Ill. C. C. Docket 14-0312

RESA Ex. MW 2.0

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	:	

REBUTTAL TESTIMONY

OF MATTHEW WHITE

ON BEHALF OF THE RETAIL ENERGY SUPPLY ASSOCIATION

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. For whom are you appearing in this proceeding?

A. The Retail Energy Supply Association ("RESA"). RESA is a non-profit trade association of 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. Are you the same Matthew White who filed direct testimony on behalf of RESA in this proceeding?

A. Yes I am.

Q. What is the subject of your rebuttal testimony?

A. As indicated in my direct testimony, Commonwealth Edison's ("ComEd") rate basic electric service ("Rate BES" ,"default generation service" or "default rate") receives preferential treatment at the expense of all other competitive retail electric service

[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.

products in the market. The default supply service product does not include an allocation of customer care costs—those costs are collected through a distribution rate subsidy. But Alternative Retail Electric Suppliers ("ARES") must incur customer care costs and recover those costs through their competitive charges. Consequently, the current paradigm leads to a non-comparable and discriminatory default rate product. These rates discriminate against customers electing to take service from an ARES, requiring such customers to pay for costs twice, once through distribution rates and again through rates charged by an ARES. The legislature has indicated, "[f]or Illinois consumers to receive products, prices and terms tailored to meet their needs, a competitive wholesale electricity market must be closely linked to a competitive retail electric market." Despite the legislature's clear intention, the continued development of the competitive retail electric market is in jeopardy. In furtherance of competitive parity and development of the competitive retail electric market, my direct testimony and rebuttal testimony recommend that a portion of ComEd's customer care costs be directly allocated to the default supply rate.

Q. What is the purpose of your testimony?

A. In this rebuttal testimony, I respond to rebuttal testimony submitted by ComEd and the direct testimony submitted by the Illinois Commerce Commission ("Commission") Staff ("Staff") related to the allocation of customer care costs. Specifically, I testify that:

- It is uncontested that ARES incur customer care costs in order to provide retail electric service to customers. ComEd also has customer care costs that are required to provide retail electric service for default service customers (*i.e* those customers who purchase electricity supply from ComEd) but ComEd recovers 100% of those costs through distribution rates which are paid for by all customers including Choice customers (*i.e*. those customers who purchase electricity supply from ARES). Thus, ComEd's default supply rate is currently being subsidized through distribution rates. To correct this market distortion, RESA proposes in this proceeding that an appropriate portion of ComEd's customer care costs be allocated to the default supply rate. In this rebuttal testimony, I respond to ComEd's objections to RESA's proposal.

- In its rebuttal testimony, ComEd continues to advocate for the use of incorrect allocation factors that understate the amount of customer care costs that should be allocated to the default supply rate. In this testimony, I present evidence on what the correct customer care cost allocation factors should be and recommend that the Commission adopt my updated allocation factors.
- I recommend that if the Commission does not adopt the results of the full Allocation Study, as modified in my rebuttal testimony, then at a minimum the Commission should adopt the results of the Alternative Study, as modified in my rebuttal testimony.
- In their testimony both Staff and ComEd claim that because customer care costs decrease only marginally as switching occurs and because ComEd incurs costs to make the Choice program available then no customer care costs should be allocated to the supply function. However, this claim is based on the arbitrary notion that 100% of the non-energy costs required to make default service available should be recovered through distribution rates, but Choice customers should be allocated 100% of the costs deemed allocable to the Choice program.
- I explain that ComEd's proposal to split customer care costs three ways is not substantiated by evidence and has no merit. Further, such a proposal will harm the

competitive market and ARES customers and thus it should not be adopted by the Commission.

II. FAVORED REGULATORY TREATMENT OF THE DEFAULT RATE

Q. Do you agree with Dr. Hemphill's claim (ComEd. Ex. 11.0, p. 8) that Rate BES (default supply service) is not a competitive product?

A. No, I do not. In his testimony, ComEd Witness Hemphill claims that the default rate is not a competitive product in the market, thus the Commission need not be concerned about the regulatory treatment that grants the default rate an anti-competitive advantage in the competitive retail electric market. This claim is incorrect. Default supply service is a product that competes against all other products in the retail electric market. Customers must either choose to enroll in the default rate product or a product offered by the ARES, so in the most basic sense, default service is a competitive product. Thus, by requiring ARES to recover customer care costs through their rates and charges from Choice customers but allowing ComEd to recover its customer care costs through distribution rates from all customers the default supply rate has an anti-competitive advantage.

Q. Do you agree with Dr. Hemphill's's claim (*Id*., pp. 9-10) that the default supply product is not favored because ComEd must adhere to regulatory requirements?

