

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission	:	
On Its Own Motion	:	
	:	
v.	:	Docket No. 14-0384
	:	
COMMONWEALTH EDISON COMPANY	:	
	:	
Investigation of Commonwealth Edison	:	
Company's Cost of Service for Low-Use	:	
Customers in Each Residential Class	:	

Rebuttal Testimony of
SHERMAN J. ELLIOTT
Principal, SJE Consulting
On Behalf of
Commonwealth Edison Company

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1 **I. INTRODUCTION**

2 **A. Witness Identification**

3 **Q. Please state your name and business address.**

4 A. My name is Sherman J. Elliott. My business address is 8020 Hunt Road, Springfield,
5 Illinois 62712.

6 **Q. Are you the same Sherman J. Elliott who prepared direct testimony in this
7 proceeding on behalf of Commonwealth Edison Company (“ComEd”)?**

8 A. Yes.

9 **B. Summary of Rebuttal Testimony**

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

11 A. I am responding to issues raised in the direct testimonies of: Illinois Commerce
12 Commission (“Commission” or “ICC”) Staff (“Staff”) witness, William Johnson;
13 Citizens Utility Board (“CUB”) witness, Edward Bodmer; City of Chicago (“City”)
14 witness, Mark Pruitt; Illinois Attorney General (“AG”) witness, Scott Rubin; and
15 Environmental Law and Policy Center (“ELPC”) witness, Curt Volkmann.

16 **Q. Please explain how your rebuttal testimony is organized.**

17 A. I begin with a summary of my conclusions, which is followed by a brief response to other
18 parties’ comments regarding ComEd’s rate design proposals in this proceeding. Finally, I
19 address how other jurisdictions in the Midwest are treating the issue.

20 **II. SUMMARY OF CONCLUSIONS**

21 **Q. What are your general conclusions with regard to the minimum 50/50 SFV rate**
22 **design proposed by ComEd for residential customers in this proceeding?**

23 A. I continue to fully support the use of a minimum 50/50 SFV rate design for the four
24 residential delivery classes until such time as a tariff, consisting of fixed charges and
25 properly designed demand charges to provide for the recovery of fixed costs can be
26 implemented utilizing ComEd's Advanced Metering Infrastructure ("AMI") technology.¹

27 **III. RESPONSES TO OTHER PARTIES' TESTIMONIES CONCERNING**
28 **MINIMUM 50/50 SFV RATE DESIGN**

29 **Q. Mr. Bodmer testified that:**

30 **The essence of Mr. Elliot[t]'s arguments amount to investor**
31 **protection in the face of energy conservation and distributed**
32 **generation. He is worried that the owners of utility stock will lose**
33 **money when consumers conserve energy and he wants to make sure**
34 **that consumers will have as little incentive to conserve energy as**
35 **possible. There is nothing new about any of his ideas. Some of his**
36 **ideas, if implemented, would lead to serious and negative policy**
37 **outcomes.²**

38 **Did you make any such statements in your direct testimony in this proceeding?**

39 A. No, I did not. Rather, I explained that "a predominantly volumetric recovery of these
40 costs in this environment, in most cases, will not succeed in recovering the cost of energy
41 service delivery."³ Utility rates approved by the Commission should offer a utility an
42 ***opportunity*** to earn its allowed rate of return, not ***a guarantee***. By no stretch of anyone's

¹ Such a tariff would also include volumetric charges to provide for the recovery of the variable costs associated with the Illinois Electricity Distribution Tax in accordance with previous Commission directives.

² Bodmer Dir., CUB Exhibit ("Ex.") 1.0, 21:396-401.

³ Elliott Dir., ComEd Ex. 3.0 REV., 4:69-71.

43 imagination would a minimum 50/50 SFV residential rate design provide investors with
44 such a guarantee. As I stated in my direct testimony,

45 The 50% SFV rate design clearly reduces volatility in cost and revenue
46 recovery in both high- and low-usage scenarios due to weather, energy
47 efficiency or other conservation means. As a result, a 50% SFV rate
48 design will help to stabilize cost recovery to the utility and annual bill
49 outlays to the consumer.⁴
50

51 I stated that this rate design would help stabilize cost recovery and reduce volatility to the
52 customer. In addition, I did not state that I want to make sure that consumers will have
53 “as little incentive to conserve energy as possible.”

