RESA EX. MW 1.0

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Commonwealth Edison	:	
	:	Docket No. 14-0312
	:	
Annual formula rate update and revenue	:	
Requirement reconciliation under	:	
Section 16-108.5 of the Public Utilities Act	:	

DIRECT TESTIMONY
OF MATTHEW WHITE
ON BEHALF OF THE RETAIL ENERGY SUPPLY ASSOCIATION

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I. INTRODUCTION

Q. Please state your name and business address for the record.

A. My name is Matthew White, and my business address is 6100 Emerald Parkway, Dublin Ohio 43016.

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

A. Interstate Gas Supply, Inc. d/b/a IGS Energy as the Manager of Regulatory and Legal Affairs.

Q. For whom are you appearing in this proceeding?

A. The Retail Energy Supply Association ("RESA"). RESA is a non-profit trade association of independent corporations that are involved in the competitive supply of electricity and natural gas.[1] RESA and its members are actively involved in the development of retail and wholesale competition in electricity and natural gas markets throughout the United States.

Q. Briefly describe your educational experience and relevant qualifications.

A. I have a Juris Doctor (J.D.) and Masters in Business Administration (M.B.A.) from the College of William & Mary. I also have a Bachelor of Arts (B.A.) from Ohio University. I started my legal career working at the law firm of Chester, Wilcox & Saxbe as an energy and utilities lawyer. At Chester Wilcox, I participated in numerous regulatory

[1] RESA's members include AEP Energy, Inc.; Champion Energy Services, LLC; ConEdison *Solutions*; Constellation NewEnergy, Inc.; Direct Energy Services, LLC; GDF SUEZ Energy Resources NA, Inc.; Homefield Energy; IDT Energy, Inc., Integrys Energy Services, Inc.; Interstate Gas Supply, Inc. d/b/a IGS Energy; Just Energy; Liberty Power; MC Squared Energy Services, LLC; Mint Energy, LLC; NextEra Energy Services; Noble Americas Energy Solutions LLC; NRG, Inc.; PPL EnergyPlus, LLC; Stream Energy; TransCanada Power Marketing Ltd.; and TriEagle Energy, L.P.. The comments expressed in this filing represent the position of RESA as an organization but may not represent the views of any particular member of RESA.

proceedings relating to utility matters, including natural gas and electric rate cases and electric power siting cases. I also have worked on power and gas sales transactions. At the beginning of 2011, I was hired into IGS Energy's rotation program where I spent the next 16 months working in various different departments throughout the company learning IGS' entire business, including the electric and gas supply and risk departments. In 2012 I began full-time as an attorney in IGS' regulatory affairs department. In 2014 I was promoted to Manager, Legal and Regulatory Affairs at IGS. In my current position I manage the legal activities for IGS Energy at utilities commissions and other regulatory bodies throughout the United States. My team is responsible for electric and natural gas litigation for IGS Energy, including electric and natural gas rate cases and other proceedings that relate to energy. I am also intimately involved in IGS Energy's advanced electric generation and compressed natural gas (CNG) businesses. I currently serve on the Board of Ohio Advanced Energy Economy ("OAEE") a non-profit organization that seeks to promote advanced energy development.

Q. Have you provided testimony in utility regulatory proceedings before?

A. Yes. I have submitted written testimony in the Duke Natural Gas Distribution Rate Case, (Public Utilities Commission of Ohio "PUCO" Case No. 12-1685-GA-AIR); the DTE 2013-2014 Gas Cost Recovery case (Michigan Public Service Commission Case No. U-17131); the Columbia Gas of Kentucky 2013 Distribution Rate Case (Kentucky Public Service Commission Case No. 2013-00167); the Dayton Power & Light Company Electric Security Plan Proceeding (PUCO Case No. 12-426-EL-SSO); and the Ohio Power Company Electric Security Plan Proceeding (PUCO Case No. 13-2385-EL-SSO).

Q. What is the purpose of your testimony?

A. In Commonwealth Edison's ("ComEd") Revenue-neutral rate design case (Case No. 13-387), the Commission directed ComEd to provide in its next formula rate case an embedded cost study identifying the amount of customer care costs that are allocable to the supply function. In this proceeding, ComEd submitted three studies that recommend that the Commission allocate little or no customer care costs to the supply function- only one of which—the Allocation Study (ComEd Ex. 7.04)—can even be used as a starting point for a proper analysis of allocating customer care costs to the supply function. My testimony responds to these studies. I also propose corrections and adjustments to the Allocation Study. Finally, I propose that certain other costs should be allocated to the supply function.

Q. Can you please further describe the three studies that ComEd submitted in this case?

A. ComEd has presented three studies with respect to customer care costs. Under the Allocation Study, ComEd allocated $12,137,711 to the supply function (ComEd Ex. 7.04). Under the Alternate Analysis (ComEd Ex. 7.06), which examined only customer contact center costs, ComEd allocated $4,710,594 to the supply function. Finally, under the Switching Study (ComEd Ex. 7.05), ComEd allocated a *de minimis* amount of $112,343 to the supply function.

Q. Do you support ComEd's studies?

A. As I discuss further below, I do not support the Switching Study and the Alternative Study at all. With respect to the Allocation Study, I can support it as a starting point. With my corrections, the Allocation Study supports approximately $34 million of customer care costs to be allocated to the supply function,-which is a conservative- but

acceptable level, until ComEd provides a better analysis based on fully embedded costs as requested by the Commission in its order in Docket No.13-0387.

With respect to the Switching Study, its premise is fundamentally flawed, and it is not an embedded cost study, as requested by the Commission. It should be rejected.

The Alternative Study is inappropriate and unreasonably limited to one type of cost, thereby producing a result that is unreasonable on its face. It should be rejected.

