COMMONWEALTH EDISON COMPANY

ILLINOIS COMMERCE COMMISSION
DOCKET NO. 02-0277

DIRECT TESTIMONY

SUBMITTED BY

ROBERT J. PREUSS, JR.

SENIOR ACCOUNT MANAGER
COMMONWEALTH EDISON COMPANY

Q1. What is your name and business address?

A1. My name is Robert J. Preuss, Jr. My business address is Commonwealth Edison Company, 1910 South Briggs Street, Joliet, Illinois, 60433.

Q2. By whom are you employed and in what capacity?

A2. I am employed by Commonwealth Edison Company ("ComEd") as a Senior Account Manager. As discussed in this testimony, I have been an Account Manager for ComEd for my entire career. In addition, I have been the Account Manager for the ComEd accounts at issue in this proceeding for more than ten years.

Q3. Please discuss your professional background.

A3. I am a 1977 graduate of Marquette University where I received a B.S. in Mechanical Engineering. Immediately after graduation, I began working at ComEd as an Account Representative. In this position, I was responsible for the installation of electric service at a number of commercial, industrial and multi-unit residential accounts that were located in Chicago's southern suburbs.

In 1979, I was promoted to Account Engineer and was re-assigned to ComEd's office in Streator, Illinois. In this position, I was responsible for all of ComEd's non-residential customers located in a 850 square mile area that included the cities of Dwight and Pontiac as well as surrounding areas. During this period, I had responsibility for the management of a number of large ComEd commercial and industrial accounts. I held this position for the next twelve years.

In 1991, I was promoted to Assistant Sales Supervisor and was re-assigned to ComEd's office located in Joliet, Illinois. At that time, I became involved in the management of a number of very large ComEd accounts, including the refinery, coking and calciner facilities at issue here. I have remained responsible for ComEd's service provided to these facilities in connection with each of my subsequent positions at ComEd that are discussed below.

In 1993, I became an Industrial Account Manager in ComEd's Energy Services Organization located in Oak Brook, Illinois. In this position, I continued to have day to day responsibility for the management of thirty large ComEd customers, including four of ComEd's top twenty accounts. The accounts I managed in this position generated annual revenues for ComEd that exceeded $70 million.

In 2000, I was re-assigned to ComEd's Joliet office, and continued to have responsibility for managing a number of ComEd's large industrial accounts. At the present time, I am responsible for managing forty-five large ComEd accounts including, as with my prior position, four of ComEd's top twenty customers. The accounts I manage at the present time generate annual revenues for ComEd that exceed $57 million.

Q4. What is the purpose of your testimony?

A4. My testimony will provide the Commission with information regarding ComEd's service provided to the refining, coking and calciner facilities that are involved in this proceeding. These facilities are located at a single industrial site located in

Lemont Township, Illinois, and I will refer to them as the "Lemont Facilities" or the "Facilities." In this testimony, I will describe:

- the operations at the Lemont Facilities;
- ComEd's billing for electric service provided to the Facilities, including ComEd's reliance on representations made in 1997 by the operators of the Facilities that caused ComEd to continue to "combine bill" the Facilities as one ComEd account; and
- ComEd's efforts to bill the operators of the refinery, coking and calciner Facilities as separate customers after ComEd learned in June 2001, that electricity provided to the Facilities was being re-sold.

<u>The Lemont Facilities</u>

Q5. Please describe the Lemont Facilities.

A5. The Lemont Facilities are three large industrial plants that share a common site that covers about two square miles. I am attaching a number of photographs to my testimony that are intended to provide the Commission with an understanding of the tremendous size of the Facilities and with the magnitude of the operations located there. Attached as Exhibit 2.1 to my testimony is a commercially available satellite image of the Facilities that I have marked to show the separate refinery, coking and calciner operations. As the satellite image indicates, the refining operations that are currently operated by PDV Midwest Refining, LLC ("PDV Midwest" or "PDV") and its agent, the CITGO Petroleum Corporation ("CITGO"), occupy the majority of the site and are shaded in pink. The coking and calciner plants are located at the north end of the site and are shaded in yellow and green, respectively. The coking plant is currently operated by the Needle Coker Company ("Needle Coker") and the calciner plant is operated by the Chicago Carbon Company ("Chicago Carbon").

