DIRECT TESTIMONY

of

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Rates Department
Financial Analysis Division
Illinois Commerce Commission

Commonwealth Edison Company

Annual Formula Rate Update and
Revenue Requirement Reconciliation
Under Section 16-108.5 of the Public Utilities Act

Docket No. 14-0312

July 1, 2014

INTRODUCTION

Q. Please state your name and business address.

A. My name is Philip Rukosuev, and my business address is 527 E. Capitol Avenue, Springfield, Illinois 62701.

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

A. I am currently employed by the Illinois Commerce Commission ("ICC" or "Commission") as a Rates Analyst in the Rates Department of the Financial Analysis Division. My responsibilities include rate design and cost of service analyses for electric, gas, water and sewer utilities and the preparation of testimony on rates and rate related matters.

Q. Please discuss your educational and professional background.

A. I received a B.A. in Economics and Business Administration (Magna Cum Laude) and a Master's Degree in Accounting (with Highest Honors) from the University of Illinois at Springfield. I have been employed by the Commission since September of 2008. I have provided testimony and performed related ratemaking tasks. My testimony has addressed cost-of-service and rate design for electric, gas, water and sewer utilities.

Q. What is the purpose of your direct testimony?

A. The purpose of my testimony is to address the issue of Customer Care Costs as presented in the Direct Testimony of ComEd witnesses Brinkman (ComEd Ex. 2.0), Donovan (ComEd Ex. 7.0), and Feingold (ComEd Ex. 8.0).

Q. Are you including any attachments to your testimony?

A. Yes. I am submitting the following Attachments:

Attachment A - ComEd Response to PR 1.07

Attachment B - ComEd Response to PR 2.01

Attachment C - ComEd Response to PR 1.12

Attachment D - ComEd Response to PR 2.05

Attachment E - ComEd Response to PR 1.13

CUSTOMER CARE COSTS

Q. Please begin by providing an explanation of customer care costs.

A. Customer care costs refer to various services provided by the Company to its customers that are complementary to the distribution ("delivery") of electricity. As noted by ComEd witness Donovan, Customer Care Costs refer to the expenditures ComEd incurs that pertain to nearly every aspect of customers' interactions with ComEd's Meter Reading, Field and Meter Services, AMI implementation, Billing, Revenue Management, Revenue Protection, Cash Processing, the Contact Center, and Customer Relations departments, as well as costs related to back office support of these functions, such as Support Services, IT, and Large Customer Solutions ("LCS"). Accordingly, these services primarily are the responsibility of Customer Operations. (ComEd Ex. 7.0, p. 45) As further explained by ComEd witness Brinkman, these services include activities related to maintaining customer information, billing and mail services, revenue management, credit and payment processing, field and meter services, call center activities responding to customer inquiries, and customer relations. (ComEd Ex. 2.0, p. 33)

Q. How are customer care costs recovered?

A. As noted by ComEd witnesses Brinkman (ComEd Ex. 2.0, pp. 33-34) and Donovan (ComEd Ex. 7.0, p. 38), customer care costs are currently recovered through delivery service charges, and this practice is consistent with the manner in which these costs have been recovered from customers since pricing for electric service was unbundled. In this proceeding, ComEd seeks the Commission's approval to continue to recover all of its Customer Care Costs through its delivery services charges.

Q. What is the customer care cost issue in this proceeding?

A. Because Customer Care Costs are incurred to support both the distribution and supply functions, the issue here is how these costs are to be allocated between the two. Furthermore, the resolution of that allocation issue determines whether Customer Care Costs are to be recovered through distribution rates only ("unbundled customers") or through both ComEd's distribution rates and ComEd's supply rates ("bundled customers").

<u>HISTORY OF THE ISSUE</u>

Q. When did the issue of Customer Care Costs arise?

A. The Commission has addressed ComEd's allocation of Customer Care Costs in five prior proceedings. The issue arose in ICC 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.

<u>Commonwealth Edison Co.</u>, ICC Order Docket No. 05-0597, 257 (July 26, 2006).

This issue was reintroduced in ICC Docket No. 07-0566 when the intervenor Request Equitable Allocation of Costs Together ("REACT") proposed to reallocate 40% of certain customer care costs to ComEd's supply function. <u>Commonwealth Edison Co.</u>, ICC Order Docket No. 07-0566, 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 preceding it initiated, namely Docket No. 08-0532. The Commission's Order in Docket No. 07-0566 found:

> The Commission believes that some percentage of customer care costs may well be attributable specifically to bundled supply customers. This allocation could substantially reduce costs assigned to distribution customers while increasing bundled supply rates. The Commission believes that it is reasonable to investigate the allocation of customer care costs.

Commonwealth Edison Co., ICC Order Docket No. 07-0566, 207-08 (Sept. 10, 2008). Accordingly, in its Initiating Order for the 2008 Rate Design Investigation, which was issued concurrently with the Final Order in Docket No. 07-0566, the Commission directed ComEd to "provide an updated cost of service study that . . . analyzes the cost of providing Customer Care to a customer taking supply from an alternative supplier versus the cost of providing Customer Care to a customer taking supply from ComEd." (ICC Docket No. 08-0532, Sept. 10, 2008 Initiating Order at 2.)

Q. What did the Commission conclude concerning Customer Care Costs in its Docket No. 08-0532 Order?

A. 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.

Commonwealth Edison Co., ICC Order Docket No. 08-0532, 69 (April 21, 2010). The directive specifically referred to the filing of such study in its next rate case filing, Docket No. 10-0467.