As I stated previously, the Allocation Study provides an adequate starting point for a cost allocation analysis. As corrected for the reasons set forth in my testimony, and as demonstrated in RESA Ex. MW 1.1, the Allocation Study produces an amount of approximately $34 million that should be allocated to the supply function. Until ComEd produces a better, fully embedded cost study, I recommend that the Commission allocate a minimum of $34 million to the supply function.

In addition, ComEd's studies only account for operation and maintenance ("O&M) costs that relate to the customer care function. However, as I explain in my testimony there are a number of other non-O&M costs that are required to provide supply service. In ComEd's next formula rate case the Commission should require ComEd to perform a fully embedded cost study designed to assign a portion of the non O&M costs to the supply function. In the meantime, in this proceeding, the Commission should increase the costs allocated to the supply function for these non-O&M costs. Such an allocation would provide parity competitive neutrality between ComEd's default supply and retail electric service provided by Retail Electric Suppliers ("RES"). Without this allocation, default rates discriminate against switched customers and include non-comparable costs because, in part, customer are at risk for paying twice for the same service – once through distribution and a second time through their respective RES charges.

Q: Do you recommend that ComEd be disallowed from recovering any of the reasonable and prudently-incurred costs that they incur in the provision of default service?

A: No. It is my testimony that ComEd's costs must be recovered through an appropriate allocation that avoids customers paying multiple times for service; ComEd should be allowed to recover its appropriate costs, in an appropriate manner.

II. BENEFITS OF COMPETITION

Q. Do all customers benefit from competitive electricity markets?

A. Yes. There are many benefits that all customers receive as a result of competitive retail electricity markets. First, competitive markets offer choices to customers beyond the standard variable default rate product. Those choices include products bundled with other products and services, time of use rates, demand response products, green products, hedged products, fixed price options and flat billed products, to name a few. This diversity of offerings allows customers to enroll in products that are better able to suit their needs. Second, having a diverse range of suppliers serving customers in ComEd's service territory creates liquidity in the market which puts price pressure on wholesale electricity prices, ultimately leading to lower retail electricity prices for default service and choice customers. Third, having multiple entities transacting business in Illinois creates jobs in the state and improves the state economy. Fourth, competition drives innovation and efficiencies that leak out into the market, not only to other RES in the market, but making the utility more efficient as well. In short, competition greatly benefits all customers (including default customers) and that is why competitive markets are generally the favored means to deliver goods and services to customers in our society.

Further, the Illinois legislature recognized the benefits of competitive retail electric markets and that is why the legislature enacted legislation that enables the development of competitive retail electric markets. *See, for example, Section 16-101A of the Public Utilities Act (220 ILCS 5/16-101A)*

Q. In a competitive market, why is it important that both regulated and non-regulated products are treated equally?

A. Competitive parity is important in any competitive market for products and services. Without competitive parity, innovation that is created by competitive forces in the market is severely restricted. If one product is granted favorable legal or regulatory treatment, or otherwise has an anti-competitive advantage in the market, all else being equal, customers will be more likely to purchase or enroll in that product. Thus, the favored product will have less pressure to innovate and become more efficient, and other products that are not advantaged will be pushed out of the market.

Q. Does the current regulatory construct create competitive parity for all products and services in the market?

A. Absolutely not. The default service product is granted favored regulatory treatment at the expense of all other competitive retail electric service products in the market. First, there are a number of actual costs, recovered through distribution rates that are utilized to support the default rate product—such as customer care costs—but RES products do not receive that same support. Second, ComEd's default supply also obtains an advantage because all customers are automatically assigned to that product when they enroll. Assignment of customers by default to ComEd default service ensures that the default rate maintains a significant portion of the market share, even when there are a multitude of other products and providers available in the market. Finally, ComEd's

supply charges do not include substantial regulatory and delivery charges, but rather those costs are recovered through distribution rates. However, RESs also have substantial regulatory and compliance requirements that they must recover through their supply charges. Those requirements include contacts requirements, verification requirements, notice requirements and a number of other consumer protection rules. Compliance with these rules and requirements comes at a substantial cost to RESs—and again, the RESs' supply charges must recover those costs, while ComEd's supply charges do not. Consequently, the current paradigm leads to a non-comparable and discriminatory default rate product. These rates discriminate against customers electing to take service from a RES, requiring such customers to pay for costs twice, once through distribution rates and again through rates charged by a RES.

Q. How does the incorrect allocation of customer care costs to distribution rates negatively impact competition?

A. If utility is allowed to recover customer care costs through its distribution rates, competition will be discouraged, because a choice customer would pay twice for those charges – once through its utility distribution charges and a second time through its RES supply charges. It is simply a matter of assuring that costs are recovered through the correct "buckets". Failure to do that creates a favored product that would have an anti-competitive advantage, ultimately harming all ComEd customers.

III. Customer Care Costs

Q. Has the Commission recognized that ComEd may be recovering customer care costs that are attributable to the supply function through distribution rates?

A. Yes. In Docket No. 13-387, ComEd claimed that no customer care costs should be allocated to the supply function. The Commission rejected ComEd's claim, stating, "ComEd's assertion that there are no customer care costs attributable to its supply customers is equally suspect… The record in this case identifies that there may be customer care costs that are attributable to the supply function and should therefore be allocated to the supply function to adhere to cost causation principles." Consequently, the Commission directed ComEd to submit an updated allocation study in its next formula rate case (Order in Docket 13-0387, page 57). It is appropriate to allocate customer care costs necessary to support the supply function, to the supply function, in order for there to be comparable and non-discriminatory rates.

