Because the level of deliveries determines the amount of distribution taxes for ComEd each year, customers should be charged for those taxes based upon their individual kWh usage. Therefore, Mr. Johnson recommends the Commission continue collecting the IEDT on a kWh basis and reject Mr. Fults' proposal to collect the tax through the distribution facilities charge. (Staff Ex. 4.0 at 40:949-951.)

IIEC's Position

IIEC agrees with REACT witness Bradley Fults who has recommended that the IEDT be recovered in ComEd's distribution facilities charge, as opposed to a separate kWh charge. IIEC notes the IEDT is a tax imposed directly on ComEd and not its customers.

IIEC argues that the Illinois Statute (35 ILCS 620/1 *et seq.*) does not allow the utility to establish separate individual charges for collection of the tax imposed on the utility. IIEC notes the IEDT and its predecessor tax had never been collected from customers as a separate charge until the order in Docket No. 10-0467. IIEC asserts ComEd has never demonstrated any legitimate reason for separating this particular cost from the plethora of ComEd costs, including taxes imposed on ComEd, and now collected in ComEd's DFC charges. The current charge does not reflect the tiered structure of the tax in imposing an equal cents per kWh charge.

IIEC recommends the Commission adopt REACT's position that IEDT be recovered in ComEd's distribution facilities charge, as opposed to a separate kWh charge.

REACT's Position

The IEDT is a tax imposed by the State of Illinois on Illinois electric distribution companies under the Public Utilities Act. (See 35 ILCS 620/2a.1; REACT IB at 48.) REACT explains that this tax originally was enacted to collect money based upon a percentage of each utility's invested capital. (See REACT IB at 48-49, *citing* REACT Ex. 1.0 at 29:641-42.) From 1999 (when the first ComEd delivery services rates became effective), until the conclusion of ComEd's 2010 Rate Case, ComEd recovered the IEDT as part of its Distribution Facilities Charge ("DFC"). (See REACT IB at 49, *citing* REACT Ex. 1.0 at 29:644-46.) REACT further explains that under the DFC method, for non-residential customers such as those in the ELL and HV Over 10 MW classes, the tax was included in the \$ per kW DFC charge, applied to each customer's Maximum Kilowatts Delivered; for residential, watt-meter, and lighting customers the tax was included in the \$ per kWh DFC. (See REACT IB at 49, *citing* REACT Ex. 1.0 at 29:650-53.)

In the 2010 ComEd Rate Case, ComEd was allowed to change its collection methodology, and removed the IEDT costs from its DFC, and instead began assessing

the IEDT as a separate per kWh charge. (See REACT IB at 49, *citing* REACT Ex. 1.0 at 29:649-50.) REACT explains why the new approach has several undesirable and inequitable consequences. First, the changed approach creates confusion and further complexity for customers in understanding their monthly ComEd bill. (See REACT IB at 49, *citing* REACT Ex. 1.0 at 29:656-59.) Second, the largest customers who operate 24 hours per day and use the same amount of electricity each hour -- *i.e.*, large, high-load customers who are using ComEd's system efficiently -- now pay a disproportionately large portion of the tax. (See REACT IB at 49; *see also* REACT Ex. 1.0 at 30:666-669.) REACT asserts that these problems arose because the IEDT charges no longer have any relationship to ComEd's invested capital -- which is the purpose of the tax -- but rather are just tied to the amount of kilowatts delivered to each customer. (See REACT IB at 49, *citing* REACT Ex. 4.0 at 16:338-41.)

REACT and IIEC request that the Commission order ComEd to collect the tax in the same manner it did from 1999 to 2011, rather than the manner that it has since the conclusion of the 2010 ComEd Rate Case.

Commission Analysis and Conclusion

The distribution tax was previously determined by the utilities' plant investment levels. The General Assembly expressly amended the method of computing the tax effective January 1, 1998.

The amount of tax is computed on the basis of usage, rather than on invested capital. Sales, rather than plant investment, determine distribution taxes. Changes in the amount of plant in service are now irrelevant in computing the amount of tax due.

This interpretation is consistent with the Commission's conclusion regarding the collection of the IEDT in Docket No. 10-0467. The Commission finds that ComEd's method of collecting the IEDT on a kWh basis is correct and consistent with 35 ILCS 620/1a.

5. Other Issues

D. Overall Recommended Rate Design

ComEd's Position

ComEd recommends that the Commission uphold its Docket No. 10-0467 decision to allow ComEd to use an SFV rate design approach for setting rates for the residential and watt-hour delivery classes. ComEd also recommends that Commission reaffirm its Docket No. 10-0467 decision that the IEDT be a per-kWh charge. Otherwise, ComEd states that it has not otherwise made a recommendation regarding any particular rate design. ComEd will implement the final Commission-approved rate design in this proceeding.

Staff's Position

Staff's overall rate design should be approved by the Commission. Staff's proposed rate design incorporates the cost inputs from the ECOSS in ComEd Ex. 3.14, which included the recommendations made by the project team addressing the Commission's directives in its Docket No. 10-0467 Order addressing its ECOSS concerns and includes the indirect uncollectible cost allocation factors in accordance with the Indirect Uncollectible Cost Study. Also, Staff's proposed rate design continues the movement towards cost based rates by following the next step revenue responsibility levels approved by the Commission in Docket No. 10-0467 for the ELL, HV, and RR delivery classes. The Commission has ordered and made a concerted effort to move toward cost-based rates for the ELL, HV, and RR classes. According to Staff, no reason has been presented as to why that movement should not be continued in this proceeding. As shown on Staff Ex. 4.0, Page 22, Table 1, under this proposed next step revenue responsibility rate design, the classes that are currently subsidizing the ELL, HV, and RR delivery classes (*i.e.*, the SL, ML, LL, and VLL delivery classes) will see their shares of those subsidies decrease. Additionally, Staff's proposed rate design is the only proposal offered that provides rates for all classes, since ComEd is not taking a position in this proceeding. Other parties offer rates for specific classes but no one presents rates for each and every class. Staff's rate design takes all classes into consideration, not just specific customers. (Staff Ex. 4.0, Attachment 4.03.)

City/CUB's Position

City/CUB recommend that the Commission adopt the tiered customer charge structure proposed by City/CUB expert Edward Bodmer. City/CUB aver that that proposal reflects cost causation, is fair, properly accounts for costs mis-categorized as customer related, and eliminates the current subsidy from low-use consumers to high use consumers in the residential classes. Moreover, City/CUB note that the proposal is specifically designed to accommodate ComEd's clear preference for customer charge recovery, while transitioning to more demand based recovery.

IIEC's Position

IIEC supports the Commission taking the third of four steps toward cost of service in its plan to move rates toward cost of service, as established in Docket No. 07-0566, by moving the ELL and HV Delivery Classes one-half of the remaining way to cost of service. This approach was presented in ComEd Ex. 3.07. Consistent with its prior determinations, the Commission should approve the next incremental step in movement toward cost based rates in this case. IIEC supports collection of the IEDT tax in the distribution facilities charge. IIEC also recommends that 10% to 20% of single-phase primary lines be allocated now to secondary customers.

