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

CURT VOLKMANN

ON BEHALF OF

THE ENVIRONMENTAL LAW AND POLICY CENTER

April 7, 2015

INTRODUCTION

Q. What is your name and business address?

A. My name is Curt Volkmann, Environmental Law and Policy Center ("ELPC"), 35 East Wacker Drive, Suite 1600, Chicago IL, 60601.

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

A. I'm employed by ELPC as a Senior Clean Energy Finance Specialist. I currently provide technical and financial advice on a variety of clean energy, water, transportation and natural resource protection issues.

Q. Are you the same Curt Volkmann that submitted direct testimony in this proceeding?

A. Yes, I previously submitted direct testimony (ELPC Exhibit 1.0).

Q. What is the purpose of your rebuttal testimony?

A. My testimony is in response to the rebuttal testimony of ComEd's witnesses Mr. Sherman Elliott and Mr. Robert Garcia. My rebuttal testimony addresses (1) Mr. Elliott's implication and Mr. Garcia's claim that the industry is trending toward commission approvals of higher fixed customer charges, and (2) why now is the wrong time to make isolated changes to ComEd's rate design. My failure to address any other issues and arguments raised by ComEd does not indicate my support for ComEd's position.

THE COMMISSION SHOULD ADOPT A FORWARD-LOOKING APPROACH TO GRID MODERNIZATION AND RATE DESIGN

Q. ComEd Witness Sherman Elliott testifies that three Wisconsin utilities have received commission approval to increase fixed customer charges.[1] How do you respond?

A. I am aware that many utilities are seeking increased fixed customer charges, consistent with the industry playbook[2] to protect their revenue in response to declining usage and increased penetration of distributed energy resources[3] ("DER"). However, Wisconsin is a bad example for Illinois to follow. There are other jurisdictions taking more forward-looking approaches to grid modernization and rate design, and I believe these should be the models for Illinois to follow.

Q. Why is Wisconsin's decision to increase fixed customer charges for three utilities a bad example for Illinois to follow?

A. The 2014 decision by the Public Service Commission of Wisconsin ("PSCW") to allow increased fixed charges for Wisconsin Electric Power Company ("WEPCO") and two other Wisconsin utilities is an anomaly and very controversial. The three-member commission approved the fixed charge increase by a 2-1 vote. The PSCW's own technical staff and all intervening parties strongly opposed the increased fixed charges.

[1] Elliott Rebuttal, ComEd Ex. 6.0, 7:162-11:263.
[2] See https://www.documentcloud.org/documents/1374670-2012-eei-board-and-chief-executives-meeting.html#document/p48/a191712 .
[3] DER includes distributed generation, combined heat and power or cogeneration, distributed energy storage, microgrids, energy efficiency, demand response, and other peak demand management.

A broad coalition of consumer groups, including the Citizens Utility Board, AARP, and the NAACP, all opposed the increased fixed charges due to the disproportionate impact these rates would have on low-usage and other vulnerable customers. The National Consumer Law Center concluded that the Wisconsin proposals to raise fixed charges "will disproportionately harm low-income, elderly, African-American, Latino, and Asian electricity ratepayers."[4] Former PSCW Chairman Charles Cicchetti, in his direct testimony, called it a "back-to-the-past" approach to rate design, "the goal of which is to preserve and protect WEPCO's revenue recovery at the expense of other stake-holder interests and society more broadly defined and considered."[5]

Q. Does Mr. Elliott provide other examples of utilities that have received commission approval to increase fixed customer charges?

A. No. Mr. Elliott provides other examples of utilities thinking about or requesting increased fixed charges (i.e., Springfield's City Water Light & Power, Indianapolis Power & Light, Kansas City Power & Light, Empire District Electric Company). None of these utilities have received city council or commission approval to increase fixed customer charges as of this date.