Q. Has ComEd complied with the Commission's directive in Docket No. 13-0387?

A. Not exactly. In response to the Commission's directive, ComEd provided three studies (Allocation, Alternative, and Switching). The Switching Study is substantially the same avoided cost study that the Commission effectively found suspect in Docket 13-0387 and, for the same reasons, should be rejected. The Alternative Analysis looks at only one type of customer care cost and should also be rejected. The Allocation Study is useful as a starting point for an appropriate embedded cost study, but suffers from the flawed premise that customer care costs are related to only O&M expense.[2] As Mr. Donovan stated, "I identified the costs to be reviewed for the purposes of the studies as the 2013 O&M costs that were submitted as part of this proceeding and which were incurred by the various ComEd departments that provide customer services, as described in more detail below." The Commission has previously acknowledged that customer care

[2] "The starting point for both the Allocation Study and the Switching Study is the identification of the embedded customer care costs for 2013." ComEd Ex. 7.0 at 40 (Donovan Direct).

costs may be much broader and may include the costs associated with the full revenue requirement amount, including direct O&M, indirect O&M, and capital costs. *See Case No. 08-0532 Order, pp. 67-69.* By limiting its studies to a review of O&M-related customer care costs, the starting point in each of the studies, including the Allocation Study, is understated.

As discussed below, I recommend that the Commission utilize the Allocation Study, as adjusted by the corrections described in my testimony, to allocate approximately $34 million of ComEd's customer care costs to the supply function in this proceeding. However, the Commission should also direct ComEd to undertake a fully embedded cost of service study of its customer care costs in its next formula rate proceeding. These costs are not insignificant.

IV. The Allocation Study

Q. Notwithstanding ComEd's failure to include all customer care costs in its studies, do you accept the Allocation Study provided by ComEd?

A. No. After starting with an understated total amount of customer care costs, ComEd's study incorporates allocation factors to assign customer care costs to the delivery and supply function, which understate the amount of such costs that should be allocated to the supply function. Moreover, ComEd's calculations are largely a matter of self-reporting; therefore the burden should be on ComEd to provide evidence why its calculation of customer care costs is reasonable. In discovery, RESA requested workpapers and supporting analysis for ComEd's Studies. The only document that ComEd provided was an excel spreadsheet for each study that vaguely indicates the categories of costs that ComEd reviewed and the allocation factor that was applied to the cost. With such scant

evidence, the presumption should be that ComEd has understated the amount of customer care costs to be allocated to the supply function.

Q. Can you describe your concerns with ComEd's allocation factors?

A. Yes. To understand ComEd's Allocation Study, a closer examination of the Allocation Study is necessary. For many departments/categories, the Allocation Study did not in fact specifically review all customer care costs (for example, IT related costs). It often reviewed a portion of its customer care costs and extrapolated total department/category values based upon allocators. In other categories, for example, Call Center Costs, ComEd allocated costs are based upon whether it believed customer calls were related to delivery or supply.

Q. How did ComEd determine what calls were related to delivery and supply?

A. First, ComEd created several categories for different types of calls.

Q, What did ComEd do after dividing all calls into different categories?

A. After ComEd determined its categories of calls, ComEd immediately removed any categories that—in its sole judgment—were exclusively related to the delivery function. ComEd then determined that zero percent of those costs should be allocated to the supply function. For example, for roughly 40% of the line items analyzed for the customer contact center, 100% of those costs were assumed to be distribution function costs.

Q. Did ComEd allocate 100% of any costs directly to the supply function?

A. No. Although ComEd removed 100% of the costs it determined related solely to the distribution function, ComEd applied allocation factors for the costs ComEd determined relate to the supply function. Thus, ComEd applied set percentage allocators (Revenue Allocator 77.2% to delivery, Bill Allocator 81.8% to delivery, Bill Calculation Allocator 83.3% to delivery, and Company Allocator—a department specific amount) to various

services/activities provided within each category/department that relates to the supply function.

Q. What was the effect of applying the delivery function allocators?

A. The delivery function allocators allocated a majority of the remaining costs to distribution rates, based on the allocator percentage. ComEd determined that costs not allocated to distribution should be allocated to the supply function. For example, ComEd directly reviewed 4,418,431 calls, and, after applying the allocators determined that 87.6% of the 4,418,431.85 in calls should be attributed to the delivery function. Because there were a number of calls that ComEd could not assign to a category, it applied the 87.6% allocator to those calls as well.[3]

Q. How did ComEd allocate Customer Call Center costs after determining what percentage of calls it believed were allocable to delivery and supply?

A. ComEd then used the 87.6% percentage and applied it to the $37,987,643 in Customer Contact Center costs to determine the total amount of Customer Contact Center costs to allocate to delivery and supply. Thus ComEd allocated roughly $33.3 million of its Contact Center costs to the delivery function and only $4.7 million to the supply function.

Q. Are there problems with the way ComEd developed the revenue allocation factor that cause ComEd's Allocation Study to understate customer care costs allocable to the supply function?

A. Yes. The allocation factors ComEd uses do not give proper weight to the costs that should be allocated to the supply function. After pulling out the costs ComEd determined are 100% allocable to the delivery function, ComEd then applies an allocation factor to

[3] "[W]e determined the Contact Center Allocators – the overall weighted average of the items that could be assigned to delivery or supply using the three steps previously outlined in this response – to those calls for which specific descriptions were not available." ComEd Ex. 7.0 at 53-54 (Donovan Direct).

the functions that relate to supply which has the effect of allocating a significant portion of the costs of the activities that relate to the supply function to delivery. ComEd claims that it applied the revenue allocation factor "to costs when the underlying work could be considered to be driven primarily by revenues, such as Revenue Management disconnection activities."[4] ComEd stated that "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."[5] ComEd's calculation, however, is flawed and vastly different from the Revenue Allocation calculation in its 2010 case, which allocated 39% of customer care costs to the delivery function, for reasons I describe below. Not only is the calculation inconsistent with the 2010 study, it is also inconsistent with the Revenue Allocation in the Switching Study that ComEd presented in this proceeding. A snapshot of the calculation ComEd utilized in the Switching study is provided below (emphasis added in highlight).

Figure MW-1.

[4] ComEd Ex. 7.0 at 42 (Donovan Direct).

[5] ComEd Ex. 7.0 at 42 (Donovan Direct).