Q. What were the results of the study approved in Docket No. 10-0467?

A. Two types of studies were provided in Docket No. 10-0467. One, coined as the "Switching Study," determined the share, if any, 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" or "RES"). The second was termed the "10-0467 Allocation Study," which used an embedded cost approach to allocate customer care costs between supply and distribution functions.

In that proceeding, the Switching Study concluded that even if customer switching were to increase from 1% to 10% or even 100%, the Company would not incur significant differences in customer care costs for bundled and unbundled customers. At the time when the proceeding was ongoing, ComEd experienced roughly a 1% switching rate (See Table A below). In fact, according to the Switching Study, it appeared that as more customers migrated to alternative suppliers, there was a projected net increase in costs to ComEd. Ultimately, the Commission approved the Switching Study in that proceeding.

Q. Was this issue settled in Docket No. 10-0467?

A. No. While approving the results of the Switching Study in that proceeding, the Commission directed ComEd to further explore the Customer Care Cost issue as market conditions change. (Commonwealth Edison Co., ICC Order Docket No. 10-0467, 210 (May 24, 2011). Specifically, the Commission stated:

> [t]he alternative electric supplier market is just beginning to blossom. It is possible that, in the future, ComEd's customer care

> costs could differ from what they are now, in terms of the amounts involved and the types of services involved, as, items like IT interfacing with alternative suppliers becomes more sophisticated. Also, pursuant to ComEd's PORCB program, consolidated billing is now an option (consolidated between the alternative supplier and ComEd). Therefore, this issue should continue to be explored in the future as market conditions evolve.

Commonwealth Edison Co., ICC Order Docket No. 10-0467, 213 (May 24, 2011).

Subsequently, the issue of ComEd's Customer Care Cost allocation between the supply and delivery functions was again addressed by the Commission in the recently concluded Docket No. 13-0387, the 2013 Rate Design Investigation ("2013 RDI"), in which the Commission further concluded that accurate Customer Care Cost allocation would require ComEd to provide an updated Customer Care Cost Allocation Study that allocates customer care costs between supply and delivery service functions in the next formula rate update filing. See Commonwealth Edison Co., ICC Order Docket No. 13-0387, 57 (Dec. 18, 2013).

It should be noted that the Commission has not expressed a preference for the Allocation Study but instead ordered that the Switching Study and the Allocation Study be provided to allow the opportunity to review and compare the methodologies and reach a decision on all of the relevant information.

Q. How did the Company respond to the Commission directive from Docket No. 13-0387 in the current proceeding?

A. Consistent with Commission's direction in Docket No. 13-0387 and in light of the fact that market conditions have in fact evolved, ComEd provided updated analysis with respect to the allocation of Customer Care Costs utilizing three different methodologies, as discussed in detail below. Also, in contrast to previous cases, in this proceeding ComEd engaged Black and Veatch ("B&V"), an outside consultant, to review both the Switching Study and the Allocation Study, as well as to provide an independent analysis of this subject as it has been addressed by other utilities and public utility commissions across the United States.

Q. Please explain in detail how ComEd performed its updated analysis.

A. The starting point for both ComEd's Switching Study and its Allocation Study is the same: the Customer Care Costs from the pool of costs for 2013. ComEd has re-examined Customer Care Cost data and performed updated studies that attempt to address the re-allocation of Customer Care Costs between its supply and delivery functions. First, the Company identified the amount of Customer Care Costs that were incurred to serve customers.[1] Then it developed three separate methods of allocating those costs between the distribution and supply function. The first method, known as the "Allocation Study" (ComEd Ex. 7.04), uses the embedded cost approach to allocate Customer Care Costs between the supply and distribution functions of the Company. This approach removes a portion of the Customer Care Cost from the distribution revenue requirement for allocation to the supply function. The second method, technically termed the "Switching Study" (ComEd Ex. 7.05) (also known as the "Avoided Costing

[1] Customer care costs include costs ComEd incurs as described in Brinkman Dir., ComEd Ex. 2.0, p. 33 and Donovan Dir., ComEd Ex. 7.0, pp. 37 – 38.

Method"), determines the share of Customer Care Cost that are supply-related by assessing whether they are sensitive to the number of customers switching to supply service furnished by RES. While ComEd utilizes the Switching Study to evaluate the nature of customer service activities and to assign the related costs to its delivery and supply functions, the composition and level of costs included in ComEd's Switching Study is determined on an embedded cost basis. (ComEd Ex. 8.0, p. 26.) The third method is a hybrid, namely the "Alternative Study" (ComEd. Ex. 7.06), essentially a mix of the two previously discussed studies, is a two-step costing method provided as a substitute approach to allocating ComEd's Customer Care Costs in case "the Commission believes that from a policy perspective some level of ComEd's customer service costs should be allocated to its supply function." (ComEd Ex. 8.0, 26.)

The structures of the all three studies are described by ComEd witness Donovan. (ComEd Ex. 7.0, 39-44:65.) Moreover, Mr. Donovan addresses the underlying mechanics and calculations used in the Allocation Study (ComEd Ex. 7.0, 51-58), as well as the underlying mechanics and calculations used in the Switching Study. (ComEd Ex. 7.0, 58-64.)

<u>THE SWITCHING STUDY</u>

Q. Please explain the methodology ComEd used in its Switching Study.

A. The Switching Study examines the effect of three customer switching scenarios on the Company's Customer Care Costs. The degree to which the costs vary under the different scenarios is ComEd's measure of the relative cost of providing customer care to supply and distribution customers. As stated in Mr. Donovan's Direct Testimony:

> In general, the Switching Study considers the customer care costs that ComEd incurs and would incur as a result of customer switching at levels of 64%, 69% and 100%. The study aims to capture the impact on ComEd of costs of additional customers switching to RES supply, and the impact if the trend is otherwise; that is, if the portion of ComEd customers served by a RES is reduced from the current level. The study is a means of determining whether these costs are inherently related to delivery service that is provided to all customers, or related to supply service that is provided to only bundled service customers.