54 **Q. Do you agree with Mr. Bodmer that ComEd’s proposed minimum 50/50 SFV rate
55 design will reduce consumers’ incentives to conserve energy?**

56 A. No, I do not agree with Mr. Bodmer in this respect. In fact, my direct testimony
57 highlighted a prior Commission Order describing the effect of an SFV rate design on
58 conservation, with which I agree and I repeat here:

59 *The Commission is not convinced that an SFV rate design reduces the*
60 *incentive to conserve electricity.* First, the Commission notes that the *rate*
61 *design in this proceeding relates to delivery services associated with*
62 *electric power and energy.* The actual commodity costs associated with
63 the electric power and energy, which is the majority of the total electric
64 bill in addition to the delivery costs and vary directly with usage.
65 *Customers under ComEd’s proposal would have an incentive to*
66 *conserve because they can avoid commodity costs associated through*
67 *conservation.* In addition, these *costs at issue here are in fact fixed costs,*
68 *cannot be conserved and result in an under-recovery of fixed costs for*
69 *the utility.* Just as with the natural gas utilities, the Commission concludes
70 *there is no disincentive a consumer may have by a move toward*
71 *recovering fixed costs through fixed charges,* as opposed to recovery on a
72 volumetric basis. The Commission further concludes that *a SFV design*

⁴ *Id.* at 13:245-248.

73 *that more accurately reflects a consumer's actual costs does not impede*
74 *conservation.*⁵

75 The language above is comparable to language in several recent Final Orders of the
76 Wisconsin Public Service Commission (“Wisconsin Commission”) concerning potential
77 impacts to conservation for rate design improvements that result in increases in fixed
78 charge levels. An example is provided below:

79 The [Wisconsin] Commission is not persuaded with the arguments that an
80 increase in fixed charges to the levels proposed by WPSC will have a
81 detrimental impact on energy efficiency, conservation or the development
82 of renewables.⁶

83
84 As can be seen by comparing the decisional language of the ICC and the Wisconsin
85 Commission, neither entity appears to agree that conservation is impacted by this type of
86 rate design change. ComEd witness Garcia also offers testimony on the impact of
87 efficiency and demand response on cost recovery in ComEd Ex. 4.0.

88 **Q. Staff witness Johnson also offers statements similar to Mr. Bodmer's on**
89 **conservation incentives, stating:**

90 **When charges which are based on usage comprise a larger portion of**
91 **a customer's monthly bill, it increases the incentive for a customer to**
92 **keep his or her electricity costs down by curtailing usage. If a larger**
93 **portion of a customer's monthly bill is fixed, this limits the ability of a**
94 **customer to reduce his or her bill by using less.**⁷

95 **Do you agree with Mr. Johnson's assessment?**

⁵ *Commonwealth Edison Co.*, Docket No. 10-0467 (Order, May 24, 2011), at 231-32 (emphasis added).

⁶ *Wisconsin Public Service Company*, Final Order, Docket No. 6690-UR-123, at 50-51; *see also Wisconsin Electric Power Co.*, Final Order, Docket 5-UR-107, at 68; *Madison Gas & Electric Co.*, Final Order, Docket 3270-UR-120, at 46.

⁷ Johnson Dir., Staff Ex. 1.0, 17:421 – 18:425.

96 A. No, I do not. In addition to the comments I made in response to Mr. Bodmer’s assertions,
97 I add that the Illinois Supreme Court, in a recent unanimous opinion supporting the ICC’s
98 decision on a revenue decoupling rider, stated the following:

99 A public utility is entitled to recover in its rates certain operating costs. A
100 public utility is also entitled to earn a return on its rate base, or the amount
101 of its invested capital; the return is the product of the allowed rate of
102 return and rate base. The sum of those amounts—operating costs and
103 return on rate base—is known as the company’s revenue requirement.
104 The components of the ratemaking determination may be expressed in ‘the
105 classic ratemaking formula R (revenue requirement) = C (operating costs)
106 + Ir (invested capital or rate base times rate of return on capital).’ ... The
107 same formula is used by the Commission in ratemaking determinations for
108 Illinois.”⁸

109 The court proceeded to explain that:

110 In the context of natural gas, the “ C ” in that equation, operating costs,
111 includes distribution costs. **To some extent, those costs are fixed. Utility**
112 **companies incur them regardless of the volume of gas that they**
113 **deliver because they must be prepared to provide adequate, reliable,**
114 **and safe service.** Traditionally, however, volume has played a major role
115 in setting gas rates, and companies have recovered part of their
116 distribution costs through “volumetric distribution charges” based on
117 statistical forecasts of the amount of gas their customers will use. The
118 forecasts, in turn, rest upon several variables, some of which are wildly
119 unpredictable like the weather. **Consequently, gas companies have**
120 **recovered more than their fixed distribution costs when demand for**
121 **gas has been high, and less than that when it has been low.**⁹

122 The Supreme Court thus observed that, to some extent, a utility’s distribution
123 costs are fixed, that utilities incur those costs regardless of usage levels, and that
124 volumetric recovery leads to wildly unpredictable revenue recovery. All of these issues
125 have been raised repeatedly in this proceeding.