ComEd Call Center 2013 CSR Call Volumes & OTD Data						Docket No. 14-XXXX	
Group	Category	Description	Offered Calls	Handled Calls	Used in Analysis	Designation	% Distribution
Billing	Balance	Activity Statement_Spa	2,754	2,594	2,594	Bill Calculation	81.8%
Billing	Balance	Check Balance/Account_Com	7,927	7,124	7,124	Bill Calculation	81.8%
Billing	Balance	Check Balance/Account_Res	87,517	84,480	84,480	Bill Calculation	81.8%
Billing	Balance	Check Balance/Account_Spa	29,704	27,130	27,130	Bill Calculation	81.8%
Billing	Balance	Dispute Bill_Com	9,961	9,577	9,577	Bill Calculation	81.8%
Billing	Balance	Dispute Bill_Res	17,227	16,821	16,821	Bill Calculation	81.8%
Billing	Balance	Paperless Billing Opt_Spa	1,423	1,297	1,297	Bill Calculation	81.8%
Billing	Balance	Payment Verification_Spa	5,864	5,580	5,580	Bill Calculation	81.8%
Billing	Budget	Budget Billing_Com	440	410	410	Bill Calculation	81.8%
Billing	Budget	Budget Billing_Res	15,265	14,898	14,898	Bill Calculation	81.8%
Billing	Budget	Budget Billing_Spa	129	120	120	Bill Calculation	81.8%
Billing	Credit	Deferred / Installments_Com	877	762	762	Revenue Allocation	70.3%
Billing	Credit	Deferred / Installments_Res	92,315	88,247	88,247	Revenue Allocation	70.3%
Billing	Credit	Deferred / Installments_Spa	8,653	8,267	8,267	Revenue Allocation	70.3%
Billing	Credit	Early Contact Residential	474,037	456,619	456,619	Revenue Allocation	70.3%
Billing	Credit	Early Contact Spanish	33,346	31,763	31,763	Revenue Allocation	70.3%
Billing	Credit	Extension_Com	1,305	1,219	1,219	Revenue Allocation	70.3%
Billing	Credit	Extension_Res	44,535	43,254	43,254	Revenue Allocation	70.3%
Billing	Credit	Extension_Spa	2,885	2,781	2,781	Revenue Allocation	70.3%
Billing	Credit	Moving CNP	468	454	454	Revenue Allocation	70.3%

Donovan Workpaper supporting ComEd Ex. 7.05 Switching Study, Tab 2014 Call Center Transactions.

Q. Why do you disagree with ComEd's calculation of the Revenue Allocation?

A. ComEd indicates that the Revenue Allocation is used when the work is driven by a type of revenue. Thus, ComEd appears to indicate that the allocation factor is a result of a proportion of its supply revenues compared to distribution revenues. But, ComEd's calculation does not reflect that relationship. Rather, ComEd has included purchase of receivables revenue related to RES in its calculation of distribution revenues, which skews the weighted average toward the delivery function. Below is an example from ComEd's work-papers that shows this misallocation.

Figure MW-2.

Retail Customer Designation	2013 **Distribution** Base Rate Revenue	2013 **Supply** Base Rate Revenue
R: Residential	$1,431,126,052	$641,590,683
N: Nonresidential (1)	$1,202,749,848	$475,543,740
A: All Other (2)	$36,567,087	$11,560,973
PORCB Receivables	1,152,210,308	-
Total	**$3,822,653,295**	**$1,128,695,396**
2013 Revenue Allocator	**77.2%**	**22.8%**

279

280 **Q. What are PORCB Receivables?**

281 A. PORCB receivables are all of the charges that choice customers pay for the electric
282 supply service that a RES provides. Thus PORCB receivables represent the RES supply
283 charges customers see on the ComEd bill.

284 **Q. Is it appropriate to include the PORCB receivables in the revenue allocator**
285 **calculation?**

286 A. No. The PORCB revenues represent the revenues generated by RESs for the supply
287 service they provide customers. Thus, the PORCB revenues are inappropriately included
288 in ComEd's revenue allocator calculation. The allocator should only take into
289 consideration the supply and distribution revenues that can be attributed to the services
290 provided by ComEd.

291 **Q. How should Mr. Donovan's calculation of the Revenue Allocation be corrected?**

292 A. It is simple. The purchase of receivables should be removed from the calculation. That
293 would result in a Revenue Allocation Factor of 70.3% to distribution rates. Interestingly,
294 ComEd appears to have used this same number in the Switching study that is excerpted in
295 my table above (highlighted as 70.3%). The 70.3% represents the total revenues ComEd

receives for providing distribution and supply service to customers. The 70.3% is a conservative calculation because it merely compares default generation supply revenues to the total distribution revenues from both default and RES customers. It could be argued that the more accurate calculation would compare supply revenue and distribution revenue of only default service customers. This calculation would cause the Revenue Allocator to allocate 40% of costs to the delivery function, which is more consistent with the Revenue Allocation presented by ComEd in 2010. *See* Donovan Ex. 7.04 Workpaper 2010 Revenue Allocator.

Q. What happens when you remove the PORCB revenue from the revenue allocator calculation?

A. The calculation is provided below, as well as in my updated version of Mr. Donovan's workpaper for ComEd Ex. 7.04.

Figure MW-3.