(ComEd Ex. 7.0, 39:863 - 40:870.) Also, Mr. Feingold's Direct Testimony provides a description of the methodology used in the Switching Study. (ComEd Ex. 8.0, 23:455 - 24:467.)

Q. Did ComEd utilize the same methodology in its present Switching Study as it previously used in Docket No. 08-0532 or Docket No. 10-0467?

A. Yes. ComEd utilized the same methodology for the 2014 Switching Study as previously utilized in Docket Nos. 08-0532 and 10-0467. (Attachment A -ComEd Response to Staff DR PR 1.07.) There is however one important difference between the current study and its earlier versions. That difference is the level of actual switching. In Docket No. 10-0467, ComEd examined scenarios where 1% (actually switching levels at the time), 10% (theoretically projected) and 100% (theoretically projected) of ComEd's customers choose alternative suppliers, while the current Switching Study employs switching levels of 64% (theoretically projected possible reduction of switching levels), 69% (estimate of current levels of switching) and 100% (theoretically projected maximum future switching levels).

At the time of Docket No. 10-0467, the 1%, 10% and 100% scenarios provided the most insight on how customers switching to an RES may impact its Customer Care Costs. The 1% and 100% scenarios tested the high/low limits of switching impacts at the time when market conditions were drastically different from present day. In 2009, switching was approximately 1%,[2] and although switching at higher levels was not expected in the then near future, ComEd nevertheless examined potential longer run impacts of switching at higher levels. Ultimately, in that proceeding, the Switching Study projected that Customer Care Costs would not be reduced when and if customers switched to an ARES, regardless of the level of switching. To the contrary, the former Switching Study indicated that Customer Care Costs would experience a net increase under the 10% and 100% switching scenarios for some cost categories.

While ComEd employs the same Switching Study methodology in the instant proceeding, we have an opportunity not only to evaluate the updated study, but also evaluate whether the previous Switching Study accurately projected what would happen to ComEd's Customer Care Costs under much higher levels of switching that are occurring presently.

[2] Public switching statistics: http://www.icc.illinois.gov/electricity/switchingstatistics.aspx.

Q. Did ComEd's Customer Care Costs increase (in total) between 2008 and 2014, as the number of customers that have switched to a RES have increased?

A. Yes. According to ComEd's Response to Staff DR PR 2.01 (Attachment B), ComEd's Customer Care Costs increased between 2008 and 2014, i.e. from the time of Docket. No. 08-0532 through the current proceeding. (See Ex. 7.04.) Table A below presents the changes:

TABLE A		
Case Year	**Percentage of Customers with RES supply**	**Customer Care Costs**
2008 (Docket. No. 08-0532, ComEd Ex. 2.1;)	1%	$ 138,582,450.00
2010 (Docket. No. 10-0467, ComEd Ex.19.1)	1.40%	$ 176,231,365.00
2014 (Docket. No. 14-0312, ComEd Ex. 7.04)	69%	$ 203,407,637.00

Q. What is your opinion of the Switching Study provided by ComEd in this proceeding versus the Allocation Study?

A. I find the Switching Study to be superior to the Allocation Study, which I will discuss at length later in my testimony. My reasons for reaching this conclusion are as follows:

1. The Switching Study recognizes that the cost of providing customer care for unbundled customers is almost equal to the combined cost for bundled customers. That is generally customer care costs did not decline significantly even though fewer customers stayed with ComEd supply. As stated in Mr. Donovan's Direct Testimony:

> The Switching Study determines how customer care costs would ***actually*** change, due to customers switching suppliers. The examination of the impact of switching enables the determination that customer care costs are inherently related to the provision of delivery service and not to supply service. In contrast, the Allocation Study is predicated on an ***assumption*** that some customer care costs are attributable to delivery service and some are not, relying on the selection of allocation factors as the means of determining the extent to which they should be allocated to delivery service or supply service. In light of the findings in the Switching Study, **any** allocation factor employed to divide common customer care costs between delivery service and supply service, as is done in the Allocation Study, is inherently arbitrary.

(ComEd Ex. 7.0, 65.) In fact, it is worth contrasting the results of the current version of the Switching Study to the one ComEd provided in Docket No. 10-0467. In Docket No. 10-0467, ComEd projected that if customer switching were to increase ten-fold from 1% to 10%, only a few hundred thousand dollars in additional customer care costs would be expended or saved as a result. In Docket No. 10-0467, ComEd also projected that its customer care costs would increase under the 100% switching scenario, which strengthened the argument that there was no justification for allocating costs away from the distribution function. ComEd is currently experiencing switching levels of roughly 69%. However, as discussed by ComEd witness Mr. Feingold, ComEd has realized no reduction in its customer care costs even though approximately 70% of ComEd's customers receive electric supply service from RESs. Furthermore, ComEd still projects that ComEd's customer care costs would increase at a switching level of 100%. (ComEd Ex. 8.0, 26.) The current reality of customer care costs is consistent with that predicted by ComEd's Switching Study back in Docket No. 10-0467.