A. No. First, as I noted in my direct testimony, ARES must comply with numerous regulatory and legal requirements, so simply because ComEd has regulatory requirements is not a reasonable justification for granting the default rate favored regulatory treatment. Further, any regulatory and compliance costs ComEd does have are almost entirely recovered through distribution rates. ARES' regulatory and compliance costs must be reflected in the supply prices they charge customers.

Q. Do you agree with Dr. Hemphill's claim (*Id.*, pp. 10 and 12) that the default generation product is not favored because ComEd cannot market its products?

No. ComEd does not have to market to customers *because customers are assigned to the default service by default* and customers need not affirmatively enroll in the default rate to receive electric generation service from ComEd. The avoidance of customer acquisition costs is a significant cost advantage that the default rate enjoys, so it disingenuous to claim that this advantage is now somehow a disadvantage.

Q. Notwithstanding ComEd not needing to directly solicit customers, does ComEd engage in activities that would be considered marketing?

Yes. ComEd controls the utility bill and derives branding value from this. The default supply service benefits from this branding in that customers are more likely to remain on ComEd's default rate because all customers are being billed through ComEd. Further, as I noted in my direct testimony, ComEd makes millions of dollars in charitable contributions funded by all distribution customers. Consequently, the ComEd brand is the most well-known electric-related brand in Northern Illinois. This brand name recognition provides a benefit to the default generation rate. So in sum, while ComEd may not have to directly solicit customers the default rate is assigned customers which makes the default rate acquisition costs virtually zero. Further ComEd is engaging in branding (albeit not direct solicitation) and these costs are recovered through the default rate. As I noted in my direct testimony, ARES engage in branding activities, including making investments in the community and charitable donations, but ARESs are unable to recover these costs through distribution rates.

Q. Do you agree with Mr. Feingold's claim (ComEd. Ex. 17.0 at pp 6-8) that the default generation product is not favored because ARES can recover their customer care costs through economies of scale by offering bundled service with products such as solar?

A. No, I do not. Mr. Feingold's observation ignores the problem at hand—that the default supply product does not reflect the true cost of providing retail generation electric service. Rather, significant costs to provide default service are recovered through distribution rates. Further, the ComEd distribution company does offer non-commodity products, including energy efficiency and demand response and the entire costs of these products are recovered through distribution rates. Moreover, the fact that an ARES may offer different bundled products to attempt to overcome the existing anti-competitive advantages granted to default service does not address the underlying anti-competitive landscape for commodity sales.

Q. Mr. Feingold claims (ComEd Ex. 17.0, p. 3) that the default service product is not favored because only 30% of ComEd's customer base is taking default service. Do you agree?

A. No. Indeed, the mere fact that 30% of ComEd's customer base is being served by a single product that has not been marketed evidences that the default rate is granted favored regulatory treatment as discussed in my testimony. To put this in perspective, at the time this testimony was submitted, there are 73 retail electric products listed on the

Commission's Plug in Illinois website, including ComEd's variable default rate price. Of the 73 products, one product- the default rate- retains 30% market share. That means the remaining 72 products have a market share averaging less than 1 percent.[2] This is despite the fact that there are many products on the Plug in Illinois website that are priced significantly below ComEd's variable default rate product.

Q. Is there anything else Mr. Feingold's market share analysis (*Id.* at pp. 3-4) is ignoring?

A. Yes. His statistics do not even take into account that ComEd's retail migration is occurring because "the majority of switching [is] attributable to municipal aggregation." Donovan Direct at 43. Roughly 700,000 customers have migrated alone because of the City of Chicago aggregation. Thus, *organic* customer (*i.e.* one-on-one marketing) choice is still lagging. While aggregation enables the customers to receive some price benefits of electric competition, aggregation does not require a customer to affirmatively enroll in a retail electric product, so aggregation does not achieve the customer engagement benefits that come from a customer affirmatively choosing a competitive product in the market. Customer engagement is a key factor in achieving many of the potential gains from a competitive retail electric market. Innovative products that are able to assist customers to better manage their energy consumption are much more likely to develop when there is an engaged and informed customer base.

Q. Mr. Feingold claims (ComEd Ex. 17.0, p. 4) that RESA's website provides further evidence that competition is thriving in Illinois. Do you agree?

[2] This is likely a very conservative estimate of the average market share for an affirmatively enrolled ARES product, because as I discuss in my testimony below, most of the migration in ComEd can be attributed to aggregation.

A. Not completely. There is no question that Illinois has benefitted greatly from the development of the existing competitive markets, but that should not be used as an excuse for not making needed improvements. While the electric market in ComEd is better for customers than when utilities had a monopoly for generation related service, there is still much to be done for the market to truly be thriving. As I already explained, customer engagement in the competitive markets in Illinois is still lacking. Further, in order to be a truly competitive market, all products must be treated equally in the market place. So although the competitive landscape in the ComEd market could be worse—it could be better.