Retail Customer Designation	2013 **Distribution** Base Rate Revenue	2013 **Supply** Base Rate Revenue
R: Residential	$1,431,126,052	$641,590,683
N: Nonresidential (1)	$1,202,749,848	$475,543,740
A: All Other (2)	$36,567,087	$11,560,973
PORCB Receivables	-	-
Total	**$2,670,442,987**	**$1,128,695,396**
2013 Revenue Allocator	**70.3%**	**29.7%**

Q. Are there also problems with the way ComEd developed the Bill Allocator that is utilized in ComEd's studies?

A. Yes. ComEd stated that the "Bill allocator is utilized for costs related to determining or explaining the line items on a bill and costs for work performed in calculating bills issued by ComEd."[6] ComEd determined that because 2 of 11 lines on the bill relate to supply, it should allocate 81.8% for the delivery function and 18.2% for the supply function. ComEd's calculation is flawed because not all lines on a bill are created equally. For example, in my experience, customers usually call a RES to ask about the big ticket items on the bill, i.e. the supply charges, which compose approximately 60% of the bill. ComEd's response to Staff's discovery request 1.02 also supports this principle:

> Staff: "Does ComEd currently track or has it ever tracked whether calls, questions, concerns, or complaints from customers received by ComEd's call center are related to supply charges or delivery services charges?"
>
> ComEd: "No, ComEd's Call Center does not track whether calls are related to supply or delivery service charges. Most customers that call ComEd with billing concerns call <u>because of the total bill amount and not just one part of the bill. ComEd does not have its agents make a subjective judgment about why the bill is high</u>"[7]

(emphasis added). Given that the Bill Allocator is utilized in instances where a utility representative may be explaining items on the bill, it is arbitrary that ComEd proposed to allocate 81.8% of these costs to the delivery function. Further, customer are likely to experience a high bill because of usage-sensitive supply charges, not other costs, like distribution charges which do not change month-to-month or with usage

Q. How would you correct ComEd's Bill Calculator allocator?

A. Recognizing that approximately 60% of a customer's charges are related to supply, I think a conservative calculation would follow my corrected Revenue Allocation

[6] ComEd Ex. 7.0 at 42 (Donovan Direct).

[7] RESA Ex. MW 1.2 (containing ComEd response to Staff Request NO. PR 1.02) (emphasis added).

methodology. Thus, I believe that the Bill Calculator Allocator should, at a minimum, allocate 70.3% to the delivery function and 29.7% to the supply function.

Q. Are there other problems with the way ComEd developed the Bill Calculation Allocator that cause ComEd's studies to understate customer care costs allocable to the supply function?

A. Yes. Similar to the Bill Allocator, ComEd calculated the Bill Calculation Allocator based upon the amount of surface area on the bill occupied by supply and delivery charges. Under this calculation, ComEd determined ComEd allocated 83.3% for the delivery function and 16.7% to the supply function. I do not think ComEd correctly devised this allocator, because, as stated above, the majority of a customer's billed amount is driven by supply-related charges and not the amount of paper used in providing the billed information. A more accurate calculation would follow the Revenue Allocator.

Q. Are there other flaws have you identified in ComEd's Allocation Study?

A. Yes. Before even applying the incorrect allocation factor, ComEd pulled out a significant number of costs and automatically assigned 100% of those costs to the distribution function. For example, ComEd identified customer care costs that should be 100% allocated toward the delivery function, but did not utilize a similar allocation of customer care costs to the supply function. Moreover, because ComEd did not examine all customer care costs, this flaw in the design ripples through ComEd's entire model. To make matters worse, ComEd provided little to no support for costs that it allocated exclusively to the delivery function—or any function for that matter. As mentioned above, RESA requested workpapers and supporting analysis for ComEd's Allocation Study. The only document that ComEd provided is an excel spreadsheet that vaguely indicates the categories of costs that ComEd reviewed and the allocation factor that was

applied to the cost. But, even a quick review of this spreadsheet reveals that ComEd directly allocated costs to the delivery function far too liberally. Illustrative examples are identified below.

Q. Can you provide an example of a cost that ComEd did not correctly allocate to the delivery function?

A. Yes. ComEd has directly allocated 100% of the cost of customer calls to turn on electric service to the delivery function.[8] Further, ComEd allocates 100% of the costs related to calls that discuss moving within the ComEd service territory. Yet, 100% of the customers who either request electric service or move to a new location are required to take default supply service from ComEd. Further, even after enrolling in default service initially, a significant percentage of those customers remain on default supply service. In fact one of the greatest anti-competitive advantages given to the default rate is that all customers are assigned to the default rate, by default. Thus, it would be is inappropriate, anti-competitive and arbitrary to allocate 0% of the moving and new enrollment costs to the default rate when the default rate gets 100% of the benefit of customers that must receive service from the default rate upon new enrollment and subsequent moves.

Q. Are there other misallocations of costs to the delivery function that you have identified?

A. Yes. ComEd incorrectly attributes 100% of a number of the costs of a number of other items to the delivery function. For example, ComEd allocates 100% of the calls that relate to meter reads to the delivery function. However, customers calling in about a meter read obviously have concerns about their electric consumption and their supply charges. Thus a portion of these costs should be attributed to the supply function.

[8] 7.04 Workpaper, 2014 Call Center, Line 64.

Further, ComEd allocates 100% of the costs of account maintenance to the delivery function. However, there is a percentage of a customer's account that relates to supply service. Thus, a portion of those costs should be assigned to the supply function. Attached to my testimony as RESA Exhibit MW 1.1 are the modifications I made to ComEd's allocation methodology[9] that allocate the appropriate costs to the supply function and to the delivery function.

Q. What is the result of fixing ComEd's incorrect allocation of costs to the Distribution function and fixing the incorrect allocating factors applied by ComEd.

A. After fixing the incorrect allocations as described above the total amount ComEd should have allocated to the supply function based on its own study is $26,751,652. Exhibit MW-1.1 attached to this testimony further details my calculations. An updated table of my calculations is provided below

Figure MW-4

[9] ComEd produced a combined workpaper to support its 2010 and 2014 Allocation Studies. RESA Ex. MW 1.1 reflects modifications to the portion of the workpaper that pertains to the 2014 Allocation Study (ComEd Ex. 7.04). Thus, pages in RESA Ex. MW 1.1 that are labeled July 2014 contain modifications to the workpaper related to the 2014 Allocation Study. Pages in RESA Ex. 1.1 that are labeled April 2014 relate to ComEd's 2010 Allocation Study; RESA did not modify those pages.