REACT's Position

REACT argues that fairness and application of cost causation principles requires that costs be allocated to cost causers, based upon an analysis of the facilities used to serve the various classes of customers. REACT states that rates also should be designed to prevent unfair and disproportionate impacts upon the largest energy users, who provide jobs and drive the Illinois economy. According to REACT, ComEd should not be allowed to simply rely upon flawed assumptions contained in a study that it presented years ago. REACT asserts that credible refinements to cost studies should be implemented based upon new data that has been developed and changes to the market conditions. Accordingly, REACT respectfully requests that the Commission:

- (1) Order a modification now to ComEd's ECOSS, based on REACT expert witness Harry Terhune's analysis of certain electric distribution facilities that are not used or are used only a *de minimis* amount by members of the ELL Delivery Class and the over 10 MW HV Delivery Class;
- (2) Maintain the status quo regarding any alleged "movement toward cost" based on ComEd's problematic ECOSS until the completion of the Shared Distribution Lines Proportional Cost Assignment Study;
- (3) Order an accurate allocation of Customer care costs, to reflect the unquestionable fact that a certain portion of those costs is attributable to ComEd's supply function; and
- (4) Order ComEd to collect the IEDT in a manner that reflects cost causation principles, consistent with the manner in which ComEd collected that tax for over a decade.

The Commercial Group's Position

The Commercial Group argues that, regardless of the ECOSS adopted by the Commission in this proceeding, the class costs shown by such ECOSS should be reflected fully in class rates.

In the alternative, CG asserts, if the Commission decides to continue its "next step" approach, the Commission should move the non-residential classes halfway to class cost, with the exception of the Railroad Class, which would be moved one-third of the way to cost for its class. Then in the subsequent rate design proceeding, all customer classes would move the rest of the way to class cost but for the revenues required to move the Railroad class to cost of service over the next two cases.

CG argues that, to the extent that the Commission determines that one class of customers should be subsidized because of general benefits that class may provide to society, the subsidy burden should also be spread generally to all rate classes.

CG concludes that the Commission should correct an irregularity in how “next step” decisions are implemented in order to achieve the Commission’s goal of moving non-residential rates more steadily to cost.

Commission Analysis and Conclusion

The Commission has adopted the residential rate design proposed by the AG which conforms residential class billing parameters more closely to the cost of service. This design reduces or eliminates the cross subsidization of high use customers by low use customers in residential rate classes.

The Order adopts no changes in regard to customer care costs. The Order continues the process of conforming customer class rates to the cost of service. Consistent with prior orders, this Order brings rates for the ELL and HV classes half of the remaining way to the cost of service and the Railroad Class to the second of ten rate adjustments. The Order directs ComEd to immediately eliminate charges to the Railroad Class for under 12 kV service as ordered by the Commission’s directive in Docket No. 10-0467.

In keeping with the recommendation of Staff and ComEd, the Commission has reaffirmed in this case that the IEDT is to be assessed on a per kWh charge consistent with the legislature’s directive in 35 ILCS 620/1(a).

V. OTHER MISCELLANEOUS CHARGES AND FEES AND CORRESPONDING TARIFF REVISIONS

A. Potentially Uncontested Issues

1. Metering Facilities Lease Charges and Standard Meter Allowances

ComEd’s Position

ComEd proposes to update the Standard Meter Allowances and the Monthly Rental Charges provided in Rider ML – Meter Related Facilities Lease. ComEd also proposes a new Monthly Rental Charge for meters that operate within the developing smart grid infrastructure. ComEd notes that no party objected and recommends approval of the proposals.

Staff’s Position

Within Rider Meter-Related Facilities Lease (Rider ML”), the Company proposes to update the Standard Meter Allowance (“SMAs”) and the Monthly Rental Charges (“MRCs”). (ComEd Ex. 2.0 at 57.) The Company states that both the proposed SMAs and MRCs were computed using the same methodologies approved in the Company’s 2010 rate case. (*Id.* at 58.) Additionally, the Company proposes to establish MRCs for meters operating within the smart grid infrastructure. (ComEd Ex. 2.0 at 58.) The

Company states these changes to Rider ML result in estimated meter lease billing of \$1.36 million per month, previously \$1.22 million per month. (*Id.* at 59.) Staff does not object to the Company's proposals since the updates are consistent with the methodologies previously approved by the Commission in Docket No. 10-0467. (Staff Ex. 2.0 at 3.)

Commission Analysis and Conclusion

No party objects to ComEd's proposals to update the Standard Meter Allowance and the Monthly Rental Charges provided in Rider ML – Meter Related Facilities Lease, and ComEd's proposal to establish a new Monthly Rental Charge for meters operating within the smart grid infrastructure. Staff notes that ComEd's proposals are consistent with the methodologies approved in Docket No. 10-0467. Accordingly, the Commission adopts ComEd's proposals.

2. Light Emitting Diode Lighting Units

ComEd's Position

ComEd proposes to offer two Light Emitting Diode ("LED") lighting units for the Fixture-Included Lighting ("FIL") Delivery Class as an energy efficient alternative. Staff recommends the adoption of ComEd's proposal and also notes that corresponding changes should be made to cost allocations and rate design to account for this proposal. No party objected, and ComEd recommends that this proposal be approved.

Staff's Position

The Company proposes to revise ILL CC No. 10 2nd Revised Sheet No. 184 to offer two Light Emitting Diode ("LED") lighting units as an alternative to high pressure sodium ("HPS") lighting units for the FIL Delivery class. (ComEd Ex. 2.0 at 59.) Only two LED lighting units are currently being proposed because the Company states it would like to study customer reaction. The amount of electricity delivered to the units would be determined by the LED lighting unit wattage, and given that LED bulbs last longer, the Company states that allocation factors have been updated in the RDI Rate Design and all illustrative rate designs to reflect that longer useful life. (*Id.* at 60-61.) Staff does not object to the Company's proposal since customers can still choose HPS lighting units, so customers have more options in selecting which lighting unit they prefer. Staff recommends that should a rate design be approved other than the RDI Rate Design or illustrative rate designs, the cost allocation factors be updated to reflect the longer useful life of LED lighting units. (Staff Ex. 2.0 at 4.)

Commission Analysis and Conclusion

The Commission approves ComEd's proposals subject to appropriate revisions reflective of the modified ECOSS adopted in this Order.

3. Other Miscellaneous Charges and Fees except for Invalid Payment Fee and Reconnection Fee

ComEd's Position

ComEd proposes updates to the following miscellaneous charges: Split Load DASR (by meter) and Split Load DASR (by percent or first through meter) – Rate RDS – Retail Delivery Service (“Rate RDS”); Nonstandard Switching Fee – Rate RDS; Off-Cycle Termination Fee – Rate RDS; MSP Meter Reading Charges – Rate MSPS – Metering Service Provider Service (“Rate MSPS”); Meter Equipment Removal Charges – Rate MSPS; MSP-Requested Work – Rate MSPS; CATV Power Supply Test Fee - General Terms and Conditions (“GTC”); Duplicate Information Fee – GTC; and Interval Data Fee - GTC.

No party objected to ComEd's proposed updates, and ComEd recommends Commission approval.

Staff's Position

The Company proposes numerous changes to other miscellaneous charges and adjustments summarized in Table CST-D27 on page 63 of ComEd Ex. 2.0. The Company states that each proposed change is based on the methodology approved in its 2010 rate case, which is when these charges were last updated. (ComEd Ex. 2.0 at 62.) Staff does not object to the Company's proposal. Staff reviewed of all assumptions, inputs, and calculations found them to be reasonable. (Staff Ex. 2.0 at 6.)