Q. Mr. Feingold claims (*Id.*, pp. 5-6) that the Commission should not consider for ratemaking purposes that ARES also have customer care costs. Do you agree?

No. Initially, Mr. Feingold recognizes that without an allocation of customer care costs to the supply function, rates will not be completely comparable. But then Mr. Feingold attacks his own conclusion stating that there does not have to be "complete comparability in order to properly set default service charges." Mr. Feingold's opinion that rates do not have to be comparable is bad policy. Providing for comparable and nondiscriminatory rates is a bedrock principle upon which competitive markets are built.

Q. Do you agree with Mr. Feingold's logic that complete comparability would cause costs to be allocated to ComEd's supply function as a result of inefficient ARES providers?

No. Mr. Feingold claims that "complete comparability" would allow an ARES's disproportionately high customer care costs to constitute grounds for allocating additional costs to ComEd's supply function. Mr. Feingold's reasoning is logically flawed. He incorrectly assumes that I recommend allocating costs based upon anything other than ComEd's costs. (*Id.* at 5). That is simply not the case. I have only recommended that ComEd allocate a pro-rata portion of its customer care costs to the supply function. I pointed out that ARES have customer care costs to illustrate the fact that customer care costs are required to offer retail supply service to customers; however, ComEd allocates 0% of its customer care costs to default supply customers. Rather, 100% of those costs are recovered through distribution rates. Thus, functional comparability can be achieved if default customers and ARES customers are paying rates that are composed of the same *categories of costs*—but I am not suggesting that ARES' customer care costs and ComEd's customer care costs allocated to default supply customers should be exactly the same.

Q. Do you agree that ARES merely need to get better at competing by achieving economies of scale as Mr. Feingold suggests?

A. No. Illinois law requires ARES to have facilities and services for their customers, including the requirement to maintain a call center. While ARES may be able to provide customer care services more efficiently, it would be impossible for ARES to get to the point where they incur zero customer care costs, which is currently the situation for default supply service. An ARES simply could not provide service to a customer without investing in its own customer care services and assets.

Q. Are there any other reasons why ARES must invest in customer care costs?

A. Yes, ARES invest in customer care costs, such as a call center, to establish and maintain the ARES relationship with the customer. In order to affirmatively enroll and keep customers ARES must continue to invest in customer care to provide a positive customer experience.

Q. Does Mr. Feingold agree that it is important for an ARES to incur customer care costs?

A. Yes. Mr. Feingold has even stated in a presentation given by him that "A utility's Customer Care processes 'touch the customer' in many meaningful and lasting ways." "In the face of competition, it is those that reach the customer first that have the best opportunity to serve." "Utilities and other providers will compete to provide customer care services." Effectively, Mr. Feingold in his previous statements underscores the importance of customer care in the provision of retail electric service, and illustrates why it is an anti-competitive advantage to allow one competitive product to get that service in the market absolutely free. Attached to my testimony as RESA Exhibit MW 2.2 is the presentation I reference from Mr. Feingold.

Q. Do you agree with Mr. Feingold's claim (ComEd Ex. 17.0, p. 7) that ARES customers would underpay for delivery service if customer care costs are allocated to the supply function?

A. No. First my recommendation is not to allocate 100% of the customer care costs to the supply function, but only a reasonable portion of the customer care costs to the supply function. Therefore, under my recommendation ARES customers would still be paying for the customer care costs that relate to the distribution service they receive from

ComEd. Further, as previously discussed, even if customers taking service from an ARES paid zero customer care costs to ComEd—which is not my recommendation—they would still pay for customer care-related costs embedded in the charges of ARES.

Q. Mr. Feingold discusses testimony that you submitted in Ohio and claims (Id., pp. 12-13) that you have taken an inconsistent position regarding avoided cost principles. Has Mr. Feingold accurately portrayed your Ohio testimony?