Line No.	Department / Activity	Costs Analyzed	Costs Allocated to Supply	Costs Allocated to Delivery
	(a)	(b)	(c)	(d)
1	Metering Services (1)	61,752,262	-	61,752,262
2	Advertising (1)	-	-	-
3	Subtotal	$ 61,752,262	-	$ 61,752,262
4	Field and Meter Services	12,056,540	150,460	11,906,080
5	Billing	7,506,221	1,840,131	5,666,090
6	Customer Contact Center	37,987,643	13,421,508	24,566,135
7	Customer Relations (4)	1,063,461	232,282	831,180
8	Large Customer Solutions	9,054,583	90,546	8,964,037
9	Revenue Management	28,007,976	3,113,500	24,894,476
10	Revenue Protection	2,291,422	395,301	1,896,121
11	Demand Management	4,510,803	667,166	3,843,637
12	Electric Supplier Services (3)	-	-	-
13	Market Research	-	-	-
14	Information Technology	27,971,046	6,507,633	21,463,413
15	Support Services	8,318,780	-	8,318,780
16	Other (2)	2,886,899	333,126	2,553,774
	Total Analyzed	$ 141,655,375	$ 26,751,652	$ 114,903,723
	Subtotal of Departments	$ 203,407,637	$ 26,751,652	$ 176,655,985
	Grand Total of Study	$ 203,407,637	$ 26,751,652	$ 176,655,985

Q. What percentage of the total customer care O&M does $26,751,652 represent?

A. ComEd Exhibit 7.04 references that ComEd had $203,407,637 in total O&M expenses. Thus the allocation to the supply function that I have calculated only accounts for 13.15% of ComEd's total O&M customer care costs. This is despite the fact that 60% of the customer's bill is generation related. In my opinion, the $26,751,652 represents a conservative calculation of the customer care costs that should have been identified in the Allocation Study to be allocated to the supply function.

V. OTHER CUSTOMER CARE COSTS

Q. Are there other customer care costs, other than O&M costs, that should be allocated to the supply function?

A. Yes. In order for ComEd to perform customer care functions ComEd is required to have fixed assets. For example the call center must have office space. Further, there is equipment such as computers and telephones that are required for ComEd to operate its call center. All of these assets are included in ComEd's rate base, and ComEd earns a rate of return of 7.06% on these assets. This rate of return contributes to ComEd's revenue requirement that ComEd recovers through distribution rates. However, ComEd has not allocated any percentage of its rate of return generated from the customer care assets to the supply function. Given that the customer care assets that ComEd recovers through rate base are necessary to perform customer care functions for the supply service, ComEd should allocate a portion of these costs to the default rate.

Q. How much of ComEd's rate of return revenue requirement should be attributed to the supply function?

A. In this proceeding ComEd has not provided a list of its assets in base rates that are required to support the customer care function. The Commission should order ComEd, in its next formula rate proceeding, to produce a study that indicates the percentage of its rate of return generated from its customer care assets that is appropriate to be attributed to its supply function. In the meantime the Commission in this proceeding should allocate a certain amount of dollars that represents rate of return generated from its customer care assets that is appropriate to be attributed to the supply function. Because ComEd did not provide details on its customer care assets, I was unable to include those costs in my allocation estimates in my direct testimony. I reserve the right to address this matter further in my rebuttal testimony.

Q. Do you recommend that any other customer care costs should be attributed to ComEd's default supply function?

A. Yes. ComEd witness Menon proposed to recover $7,332,000 in charitable contributions through distribution rates. *See* Menon Direct Testimony at 46-47. First, I commend ComEd for its charitable activities and encourage ComEd to continue its community involvement. Second, I recommend that ComEd allocate 100% of these costs to the supply function. To be clear, I am not recommending that ComEd cease these activities or that the Commission should discourage ComEd from making charitable contributions. Rather, I am recommending that these cost be allocated to the service that benefits most from them. Because ComEd is a monopoly provider of distribution service, a customer has no choice of distribution provider regardless of its opinion of ComEd. But customers do have a choice between a RES and the default service. Charitable contributions improve a utility's (or RES's) brand, instill good will and customer loyalty. Further, RESs spend money on charitable and community investment but they are unable to recover these costs through distribution rates. Accordingly ComEd's charitable contributions and community investment should be recovered from default supply customers. With the allocation of ComEd's charitable contributions to the supply function, ComEd should allocate at least $34,083,652 in customer care costs, including charitable contributions, to the supply function.

VI. REASONABLENESS OF RESA'S PROPOSED ADJUSTMENTS

Q. Is the $34,083,652 a conservative calculation as to the amount of costs that should be attributed to the supply function?

A. Yes it is. There are a number of costs that are required to support ComEd's supply service that are not even considered in this calculation. For instance, ComEd allocates

almost zero dollars to the supply function for legal expense[10] although ComEd must expend significant amount of money on legal fees to ensure that the default product is available in the market. Further, as I have already noted ComEd has allocated zero dollars for office space, equipment or other capital costs necessary to support the supply function. Also, ComEd does not assign any indirect costs that are required to support the default rate including, administrative, HR, accounting, IT, auditing, office supplies etc. In short the dollar amount I propose in my testimony is only a fraction of the dollars recovered through distribution rates that are required to support the supply function.

Q, Do you agree with Ms. Brinkman's claim (Brinkman Direct Testimony at page 40) that allocating customer care costs to the default supply rate could lead to a "last man standing problem."