2. The Switching Study recognizes that ComEd is the default provider that must stand ready to serve customers that have chosen to receive supply service from a RES. (ComEd Response to Staff Data Request PR 1.12 (Attachment C)) As the default supply service provider, *see* 220 ILCS 5/16-103(c), ComEd must meet its obligations as the Provider of Last Resort ("POLR"). As noted by ComEd witness Mr. Feingold, due to this obligation ComEd simply cannot avoid costs which support its supply function because it cannot eliminate its role as the POLR, regardless of the number of customers obtaining electric supply from a RES. (ComEd Ex. 8.0, 12-13.) Moreover, ComEd has no control over the conditions under which customers may switch to ComEd for electric supply service. ComEd is subject to providing electric supply service based upon individual customer's elections, governmental authorities' aggregation choices, and RESs' business decisions (with respect to individual customers and/or overall activity in ComEd's service territory). (ComEd Response to Staff DR PR 2.05.) (Attachment D)

3. ComEd incurs a portion of its customer care costs in association with RES related activities. The data pertaining to increases in customer calls and complaints demonstrate that ComEd's customer care costs can actually increase when customers receive their electric supply from a RES. (ComEd Ex. 7.0, 59-60.)

4. As illustrated in Table A above, there have been no changes in circumstances that would justify the allocation of customer care costs to the supply function, especially given the fact that Customer Care Costs have increased as switching from ComEd supply to RES supply has increased.

5. ComEd's treatment of Customer Care Costs is similar to the treatment used by other utilities in Illinois. I am not aware of any electric or gas utility in Illinois where Customer Care Costs are allocated on an embedded cost basis between distribution and supply. I am also not aware of any other Illinois electric utility that recovers customer care costs other than through delivery service rates. If the Switching Study's outcome is disregarded in favor of an arbitrary allocation between supply and distribution, this would set an undesirable precedent not only for other electric utilities in Illinois, but for gas utilities as well. It could be applied to utilities whose supply costs are significant relative to distribution costs and whose costs are generally allocated on an embedded cost basis. This could create significant momentum for a proposal that presents numerous problems. In fact, since the restructuring of the electric industry and the creation of delivery service rates, the Commission has consistently treated Customer Care Costs as delivery service costs and allowed for their recovery through delivery service rates.

6. ComEd's treatment of Customer Care Costs is similar to the treatment used by other utilities in the United States. ComEd Ex. 8.02 presents the results of

B&V's industry-wide review, which identifies the cost allocation and ratemaking treatment of customer service costs by electric utilities in states where electric deregulation has been approved and implemented. Such a comparison was not available in any of the former proceedings that discussed the Customer Care Cost issue. Out of the 21 regulatory jurisdictions throughout the United States identified in the industry-wide review, there is not one jurisdiction that reallocates Customer Care Costs among regulated entities from delivery to supply.

ALLOCATION STUDY

Q. Please explain the Allocation Study.

A. As explained earlier, the starting point for the Company's Allocation Study is the same as for the Switching Study: those costs ComEd identified as Customer Care Costs. However, thereafter, the two methodologies differ. In the Allocation Study, ComEd employed an embedded cost approach to allocate costs between distribution and supply for each category of costs. As explained by ComEd witness Donovan:

> [t]he Allocation Study is based on assumptions that a certain portion of customer care costs support only the delivery function while the remaining portion of customer care costs supply only the supply function. These assumptions do not necessarily consider ComEd's actual customer service operations. Following this approach, I developed base allocators to apportion specified customer care costs between the delivery and supply functions.

(ComEd Ex. 7.0, 41.) Based on consultations with people in the subject departments, ComEd Witness Donovan developed a number of base allocators, which were selected and applied to the costs in a department, as appropriate, to determine the apportionment of the costs between delivery and supply. Table B presents a comparison between the base allocators as utilized in the instant proceeding compared with the base allocators ComEd utilized in Docket No. 10-0467, a proceeding in which the merits of customer care cost re-allocation were debated at length.

TABLE B	
Docket No. 10-0467 Allocators	**Docket No. 14-0312 Allocators**
Direct Allocation – This allocator assigned 100% of the costs to the distribution function. (Docket No. 10-0467, ComEd Ex. 19.0 Revised, p. 9).	**Distribution Allocator**: **Same.** This allocator is used when it is clear that a particular cost in a given department is solely related to delivery (*e.g.*, calls to the Contact Center regarding outages). This allocator assigned 100% of the costs to the distribution function. (ComEd Ex. 7.0, p. 42)
Company Revenue Allocation – This allocator measured the level of supply revenues from ComEd-supplied customers and distribution revenues from all customers. ComEd calculated its Company Revenue Allocation as 38.4% distribution and 61.6% supply. (Id.)	**Revenue Allocator**: **Same.** The Revenue Allocators are developed based on ComEd's delivery and supply revenues for 2013, and are set at 77.2% for the delivery function and 22.8% for the supply function.(Id.)
Bill Calculation Allocation – This allocator is utilized for costs related to determining or explaining the line items on a bill dedicated to supply and charges. It is based on the number of line items on a typical residential bill. ComEd calculated its Bill Calculation Allocation as 75% distribution and 25% supply. (Id.)	**Bill Allocator**: **Same.** The resulting Bill Allocators are set at 81.8% for the delivery function and 18.2% for the supply function. (Id. at 43)
Bill Print, Mailing and Imaging Allocation – ComEd selected a representative residential bill as the basis for its analysis and then calculated the surface area of the bill that was dedicated to supply and delivery charges. ComEd measured all sections of the bill (in rectangles), totaled up the area, and determined which is supply related and which is delivery related. According to the Allocation Study, ComEd's Bill Print, Mailing and Imaging Allocation allocates 83% distribution and 17% to supply. (Id.)	**Bill Calculation Allocator**: **Same.** The resulting Bill Calculation Allocators are set at 83.3% for the delivery function and 16.7% for the supply function. (Id.)
	Company Allocator*:* This allocator is utilized for costs that pertain to activities that are specific to a single department. For these costs, individually calculated allocators are applied.

Q. Has ComEd provided any analysis or data that support the development of its base allocators to allocate Customer Care Costs to the distribution and supply functions?