A. No. Mr. Feingold states that I have previously supported an avoided cost analysis for customer care cost because in testimony I filed in an Ohio case I state "costs avoided by the SSO product" without adding any context as to why those 6 words were included in my previous testimony. Mr. Feingold has mischaracterized my testimony by selectively quoting a portion of a sentence out of context to come to a conclusion that is simply not supported. Indeed, my testimony in Ohio is completely consistent with my recommendation in this case that default generation service-related costs should be recovered through the generation rate. Below is the full statement I make in my Ohio testimony (for clarification purposes the SSO product I refer to below is the common vernacular for default generation rate in Ohio):

> Q. Can you please explain a RPA in further detail?
>
> A. Yes. A RPA as I propose would be a fee charged to wholesale suppliers of the SSO product which reflects the **<u>costs avoided by the SSO product</u>** due to the current favorable regulatory treatment of the SSO product. A RPA could be a throughput charge assessed to all SSO load served by wholesale suppliers or a per customer charge paid by SSO suppliers.
>
> Q. How should the retail price adjustment to SSO suppliers be calculated?
>
> A. **<u>The RPA should be calculated by adding up all of the actual costs required to provide SSO generation service that are recovered through AEP's distribution rates.</u>** Also, added into the retail adder calculation should be

the costs that the SSO product avoids because it is afforded favorable regulatory treatment. These actual and avoided costs would approximate the actual cost advantages that the SSO product receives due to the favorable regulatory treatment afforded to the SSO product.

Q. What types of actual costs should be included in retail adder?

A. There are a number of actual costs that all AEP customers pay (both shopping and SSO customers) that are required to make an SSO generation product available to customers. For one, a regulatory proceeding must be held every three years to determine the SSO price in the market. **A portion of the costs AEP spends on litigating ESP proceedings thus should be attributed to the RPA. Further, AEP must allocate time of its employees that is required to make SSO generation service available to customers. The cost of the employee time and other AEP infrastructure needed to provide SSO generation service should also be allocated to the RPA . . . . AEP dedicates a portion of its call center to service questions about the AEP SSO rate, but CRES suppliers have their own call center to discuss generation service, thus a portion of AEP's call center costs should be attributed to the RPA. This is not necessarily exhaustive list of actual costs, but rather just an example of costs, incurred by all AEP customers for the sole benefit of SSO generation service.**

(emphasis added). It is clear from my actual testimony that I have consistently advocated that the default service product should be a comparable and nondiscriminatory rate relative to ARES rates. This mischaracterization of my testimony filed in a previous proceeding casts doubt on the credibility of Mr. Feingold's testimony filed in this proceeding.

III. ALLOCATION FACTORS

Q. Why is the Allocation Study, modified to include indirect costs, a superior study?

A. As discussed previously, customers taking service from an ARES must pay for customer care costs embedded in their rates and charges. The Allocation Study, adjusted to include indirect costs, is the closest proxy to the charges that are required to provide a retail product in the market. The Switching Study completely fails to acknowledge that

ComEd's default supply product incurs any customer care costs to provide retail electric service.

Q. Can you point to the fallacy in the arguments of those advocating for the utilization of a Switching Study for the allocation of customer care costs?

A. Yes. The Switching Study starts at the faulty premise that because ComEd supply service existed before the implementation of competitive electric markets and ComEd has traditionally recovered non-commodity costs associated with supply service through distribution rates, then non-commodity costs required to support the ComEd supply service do not need to be assigned to default service. What the proponents of the switching study fail to recognize is that while customer care costs are required to support distribution service, they are also equally important to provide supply service. So even if there are no incremental customer cares costs savings achieved through customers migrating away from ComEd supply service, ComEd supply customers should be allocated a portion of the cost of ComEd's distribution assets required to offer ComEd's generation service.

Q. Witness Donovan claims (ComEd Ex. 16.0 at p. 11) that you incorrectly modified the revenue allocator to remove PORCB-related revenue, reducing the distribution allocation to 70.3%. Do you agree?

A. No. In a question and answer that provides a conclusion without reasoning, ComEd claims that "All revenues related to non-supply related services that ComEd is required to provide as a delivery service provider are included in the 2013 delivery function percentage of 77.2%. The updated Switching Study in ComEd Ex. 16.02 uses this percentage though the earlier Switching Study, ComEd Ex. 7.05, had inadvertently used the figure 70.3%. I would note that correcting for that error would not change the overall results in ComEd Ex. 7.05." Mr. Donovan fails, however, to discuss the nature of PORCB revenue yet attempts to recast all revenue related to the PORCB as delivery-related revenue. As stated in my direct testimony, PORCB revenues represent the revenues generated by RESs for the supply service they provide customers. It has no bearing on distribution-related service, as evidenced by the fact that Mr. Donovan did not treat PORCB revenue as distribution-related consistently in its studies.

Q. Is PORCB merely the term ComEd uses to characterize revenue generated for ARES sales?

A. Yes. PORCB is simply the terminology chosen by ComEd to characterize the revenue ComEd collects and pays to ARES for ARES sales. It has nothing to do with the cost of actually implementing a purchase of receivables program or otherwise the costs that relate to distribution service. To understand this, one only need to look at the magnitude of the PORCB revenues. ComEd lists PORCB revenue as 1.152 *billion* dollars. This is clearly not additional distribution service that ComEd provides, *in addition to* the distribution service ComEd already accounts for in the Allocation Study.