⁸ *People ex rel. Madigan v. Illinois Commerce Commission*, 2015 IL 116005, ¶ 7 (quoting *Citizens Utilities Co. of Illinois v. Illinois Commerce Commission*, 124 Ill. 2d 195, 200-01 (1988)).

⁹ *Id.* ¶ 8 (emphasis added).

126 Revenue decoupling and SFV-based rate designs are both designed to improve a
127 utility's ability to recover its fixed costs of distribution due to these unpredictable
128 variables that result in wide variability of revenue recovery from rate designs employing
129 volumetric charges. The Illinois Supreme Court further noted that the decoupling
130 program "was intended to address **'the reality of fixed costs against a backdrop of a**
131 **diminishing customer base and resulting revenue losses as well as revenue losses**
132 **attributable to the implementation of aggressive energy efficiency programs.'**"¹⁰

133 As both electric and gas utilities in Illinois offer delivery services only, (ComEd
134 does not produce electricity and the costs under consideration in this proceeding are
135 associated with the delivery of electricity only) and electric and gas commodity costs are
136 recovered through separate pricing mechanisms, the similarities between gas and electric
137 utilities are clearly apparent, as the ICC has noted this in prior Orders. For example, in
138 its Order in Docket No. 10-0467, the ICC stated, "[b]ecause electric and natural gas
139 distribution utilities must have the capacity in place to serve peak loads whenever they
140 occur, it is logical to apply pricing policies for both types of industries because they have
141 similar underlying cost structures."¹¹ The incentive to conserve is properly associated
142 with the commodity portion of the bill, not the cost of delivery, which, as previously
143 noted, the Illinois Supreme Court has stated are, to an extent, fixed. Therefore, the
144 application of conservation principles to variable elements in order to provide for the
145 recovery of essentially fixed delivery costs will inevitably lead to under-recovery of the
146 approved revenue requirement for distribution of the electricity commodity.

¹⁰ *Id.* ¶ 10 (emphasis added).

¹¹ Order, Docket No. 10-0467, at 231-232.

147 **Q. ELPC witness Volkmann and CUB witness Bodmer both take issue with your**
148 **example of the cable, cell phone and other industries embracing the fixed charge**
149 **method of cost recovery, rather than the volumetric charge method, distinguishing**
150 **these industries on the grounds that they are competitive while the utility industry is**
151 **not.¹² Does the competitive nature of these industries diminish the significance of**
152 **their adoption of fixed charge cost recovery?**

153 **A.** To the contrary, the competitive nature of those industries emphasizes my point. Because
154 the electric delivery industry is a natural monopoly, public utility regulatory agencies,
155 such as the Commission, are tasked with ensuring that electricity delivery service is
156 provided under terms that are just and reasonable, as they would be in a competitive
157 market. In this respect, the Commission *acts as a proxy for the competitive market.*¹³
158 Neither Mr. Volkmann nor Mr. Bodmer disputes the fact that the competitive industries
159 identified in my direct testimony recover their costs through fixed charges. There is
160 consequently nothing remarkable regarding the Commission's acknowledging and
161 implementing competitive market approaches in this manner.

162 **IV. OTHER JURISDICTIONS ADOPTING SFV-BASED RATE DESIGNS**

163 **Q. You noted in your direct testimony that utilities in other jurisdictions are addressing**
164 **and adopting SFV-based rate designs.¹⁴ Are there more recent examples of utilities**
165 **that have adopted SFV-based rate designs?**

¹² Volkmann Dir., ELPC Ex. 1.0, 12:260; Bodmer Dir., CUB Ex. 1.0, 24:466.

¹³ See, e.g., *Wisconsin Public Service Company*, Final Order, Docket No. 6690-UR-123, at 42.

¹⁴ Elliott Dir., ComEd Ex. 3.0 REV., 14:254.