A. No, I do not. ComEd currently has 1,200,000 residential customers taking default service. Assuming that each of these customers uses 800 kilowatt hours per month, that would be 960,000,000 kwh per month. I have recommended allocating $2,840,304 in additional costs to the supply function per month. This would lead to a default service supply price increase of only $0.00295 (or less than 3 mils) per kwh. Further, because ComEd's allocation factors are a function of the default supply service revenue divided by ComEd's total distribution revenue, as customers migrate, ComEd default service

[10] In discovery, RESA requested that ComEd identify all outside professional expenses that it incurred in 2013 and what amount it proposed to recover through distribution and supply rates. ComEd responded that it proposes to recover $251,605,000 in outside professional expenses in this proceeding. *See* RESA Ex. MW 1.4 (containing ComEd response to RESA 2.07_Attach 1). Of that amount, it proposes to allocate $187,000 in administrative and general contractor costs to the supply function. *See* RESA Ex. MW 1.3 (containing ComEd response to RESA 2.07(d) and (e)). Thus, ComEd proposed to allocate less than .1% (exactly 0.000743) in outside professional expenses to the supply function. Because this number does not seem reasonable or accurate, RESA requested that ComEd provide a detailed description of each incurred expense. ComEd, however, refused to provide the information, indicating that it is unduly burdensome. *See* RESA Ex. MW 1.3 (containing ComEd response to RESA 2.07(g) and (h)). It is unreasonable, however, that ComEd requests cost recovery of these expenses yet ComEd refuses to sufficiently detail the reason that these expenses were incurred. RESA will continue to pursue this matter and reserves the right to address this matter in rebuttal testimony.

supply revenue will decline which will in-turn result in fewer and fewer dollars being allocated to the default supply function. Finally, even assuming the allocation amount stays the same with increased migration (which it would not), if another 600,000 customers switched away from default rates, default supply rates would increase by only $.006 per kwh. So in sum, there is almost no risk of just a few remaining default rate customers being forced to recover significant costs that are being allocated to the default supply function.

Q. Even though the last man standing problem is extremely unlikely, could the Commission provide a safety net?

A. Yes, if the Commission is particularly concerned about this issue, if at any point customer care/charitable contribution-related costs that exceed 10% of the price to compare, the Commission could direct ComEd to defer those costs with carrying charges for future collection. If after one year, load does not return to default service sufficient to amortize these deferrals, ComEd could file an application requesting authority to amortize the deferred amounts through a non-bypassable charge.

VII. SWITCHING STUDY AND ALTERNATIVE STUDY

Q. Do you agree with ComEd's claim that the Switching Study represents a more accurate allocation of customer care costs?

A. No, absolutely not. ComEd's claim is based upon the notion that its customer care costs do not decrease as switching occurs. But, even if that is correct, there is a fundamental problem with the switching study—it completely ignores the fact that RES must incur similar costs and additional costs that ComEd has not identified as customer care costs. In order for a RES to provide retail electric service a RES must incur substantial non-commodity costs: it takes employees to schedule the delivery of electricity; it takes

employees for hedging and risk management; it takes call center infrastructure and employees to maintain appropriate customer service; it takes outside and inside legal personnel to comply with the regulatory rules and requirements; it takes IT employees; it takes office space for all of those employees; it takes administrative and HR staff to support those employees; it takes office supplies; it takes IT infrastructure; it takes accounting and auditing services. This is just a non-exhaustive list of costs incurred by RES to make a retail product available in the market; the point is though that it takes a significant amount of additional (non-electric) expense for a RES to provide a retail electric service product in the market, and unlike ComEd, RESs must recover these costs through supply rates that are charged to RES customers.

Q. Is the default rate product immune from incurring these expenses?

A. No. The default rate product does not exist on an island. In order to make the default rate product available to customers, ComEd must incur the same expenses listed above. The only difference is that the default rate product is able to recover many of these expenses through distribution rates and RES products do not, and cannot, recover these expenses through distribution rates.

Q. Why do you believe customer care costs should be allocated to the supply function even if ComEd claims that these costs do not decrease with switching?

A. If no customer care costs are allocated to the supply function, switched customers will effectively pay for customer care costs twice—through distribution rates and through their RES supply charges. Such a paradigm creates noncomparable and discriminatory differences between default supply and RES supply rates. Moreover, it would provide an unfair competitive advantage to the default supply product. For competition to thrive in Illinois, it is critical that there is a level playing field, especially given that the default

supply rate already has a competitive advantage based on the fact that customers are automatically assigned to the supply rate by default, and it takes and affirmative action, (either via the customer individually or through governmental aggregation) for customers to move away from the default supply rate.

Q. Do you have a response to ComEd's claim that a portion of its customer care costs are driven by RES products and pricing?

A. Yes. ComEd appears to state that it received increased calls from RES customers in winter of 2014. Initially, it is unclear why ComEd has included statistics from 2014, given that its studies are all related to 2013. Moreover, ComEd has provided a one-sided view of customer behavior. RES call centers often receive calls from customers during outages and with respect to distribution rates. Thus RES call centers also incur costs to take calls for services provided by ComEd. It would be inappropriate then to single out the calls generated from RES customers to the ComEd call center, when RES call centers incur costs from customers asking about distribution service.

Q. Do you agree with Mr. Feingold's claim that the Commission should adopt the results in the Switching Study because only avoidable customer care cost should be allocable to the supply function?

A. No, I do not. Mr. Feingold's testimony and the Switching Study are built upon the premise that if costs do not decrease when switching occurs, then such costs should be allocated to the delivery function. Mr. Feingold, however, fails to address or acknowledge at any point in his testimony that RES must also incur similar costs related to their relationship with customers. Thus, whether a cost is avoidable or unavoidable does not matter. If RES must incur customer care costs and recover such costs through rates, and ComEd is permitted to recover its costs through distribution rates, the default

supply rate will have a competitive advantage. Indeed, the NYPSC rejected this same argument, determining that the avoidability or unavoidability of customer care costs is irrelevant because recoverability of such costs through distribution rates would undermine competition:

> NYSEG excepts, arguing that it would not avoid any of the [customer care] costs as customers migrate, that these customer costs should be assigned in the same manner as credit and collection costs, and that these costs cannot be avoided because they are mandated by law.
>
> **As we have previously noted, the avoidability of the utility's costs, in either the long- or short-run, does not necessarily determine how the costs should be divided between competitive and non-competitive services**. Indeed, if this were the standard and only short-run avoidable costs were allocated to competitive services, there would be neither lost revenues nor a need for a mechanism to collect them. **In addition, the costs we are allocating will form the basis for competitive utility rates,** and, if those rates do not fairly reflect the allocation of supporting costs to each distinct service, the utility competitive rate could be set at a subsidized level, **perhaps placing competitors at a distinct disadvantage and impeding market development.** Accordingly, any allocation method or theory that assigns none of the costs of credit and collections, customer contact, and consumer affairs to the utilities' competitive service may be especially suspect, unless persuasive evidence to the contrary is submitted.[11]

Thus, the NYPSC concluded that customer care costs "should be allocated by revenues (roughly half to competitive and half to non-competitive services)." CASE 00-M-0504 – Unbundling Track P. 20 (Aug. 25, 2004).