Attached as Exhibit 2.2 is the same satellite image that I have marked to identify some of the primary landmarks at the Facilities. Exhibit 2.2 shows where the administrative offices of CITGO and of the Needle Coker and Chicago Carbon companies are located. These office buildings are also shown in the photographs that are attached. Exhibit 2.2 also shows three electric substations that are located at the Facilities site. The Facilities are served by two ComEd 138 kV lines that feed substations ESS J332-1 and J332-2. Two separate ComEd 34kV lines also feed ComEd substation ESS J332-3.

Q6. Please describe the refining operations at the Facilities site.

A6. The refining operations involve the refining of crude oil into a number of products, including gasoline, jet and diesel fuel. Crude oil is piped to the refinery through a system of underground pipelines. Gasoline and other products are removed from the refinery by truck or through separate pipeline systems. For example, jet fuel produced at the refinery is piped directly to O'Hare Airport for use there.

A number of photographs that show the operations at the refinery are attached as Exhibits 2.3 through 2.7. Exhibits 2.3 and 2.4 show the large and complex structures that comprise the refining structures themselves. On the left side of Exhibit 2.3 the structures at the heart of the refining complex are shown. The refining structures are also shown in the background of Exhibit 2.4.

Exhibits 2.5 and 2.6 show ComEd's 138kV lines used to serve the Facilities that are located on the refinery portion of the site. Exhibit 2.5 shows ComEd's line that feeds substation ESS J332-1. The refinery operations can be seen on the left hand side of Exhibit 2.5. Exhibit 2.6 shows both of ComEd's 138 kV lines that serve substation ESS J332-2. Large tanks that are used to hold oil or petroleum products are visible on the left hand side of this photograph. These tanks are also visible on the satellite image that is attached as Exhibits 2.1 and 2.2. Exhibit 2.7 shows CITGO's large administrative building that is located at the south entrance to the Facilities.

Q7. Please describe the coking and calciner operations.

A7. The coking and calciner operations take byproducts from the refining process and turn them into products with a number of industrial uses. These operations are shown in the photographs attached as Exhibits 2.8 through 2.10. The massive structures used in connection with these operations are shown on the left hand side of Exhibit 2.8. Exhibit 2.9 shows ComEd's ESS J332-3 substation that is served by two ComEd 34 kV lines. The coking and calciner operations are directly behind ComEd's ESS J332-3 substation. Exhibit 2.10 also shows ComEd's ESS J332-3 substation and also includes one of the conveyor systems that is used to transport materials used in the coking and calciner operations.

The entrance to the coking and calciner plants is shown on Exhibit 2.11. As the signage in the photograph illustrates, Chicago Carbon and Needle Coker are both identified at this entrance point. Exhibit 2.12 shows the administrative building that is located at the entrance. This building is located at the north end of the Facilities site and is more than a mile away for the CITGO administrative building that serves the refinery.

During my tenure as the Account Manager for the Facilities, products from the coking plant have been sold to steel companies for use in the steel refining process. These products have also been mixed with coal and burned in nearby coal fired generating stations that were formerly operated by ComEd.

Q8. How much electricity is used at the Facilities?

A8. The operations at the Facilities consume substantial amounts of electricity. ComEd's three major substations at the Facilities are capable of serving approximately 82,000 kW of demand. This level of electric use makes the Facilities one of the top five largest industrial sites on the ComEd system.

ComEd's Billing for Electric
<u>Service Provided to the Facilities</u>

Q9. Please describe ComEd's billing for electric service provided to the Facilities.