[4] PSCW, Docket 5-UR-107, Public Comment of John Howat, National Consumer Law Center on Behalf of Wisconsin Community Action Program Association, 10/6/14, available at http://psc.wi.gov/apps35/ERF_view/viewdoc.aspx?docid=221477.
[5] PSCW, Docket 5-UR-107, Direct Testimony of Charles Cicchetti, p. 10.

Q. In contrast to Mr. Elliott's testimony, are there any examples of states taking steps to reduce or cap fixed customer charges?

A. Yes. There are several recent examples of state legislatures and regulatory commissions rejecting or limiting utility requests to raise fixed charges. On March 26, 2015, the Minnesota Public Utilities Commission rejected the request of Xcel Energy's Northern States Power Company to increase fixed customer charges for its Residential and Small General Service classes. The Commission approved the findings of the Administrative Law Judge that:

> "… the statutory goals to be considered in rate design are that rates be reasonable and not unreasonably discriminatory; that they favor energy conservation and the use of renewable energy to the maximum extent reasonable … The record in this case also demonstrates that maintaining the Residential and Small General Service customer charges at their existing levels will help encourage conservation … In the view of the Administrative Law Judge, the need to promote conservation and affordability outweigh the concerns of moving closer to the cost as measured by the Company's CCOSS results … the Administrative Law Judge concludes that retaining the current Residential and Small General Service customer charges is reasonable in this case, and recommends that the Commission reject the proposed increases of the Company."[6]

On March 25, 2015, the Washington Utilities and Transportation Commission rejected a plan by Pacific Power & Light Co. to increase its basic customer charge from $7.75 to $14.[7]

[6] Minnesota Public Utilities Commission, Docket 13-868, Report--Findings Of Fact, Conclusions of Law, and Recommendation, 12/26/14, pp. 184-185.
[7] Washington Utilities and Transportation Commission, Docket UE-140762, Order 08, 3/25/2015.

Also in March of 2015, partly in response to high fixed customer charges, the Connecticut General Assembly Energy & Technology Committee released a committee bill that caps the residential fixed charge at $10 per month and also implements various grid modernization reforms.[8]

Finally, this Commission's recent order in the Peoples Gas rate case rejected the Company's attempt to move any further towards SFV rates, stating that:

> "It is patent that high customer charges mean the Companies' lowest users bear the brunt of rate increases, and subsidize the highest energy users. Steadily increasing customer charges diminish the incentives to engage in conservation and energy efficiency because a smaller portion of the bill is subject to variable usage charges and customer efforts to reduce usage…"[9]

All of these recent decisions contradict any implication that increased fixed charges are a "trend" in the utility industry.

Q. Why do you believe these forward-looking states are reducing or capping fixed customer charges?

A. I believe that high fixed customer charges are inconsistent with the objectives of grid modernization and the ability of customers to make their own energy choices. These choices include installing rooftop solar, integrating their rooftop solar with energy storage, connecting their electric vehicle to provide grid support services, participating in a time-of-use rate program, installing a smart thermostat to save energy and reduce

[8] See http://www.cga.ct.gov/2015/etdata/sl/2015SB-00570-R00LCO05710-0324ET-SL.PDF .
[9] Illinois Commerce Commission, Docket No. 14-0224/14-0225 Final Order, 1/21/15, p. 176.

their peak demand, connecting other devices with their smart meter to save energy, or choosing to do nothing.

The modernized grid will provide customers with full choices for both their electricity supply and demand, leading to full control over their electricity costs. High fixed charges impede these choices by increasing the amount that customers must pay regardless of how much electricity they use or supply. By lowering or capping fixed charges now, these forward-looking states give customers the opportunity to benefit from the rapid advances in technology that are already modernizing the power grid.

Q. In further contrast to Mr. Elliott's testimony, are any states moving beyond the fixed charge debate and taking an even more forward-looking, holistic approach to grid modernization and rate design?