Q. Do you agree with Mr. Donovan's claim that ComEd consistently calculated the revenue allocation factor in the 2010 and 2014 studies?

No. ComEd claims that it has allocated "All revenues related to non-supply related services that ComEd is required to provide as a delivery service provider are included in the 2013 delivery function percentage of 77.2%." (ComEd Ex. 16.0, p. 11) . But ComEd ignores the fact that in 2010, it did not include revenue related to ARES service in the calculation of the revenue allocation. The tables below reflect that allocation (at 0% switching).

Figure MW-1

	2009	2009	Supply	
	Distribution	**Supply**	Base Rate	2009
	Base Rate	Base Rate	Revenue	Supply
Retail Customer Designation	Revenue (1)	Revenue	No Bad Debt (2)	Bad Debt (3)
	(a)	(b) = (c) + (d)	(c)	(d)
R: Residential	$1,026,020,322	$1,971,150,940	$1,924,118,165	$47,032,775
N: Nonresidential (4)	$561,735,831	$990,632,586	$983,526,834	$7,105,752
A: All Other (5)	$306,629,533	$78,910,921	$78,382,508	$528,413
Total	**$1,894,385,686**	**$3,040,694,447**	$2,986,027,507	$54,666,940
	38.4%	**61.6%**		

Moreover, as reflected by the below table, ComEd's projected delivery rates did not change when switching increased, which indicates that ComEd did not account for PORCB-related revenue in its calculation of the revenue allocation:

Figure MW-2

10% Switching			
	2009	2009	
	Distribution	**Supply**	
	Base Rate	Base Rate	
Retail Customer Designation	Revenue (1)	Revenue	
	(a)	(b) = (c) + (d)	
R: Residential	$1,026,020,322	$1,774,035,846	10% less Supply revenues, no change in distribution revenues
N: Nonresidential (4)	$561,735,831	$891,569,327	10% less Supply revenues, no change in distribution revenues
A: All Other (5)	$306,629,533	$71,019,829	10% less Supply revenues, no change in distribution revenues
Total	**$1,894,385,686**	**$2,736,625,002**	
	40.9%	**59.1%**	

Q. Mr. Feingold claims (ComEd Ex. 17.0, p. 15) that your allocation of PORCB revenue to supply would constitute a subsidy. Do you agree?

No. Mr. Feingold's claim is incorrect. ARES are paying for the PORCB program costs through a discount rate and a per customer bill charge. Default service customers bear no cost of the PORCB program; thus, there is no subsidy to ARES or their customers.

Q. **ComEd claims (ComEd Ex. 16.0, p. 12) that it is inequitable to allocate a portion of supply related customer care costs to default supply customers because customer care costs related to ARES customers may be collected through delivery rates. Do you agree?**

A. Mr. Donovan claims that ARES customers may call ComEd to ask questions about RES prices. Mr. Donovan, however, ignores and fails to address the point that I made in my direct testimony—ARES often receive calls about outages and delivery charges. Thus, there is no inequity to my recommendation. Inequity exists in the status quo which requires shopping customers to pay for the costs of ARES customer care costs in addition to the costs embedded in distribution rates that are related to the supply function of default service.

Q. Do you agree with Mr. Donovan's claim (ComEd Ex. 16.0, p. 9) that call center requests to turn on service are legally defined as delivery-related and thereby 100% allocable to the delivery function?

A. No, I do not. The statute Mr. Donovan refers to focuses on the services that are necessary for the functioning of the electric system.

> Delivery services means those services provided by the electric utility ***that are necessary in order for the transmission and distribution systems to function*** so that retail customers located in the electric utility's service area can receive electric power and energy from suppliers other than the electric utility, and shall include, without limitation, standard metering and billing services.

But, requests for turn on service and shut down are requests to begin receiving electric generation service. Further, a customer requesting such service may only receive default supply service. Thus, it is appropriate under the PUA to allocate 100% of the cost of taking these calls to default service.

Q. Is there a potential middle ground between ComEd's proposal to allocate 100% of turn on and turn off costs to delivery and your proposal to allocate 100% to supply?

A. Yes. Recognizing that new customers have delivery and default generation supply charges, the Commission could use the revenue allocation factor, adjusted as discussed in my direct testimony.

Q. Do you agree with Mr. Donovan's claim (*Id*., p. 10) that contact center metering reading services are legally defined as delivery related?

A. No. The statutory definition of meter reading service is "On-site visual data retrieval from metering and/or data retrieval from metering on-site or remotely via a form of electronic communication using a computerized device as applicable." This definition does not extend to the answering of phone calls in the contact center.