Commission Analysis and Conclusion

ComEd proposed various updates to miscellaneous charges and fees listed above that are unopposed. Staff reviewed the changes and found them to be reasonable. Accordingly, the Commission adopts ComEd's uncontested proposed updates summarized in Table CST-D27 on page 63 of ComEd Ex. 2.0.

4. Corresponding Tariff Revisions

ComEd's Position

ComEd proposes to revise a number of tariffs sheets that were filed on April 30, 2013, to reflect updates in these various miscellaneous charges and fees that have been proposed. No party objected to ComEd's proposed revisions as further modified during the course of this proceeding; and ComEd recommends Commission approval of the revised tariffs.

Staff's Position

The Company proposes several other changes to its tariffs: (1) revisions to its general terms and conditions and two of the informational sheets that list the delivery service charges based on the proposed changes to the FIL Delivery Class discussed earlier; (2) remove the listing of the SBO credit from Rate RDS and Rider SBO and list it in an informational sheet; and (3) remove the listing of the distribution loss factors ("DLFs") from Rate RDS and list them in an informational sheet. The Company states that listing the SBO credit and the DLFs in information sheets reflects the informational filing nature of the compliance filings. (ComEd Ex. 2.0 at 65.) Staff does not object to these proposals. These revisions to the general terms and conditions and information sheets reflect the above changes. The changes will give ComEd customers easier access to this information and will streamline the compliance filing process when these values change. (Staff Ex. 2.0 at 7.)

Commission Analysis and Conclusion

ComEd's uncontested proposed revisions to the tariff sheets described immediately above are hereby approved.

B. Potentially Contested Issues

1. Invalid Payment Fee

ComEd's Position

ComEd proposes an increase in its Invalid Payment Fee from \$21.00 to \$34.10. ComEd states that the evidence demonstrates that the proposed increase is cost based and that its costs in this regard have increased since the charge was set at \$21.00. ComEd notes that the charge imposed by its banks for each such transaction has increased from \$1.60 to \$7.00 and that its costs have also increased due to an increase in the manual processing time in addition to the customer calls it receives in connection with these transactions.

Staff's Position

The Company proposes to increase the Invalid Payment Fee as shown in Table CST-D27 on page 63 of ComEd Ex. 2.0. The proposed change is based on the methodology approved in its 2010 rate case, which is when this charge was last updated. (ComEd Ex. 2.0 at 62.) Staff does not object to the Company's proposal since all assumptions, inputs, and calculations appear reasonable. (Staff Ex. 2.0 at 6.)

AG's Position

ComEd's Invalid Payment Fee is a charged imposed on customer's whose checks or electronic payments are not honored by a bank. (AG Ex. 1.0 at 9.) ComEd proposed to increase that fee from \$21.00 to \$34.10, a 62% increase to this charge.

Rubin's testimony addressed the various components of ComEd's expenses associated with rejected payments and its responses to AG discovery regarding those underlying costs. His cost analysis concluded that the Company's current costs are approximately equal to the current charge of \$21.00 and should not be increased in this proceeding.

The AG notes that ComEd has not provided evidence to undermine those conclusions and the Commission should adopt AG witness Rubin's recommendation to make no changes to ComEd's current Invalid Payment Fee. In addition, the AG pointed out that at the 50th percentile, consumers' average ComEd charges range from \$23.44 to \$41.13,¹¹ making the \$34.10 charge that ComEd seeks anywhere from 82.9% to close to 150% of the average ComEd monthly charge depending on customer class. Consumers would be better off delaying payment and incurring a late fee of 1.5% than trying to pay on time and risking that a deposit has not cleared their account. Based on information provided by ComEd in response to AG discovery on this issue and disproportionate size of the fee compared to median ComEd charges, the AG asks that the Commission adopt Rubin's recommendation that ComEd's proposal to increase its Invalid Payment fee be rejected. The AG also requests that the Commission direct the Company to update its Invalid Payment Fee analysis in each future rate design case to reflect changes in these fees between rate design proceedings.

Commission Analysis and Conclusion

The Invalid Payment Fee is imposed on a customer when that customer pays for any service with a check or negotiable instrument and the payment is not honored by the customer's bank. ComEd proposes to increase the Invalid Payment Fee from \$21.00 to \$34.10, a 62% increase. The Commission notes that the \$21.00 fee was established in the 2010 Rate Case. Prior to that case, the Invalid Payment Fee was \$15.

The AG objects to the proposed increase in the Invalid Payment Fee and argues that ComEd made erroneous assumptions in its analysis. Specifically, the AG takes exception to ComEd's hourly rates for the Financial Billing Clerk for both "normal handling" and "special handling". With regard to normal handling, the AG argues that these payments are automatically rejected and removed from the customer's account without intervention by ComEd personnel, yet there is an hourly clerical rate of \$116.74 for invalid payment processing (Financial Billing Clerk). The AG recommends removing the \$0.56 charge per invalid payment.

With regard to special handling, the AG asserts that less than 1% of ComEd's returned payments require special handling. Therefore, according to the AG, ComEd improperly included a special handling charge of \$11.67 for each returned payment. The AG also takes exception to ComEd's proposed increase to its Customer Care Center average cost per phone call to \$10.55 stating that it is highly unlikely that each of the 54,000 routine returned payments would result in a customer calling the Company. The AG further states that ComEd did not provide any evidence that undermines the AG's cost analysis, which states that the average cost per returned payment is \$21.97.

Staff did not object to ComEd's proposal stating that all assumptions, inputs and calculations appear reasonable, and are based on the methodologies used in the 2010 Rate Case.

In Docket No. 10-0467, ComEd proposed an increase of the Invalid Payment Fee from \$15.00 to \$27.00, an 80% increase. Similar to what is proposed in the instant proceeding, a large portion of that increase was based on impacts in the normal handling costs, special handling costs and the average cost per phone call. In Docket No. 10-0467, Staff recommended a limited increase of 40% on the basis that there were issues with the Company's proposal. Staff argued it would be better to increase the customer cost gradually over time to mitigate rate shock.

In the instant proceeding, ComEd does not comment on the AG's cost analysis calculations, but merely states that the current Invalid Payment Fee of \$21.00 was already below cost and that ComEd's costs have further increased.

The Commission finds that ComEd has not sufficiently supported its recommendation to increase the overall Invalid Payment Fee by 62% to \$34.10. However, the Commission approves one proposed increase in the "Other Costs" portion of the Invalid Payment Fee. Specifically, the Commission approves an increase related to "Bank Service Charges" of \$5.40 (the difference between the prior charge of \$1.60 and the new charge of \$7.00). Accordingly, the new Invalid Payment Fee will be \$26.40.

2. Reconnection Fee

ComEd's Position

ComEd proposes to increase its Reconnection Fee from \$56.50 to \$63.43, with that fee applying to both standard meters and smart meters, as there is no substantial difference in the costs of reconnecting customers with standard meters and those with smart meters.

ComEd observes that Staff proposes two different reconnection fees: a fee of \$63.43 for customers with standard meters, and another fee of \$9.56 for customers with smart meters. ComEd is indifferent to how the reconnection charges are structured but notes that a two-tier proposal appears inappropriate as the costs of reconnecting customers with standard meter and those with smart meters are substantially similar. Further, ComEd notes that for the foreseeable future, the costs ComEd will incur to reconnect meters are the same for all meters. There is no dispute that costs for smart meters are socialized across all customers. As such, ComEd states, with different reconnection charges based on meter type, there would be an inconsistency and even an element of unfairness in reducing the reconnection charge solely for those customers with smart meters.