A9. When I became the Account Manager for the Facilities in 1991, the customer of record was the Uno-Ven Company ("Uno-Ven"), which was a partnership that was formed between the Unocal Corporation ("Unocal") and PDV America, which was affiliated with a Venezuelan company known as Petroleos de Venezuela, S.A. ("PDVSA"). ComEd's understanding that Uno-Ven was the proper customer for the Facilities was based in part on a letter that ComEd received which is attached as Exhibit 2.13. The letter indicates that Uno-Ven had been formed and that it was to replace Unocal as the operator of the refinery as a result of a change in ownership. In addition to the refinery, ComEd's understanding was that Uno-Ven also owned the coking and calciner operations at the Facilities.

Because Uno-Ven was the owner of all of the operations at the Facilities, ComEd allowed these operations to be "combined billed" as a single ComEd account. Situations where combined billing is permissible are discussed in detail in the testimony of ComEd witnesses Lawrence S. Alongi and David F. Geraghty.

Q10. Did combined billing offer advantages to Uno-Ven?

A10. Yes. Under ComEd's Rate 6L which applied to the Facilities, Demand Charges are split into two blocks, the first block of 10,000 kW of Maximum Demand and a second block of all Maximum Demand over 10,000 kW. The Demand Charge for amounts over 10,000 kW is less than half of the charge for the first block Demand Charge (i.e. for amounts less than 10,000 kW). Because the operations at the Facilities were combined as a single account, Uno-Ven was allowed to maximize the benefits of the reduced Demand Charges for the second block. In the absence of combined billing, each of the plants at the Facilities would have been required to have over 10,000 kW of Maximum Demand before they could receive the reduced second block prices.

Q11. Is Uno-Ven currently the customer at the Facilities?

A11. No. In April, 1997, Wayne Pritzle of Uno-Ven told me that PDVSA was acquiring the Facilities from Uno-Ven and that it planned to hire CITGO as its agent to operate the Facilities. On April 28, 1997, I then had ComEd's customer of record designation for the Facilities changed from Uno-Ven to CITGO. After that occurred, I requested a meeting with Unocal and CITGO representatives to discuss whether combined billing would still be appropriate given the acquisition that had occurred. This meeting occurred in May, 1997.

Q12. Please describe the meeting.

A12. The meeting took place at Unocal's administration building. I was the only ComEd representative at the meeting. I recall that Ron Lee and others attended on behalf of Unocal and that Gary Ephraim and others attended on behalf of CITGO. The meeting lasted about an hour.

I began the meeting by saying that it was my understanding that when the restructuring occurred, the ownership of the refinery would be transferred from Uno-Ven to PDV. I also stated that it was my understanding that after the restructuring, the coking and calciner operations would be owned by Unocal or its affiliates. If that occurred, I indicated that it would no longer be appropriate to combine the billing for the refinery, coking and calciner operations because they would not be commonly owned.

In response, Mr. Lee from Unocal referred to a chart which he indicated showed the current ownership of the Facilities. A copy of the chart is attached as Exhibit 2.14. Mr. Lee explained that the chart reflected the current ownership of the Facilities by Uno-Ven, which included interests of both Unocal and PDVSA.

Mr. Lee then produced a second chart entitled "Uno-Ven Company Ownership Structure" which he stated reflected the restructuring that was planned. A copy of this chart is attached as Exhibit 2.15. Mr. Lee stamped this chart "draft" as he began to explain its contents, but indicated that it showed the restructuring that was contemplated. Based on the chart, the CITGO and Unocal representatives explained that after the restructuring, Unocal and PDVSA would still be the ultimate parent companies of the entities operating the Facilities. They also explained that the restructuring would not change the ownership of the Facilities in a meaningful way.

I responded by stating that I would need to provide the charts that had been used in the meeting to ComEd's rate personnel. The meeting then ended. Copies of Gary Ephraim's notes that were taken at the meeting that were produced to ComEd in this proceeding are attached as Exhibit 2.16. These notes indicate, among other things, Mr. Lee's use of a "draft" organization chart in his discussion at the meeting consistent with my recollection. They also state that from the "perspective" of Needle Coker, "nothing has changed" as a result of the restructuring, which is also consistent with my recollection of what was said at the meeting.