Q. ComEd provided an updated allocation study to include indirect costs. Did ComEd include any of your adjustments in its updated allocation study?

A. No. ComEd used the same allocation factors that it provided in Mr. Donovan's direct testimony.

Q. ComEd witness Brinkman claims that it PUA Section 9-227 requires charitable contributions to be allocated to distribution rates. Do you agree?

A. No I do not. PUA Section 9-227 merely indicates that a utility may recover reasonable charitable contributions through rates. It does not reference distribution rates in any manner. Thus, the Commission could lawfully allocate a portion or all of ComEd's $7 million in charitable contributions to the default supply rate. At a minimum, the Commission should apply my modified revenue allocation to ComEd's charitable contributions and allocate $2 million of these costs to the default supply rate.

Q. ComEd witness Brinkman claims that allocating 100% of the cost of ComEd's charitable contributions to the supply function would inappropriately allocate all of these costs to one class. Do you agree?

A. No, I do not. As discussed in my direct testimony, charitable contributions improve a utility's (or ARES') brand, instill good will and customer loyalty. ARES incur these costs, as well. Thus, it is appropriate to allocate at least a portion of these costs to the supply function to ensure that ComEd's rates are comparable and nondiscriminatory.

Q. Have you provided an updated study with corrected allocation factors?

A. Yes. Even allocating zero dollars to the supply function that relate to charitable contributions, ComEd would be required to allocate $52 million to the supply function with the updated indirect costs included in the Allocation Study. Of that amount, approximately $34 million is related to ComEd's call center. The below table is a snap-shot of the updated costs.

Figure MW-3

Department / Activity	Costs Analyzed	Costs Allocated to Supply	Costs Not Included in the Revenue Requirement	Costs Allocated to Delivery	Total Costs Analyzed -O&M plus Indirect	Indirect Costs Allocated to Supply (5)	Total Costs Allocated to Supply
(a)	(b)	(c)		(d)	(e)	(f)	(g) = (c)+(f)
Field and Meter Services	12,056,540	150,572		11,905,968	26,220,926	176,897	327,469
Billing	7,506,221	1,840,131		5,666,090	17,665,322	2,490,478	4,330,609
Customer Contact Center	37,987,643	14,654,877		23,332,766	88,119,784	19,339,983	33,994,859
Customer Relations (4)	1,063,461	232,282		831,180	2,442,920	301,302	533,584
Large Customer Solutions	9,054,583	90,546		8,964,037	21,092,541	120,380	210,925
Revenue Management	26,855,976	2,987,285		23,868,691	32,215,163	597,954	3,585,239
Revenue Protection	2,291,422	395,301		1,896,121	4,694,569	414,575	809,876
Demand Management	4,510,803	511,912		3,998,891	7,616,257	125,529	637,442
Electric Supplier Services (3)	-	-		-	-	-	
Market Research	-	-		-	-	-	
Information Technology	25,353,046	6,923,224		18,429,822	25,351,239	(486)	6,922,738
Support Services	8,302,161	-		8,302,161	16,929,676	-	
Other (2)	2,886,899	351,434		2,535,466	5,628,727	333,774	685,207
Total Analyzed	$ 137,868,756	$ 28,137,564	$ -	$ 109,731,192	$ 247,977,125	$ 23,900,385	$ 52,037,949
Subtotal of Departments	$ 203,407,637	$ 28,137,564	$ 3,786,619	$ 171,483,454	$ 374,578,469	$ 23,901,923	$ 52,039,487
Grand Total of Study	$ 203,407,637	$ 28,137,564	$ 3,786,619	$ 171,483,454	$ 374,578,469	$ 23,901,923	$ 52,039,487

Attached as RESA Exhibit MW 2.1 is the complete updated study I am referencing.

Q. Have you provided an updated Allocation Study that allocates turn on and turn off costs based upon your modified revenue allocator (70.3%)?

Yes. Even assuming that the Commission does not allocate any costs of charitable contributions and call center conversations related to meter reading and the Commission only allocates costs for turn on and turn off service based upon the revenue allocation methodology, ComEd should still allocate $36.5 million to the supply function. I have provided a table summarizing those results below.