A. Yes. The New York Public Service Commission's ("NYPSC") Reforming the Energy Vision ("REV") initiative is an ambitious effort to transform the state's energy industry. REV's regulatory changes will promote more efficient use of energy, more renewable energy, and wider deployment of DER. REV will promote greater use of advanced energy management devices to enable more energy efficiency and peak demand reductions.

REV will also fundamentally reform the utility ratemaking process to provide incentives for utilities and other market participants to develop a cleaner and more efficient electric system. The NYPSC staff report that initiated REV states: "Because the transactions between customers and the (distribution utility) will be two-way, the rate designs under REV will need to reflect: the value of grid service to consumers with DER; the value of

grid service to consumers without DER; and the value that DER can provide to the grid. Reflecting these energy values in future rates and tariffs will require a greater unbundling of these products and services. Payment structures for DER should reflect the value based on timing, location, flexibility, predictability and controllability of the resource."[10] The backward-looking concept of increasing fixed customer charges as a means of distribution cost recovery is irrelevant in a forward-looking, holistic market transformation such as REV.

Q. Are there other examples besides New York?

A. Yes. The Colorado General Assembly is currently considering House Bill 1250 which would initiate an investigation into alternative performance-based utility revenue models. The rationale and objectives of the legislation include the following.

> "As the business of supplying electricity to consumers becomes more complex and more subject to factors other than the dollar costs of infrastructure and fuel and a utility's return on its investment, it is in the interest of the State of Colorado and its electricity consumers to reexamine the existing regulatory framework and retune it as necessary to better align regulated utilities' earnings with public objectives … The General Assembly calls upon the Commission to fully investigate and report on potential regulatory changes to the utility regulatory model that will provide customers with a platform of innovative service and product offerings to allow them to better manage their energy usage and bills … The Commission shall strive, at a minimum to … propose earnings structures in which better performance relative to outcomes that support state policies and established metrics results in higher earnings for utilities, and,

[10] Reforming the Energy Vision, NYS Department of Public Service Staff Report and Proposal, Case 14-M-0101, 4/24/2014, p. 58.

conversely, lower performance results in lower earnings for utilities."[11]

Q. Mr. Garcia testifies "the current trend is that electric utilities are able to get the support of their commissions for higher customer charges. The most recent examples are the three utilities in Wisconsin."[12] Do you agree?

A. I do not agree with Mr. Garcia. I acknowledge that Wisconsin is taking a backward-looking approach and increasing fixed customer charges. However, when it comes to innovative rate design, grid modernization, and enabling customer choice, Wisconsin is an outlier, not a trendsetter. I agree with former Federal Energy Regulatory Commission chairman Jon Wellinghoff and co-author James Tong in their recent post when they characterize increasing fixed charges as a "false fix."[13]

NOW IS NOT THE TIME FOR ISOLATED RATE DESIGN CHANGES

Q. Should the Commission approve the rate design changes proposed by Mr. Garcia and Mr. Elliott at this time?

A. No. There are multiple rate design proposals and market reforms currently under consideration in Illinois, and the Commission should evaluate these alternatives holistically and in an integrated way before approving any changes to ComEd's rate design.

[11] State of Colorado House Bill 15-1250, p. 2, 3, 6.
[12] Garcia Rebuttal, ComEd Ex. 4.0, 32:669-671.
[13] James Tong and Jon Wellinghoff, *Why fixed charges are a false fix to the utility industry's solar challenges*, Utility Dive, 2/13/2015 (attached as ELPC Exhibit 2.1).

Q. What other rate design changes or proposals are currently under consideration in Illinois?

A. On April 3, 2015, Governor Rauner signed into law a two-year extension of the near-automatic annual rate increases from the Illinois grid modernization law that was otherwise set to expire in 2017. As I previously testified, ComEd's significant investment in Advanced Metering Infrastructure ("AMI") allows for innovative pricing such as time-of-use ("TOU") rates. The proceedings in the Commission's open Docket 15-0100 will investigate the adoption of TOU rates for Illinois customers.