A. Yes. A detailed explanation of the structures of the Allocation Study is provided in ComEd Ex. 7.0, pages 39-44 and 65. Moreover, ComEd witness Donovan addresses the underlying mechanics and calculations used in the Allocation Study in ComEd Ex. 7.0, pages 51-58.

Q. Please summarize the allocations of the total customer care costs to the distribution and supply functions based on the Allocation Study.

A. Utilizing the base allocators, ComEd attempts to identify which costs are supply-related and which are distribution-related. For example, where it was clear that a particular cost in a given department was 100% related to distribution, such as Metering Services (i.e., Meter Reading, AMI Implementation, Field and Meter Services, and Revenue Protection departments which totaled approximately $62 million in costs included in the Meter Services category in 2013), or Advertising (No costs were accumulated in 2013 in ComEd's Advertising department relating to customer service costs, a divergence from the 2010 study), ComEd applied its Distribution Allocator. (ComEd Ex. 7.0, 44-45.) For all other costs, *i.e.*, thirteen primary departments: Field and Meter Services ($12 million); Billing ($7.5 million); Contact Center ($38 million); Customer Relations ($1 million); LCS ($9 million); Revenue Management ($28 million); Revenue Protection ($2.4 million);

Demand Management ($4.5 million); ESSD ($0[3]); Market Research ($0[4]); IT ($28 million); Support Services; and "Other," ComEd applied the other base allocators as necessary. Id.

Q. What effect would the Allocation Study have on unbundled and bundled customers' share of the customer costs?

A. According to ComEd, of the total $203 million in customer care costs incurred by ComEd in 2013, approximately $12 million, which is about 6% of the total, was apportioned to the supply function in the Allocation Study. Currently, practically all of these costs are allocated to distribution. Thus, the Allocation Study's resulting allocation would lower the distribution portion of the customer costs while increasing the supply portion of such costs. For those customers taking supply from a RES and distribution from ComEd (unbundled customers), their effective distribution portion will therefore be lower than what they currently pay.

Q. How do you assess the use of an Allocation Study approach to allocate Customer Care Costs between distribution and supply?

A. I believe it would present a number of problems. After reviewing ComEd's Allocation Study and information provided in discovery, I conclude that, despite its notable thoroughness and efforts to calculate and allocate costs "properly," the Allocation Study is inherently flawed. In fact, in light of the findings in the

[3] According to ComEd, ESSD costs were not included in the studies because 36% of the labor costs are already allocated to the supply function as part ComEd's normal course of business. (ComEd Ex. 7.0, 50.)

[4] According to ComEd, the Market Research department did not book any cost to the customer function in 2013. Id. at 51.

updated Switching Study, any allocation factor employed to divide these costs between distribution service and other services is arbitrary. The Allocation Study is inherently an exploratory exercise not tied to the reality of ComEd's operations and sets up an artificial allocation of costs between supply and delivery. The Allocation Study, despite the fact that it is based on embedded cost of service principles, is based more on assumptions that are wholly unrelated to ComEd's actual customer service operations and the Company's experience with switching levels since 2008 with their associated costs.

Q. Could you provide a number of examples to illustrate the problems with the Allocation Study?

A. Yes. The following examples illustrate this point:

a) To allocate bill printing, mailing and imaging costs, ComEd measured the surface area of the bill dedicated to supply versus distribution charges, which resulted in a finding 83.3% of the bill is dedicated to distribution service charges. In reality, however, ComEd would not realize any savings if switching increased from the current levels of 69% to 100% because bills for distribution service still must be prepared, printed and mailed. The fact remains that virtually all of these costs need to be incurred to support distribution service. If these costs are allocated between distribution and supply as the Allocation Study suggests, ComEd's distribution service revenues can potentially fall below the associated cost of service as discussed earlier. In fact, current switching levels have increased to 69%

compared to those used in Docket No. 10-0467 in which ComEd hypothesized in its Switching Study "high" switching levels of 10% and 100%. As demonstrated by ComEd's experience with customer switching since 2009, namely from 1% to 69%, Customer Care Costs did not decrease as the Allocation Study assumes, but instead increased, as predicted by the last Switching Study.

b) For the Information Technology department ("IT"), of the $28 million identified costs, the Allocation Study allocates approximately $6,374,565 (21.9%) and $22,700,127 (78.1%) to supply and distribution, respectively. However, according to the Switching Study, the level of costs for IT are in fact subject to change depending on the number of customers switching to RESs, whether that switching totals 64%, 69% or 100% of total customers served. Specifically, for IT costs, the Switching Study shows that there is a decrease in customer care costs at the 64% switching level and an increase in customer care costs at the 100% switching level. When the increase in costs is netted with the decrease in costs, the net result is a cost increase of $700,000 at 100% switching. (ComEd Ex. 7.0, 63-64.) However, as switching decreases to 64% from the 69% switching level (*see* ComEx Ex. 7.0, pp. 43-44), there is a decrease of approximately $112,000 in Customer Care Costs. <u>Id.</u> Accordingly, the Switching Study determines how Customer Care Costs would actually change, due to customers switching suppliers. Unfortunately, the Allocation Study does not recognize the increase in costs for certain systems (in this example, IT costs) in order for ComEd to handle a substantially higher amount of switching. The Allocation Study simply rests on the assumption, as mentioned earlier, that some costs are inherently related to ComEd's supply function and therefore some kind of an allocation is needed, disregarding crucial considerations in the process.

c) ComEd examined three levels of customer switching, where approximately 69% of current customers received supply from RESs, with a majority of the switching attributable to competitive market changes associated essentially with municipal aggregation and the use of ComEd's Purchase of Receivables and Consolidated Billing ("PORCB") programs. (ComEd Ex. 7.0, 43.) While it may be true that during the past three years, hundreds of Illinois communities have undertaken a municipal aggregation process,[5] nevertheless, ComEd's Customer Care Costs are not different for customers who receive their supply through a municipal aggregation compared to those who purchase supply directly from a RES providing electric supply service that is not provided in association with governmental aggregation of electric power and energy. (ComEd Response to Staff DR PR 1.13) (Attachment E). Therefore, according to ComEd, there is no reason to further segment and allocate Customer Care Costs with a differentiation based on customers who receive electric supply service through governmental aggregation compared to those who receive electric supply service directly from traditional RESs. Id.