Figure MW-4

Department / Activity	Costs Analyzed	Costs Allocated to Supply	Costs Not Included in the Revenue Requirement	Costs Allocated to Delivery	Total Costs Analyzed -O&M plus Indirect	Indirect Costs Allocated to Supply (5)	Total Costs Allocated to Supply
(a)	(b)	(c)		(d)	(e)	(f)	(g) = (c)+(f)
Field and Meter Services	12,056,540	150,055		11,906,485	26,220,926	176,290	326,345
Billing	7,506,221	1,840,131		5,666,090	17,665,322	2,490,478	4,330,609
Customer Contact Center	37,987,643	8,969,504		29,018,139	88,119,784	11,837,019	20,806,524
Customer Relations (4)	1,063,461	232,282		831,180	2,442,920	301,302	533,584
Large Customer Solutions	9,054,583	90,546		8,964,037	21,092,541	120,380	210,925
Revenue Management	26,855,976	2,977,031		23,878,944	32,215,163	595,902	3,572,933
Revenue Protection	2,291,422	395,301		1,896,121	4,694,569	414,575	809,876
Demand Management	4,510,803	511,912		3,998,891	7,616,257	125,529	637,442
Electric Supplier Services (3)	-	-		-	-	-	-
Market Research	-	-		-	-	-	-
Information Technology	25,353,046	4,744,526		20,608,519	25,351,239	(325)	4,744,202
Support Services	8,302,161	-		8,302,161	16,929,676	-	-
Other (2)	2,886,899	255,483		2,631,417	5,628,727	242,644	498,127
Total Analyzed	$ 137,868,756	$ 20,166,773	$ -	$ 117,701,983	$ 247,977,125	$ 16,303,794	$ 36,470,567
Subtotal of Departments	$ 203,407,637	$ 20,166,773	$ 3,786,619	$ 179,454,246	$ 374,578,469	$ 16,305,332	$ 36,472,105
Grand Total of Study	$ 203,407,637	$ 20,166,773	$ 3,786,619	$ 179,454,246	$ 374,578,469	$ 16,305,332	$ 36,472,105

As is clear, most of ComEd's customer care costs related to the supply function are related to ComEd's customer contact center. In fact, approximately $21 million out of $36.5 million is related to ComEd's call center.

Q. ComEd's updated Alternative Study (ComEd Ex. 16.03) revised to include indirect costs would allocate $11 million to the supply function. Do you agree with this amount?

A. No. The Alternative Study still uses incorrect allocation factor. Simply using my modified revenue allocation factors, Figure MW-3 demonstrates that the Alternative Study would allocate $34 million to the default supply rate. Further, using my conservative estimate in the previous question and answer related to moving expenses, Figure MW-4 demonstrates that the Alternative Study would allocate $21 million to the default supply rate.

Q. Mr. Feingold indicates that, if the Commission allocates costs to the supply function for policy reasons, then the Commission should rely upon the Alternative Study (ComEd Ex. 17.0, p. 2). Do you agree?

A. No, I believe the Allocation Study should be used to determine the costs allocated to the default supply rate. However, at a minimum, the Commission should recognize that policy reasons support allocating call center expenses to the default supply rate. As ComEd indicated, these costs do in fact decrease as customers switch. ARES have a statutory requirement to provide these same services. Thus, it is a certainty that switched customers will pay for these costs twice if the Commission does not allocate a portion to the default supply rate. While there are additional customer care costs that should also be allocated to the default supply rate, at a minimum, if the Commission does nothing else in this proceeding, the call center costs should be allocated to the default supply rate in accordance with my recommended modifications to ComEd's allocation factors.

Q. Do you agree with Mr. Donovan's claim (Ex. 16.0, p. 12) that the Commission should not allocate customer care costs because it will lead to further litigation?

A. No. The possibility of further litigation is not a reason to ignore equity and fairness in competitive markets. ComEd's reasoning is equivalent to precluding it from filing a future rate case because other parties may contest the requested increase. Plus the argument could go both ways. *Not* adding in appropriate costs to the default generation service could lead to future litigation. Thus, the Commission should not base its decision in this case on ComEd's speculation as to the amount of litigation that may, or may not, occur in the future.

Q. Do you agree with Mr. Donovan's claim (*Id.*, p. 13) that customer care will suffer if ComEd must keep track of customer care costs?

A. No. Mr. Donovan's testimony is irreconcilable with his prior conclusion that ComEd has earned a performance-based increased compensation for its customer care costs services.

In his prior testimony in this case, Mr. Donovan indicated that "By performing their respective duties, ComEd Customer Operations employees directly provide, support, or perform work essential to the provision of adequate, reliable, and safe customer service at a reasonable cost. The Customer Operations employees contributed toward achievement of the AIP metrics in numerous ways . . . ." Donovan Direct at 32. During the time period in which the call center was improving its performance, it was also undertaking the current analysis of customer care costs. But, ComEd's call center cannot be improving its performance, on the one hand for compensation purposes, while its performance is getting worse, for purposes of the customer experience. *See id.* at 32-37. ComEd cannot have it both ways. Moreover, Mr. Donovan's claim has to be examined in the context of what it costs customers if ComEd does not keep track of customer care costs which is significant, as I discuss in my testimony.