Staff's Position

The Commission should accept Staff's proposal for two different Reconnection Fees: a \$63.43 fee for reconnection of standard meters and a \$9.56 fee for reconnection of smart meters. (Staff Ex. 2.0 at 5-6.)

The Company proposes to increase the Reconnection Fee from \$56.50 to \$63.43. The Company provides calculations for the Reconnection Fee that consist of clerical, field services, and local office functions to determine the applied charge. Within the clerical function, the task to "create connect order" results in an applied charge of \$8.39. Within the field services function, there are two tasks listed as "release connect order" and "analyze and dispatch" that result in applied charges of \$0.39 and \$0.78 respectively. Within the local office function, there are three tasks listed as "reconnect meter", "travel time to/from location", and "transportation cost" that result in applied charges of \$26.33, \$26.33, and \$1.22 respectively. (ComEd Ex. 2.30 at 1.) Staff does not object to the Company's proposal to charge \$63.43 for reconnection of standard meters because it reflects the cost to reconnect standard meters.

Staff recommends that there be a different Reconnection Fee for smart meters. (Staff Ex. 2.0 at 5.) ComEd states that "All currently deployed, self-contained, single phase smart meters have the capability to disconnect and reconnect service remotely." (Staff Ex. 2.0, Attachment A.) Staff acknowledges that prior Commission decisions require ComEd to continue its physical disconnection policy even when the ability to do remote disconnection is available. Those orders do not discuss reconnection or the need for physical reconnection. (Staff Ex. 5.0 at 3.) Furthermore, 83 Ill. Adm. Code 280.130(d) does not require a site visit for reconnection nor do the Commission Orders referenced above. ComEd, however, has chosen to not use the remote reconnect feature for non-payment accounts, but physically disconnects the meters by removing the meter and inserting a plastic sleeve to prevent the flow of current." (*Id.*; ComEd Ex. 15.0 at 2.) Staff avers that the Reconnection Fee for smart meters should be based on the cost to reconnect the meter remotely because the Company admits that it could perform a remote disconnect in conjunction with a site visit so that a site visit would not be needed in order to perform a remote reconnection of service. (Staff Cross Exhibit 1 (Company Response to DR AAA 1.01).) Given that the functionality of remote reconnection exists at this time through smart meters, it is logical to charge customers the cost of reconnecting smart meters remotely. Staff's proposed reconnection fee for smart meters is calculated by summing the "create connect order", "release connect order", and "analyze and dispatch" tasks under the clerical and field services functions, which results in a charge of \$9.56. (*Id.* at 5-6.)

Commission Analysis and Conclusion

ComEd proposes an increase to its Reconnection Fee from \$56.50 to \$63.43, with that fee applying to both standard meters and smart meters. Staff agrees with the \$63.43 Reconnection Fee applying to standard meters. Staff argues that there should

be a different Reconnection Fee of \$9.56 applying to smart meters because smart meters are capable of remote disconnection/reconnection.

ComEd states that Staff's proposed "two-tier" proposal is inappropriate and that the remote functionality of the smart meter is only used under certain circumstances. ComEd states it does not currently use the feature for non-payment.

The Commission would note that the Energy Infrastructure and Modernization Act ("EIMA"), which permits a participating utility such as ComEd to recover the costs of implementing its Advance Metering Infrastructure plan, explicitly notes that "Smart Grid Functions" means "the ability to use digital information to operate functionalities on the electric utility grid that were previously electro-mechanical or manual." 220 ILCS 5/16-108.5(a)(7). Per EIMA, one of the many benefits of smart meters are that they can remotely disconnect and reconnect customers, a feature which decreases disconnection and reconnection costs and one which ComEd admits it uses on a limited basis. The Commission finds that increasing the Reconnection fee applying to standard meters from \$56.50 to \$63.43 is appropriate. The Commission also finds that a separate reduced Reconnection Fee of \$9.56 for smart meters is appropriate and is hereby adopted.

VI. OTHER

A. Distribution System Losses

Distribution losses exist on any electric utility's distribution system whenever the electric utility uses its distribution systems to provide electricity to customers. They represent the difference between energy delivered to the distribution system and the energy ultimately delivered to customers. Distribution system elements are never one-hundred percent efficient. (ComEd Ex. 4.0 at 5.)

1. Distribution System Loss Study

ComEd's Position

When ComEd filed its tariffs to initiate this proceeding, ComEd also submitted its Distribution System Loss Study (ComEd Ex 4.01), which is used to develop the distribution losses that are used in preparing the ECOSS. Staff found ComEd's general methodology used in the study to be appropriate, but determined that several corrections were needed.

ComEd agreed with Staff and prepared a revised study (ComEd Ex. 8.01), which corrected the inadvertent errors. ComEd, with the support of Staff, recommends that the Commission adopt the corrected Distribution System Loss Study (ComEd Ex. 8.01), for this proceeding.

Staff's Position

ComEd filed its initial distribution system loss study as ComEd Ex. 4.01. In rebuttal, ComEd filed its corrected distribution system loss study as ComEd Ex. 8.01. In ComEd Ex. 8.01, ComEd corrects some system data errors that affected its loss calculations and clarifies its methodology for determining secondary and service losses. (ComEd Ex. 8.0 at 3.) ComEd's distribution system loss study divides its customers into categories (ComEd Ex. 4.01, 13; ComEd Ex. 8.01, 13) and provides an approximation of the distribution losses caused by using the distribution system to supply electricity to each of the customer categories based upon: (1) the energy ComEd supplies to, and that is consumed by, each customer category; and (2) the specific distribution system elements that ComEd uses to supply each customer category. (Staff Ex. 3.0 at 2.) The ultimate result of ComEd's distribution system loss study is an individual "loss factor" for each customer category. (ComEd Ex. 8.01 at 13.) These loss factors, when multiplied by the energy consumed by the customers in each customer category, provide an approximation of the unmetered electric energy ComEd must procure for its customers to offset the losses that occur in its distribution system. (*Id.*)

Staff finds that ComEd's methodology in determining its loss factors to be acceptable (Staff Ex. 3.0 at 3) and recommends that the Commission adopt ComEd's corrected distribution system loss study (ComEd Ex. 8.01), for this proceeding. (Staff Ex. 6.0 at 3.)

Commission Analysis and Conclusion

ComEd's revised Distribution Loss Study measures the difference between the energy delivered to the distribution system and that supplied to customers. ComEd allocates that energy by customer categories pursuant to loss factors determined for each category. Staff reviewed ComEd's original study and recommended changes that were accepted by ComEd and incorporated in the corrected study. (ComEd EX. 8.01.)

Because the Commission is reserving its decision regarding the Secondary and Service Loss Study, which is an input to the Distribution System Loss Study, the Commission will also reserve its decision regarding the Distribution System Loss Study. As indicated in its testimony, ComEd is directed to file its updated Distribution System Loss Study and revised Secondary and Service Loss Study in the Formula Rate Update proceeding that will be filed in 2014.

2. Secondary and Service Loss Study

ComEd's Position

In Docket No. 10-0467, the Commission directed ComEd to separately consider the secondary and service elements in the Distribution System Loss Study. (Order at 291.) ComEd notes that secondary elements consist of low voltage conductors that can deliver electricity to multiple customers, such as those conductors that exist along streets, alleys, and within utility easements. The service elements consist of those

conductors on private property that deliver electricity to one or more individual customers at a single premise. The Secondary and Service Loss Study provides the basis for estimating the peak losses in secondary and service conductors by customer category.