Q13. What did you do?

A13. I took the charts and met with Helmut Bonigut, my supervisor, and with John Iski and Andy Cider, who were all members of a ComEd Sales Support Group and who were responsible for rate administration. I informed them about what I had been told at the meeting concerning the planned restructuring of the ownership interests in the Facilities. I also explained that I had been told that the restructuring would not result in a change in these ownership interests.

Based on this meeting, ComEd determined that it would continue to combine bill the operations at the Facilities. I explained this in an e-mail that I sent to Mr. Geraghty, a copy of which is attached as Exhibit 2.17. I explained in the e-mail that at the meeting with CITGO and Unocal, I had been told that the "ultimate parent companies" of the entities with operations at the Facilities would remain PDVSA and Unocal after the planned restructuring occurred. I also explained that I had informed Messrs. Bonigut, Iski and Cider of what I had been told, and that they had determined that ComEd should continue to combine bill the Facilities "just" as it had "done in the past."

Q14. What happened next?

A14. In August, 1997, ComEd then entered into an Electric Service Contract (the "Rate CS Contract" or the "Contract") relating to the Facilities with PDV Midwest pursuant to its Rate CS – Contract Service (the "Rate CS"). Rate CS permitted ComEd to provide electricity at less than the otherwise applicable Rate 6L amounts when a customer demonstrated that it had a means of bypassing ComEd's system. ComEd entered into the Rate CS Contract after it determined that PDV Midwest could bypass its system economically through the installation of cogeneration equipment and other process changes. A copy of the Rate CS Contract is attached to Mr. Geraghty's Testimony.

ComEd's Efforts to Bill the Refinery,
<u>Coking and Calciner Plants Separately</u>

Q15. Please discuss facts that ComEd learned in 2001 concerning electric service provided to the Facilities.

A15. In June 2001, ComEd learned that PDV Midwest and CITGO were re-selling the electricity that they received under the Rate CS Contract to Needle Coker and Chicago Carbon. ComEd learned this when it discovered a lawsuit that Needle

Coker and Chicago Carbon had filed against PDV and CITGO concerning the re-sale transactions. ComEd's discovery of the lawsuit is discussed in Mr. Geraghty's testimony. After this occurred, ComEd concluded that the parties that had sued each other in the lawsuit were separate entities that should be separately billed for electric service that they received. ComEd then began to take measures to bill each of these entities as separate ComEd customers.

Q16. What did ComEd do?

A16. ComEd attempted to make arrangements to install metering equipment that would record the usage at the refinery and the usage at the coking and calciner plants separately. The usage recorded on such equipment would be used to issue bills to PDV for electricity used at the refinery and, if ComEd determined that combined billing was appropriate for electricity used at the coking and calciner plants, separate bills would be issued for that use. Additional equipment would need to be installed if Needle Coker and Chicago Carbon were to be billed separately from each other.

Because of the size and type of electric equipment involved, ComEd could not simply install metering equipment that would record the usage at the refinery separately from the usage at the coking and calciner plants. Instead, to record the usage at the plants separately, ComEd determined that PDV, Needle Coker and Chicago Carbon would need to modify the electric equipment that was in operation there to permit ComEd's metering equipment to be installed. These modifications included re-routing certain cables that connected the refinery to the coking and calciner plants and also included installing certain equipment such as meter cabinets and current transformers. ComEd customers are required to make modifications like these when they are necessary to permit the installation of ComEd's metering equipment. Performing such modifications are required pursuant to ComEd's terms and conditions of service which are discussed in detail in Mr. Alongi's testimony.

Q17. Did ComEd determine where its metering equipment would be installed?