ComEd has recently introduced HB3328 / SB1879 into the Illinois legislature. Among other proposals, ComEd is seeking a transition to demand-based rates for all retail customers and an unbundling of bills to increase transparency of capacity charges. It's unclear to me how ComEd would reconcile their proposed move to demand-based charges with their requested increase in fixed customer charges, in addition to a potential TOU rate. Nor is it clear to me which of the rate design changes are optimal in light of pending market reforms in Illinois. I believe that these issues should be addressed holistically, not in a piecemeal manner, and that the Commission should not allow ComEd to increase the fixed customer charge at this time.

Q. What other market reforms are currently under consideration in Illinois?

A. A diverse coalition representing the state's environmental, business and labor communities has introduced HB2607 / SB1485, referred to as the Illinois Clean Jobs Bill. The legislation calls for new energy efficiency standards that will reduce the use of electricity in Illinois by 20% by 2025, and steps to increase the share of the state's

power that comes from renewable sources, such as wind and solar, to 35% by 2030. The bill also calls for a cap-and-trade market mechanism to regulate carbon dioxide emissions in the state. In addition to the ComEd bill I mentioned earlier, Exelon has introduced legislation intended to bail out its nuclear plants. Regardless of the outcomes of pending legislation, the Commission will have opportunities in the very near future to investigate alternative pricing and rate designs that are aligned with the objectives of the new Illinois energy policies. It is premature and unnecessary to increase ComEd's fixed customer charges at this time.

Q. Why is ComEd seeking a return to SFV rates and increase fixed customer charges at this time?

A. It's not clear to me. In Mr. Garcia's rebuttal testimony, he quotes a paper by the National Black Caucus of State Legislators that raises concerns about potential cost shifting from Distributed Generation ("DG") customers (who are potentially low-use customers because they generate their own electricity) to non-DG customers.[14] He later explains that "ComEd's request to essentially restore the small movement toward a SFV rate design is a partial correction of the burden shifting from low-use customers to other customers under the current rate design."[15]

[14] Garcia Rebuttal, ComEd Ex. 4.0, 13:262-14:291.
[15] Garcia Rebuttal, ComEd Ex. 4.0, 21:421-423.

Q. Is such cost shifting from low-use or DG customers to non-DG customers a problem now for ComEd?

A. No. Mr. Garcia states "With only 301 SFNH (single family no electric heat) customers with DG today and given the size of the SFNH delivery class, the amount of cost shifting is insignificant at present."[16] ComEd has provided no projections in this docket of expected DG growth or any associated cost shifting. There is no evidence in the record of this docket that supports an urgent need for ComEd to now modify its rate design by increasing fixed customer charges.

Q. Even if ComEd had provided projections of expected increases in DG, do you believe increasing fixed charges is the proper response?

A. No. As I stated previously, I believe that high fixed customer charges are inconsistent with the objectives of grid modernization and the ability of customers to make their own energy choices.

Q. Do you agree with Mr. Garcia that a volumetric rate "threatens to disproportionately and inequitably impact" those customers who cannot afford to invest in energy efficiency and distributed generation?[17]

A. No. I believe the opposite is true, meaning high fixed charges threaten to inequitably impact low-income, low-usage customers. The solution to the theoretical problem raised by Mr. Garcia is to work harder to expand access to energy efficiency and renewable

[16] Garcia Rebuttal, ComEd Ex. 4.0, 18:356-357.
[17] Garcia Rebuttal, ComEd Ex. 4.0, 12:242-244.

energy programs for those who cannot afford it, not to raise their fixed charges in a way that makes it harder for them to control their electricity bills.

Q. What do you recommend?

A. I urge the Commission to reject ComEd's request to return to SFV rates and increase fixed customer charges. I also encourage the Commission to initiate a forward-looking, comprehensive investigation into the preferred approach for rate and market design that unlocks the full customer benefits of grid modernization in Illinois.

Q. Does this conclude your testimony?

A. Yes.