In response to the Commission directive in Docket No. 12-0321, ComEd submitted in this proceeding a Secondary and Service Loss Study (ComEd Ex. 4.02), that sampled actual data for the four most populated customer categories (SFNH, MFNH, MFH, and the SL (0 to 100 kW) nonresidential category). Staff recommended that ComEd expand its sample of customers in its other customer categories that use both secondary and service elements, but acknowledged that the expanded sample may not result in a reduction in the secondary and services losses for all of the other categories.

ComEd states that it has agreed to conduct a field survey of the remaining categories that use secondary and service conductors, which includes SFH, WH, ML (100 to 400 kW), LL (400 to 1,000 kW), VLL (1,000 to 10,000 kW), ELL (Over 10,000 kW), and Lighting. ComEd proposes to submit the updated Secondary Service Loss Study in the 2014 Formula Rate Update proceeding.

Staff's Position

ComEd prepared and filed a secondary and service loss study in response to the Commission's Orders in Docket Nos. 10-0467 and 11-0721. (ComEd Ex. 8.02.) Secondary distribution elements typically consist of lower voltage conductors that parallel a street, road, alley or other right-of-way, from which one or more customers and/or premises can receive service. (Staff Ex. 3.0 at 4.) Service distribution elements, like secondary distribution elements, typically consist of lower voltage conductors that can supply one or more customers, but unlike secondary elements, service elements generally cross private property and supply only one premises. (*Id.*) ComEd uses the results from its secondary and service loss study to approximate the distribution losses that occur in the secondary and service elements of its distribution system. (*Id.* at 3-4.) Staff is concerned that ComEd did not investigate the secondary and service losses associated with each of its customer categories in the same manner. ComEd's secondary and service loss study, filed as ComEd Ex. 4.02, uses an expanded customer sample with actual loads and conductor type to determine secondary and service losses for only four of its seventeen customer categories. ComEd's use of an expanded customer sample and actual loads and conductor type for the SFNH, MFNHG, MFH, and SL (0-100 kW) customer categories resulted in a reduction in the combined secondary and service losses of 62% to 75%.

Staff recommends that ComEd expand its sample sizes and use actual customer loads and conductor information for the remaining customer categories that use secondary and service elements. (Staff Ex. 3.0 at 7-8.) Staff does not know whether ComEd's use of an expanded sample would result in a reduction in the secondary and service losses for the other customer categories, as it did for the Single Family, Multi-

Family, Multi-Family with Space heat, and 0-100 kW customer categories, but an expanded sample for all the customer categories that use secondary and service elements would certainly provide a more accurate estimate of the secondary and service losses that occur on ComEd's distribution system. (*Id.* at 5-7.) ComEd agrees with Staff's recommendation, and will file an updated secondary and service loss study with its 2014 Formula Rate Update filing. (ComEd Ex. 8.0 at 4.)

The Commercial Group recommends that the Commission reach no conclusion in this proceeding concerning ComEd's secondary and service loss study because ComEd has not yet expanded its sample size and used actual load and conductor information for all customer categories that use secondary and service elements. (CG Ex. 1.0 at 8.) Though Staff agrees with the Commercial Group that ComEd has not yet expanded sample sizes for all customer categories, Staff still recommends adoption of ComEd's distribution system loss study filed as ComEd Ex. 8.01, which uses the results from ComEd's updated secondary and service loss study ComEd Ex. 8.02. (Staff Ex. 6.0 at 3.) ComEd Ex. 8.02 provides a far superior approximation of secondary and service losses for the four ComEd customer categories affected than did ComEd's secondary and service loss study adopted in Docket No. 12-0321. (*Id.* at 4.)

The Commercial Group's Position

It is uncontested that the Commission should reach no conclusions in this proceeding concerning the SEC/SERVICES study until that survey has been extended to all classes served by secondary and service facilities, as both Staff and ComEd propose. The Commercial Group concurs with this approach. (CG Ex. 1.0 at 8:176-179.)

In Docket No. 10-0467, the Commercial Group questioned a large increase in the allocation of SEC/SERVICES losses to the ML and LL classes that was caused by a new rough estimate of such losses, particularly where such customers do not use secondary service. (CG Ex. 1.0 at 7:160-163.) The Commission then ordered that "ComEd shall segregate the SEC and SERVICE elements in any future rate case." (Docket No. 10-0467, Order at 291.) ComEd then began to segregate these elements and, in its updated Secondary and Service Loss Study presented in this case (ComEd Ex. 4.02), increased the sample size for the residential and small business classes from 48 to 400 and performed field review of actual conductor size, type and length for the facilities of these classes being sampled. (CG Ex. 1.0 at 7:165-168.) Mr. Rockrohr examined ComEd Ex. 4.02 and testified that the study improves the prior methodology by identifying actual customer loads and verifying the actual distribution facilities ComEd uses to supply those customers, although he pointed out that this improvement was limited to the SFNH, MFNH, MFH and the SL (0 to 100 kW) categories. (Staff Ex. 3.0 at 89-105.) Mr. Rockrohr noted that this new analysis resulted in sharply lower combined secondary and services losses for these categories but "[t]o treat customers fairly, ComEd should use expanded samples and actual loads and conductor sizes/lengths ... [for] each of its customer categories supplied by both secondary and service elements – not only four of the customer categories." (*Id.* at 143-152.) Accordingly, he

recommended that a more complete study be performed of all affected classes. (*Id.* at 159-166.) ComEd's witness Born agreed with this approach, promising to "conduct a field survey of the remaining categories that utilize secondary and service conductors and will apply the results in subsequent studies of distribution losses." (ComEd Ex. 8.0 at 70-73.)

The Commercial Group likewise recommends that until the complete SEC/SERVICE loss survey is performed for all classes that utilize secondary and service conductors the Commission should reach no conclusions until the 2014 Formula Rate case where this information will be available.

Commission Analysis and Conclusion

Staff contends that this most recent study is an improvement over the study provided in Docket No. 12-0321 whose results should be incorporated in ComEd's rates now rather than later. The CG argues incorrectly that no party contends that the Commission should reach conclusions about secondary and service losses until a SEC/SERVICES survey has been extended from to all customer classes rather than the four currently available. The current survey, if implemented, results in substantial reductions in secondary and service losses for the four most populated customer classes.

The Commission notes that the adjustments contemplated by the SEC/SERVICES survey apply only to the usage component of the bill for the four most populated customer classes. The Commission further notes that information on the other customer classes is scheduled to be included in an updated SEC/Service loss study in the 2014 Formula Rate filing. Because the overall system losses are believed to be accurately measured in aggregate, by lowering the loss factors for the most populated classes, we are increasing costs to the other classes in the absence of information that that is uniformly appropriate. Although higher charges may be correct for some classes, there is no information in the record indicating that an across the board increase for the remaining classes is reasonable. The Commission finds that under the circumstances, it is reasonable to wait until information for all the classes is available in 2014.

B. Unaccounted For Energy

ComEd's Position

ComEd states that under EIMA, Unaccounted for Energy ("UFE") is one of the performance metrics in the Commission-approved Multi-Year Performance Metrics Plan. ComEd will be providing this Commission with information on that subject in accordance with that plan. Thus, any investigation that the Commission may undertake now with regard to that data is plainly premature, especially in a proceeding initiated under Section 16-108.5(e) of the Act which relates to delivery service rates.