[5] *See* http://www.pluginillinois.org/MunicipalAggregationList.aspx.

d) The Allocation Study may cause a situation where an unbundled customer could potentially bypass the supply-related portion of the Customer Care Costs, assuming they are allocated and charged to bundle supply customers only. In fact, each switch from ComEd supply service to a RES's supply service could cause the charges for the recovery of such costs from the remaining ComEd supply service customers to increase. This result inevitably follows from the reality that these costs are not "avoidable" as discussed at length earlier, that is, these costs do not decrease as additional customers opt for RES supply.

e) Lastly, as illustrated in Table C below, the Allocation Study attempts to reallocate Customer Care Costs to the supply function utilizing a rather sophisticated but arbitrary allocation that largely results in a relatively insignificant reallocation of such costs.

TABLE C

Department and Associated Costs	Allocation Study Re-Allocation to Supply	Switching Study Re-Allocation to Supply whether that switching totals 64%, 69% or 100%?
Field and Meter Services ($12 million)	Approximately $114,000, or 1%, was identified as being related to supply	No
Billing ($7.5 million)	Approximately $1.1 million, or 15%, was identified as being related to supply	No
Contact Center ($38 million)	Approximately $4.7 million, or 12%, was identified as being related to supply	Costs change at the 64% (decrease) and 100% (increase) from current 69% switching levels. Even with 100% switching, ComEd will continue to see increases in calls and complaints for issues related solely to customers taking supply from RESs.
Customer Relations ($1 million)	Approximately $170,000, or 16%, was identified as being related to supply	No

LCS ($9 million)	Approximately $90,000, or 1%, was identified as being related to supply	No
Revenue Management ($28 million)	Approximately $2.4 million, or 8%, was identified as being related to supply	No
Revenue Protection ($2.4 million)	Approximately $242,000, or 11%, was identified as being related to supply	No
Demand Management ($4.5 million)	Approximately $512,000, or 89%, was identified as being related to supply	No

In sum, the Allocation Study in this proceeding represents a theoretical exercise that produces limited benefit to ComEd's customers. The Allocation Study utilizes arbitrary allocation factors based on the assumption that ComEd could develop a more reasonable study in order to allocate customer care costs more "reasonably." In other words, the Allocation Study is based upon a supposition that it is appropriate to allocate costs between distribution and supply merely because some find it intuitive to do so, rather than following cost causation principles. The Switching Study more accurately captures the actual causation of ComEd's customer care services costs than the Allocation Study. The Commission should be mindful that ComEd as a delivery service provider is required to incur the costs of providing delivery service to each of its delivery customers, regardless of from whom the customer obtains its supply. If ComEd were to arbitrarily shift costs to supply that are truly driven by the provision of delivery service it would understate the true costs of the delivery service that ComEd provides to customers, and thereby sends improper signals to both customers and the market. Given all of the information presented by ComEd on this issue in this case, and the fact that in this case ComEd even hired an outside consultant to evaluate both studies, an embedded cost based allocation between its distribution and supply functions is simply unwarranted at this time.

Q. What approach do you therefore recommend be adopted for the allocation of customer care costs?

A. I recommend that the Switching Study be used because it would not create artificial cost disparities between bundled and unbundled customers that would be difficult to justify from a cost standpoint. In contrast, the Allocation Study does not send useful price signals to consumers. Effectively, a customer leaving bundled service would potentially pay significantly less for customer care services under the Allocation Study's cost allocation methodology even if the underlying costs have not changed substantially. This would send an erroneous price signal concerning the relative cost of bundled and unbundled service, blunting the premise of cost causation. For all the reasons set forth above, I recommend that the Allocation Study should be rejected by the Commission.

DIRECT O&M COSTS VS. TOTAL COSTS

Q. Are there any other issues related to Customer Care Costs that you would like to address?

A. Yes. Instead of limiting its analysis of Customer Care Costs to direct operations and maintenance ("O&M") costs as ComEd did (See ComEd Ex. 7.0, p.44), ComEd should account for the full revenue requirement associated with customer care. In other words, rather than restrict the analysis only to direct O&M

costs, ComEd should include all costs (direct and indirect) in the revenue requirement when assessing the “pool” of Customer Care Costs to be analyzed for the Switching Study, Allocation Study, and the Alternative Study.

Q. Why should ComEd account for the full revenue requirement association with customer care instead of just focusing on direct O&M costs?

A. This exclusion artificially shrinks the “pie” before determining how to allocate the “pie” between delivery and supply functions. In fact, this approach is inconsistent with ComEd’s general embedded cost of service study (“ECOSS”) methodology. Since ComEd has numerous functionalization factors (including factors for labor, equipment, and software) to allocate components of its revenue requirement in its general ECOSS, it should have taken a similar approach with customer care costs. In other words, since ComEd’s general ECOSS allocates all direct and indirect costs among all customers, the allocation of customer care costs should also be determined in the same way. That means including direct administrative and general and other applicable indirect costs in the analysis.[6] Also, according to *Principles of Public Utility Rates* (2nd Ed.):[7]

> In the regulation of private utility companies, and even in the ratemaking practices of publicly owned plants, the determination of general rate levels is likely to take precedence over the determination of specific rate schedules; and there the most directly

[6] These may include direct costs of materials, labor, purchased services as well as certain indirect costs such, e.g., department overheads, administrative and general costs, and taxes. Indirect costs are associated with the services performed in proportion to the direct costs of the services or other relevant cost allocators.