166 A. Yes. First, in a recent news article, a spokesman for Springfield, Illinois Municipal
167 Utility, City Water Light & Power (“CWLP”) advised that:

168 With *electricity demand stagnant* and the wholesale price of energy at
169 nearly half its pre-recession high, Hobbie says CWLP can’t expect a
170 miraculous recovery to sustain the electric division. “*Our load is*
171 *flattening, even declining, and as our costs go up, we can’t rely on*
172 *increasing energy sales to cover our increasing costs of operating the*
173 *utility,”* Hobbie told the Springfield City Council on Sept. 16. Instead, he
174 says *the utility must restructure its rates to be more in line with the rest*
175 *of the energy industry.* Most utilities in Illinois have a significantly
176 higher customer charge, which is the flat fee each customer pays monthly,
177 while charging less for the electricity itself. *Hobbie proposes raising the*
178 *current residential customer charge from \$5.76 to \$17.76, an increase of*
179 *\$12.* In addition, other states such as Arizona, Colorado and Florida have
180 been actively addressing this issue in response to increases in distributed
181 residential solar generation and the general issue of residential fixed cost-
182 recovery methods is currently a very active topic in the industry trade
183 press and conferences around the country.¹⁵

184 Clearly, CWLP is struggling with many of the same rate-design and revenue-recovery
185 issues as are being debated in this proceeding. CWLP has addressed these problems by
186 moving toward greater fixed cost recovery through the customer charge, just as has been
187 proposed in this proceeding.

188 Second, Indianapolis Power and Light (“IPL”) filed a rate case in December,
189 2014, requesting an increase in residential fixed charges to better align them with the
190 recovery of fixed costs. The Indianapolis Business Journal reported:

191 IPL Director of Regulatory Affairs Ken Flora said the proposed rate
192 structure focuses on fixed fees because many of the utility’s costs are in
193 poles and wires, customer service and other systems. “Those are costs that
194 don’t go away, regardless of how much you use,” he said. IPL’s fixed
195 costs are actually much higher than what was proposed, Flora said, but the
196 company doesn’t want to over-burden small customers. “We think it’s a

¹⁵ Gloomy Days for CWLP, *Illinois Times* (Nov. 6, 2014), <http://illinoistimes.com/article-14657-gloomy-days-for-cwlp.html>.

197 reasonable, modest increase that gets us a little closer to the cost,” he
198 said.¹⁶

199 Third, Madison Gas and Electric Company (“MGE”), Wisconsin Public Service
200 Company (“WPSC”) and Wisconsin Electric Power Company (“WEPCO”) all have
201 recently proposed similar rate treatment in Wisconsin. In its Final Orders in the MGE,
202 WPSC and WEPCO rate proceedings, the Wisconsin Commission supported movement
203 toward greater residential fixed cost recovery through increased customer charges,
204 invoking many of the same arguments I have supported in this proceeding. For instance:

205 The [Wisconsin] Commission agrees with WPSC that the analysis of an
206 appropriate customer charge in this case should begin with attempting to
207 better align the charge with the fixed costs of providing service, regardless
208 of the amount of energy used. *At its most basic function, the regulated*
209 *utility ratemaking process is intended to simulate a free market for*
210 *monopoly utilities.* When rates are properly designed, the rate structure
211 signals to customers the actual cost of providing reliable service and
212 electricity to each class. If the customer charge is too low, the customer
213 will receive an incorrect price signal that the cost to provide access to the
214 electric system is lower than it actually is to the utility. They will also
215 receive an incorrect signal that the variable cost to provide energy is
216 higher than it actually is to the utility. Setting price signals correctly is
217 important because those signals influence customer behavior, which in
218 turn, influences how the utility incurs costs. As discussed further below,
219 WPSC provides a compelling case that its customer charge is not
220 sufficient to recover its fixed costs. As a result, the variable energy charge
221 is correspondingly too high. *The result is a price signal that tells*
222 *customers that the economic benefit of conservation is higher than it*
223 *actually is.* To the customer, the economic benefit is whatever savings
224 they realize on their bill by implementing efficiency measures or installing
225 renewable energy. But the economic benefit to the system is less than the
226 economic benefit received by individual customers. In other words, if the
227 fixed costs are in part recovered in the variable energy charge, a customer
228 may save \$10 per month by conserving electricity, but the utility may only
229 save \$6 per month as a result of that customer using less energy. That \$4

¹⁶ IPL’s Pitch: Tie Less of Bill to Energy Usage, *Indianapolis Business Journal* (Jan. 10, 2015),
<http://www.ibj.com/articles/51246-ipls-pitch-tie-less-of-bill-to-energy-usage>.

230 must then be recovered by other ratepayers the next time rates are
231 adjusted.¹⁷

232 In addition,

233 The [Wisconsin] Commission determines that it is a reasonable balance,
234 after weighing the testimony and policy arguments presented by the
235 parties, to set the customer charge to \$19/month for residential classes[.]¹⁸

236 These are precisely the same arguments I supported in my direct testimony regarding the
237 minimum 50/50 SFV rate design proposed in this proceeding.