ComEd argues that REACT inappropriately proposes in this proceeding a study regarding UFE. ComEd points out that there is no UFE charge in its delivery service rates and that UFE pertains to wholesale charges within the exclusive jurisdiction of the Federal Energy Regulatory Commission. See 16 U.S.C. § 824(b).

ComEd also asserts that to the extent REACT may be referring to charges that are imposed on customers by RESs, such charges are outside the scope of this proceeding because ComEd is not and cannot be party to competitive contractual arrangements between RESs and their customers. Additionally, ComEd points out that such arrangements are not subject to the Commission's authority.

REACT's Position

REACT explains that there are two categories of costs that customers experience associated with lost electricity: (1) the Distribution Loss Factor ("DLF") that is a specific charge in ComEd's tariffs; and (2) the cost for UFE. (REACT IB at 52-55; REACT Ex. 1.0 at 25:574-26:592.) REACT points out that while ComEd presented analysis associated with the distribution loss percentages and the accompanying DLFs for the various customer classes, it presented no similar analysis associated with UFE—despite the fact that the cost impact of UFE can be twice as great as that of the DLFs. (See ComEd Ex. 4.0 at 5:85-11:213; ComEd Ex. 8.0 at 3:46-60; REACT Ex. 1.0 at 25:561-65, 27:599-605.)

Given this cost impact, as well as the confusing nature of the interrelationship between UFE and the DLFs, REACT requests that the Commission order ComEd to perform a study regarding the causes of UFE, and to provide additional information that would enable the Commission and interested parties to determine whether the UFE is being calculated properly and allocated appropriately among ComEd's customer classes and subclasses. (See REACT IB at 54-55; REACT Ex. 4.0 at 19:396-99.)

Commission Analysis and Conclusion

REACT argues that the Commission should order a study to determine whether the UFE is being properly calculated and allocated.

UFE is one of the performance metrics in the Commission-approved Multi-Year Performance Metrics Plan under EIMA. ComEd will be providing this Commission with information on that subject in accordance with that plan. The Commission agrees with ComEd that any investigation that the ICC may undertake now with regard to that data is plainly premature. Moreover, UFE pertains to wholesale charges within the exclusive jurisdiction of the Federal Energy Regulatory Commission that are beyond the Commission's authority.

The Commission rejects REACT's argument that a study of UFE is necessary.

C. Railroad customers - Utilization of Railroad Customers' Facilities Report

ComEd's Position

The Commission issued a directive in Docket No. 10-0467, Order at 274, instructing ComEd to file a report that in part "identifies and describes solutions to eliminate ComEd's dependence on, and use of, each of the CTA-owned and Metra-owned railroad traction power stations to supply its customers..." ComEd met the directive through submitting the Railroad Facilities Report (ComEd Ex. 4.03), which proposes Approach 1 and Approach 2 to eliminate ComEd's dependence on the railroads' traction power stations.

In response to Staff's recommendation that the Commission adopt Approach 2 in the report, ComEd provided an estimated schedule to complete the work necessary to implement the second approach.

Staff's Position

In Docket Nos. 10-0467 and 11-0721, the Commission ordered ComEd to file a report that identifies and describes possible solutions to eliminate ComEd's dependence on, and use of, Railroad Customer equipment to supply its other customers. (Staff Ex. 3.0 at 8-9.) The Commission recognized the potential harm to the public of ComEd being dependent upon the use of the Railroad Customer's equipment. (Docket No. 10-0467, Order at 273.) ComEd Ex. 4.03 is an update to this report about ComEd's use of Railroad Equipment that includes a description of two approaches to eliminate this dependence and/or use. (ComEd Ex. 4.03.) The first approach in ComEd's report (Approach 1) would eliminate all power flow through the Railroad Customers' equipment by opening one of the normally closed 12 kV breakers that is owned and operated by the Railroad Customers. ComEd determined that implementation of Approach 1 would require both ComEd and the Railroad Customers to replace relays, which would result in considerable additional cost when compared to the other approach ComEd considered. (*Id.* at 14-15.) The second approach covered in ComEd's report (Approach 2) eliminates ComEd's dependence on the power flows through the Railroad Customer equipment, but does not prevent power flows from occurring. (ComEd Ex. 4.0 at 12.) ComEd witness Michael Born explains that both Approach 1 and Approach 2 would require ComEd to perform the same reinforcements/reconfigurations of existing distribution circuits. (*Id.*) ComEd estimates that it would require approximately two years for it to complete the contemplated distribution system reinforcements/reconfigurations associated with Approach 2. (ComEd Ex. 8.0 at 9.)

Staff finds that ComEd's dependence on Railroad Customer equipment is a poor utility practice that the Company should eliminate. (Staff Ex. 3.0 at 11.) Staff recommends that ComEd immediately execute the reinforcements/reconfigurations associated with Approach 2 in ComEd Ex. 4.03 to eliminate ComEd's dependence upon Railroad Customer equipment. Even though these reinforcements/reconfigurations are common to the only approaches ComEd included in its report (*Id.* at 15), Staff

understands ComEd's testimony to indicate that ComEd is waiting for Commission approval before proceeding with any work to eliminate its dependence on Railroad Customer equipment. (ComEd Ex. 8.0 at 8.) Staff does not know why ComEd believes it needs Commission approval to reinforce its distribution system so that it is not dependent upon the equipment of one customer to supply other customers, but regardless, Staff can think of no reason for the Commission to withhold that approval.

Staff also explains that ComEd's dependence on Railroad Customer equipment has resulted in the Railroad Class receiving a \$678,104 annual subsidy from other Customer Classes. (Staff Ex. 3.0 at 11-12.) Staff does not understand why this subsidy would continue after ComEd eliminates its dependence on Railroad Customer equipment. (*Id.* at 16.) The Commission itself has acknowledged that a credit is not a permanent solution, but rather just a temporary one. (Docket No. 10-0467, Order at 274-275.) However, given that ComEd has not yet eliminated that dependence, and given that the Commission's rationale for the subsidy, in part, was based upon the fact that ComEd had used and depended upon Railroad Customer equipment to supply other customers for many years, Staff witness Rockrohr does not have an opinion as to whether the Commission should adjust the amount of the Railroad Customer annual subsidy within this docket. (Staff Ex. 6.0 at 8-9.)

The Railroad Customers expressed concern that implementation of Approach 2 would be "a change from more than forty years of reliable operations[.]" (CTA/Metra Joint Ex. 2.0 Corrected at 5.) Staff does not find the Railroad Customers' concern to be justified because Approach 2 makes no change to Railroad Customer equipment or the manner ComEd supplies the Railroad Customers. Instead, Approach 2 would simply reinforce/reconfigure ComEd's existing distribution circuits to eliminate contingency overloads and ComEd's existing dependence on Railroad Customer equipment to supply other customers. (ComEd Ex. 4.03 at 4-5.) In other words, implementation of Approach 2 would allow ComEd to supply the Railroad Customers in a more reliable manner, not result in less reliable service. (Staff Ex. 3.0 at 9-10.) Finally, Staff agrees with the Railroad Customers that the cost implementing Approach 2 should not be considered a cost specifically related to the Railroad Class, either in a future ECROSS or through ComEd Rider NS. (CTA/Metra Joint Ex. 2.0 Corrected at 5.)