Q, Mr. Feingold also implies that the Allocation Study (and Switching and Alternative Studies) is based on an evaluation of fully embedded costs. Do you agree?

A. No, I do not. Mr. Feingold states that ComEd's Allocation Study is based on a review of embedded costs, stating ("ComEd's Allocation Study (***which is based upon an embedded***

[11] CASE 00-M-0504 – Unbundling Track P. 20-21 (Aug. 25, 2004).

costing method).[12] Based upon Mr. Feingold's own definition and the generally accepted definition of fully embedded cost, the Allocation Study is clearly not based upon ComEd's fully embedded customer care costs.

Q. Please explain further.

A. Mr. Feingold states that "[e]mbedded costing refers to a utility's historically-based cost of service (derived from actual accounting costs), which includes a fair rate of return on the utility's investments and its various operating costs. Embedded costs in this sense represent the costs incurred by the utility to provide the existing level of utility service. Embedded costs are sometimes referred to as "fully loaded" or "fully distributed" costs because all costs associated with a particular service or function are identified for pricing purposes."[13] Thus, an embedded cost study considers all necessary costs (plant, intangible plant, capital, and O&M) to support a service. Mr. Donovan, however, the architect of ComEd's studies, indicated that the ComEd's studies only evaluated O&M costs.

> **Q. Can you please describe customer care costs and their categorization in more detail?**
>
> A. ***Yes. I identified the costs to be reviewed for the purposes of the studies as the 2013 O&M costs that were submitted as part of this proceeding*** and which were incurred by the various ComEd departments that provide customer services, as described in more detail below.[14]

Q. Mr. Feingold claims that, if the Commission makes a policy decision to allocate a portion of customer care costs to the supply function, then the Commission should rely upon the Alternative Study. Do you agree?

[12] ComEd Ex. 8.0 at 27 (Feingold Direct) (emphasis added).
[13] ComEd Ex. 8.0 at 8 (Feingold Direct).

[14] ComEd Ex. 7.0 at 44 (Donovan Direct) (emphasis added).

A. No. I do not. Under the Alternative Study, Mr. Feingold concludes that only costs that decrease with switching should be allocated to the supply function. Then, Mr. Feingold concludes that the Switching Study concluded that Customer Contact Center costs do in fact decrease as switching occurs; thus, the amount of costs identified by the Allocation study should be allocated to the supply function. There are several problems with Mr. Feingold's conclusion. First, Mr. Feingold ignores the fact that even though ComEd's customer care costs may not decrease, RES must incur the same costs. Thus, as discussed in detail above with respect to the Switching Study, his recommendation is not competitively neutral. Second, as stated above, the Allocation Study is not in fact a fully embedded cost study (it ignores capital, plant, and other indirect costs recovered in rate bsae); thus, it understates the amount of Customer Contact Center costs that should be allocated to the supply function. Third, even if the Commission were to accept Mr. Feingold's recommendation to use the Alternative Study, it should not adopt his recommended $4.7 million allocation to the supply function, which is based upon the incorrect allocation factors used by Mr. Donovan. Using my conservative corrections to Mr. Donovan's allocation factors, the Alternative Study would allocate $13,421,508 to the supply function. Fourth, the Alternative Study does not account for the $7,332,000 in charitable contributions that ComEd has incorrectly allocated to the delivery function. Thus, if the Commission considers the Alternative Study, at a minimum, the Commission should allocate approximately $20.8 million to the supply function.

VIII. SUMMARY AND RECOMENDATIONS

Q. Could you please summarize your recommendation?

A. My recommendations are as follows:

- For the reasons explained in my testimony, the Commission should use the Allocation Study as the starting point for allocating costs in this proceeding. However, that study should be modified to account for the corrected allocation of costs and the corrected allocation factors I discuss in my testimony. Accordingly, based on the corrected Allocation Study $34,083,652 should be allocated to the supply function.

- As I note in my testimony ComEd fails to include all embedded costs, such as the costs of office space, IT infrastructure and other capital costs needed to support the customer care function in its Allocation Study. These are significant costs that are required to support the default rate and therefore a portion of these costs should be allocated to the default rate. I recommend that the Commission require ComEd to perform a fully embedded cost study designed to assign a portion of the embedded costs to the supply function. The Commission should direct ComEd to file such a fully embedded cost study in its next formula rate proceeding and should provide explicit directions and parameters for that study. In the meantime, in this proceeding, the Commission should allocate a certain amount of dollars to the supply function that represents rate of return generated from its customer care assets.

- In its testimony ComEd submits a Switching Study and an Alternative Study to mitigate the costs identified in the Allocation Study that should be allocated to the supply function. As I explain in my testimony these studies dramatically under calculate the customer care costs required to support the default supply function and are based on the faulty premise that the default rate product should be able to utilize distribution rate resources without being allocated any costs for those resources. Accordingly the Commission should reject the Switching Study and the Alternative

Study presented by ComEd and assign customer care costs to the default rate based on ComEd's Allocation Study, as corrected in the manner described in my testimony and shown in RESA Ex. MW 1.1.

Q. Does this conclude your direct testimony?

A. Yes, it does.