238 Fourth, Kansas City Power & Light (“KCPL”) and Empire District Electric
239 Company (“Empire”) both recently filed rate proposals with the Missouri Public Service
240 Commission seeking to increase the fixed portion of customers’ monthly bills. KCPL is
241 proposing to increase the fixed portion of customers’ monthly bills from \$9 to \$25, and
242 Empire is proposing to increase its monthly fixed charge from \$12.52 to \$18.75. In an
243 article describing the filings, Company spokespersons stated,

244 The balance between the fixed and variable components of the bills has
245 “gotten out of whack,” according to a cost-of-service study done by an
246 engineering firm, said Amy Bass, Empire Electric’s director of corporate
247 communications. “With this case, we’re trying to mitigate the distortion
248 that has occurred over the years.”

249 Courtney Hughley, KCP&L’s corporate communications manager, said,
250 “One of the reasons we want to make that change is there were some
251 things we were recovering in the energy charge, which is the variable cost.
252 We wanted to be more transparent about what was being recovered, so we
253 moved those into the fixed charge.”¹⁹

¹⁷ Wisconsin Public Service Company, Final Order, Docket No. 6690-UR-123, p. 42, Emphasis added.

¹⁸ *Id.* at 56. For the purpose of brevity, nearly identical statements by the Wisconsin Commission in Final Orders of the WEPCO and MGE cases supporting increases to residential customer charges for greater fixed cost recovery have not been repeated herein but may be found in the Final Orders of WEPCO, Docket 5-UR-107, p. 69; and MGE, Docket 3270-UR-120, p. 48.

¹⁹ As in Wisconsin, Missouri utilities seek to raise fixed charges, *Midwest Energy News* (Jan. 6, 2015), <http://www.midwestenergynews.com/2015/01/06/as-in-wisconsin-missouri-utilities-seek-to-raise-fixed-charges>. The Kansas City Power & Light rate case before the Missouri Public Service Commission is Docket No. ER-2014-0370; the Empire rate case is Docket No. ER-2014-0351.

254 The article further went on to highlight that, “[i]n about a dozen states, utilities are
255 seeking, or have recently been awarded, increases in the fixed portion of customer
256 bills.”²⁰

257 Finally, from a recent article in the trade press: “Increases in fixed charges were a
258 nationwide trend in 2014, Utility Dive reported, with at least 23 utility requests across the
259 country to tie less of customer's power bill to energy consumption.”²¹

260 In sum, shifting recovery of fixed costs from variable kWh charges to fixed
261 customer charges for residential customers is clearly not an issue unique to ComEd;
262 however, the solutions advanced by other utilities to address the same problem are
263 essentially identical to those presented in this proceeding.

264 **V. FURTHER IMPROVEMENTS TO THE MINIMUM 50/50 SFV RATE DESIGN**

265 **Q. Are there further improvements that can be made to the minimum 50/50 SFV rate**
266 **design proposed in this proceeding?**

267 A. Yes, as explained in the direct testimony of ComEd witness Robert Garcia, ComEd seeks
268 to explore the possibility of utilizing the new interval demand data that will become
269 available to craft an alternative rate structure employing kW as the billing determinant.
270 As I noted previously, I would support a rate design for the residential delivery classes
271 consisting of fully cost-based customer charges and properly designed demand charges
272 that to recover 100% of ComEd’s fixed costs. This would be consistent with the cost-
273 based rate design methodology utilized in designing current delivery charges for the

²⁰ As in Wisconsin, Missouri utilities seek to raise fixed charges, *Midwest Energy News* (Jan. 6, 2015), <http://www.midwestenergynews.com/2015/01/06/as-in-wisconsin-missouri-utilities-seek-to-raise-fixed-charges>.

²¹ IPL Asks Indiana Regulators to Raise Fixed Charges, *UtilityDive.com* (Jan. 13, 2015), <http://www.utilitydive.com/news/ipl-asks-indiana-regulators-to-raise-fixed-charges/351481/>.

274 nonresidential delivery classes,²² and would be an improvement to the minimum 50/50
275 SFV rate design described herein.

276 **VI. CONCLUSION**

277 **Q. What are your conclusions with regard to the minimum 50/50 SFV residential rate**
278 **design proposed by ComEd?**

279 A. For the reasons set forth in my direct testimony and this rebuttal testimony, I fully
280 support the use of a minimum 50/50 SFV rate design for the four residential delivery
281 classes.

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

283 A. Yes.

²² With the exception of the Watt-Hour delivery class.