Metra's Position

As a result of the Commission's Orders in Docket Nos. 10-0467 and 11-0721, ComEd filed the TS study as ComEd Exhibit 4.03 to analyze and address ComEd's reliance on and use of the Railroad Class' traction substations to serve other ComEd customers. With respect to any proposed changes in the ComEd facilities serving the Railroad Class, Metra's first preference is that the Commission's Order follow the recommendations in Mr. Bachman's Direct Testimony. The un rebutted evidence is that ComEd's current design and system have not resulted in any service disruption or problems for the Railroad Class or other customers who take service through the Railroad Class' facilities. (Tr. at 384:17-23.) Mr. Bachman's suggestion is that in light of the fact that the Railroad Class traction substations have been served the same way

by ComEd for the last several decades with no apparent problems for service to either the Railroad Class or other customers who are served through the Railroad Class substations, the most sensible approach, over time, is to convert the Railroad Class traction substations when operationally and economically feasible to operate with one of the railroad circuit breakers normally open as the Railroad Class substations are modified or upgraded. (CTA/Metra Jt. Ex. 1.0 at 14:320-29.)

In the last general delivery services rate case, the Commission ordered an annual cost credit to the Railroad Class based upon the calculated costs of facilities that would have to be constructed to eliminate ComEd's use of Railroad Class traction power facilities to serve other customers. (Docket No. 10-0467, Order at 274-75.) The amount of the annual cost credit ordered by the Commission is \$678,104. (*Id.* at 275.)

While the Commission's prior order suggested that the amount of the credit might be adjusted as the tractions substations were modified or redesigned, no party to this proceeding currently is recommending any change in the cost credit. Nor is one warranted, according to Metra. There has been no substantive change in substation or system configuration since the last general delivery services rate case order. Further, there is no timetable established if ComEd was ordered to implement Approach 2, it might not be completed prior to the next rate case, and under Approach 2, ComEd will still be using the Railroad Class' traction power substations to serve other customers. (CTA/Metra Jt. Ex. 2.0 at 6:102-10.) There is no reason to modify or eliminate the current annual cost credit to the Railroad Class.

CTA's Position

The report on the utilization of the Railroad Customers' facilities should be accepted by the Commission as fulfilling the requirements of Docket No. 10-0467, and the Commission should refrain from ordering any specific changes to the ComEd system which is used to serve the Railroad Class' traction power substations at this time.

In Docket No. 10-0467, this Commission recognized that the CTA and Metra provide beneficial service to ComEd because the traction power substations give ComEd looped service to its customers. This looped service means that power and energy flow into the traction power substations and out of the substations to serve other ComEd customers. Thus, ComEd uses facilities owned, operated, and maintained by the CTA to provide delivery service to other ComEd customers.

ComEd provides delivery service to the CTA traction power substations via two circuits. (Harper Direct, CTA Ex. 1.0 at 4:76-77.) The purpose of the two-line feed is to ensure that there is uninterrupted power to the substations so that, if power is lost on one line, the other line can service the load and a rapid transit car does not lose power on either an elevated structure or, if a subway, underground. (*Id.* at 4:77-80.) In the CTA traction power substation, the breaker between the two circuits is operated in the

closed position, which means that power flows in and out of both lines via the breaker. (*Id.* at 4:86-88.)

Because power and energy flow in, through, and out of the CTA traction power substations, the substations serve other ComEd customers who benefit from the CTA's facilities. (*Id.* at 6:118-119.) "This configuration provides the other customers with a second source of power and energy, which can assist in providing power to these customers both during normal operations and in times of emergency, when the customers might otherwise be without power." (*Id.* at 6:119-122.)

In Docket No. 10-0467, the Staff expressed concern that the looped delivery configuration, which has been used for decades, should be studied to determine if at some point in the future ComEd's "dependency" on the CTA and Metra should be eliminated by reconfiguring the delivery to the traction power substations.

As a result of the Order, ComEd, with the input of the CTA and Metra, prepared a document entitled The Use of Railroad Customers' Electric Traction Power Facilities Study, which ComEd submitted as Exhibit 4.03. In the study, ComEd provided two approaches to answer the ICC Staff's questions regarding "dependence on and use of" the Railroad Class's traction power substations to serve other ComEd customers. (CTA/Metra Ex. 1.0 at 13:302-306.) One approach discusses changes that could be made to the ComEd system to decrease ComEd's dependence on CTA and Metra facilities. The other approach discusses changes to both the ComEd system as well as the CTA and Metra traction power substations. The report makes no ultimate recommendation.

Mr. Bachman testified that the filing of the study fulfilled the requirements of the Order in Docket No. 10-0467. He observed that the Commission need not take further action because under the current configuration, there have been no problems with either ComEd's or the CTA and Metra's operations. (CTA/Metra Joint Ex. 1.0 at 14:326-327.) If changes are made to the configuration, "it seems reasonable to convert the ComEd service over time in a cost-effective and prudent manner as operational and economic conditions merit." (*Id.* at 14/327-329.)

There is no evidence to support Staff witness Greg Rockrohr's belief that ComEd's dependence on the CTA's and Metra's facilities is "a poor utility practice, regardless of how capable the customer is at maintaining its equipment." (Staff Ex. 3.0 at 11:231-232.) In fact, the opposite is true. The looped configuration "has worked successfully for decades." (CTA/Metra Ex. 2.0 at 4:52.)

ComEd's Manager for Distribution Capacity Planning Michael Born stipulated that "ComEd has encountered no adverse effects to reliability attributable to the current configuration of railroad traction power stations that have impacted service to either the railroad delivery—the Railroad Class delivery customers or other customers served by the same circuits as the railroad traction power stations." (Tr. at 384/17-23.)

Contrary to Mr. Rockrohr's assertions, there "is no overriding or crucial electrical reason to make immediate changes." (*Id.* at 4:2-52.) Rather than requiring wholesale modifications to the ComEd system or requesting that the CTA and Metra make costly changes to their traction power substations, Mr. Bachman testifies that "any modifications to the delivery of traction power can be made as facilities are changed or upgraded, assuming there is economic justification for doing so." (*Id.* at 4:53-55.)

In addition, because the changes to either the ComEd system or the CTA and Metra traction power substations would change a method of operation that has been successful for over 40 years of reliable operations, the Railroad Class would prefer that the change-over occur only after it is proven that it will not adversely affect service to the traction power substations. This is critical because if power is lost to the traction power substations, then it adversely affects mass transit. For example, if the failure were to occur on the CTA, it could result in rapid transit cars being stopped underground or on overhead elevated tracks. (CTA/Metra Joint Ex. 2.0 at 5:77-81.)

In other words, action by the Commission to change ComEd's use of CTA's facilities could cause the very disruptions in service that the CTA attempts to avoid by having two circuits serve each traction power substations. The public should not be unnecessarily put at risk when it can be avoided by careful review and planning.

The Commission should find that ComEd has fulfilled the requirement to prepare a study regarding the dependence and use of the Railroad Class traction power substations and to further find that no additional action is required at this time. If the Commission should require ComEd to modify its facilities to decrease its dependence on the Railroad Class customers' facilities, then any modifications should be undertaken only in measured steps so that the full effect of such changes can be carefully monitored to avoid any adverse impacts on mass transit.