[7] Bonbright, James C., Albert L. Danielsen, and David R. Kamerschen. "Cost of Service as a Basic Standard of Reasonableness." *Principles of Public Utility Rates*. 2nd ed. Arlington, VA: Public Utilities Reports, 1988. 116.

> pertinent costs are the total costs, including the overhead costs. In other words, the cost principle is taken to mean that rates as whole should cover costs as a whole.

By excluding other costs and focusing only on direct O&M costs, ComEd is applying an inconsistent approach to the general concept of an ECOSS. Furthermore, by including only direct O&M costs in its analysis, ComEd expressly ignores the Commission's position on this very issue from Docket No. 10-0467 where it stated:

> At the outset, the Commission disagrees with ComEd's assertion that analyzing the total costs, instead of merely viewing the direct O&M costs, is not meaningful because, according to ComEd, analyzing the actual costs has no real impact upon the results of the Switching Study. The impact that including the total costs here would have, at a minimum, would be to reflect reality, instead of some artificial group of costs that ComEd arbitrarily chose. Additionally, ComEd's decision in this regard ignores the mandate set forth by this Commission in the Docket No. 08-0532 Order.
>
> Staff and REACT correctly point out that the numerical difference between direct O&M costs and total costs indicates that the difference could exceed one million dollars, which is not insubstantial. The Commission agrees with Staff and REACT, that ComEd should revise its analysis to include the costs associated with the full revenue requirement amount (including direct operations and maintenance ("O&M"), indirect O&M, and capital costs), and include that allocation in ComEd's compliance rates for this docket.

(Commonwealth Edison Co., ICC Order Docket No. 10-0467, 210 (May 24, 2011).

Q. What do you therefore recommend with respect to the issue of total customer care costs vs. direct O&M costs?

A. My recommendation is two-fold. First, for purposes of this proceeding, I recommend the Commission use the Switching Study for the reasons I discuss above. Second, I also recommend the Commission direct ComEd to revise its allocation analysis to include direct administrative and general and other applicable indirect costs in the analysis consistent with the Commission's directive in Docket No. 08-0532 (Order at 68) and Docket No. 10-0467 (Order at 213) and to present this analysis in its next formula rate update case. Specifically, the Switching Study, the Allocation Study, and the Alternative Study should be analyzed based on all customer care costs included in ComEd's ECOSS, and thus in ComEd's rates. By ignoring the other components of the revenue requirement (costs associated with salaries, pensions, benefits and other similar costs), ComEd has improperly excluded from its calculation of Customer Care Costs allocation substantial costs that are included in its overall revenue requirement and thus incorrectly shrunk the "pie" of costs to be analyzed.

Q. Does this complete your prepared direct testimony?

A. Yes, it does.

ICC Docket No. 14-0312

**Commonwealth Edison Company's Response to
Illinois Commerce Commission ("STAFF") Data Requests
PR 1.01 – 1.14
Date Received: June 9, 2014
Date Served: June 18, 2014**

REQUEST NO. PR 1.07:

Please explain the methodology ComEd used in its Switching Study. Please include in the explanation whether ComEd utilized the same methodology in its current Switching Study as it previously used in ICC Docket No. 08-0532 or ICC Docket No. 10-0467.

RESPONSE:

As stated in Mr. Donovan's Direct Testimony:

> "In general, the Switching Study considers the customer care costs that ComEd incurs and would incur as a result of customer switching at levels of 64%, 69% and 100%. The study aims to capture the impact on ComEd of costs of additional customers switching to RES supply, and the impact if the trend is otherwise; that is, if the portion of ComEd customers served by a RES is reduced from the current level. The study is a means of determining whether these costs are inherently related to delivery service that is provided to **all** customers, or related to supply service that is provided to only bundled service customers."

(Donovan Dir., ComEd Ex. 7.0, 39:863 - 40:870).

Please also see Mr. Feingold's Direct Testimony for the description of the methodology used in the Switching Study. (Feingold Dir., ComEd Ex. 8.0, 23:455 - 24:467).

ComEd utilized the same methodology for the 2014 Switching Study as previously utilized in ICC Docket No. 08-0532 and ICC Dkt. No. 10-0467.

ICC Docket No. 14-0312

Commonwealth Edison Company's Response to
Illinois Commerce Commission ("STAFF") Data Requests
PR 2.01 – 2.05
Date Received: June 12, 2014
Date Served: June 19, 2014

REQUEST NO. PR 2.01:

Did ComEd's customer care costs increase or decrease (in total) between 2008 and 2014, as the number of customers that have switched to a retail electric supplier ("RES") supply has increased?

RESPONSE:

Yes. ComEd's customer care costs increased between 2008 and 2014.
(*See* ICC Dkt. No. 08-0532, ComEd Ex. 2.1; ICC Dkt. No. 10-0467, ComEd Ex.19.1; and ICC Dkt. No. 14-0312, ComEd Ex. 7.04).