A17. Yes. ComEd identified a location where metering equipment could be installed that would record PDV's usage at the refinery separately from the usage at the coking and calciner plants. A photograph of location is attached as Exhibit 2.18. ComEd also determined that the metering equipment necessary to record the usage at the refinery separately from the usage at the coking and calciner plants was not extensive. A photograph of the type of meter cabinet that ComEd seeks to have installed is attached as Exhibit 2.19. The meter that ComEd seeks to have installed is directly facing the ComEd employee shown in Exhibit 2.19. The portion of the cabinet with the door open would contain current transformers and other equipment needed to permit accurate recording of the large amounts of electricity used. The equipment shown on the left side of Exhibit 2.19 would not need to be installed pursuant to ComEd's present metering plans.

Q18. Did you contact PDV, Needle Coker and Chicago Carbon concerning these issues?

A18. Yes. In January, 2002, I met with CITGO and with Unocal separately to discuss the installation of this metering equipment. During these meetings, I identified the type of metering equipment that needed to be installed and discussed

ComEd's intention to establish separate accounts for PDV, Needle Coker and Chicago Carbon. In April 2002, ComEd also sent a letter to Unocal discussing the metering equipment that ComEd sought to install. A copy of this letter is attached as Exhibit 2.20.

Q19. How did PDV, Needle Coker and Chicago Carbon respond?

A19. In February, 2002, ComEd received a letter from a CITGO attorney which stated that ComEd's efforts to separately meter and bill PDV, Needle Coker and Chicago Carbon violated the Rate CS Contract. A copy of this letter is attached as Exhibit 2.21. The Letter "demands" that ComEd "immediately cease efforts towards separate billing." Since then, CITGO has resisted ComEd's efforts to install additional metering equipment at the Facilities.

Unocal has also refused to permit the installation of this equipment. Throughout 2002, I discussed this issue on a number of occasions with John Bassett, a Unocal employee who is responsible for operations at the Facilities. During these conversations, Mr. Bassett stated that it was CITGO's responsibility to install the metering equipment at issue, and that Unocal would not install the equipment on its own.

Q20. Has ComEd installed the metering equipment?

A20. No, it has not been able to install the equipment because PDV, Needle Coker and Chicago Carbon have not permitted its installation. Specifically, PDV, Needle Coker and Chicago Carbon have refused to make the modifications to their own electric equipment that are necessary to permit ComEd's metering equipment to be installed. ComEd has been able to transfer three existing meters that record electricity used at the calciner and coking operations of the Lemont Facilities from CITGO's account to an account that is in place for Needle Coker. ComEd was able to do this without the cooperation of the Needle Coker or CITGO. Transferring these meters from the CITGO account to the Needle Coker account, however, has not permitted ComEd to completely separate the billing for each of the operations at the Facilities.

Q21. Does ComEd still provide service to the Facilities under the Rate CS Contract?

A21. No, the Rate CS Contract has expired, and CITGO has elected to take delivery services at the Facilities. On August 26, 2002, ComEd and CITGO entered into a Rate RCDS/Rider PPO-MI Contract (the "Rate RCDS Contract") concerning electricity supplied there. The Rate RCDS Contract is discussed in detail Mr. Geraghty's Testimony.

Q22. Does the Rate RCDS Contract permit CITGO to supply electricity to Needle Coker and Chicago Carbon?

A22. No. Needle Coker and Chicago Carbon should each be established as ComEd customers that are separate from PDV and CITGO. ComEd seeks a Commission Order in this case ordering, among other things, the creation of separate accounts for Needle Coker and Chicago Carbon and requiring the installation of metering equipment necessary to establish separate accounts. ComEd entered into the Rate RCDS Contract pending a Commission decision on these issues and instead of taking the more drastic measure of discontinuing service to the Facilities. The Rate RCDS Contract does not, therefore, indicate that ComEd has agreed to permit CITGO to provide Needle Coker and Chicago Carbon with electricity on a going forward basis.

Q23. Does this complete your testimony?

A23. Yes.