Commission Analysis and Conclusion

ComEd's use of Railroad Class customers' power circuits to serve other customers is a practice of long standing that apparently works to the advantage of both parties. Staff counsels the Commission that allowing a utility to rely on one class of customers to provide service to another is undesirable. It is apparent that eliminating this interdependence will be expensive and time consuming.

The Commission adopts Approach 2 as outlined in the study referred to in this record regarding the elimination of the dual use of traction power facilities. Approach 2 requires ComEd to reinforce its distribution system while leaving the looped circuits benefitting the Railroad Class in place. The change-over should occur only after it is proven that it will not adversely affect service to the traction power substations to prevent power losses adversely affecting mass transit. Because the present system was not requested by or necessary for delivery service to the Railroad Class the costs of these modifications should be considered a system cost and not a cost specifically

related to the Railroad Class, either in regard to any future ECOSS or an implementation of Rider NS.

The Commission finds that the current cost credit provided to the Railroad Class representing the cost of constructing other facilities to eliminate the use of traction power facilities to serve other customers should remain in place.

D. Rate BES Electric Supply Charges

ComEd's Position

Staff originally recommended that supply-related subsidies for dusk-to-dawn lighting customers be addressed in this proceeding. In response to Staff's recommendation, ComEd notes that this proceeding was initiated to investigate its delivery service rate design, and as such, may not be the appropriate proceeding to investigate supply-related rate design. If the Commission wanted to address this issue in this proceeding, ComEd provided necessary data to analyze the supply-related rate design.

In response, Staff recommended that supply related subsidies for dusk-to-dawn lighting customers be addressed in a separate Section 9-250 proceeding as this proceeding was initiated to investigate ComEd's delivery service rate design, not ComEd's supply-related rate design. ComEd does not object to this proposal.

Staff's Position

Staff explained in direct testimony that through the application of supply charges under Rate BES – Basic Electric Service (“Rate BES”), which are determined pursuant to the methodology described in Rider PE – Purchased Electricity (“Rider PE”), subsidies are provided to residential customers with electric space heat and dusk-to-dawn lighting customers. Residential customers without electric space heat and non-residential customers with demand that does not exceed 100 kilowatts (“kW”) pay the majority of the subsidies. The Commission initiated a Section 9-250 proceeding to address issues related to supply rate design, Docket No. 11-0498. However, Docket No. 11-0498 only addressed residential space heating supply charges since other customer groups that are affected by the subsidies were not represented in the docket. The Commission approved a methodology to address supply charge subsidies to the residential electric space heating customers but did not address the rate subsidy to dusk-to-dawn lighting customers. The Commission stated that the subsidies to dusk-to-dawn lighting customers must be addressed at a later time. Staff proposed that supply related subsidies for dusk-to-dawn lighting customers should be addressed in this proceeding. (Staff Ex. 1.0 at 31:661-675.)

Company witness Tenorio noted that since this proceeding was initiated with the principal purpose to investigate ComEd's delivery service rate design, it may not be the appropriate venue in which to investigate supply-related rate design. (ComEd Ex. 6.0 at 37:677-679.) Mr. Tenorio continued that, if the Commission decided to direct ComEd to

make adjustments to supply-related charges in an effort to eliminate the remaining subsidies provided to nonresidential customers with electric heat and lighting customers, it could direct ComEd to implement the movement to cost-based charges (a) by employing a cap on the annual increase in the supply charges, over the system average annual increase in supply charges, for the subsidized customers, or (b) over a specified period of time. Otherwise, the Commission could initiate a separate proceeding for the purpose of addressing this topic. (*Id.* at 37:677-686.)

In rebuttal testimony Staff stated that the Commission adopted a cap approach for the Residential Space Heating class in its Order in Docket No. 11-0498. This ensured that the bill impact would be no greater than the chosen cap in any given year while phasing out the subsidy to residential electric space heat customers. Other customer groups that benefit from subsidies (e.g., dusk-to-dawn customers and non-residential space heat customers) were not addressed in Docket No. 11-0498. (Docket No. 11-0498, Order at 7.) The Company makes an appropriate point in that, since this is a delivery service rate design case, it may not be the appropriate venue or time to investigate the supply related rate design. Additionally, no other party has addressed the issue. Staff agreed with the Company that the Commission should initiate a separate proceeding for the purpose of addressing this topic. Staff, therefore, recommends that the Commission initiate a Section 9-250 proceeding to address issues related to supply rate design regarding non-residential space heat customers and dusk-to-dawn lighting customers. (Staff Ex. 4.0 at 30-31:702-716.)

Commission Analysis and Conclusion

ComEd and Staff are the only parties who have addressed this issue. They concur that it would be appropriate to address these issues in a separate Section 9-250 proceeding initiated by the Commission. The Commission accepts this recommendation.

VII. FINDINGS AND ORDERING PARAGRAPHS

The Commission, having considered the entire record herein and being fully advised in the premises, is of the opinion and finds that:

- (1) Commonwealth Edison Company is an Illinois corporation engaged in the transmission, distribution, and sale of electricity to the public in Illinois and is a public utility as defined in Section 3-105 of the Public Utilities Act;
- (2) the Commission has jurisdiction over the parties and the subject matter herein;
- (3) the recitals of fact and conclusions of law reached in the prefatory portion of this Order are supported by the evidence of record and are hereby adopted as findings of fact and conclusions of law; the Appendix attached hereto provides supporting calculations;

- (4) the determinations regarding cost of service, rate design, and terms and conditions of service contained in earlier sections of this Order are reasonable for purposes of this proceeding; the tariffs filed by ComEd should incorporate the rates, rate design, and terms and conditions set forth and referred to herein;
- (5) ComEd is directed to make a compliance filing consistent with the conclusions set forth herein within thirty (30) days of the entry of this Order. Staff has 30 days after ComEd has made the filing to review to confirm compliance.

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that the proposed tariff sheets filed by Commonwealth Edison Company on April 30, 2013, are permanently canceled and annulled.

IT IS THEREFORE ORDERED that ComEd shall inquire of Dusk to Dawn class members regarding the existence and proportion of alley lighting relative to total street lighting and make appropriate calculations and adjustments to the charges for alley lighting consistent with the foregoing terms of this Order to be presented in the next Formula Rate Update filing.

IT IS THEREFORE ORDERED that ComEd will immediately remove from the Railroad Class cost for at or below 4 kV.

IT IS THEREFORE ORDERED that ComEd will conduct Geographic Allocation Study described in this Order.

IT IS THEREFORE ORDERED THAT ComEd shall provide an updated Customer Cost Allocation Study that allocates customer care costs between supply and delivery service functions in the next formula rate update filing and Commission Staff shall provide analysis assisting the Commission in determining whether some customer care costs are attributable to bundled supply customers, in that formula rate update filing;

IT IS FURTHER ORDERED that Commonwealth Edison Company is authorized to file new tariff sheets with supporting work papers in accordance with Findings (4) and (5) of this Order, applicable to service furnished on and after the effective date of said tariff sheets.

IT IS FURTHER ORDERED that Commonwealth Edison Company's RDI embedded cost of service study as modified by the findings contained in this Order as stated above is hereby adopted.

IT IS FURTHER ORDERED that any motions, petitions, objections, and other matters in this proceeding which remain outstanding are hereby denied.

IT IS FURTHER ORDERED that, subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By Order of the Commission this 18th day of December 2013.

(SIGNED) DOUGLAS P. SCOTT

Chairman