Case Year	Percentage of Customers with RES supply	Customer Care Costs
2008	1%	$138,582,450
2010	1.4%	$176,231,365
2014	69%	$203,407,637

ICC Docket No. 14-0312

**Commonwealth Edison Company's Response to
Illinois Commerce Commission ("STAFF") Data Requests
PR 1.01 – 1.14
Date Received: June 9, 2014
Date Served: June 19, 2014**

REQUEST NO. PR 1.12:

Do RESs incur Customer Care Costs when they provide supply service to their customers that ComEd no longer has to provide, that ComEd would have incurred had ComEd provided these services?

RESPONSE:

ComEd does not have access to the information requested. A Retail Electric Supplier ("RES") is not required to and does not share with ComEd the costs they incur to provide electric supply service to customers.

In the event that a RES incurs customer care costs as a result of providing electric supply service it is not correct to state that ComEd avoids customer care costs. ComEd continues to provide or must stand ready to engage in customer care related activities regardless of the number of customers for which ComEd procures electric supply.

As Mr. Donovan testifies, ComEd incurs a portion of its customer care costs in association with RES related activities. (Donovan Dir., ComEd Ex. 7.0, 59:1295 - 60:1319). The data he presents pertaining to increases in customer calls and complaints demonstrate that ComEd's customer care costs can actually increase when customers receive their electric supply from a RES.

In addition, ComEd must meet its obligations as the Provider of Last Resort ("POLR"). As noted by Mr. Feingold, due to this obligation ComEd simply cannot avoid costs which support its supply function because it cannot eliminate its role as the POLR, regardless of the number of customers obtaining electric supply from a RES. (Feingold Dir., ComEd Ex. 8.0, 12:246 - 13:250).

Finally, Mr. Feingold addresses the fact that ComEd has realized no reduction in its customer care costs even though approximately 70% of ComEd's customers receive electric supply service from RESs, as well as the expectation that ComEd's customer care costs would increase at a switching level of 100%. (Feingold Dir., ComEd Ex. 8.0, 26:513-520).

ICC Docket No. 14-0312

Commonwealth Edison Company's Response to
Illinois Commerce Commission ("STAFF") Data Requests
PR 2.01 – 2.05
Date Received: June 12, 2014
Date Served: June 18, 2014

REQUEST NO. PR 2.05:

Would ComEd agree that it is the default supply service provider (*see* 220 ILCS 5/16-103(c)) and thus it must stand ready to serve customers that have chosen to receive supply service from a RES? If ComEd agrees, is it ComEd's position that regardless of the number of customers that switch away from ComEd for supply service, ComEd must incur the necessary costs to stand ready to serve them if and when those customers return to ComEd?

RESPONSE:

Yes, ComEd agrees that it is the default electric supply service provider, also known as the Provider of Last Resort ("POLR"). Mr. Feingold points out that ComEd must stand ready to offer electric supply service to all customers (Feingold Dir., ComEd Ex. 8.0, 12:235 - 13:250). ComEd's POLR responsibilities are pursuant to Section 16-103(c), Section 16-107(a), and Section 16-107(b) of the Public Utilities Act ("PUA").

Yes, it is ComEd's position that regardless of the number of customers that switch from ComEd to retail electric suppliers ("RESs") for electric supply service, ComEd must incur costs in order to always be ready to provide electric supply service for any or all customers. Moreover, ComEd has no control over the conditions under which customers may switch to ComEd for electric supply service. ComEd is subject to providing electric supply service based upon individual customer's elections, governmental authorities' aggregation choices, and RESs' business decisions (with respect to individual customers and/or overall activity in ComEd's service territory).

ICC Docket No. 14-0312

**Commonwealth Edison Company's Response to
Illinois Commerce Commission ("STAFF") Data Requests
PR 1.01 – 1.14
Date Received: June 9, 2014
Date Served: June 23, 2014**

REQUEST NO. PR 1.13:

Are ComEd's Customer Care Costs different for customers who receive their supply through a municipal aggregation compared to those who purchase supply directly from a traditional RES?

a) If the answer is yes, then would it be appropriate for ComEd to further break down the allocation of Customer Care Costs consistent with cost-causation principles to reflect this difference? If the answer is no, then please explain why it would not be appropriate.

b) Does ComEd have the ability to separately track such costs, for example, through a mechanism in Rate GAP that will be able to separately recover those costs?

RESPONSE:

It is not clear what is meant by traditional RES. For the purposes of this response ComEd assumes that traditional RES means a retail electric supplier (RES) providing electric supply service that is not provided in association with governmental aggregation of electric power and energy.

For clarity, customer care costs include costs ComEd incurs as described in Brinkman Dir., ComEd Ex. 2.0, 33:680-688 and Donovan Dir., ComEd Ex. 7.0, 37:815 - 38:826.

No, ComEd's customer care costs are not different for customers who receive electric supply service through governmental aggregation compared to those who receive electric supply service directly from traditional RESs.

a) The one exception to general availability of customer care services is addressed in ComEd's Response to Staff Data Request PR 2.04. Therefore, there is no reason to further segment and allocate customer care costs with a differentiation based on customers who receive electric supply service through governmental aggregation compared to those who receive electric supply service directly from traditional RESs.

b) No. Please see ComEd's response to subpart (a), above. Also, please note that Rate GAP - Government Aggregation Protocols (Rate GAP) is a tariff that is applicable to various governmental authorities, and it defines the circumstances when and the terms and conditions under which ComEd provides retail customer data to those government authorities in order for them to aggregate retail customer electric power and energy requirements in accordance with Section 1-92 of the Illinois Power Agency Act (IPA Act). Rate GAP has no provisions to identify (a) the group of customers that subsequently are aggregated and receive electric supply service from RESs that contracted with the government authorities to provide aggregated supply service or (b) the group of customers that subsequently refuse to be a part of that aggregation. Moreover, Rate GAP has no provisions to identify customers that are not eligible to be considered for aggregation by governmental authorities.