Q. In rebuttal testimony Mr. Donavan claims (ComEd Ex. 16.0, p. 11) that he performed an analysis as to whether 100% of any cost category should be allocated to the supply function. Do you agree?

A. If ComEd did perform this analysis it would be contradicting ComEd's direct testimony which indicates that ComEd analyzed only whether costs categories should be allocated 100% to delivery. ComEd's direct testimony did not discuss considering allocating 100% of certain costs directly to supply so the record does not appear to support his claim that he performed this analysis. Regardless of whether or not ComEd did perform the analysis, in its Allocation Study ComEd did not assign any category of costs 100% to the supply function.

Q. Is there any other indication that ComEd's Allocation Study may reflect bias to allocate costs to the distribution function?

A. Yes. ComEd solely determined the various categories of calls it would track for the Allocation Study. And, in discovery response to Staff discovery request PR 1.02 ComEd indicated that it does not keep track of phone calls where a customer calls and asks exclusively about default service or the energy portion of a default service bill. These are areas where ComEd could have easily tracked a category that would be allocated 100% to supply. But no such category exists.

IV. RESPONSE TO OTHER CONSIDERATIONS

Q. Dr. Hemphill claims (ComEd. Ex. 11.0, p. 6) that because ComEd is the Provider of Last Resort it must stand ready to serve returning customers, and, therefore, all customers should pay for customer care costs. Do you agree?

A. No, I do not. Initially, ComEd's POLR responsibility is not relevant to my recommendation to allocate a portion of customer care costs to the default supply rate. My recommendation stems from the notion that customer care is a service that is required to provide a retail electric supply product. And because ARES must incur customer care costs (and recover them through their charges) a portion of ComEd's customer care costs should be allocated to the default supply service rate. Conversely, if ComEd is allowed to recover all of its customer care costs through distribution rates, the default supply service rate can avoid the cost of providing statutorily required services to customers and obtain a competitive advantage.

Q. Do you have any comments regarding Dr. Hemphill's claim (*Id.*, p. 5) that ComEd must have systems for calculating and printing customer bills?

A. Yes, I do. Again Dr. Hemphill's claim starts from the faulty premise that just because distribution service requires ComEd to incur costs to perform a certain function, then supply service should not be allocated any of the costs of that function even if supply service is equally dependent on that function. Essentially, Dr. Hemphill is arbitrarily assuming all shared costs should automatically be recovered by distribution customers, and supply customers should have to pay zero costs for those functions. As I have already testified in this proceeding, this approach to allocating costs artificially skews the competitive parity in favor of the default supply rate, and thus should not be adopted. Further, Dr. Hemphill, again, ignores the fact that ARES have systems in place to calculate customer bills and they are unable to assign those costs to distribution customers.

Q. Dr. Hemphill claims (*Id.*, p. 7) that customer care costs should be recovered through distribution rates because the Illinois legislature expected that there would be duplicative and redundant recovery of call center costs. Do you agree?

A. No. Dr. Hemphill's conclusion is incorrect. While not a lawyer, Dr. Hemphill reads the statute in a discriminatory and unreasonable manner. PUA 220 ILCS 5/16-123 requires that "all electric utilities and alternative retail electric suppliers shall be required to maintain a customer call center where customers can reach a representative and receive current information." The statute, however, does not provide that a utility may recover its call center costs through *distribution* rates. Thus, the legislature did not indicate that ARES customers should pay twice for call center costs. However, because ARES must incur call center costs and utilities must incur call center costs, for purposes of competitive neutrality, it is appropriate to allocate a portion of ComEd's call center and customer care costs to ComEd's supply function.

Q. Should customer care costs not be allocated to the default rate because ComEd also has costs to administer the Choice program?

No. ComEd appears to make the argument that because certain costs deemed necessary to support the Choice Program are recovered through distribution rates then costs required to support the supply service should not be applied to the default supply rate. However, this argument has no merit as the nature of the costs required to support the default rate are very different than the nature of the costs required to support the Choice program.

Q. Can you please explain the distinction between costs required to support Choice and costs required to support default supply service.

A. There is a significant distinction between the customer care costs that should be allocated to the default rate and the costs that are required to support the Choice program. The customer care cost allocation is designed to allocate costs of services to default rate customers that are being recovered through distribution rates *that ARES are already providing to Choice customers.* For instance ARES already have their own call centers and otherwise already provide customer care service for their generation customers and thus Choice customers would be double charged if default supply costs were not appropriately allocated to the default rate. However, the Choice "costs" that ComEd incurs are simply costs required to make Choice products available to customers, just like the default rate product is made available to customers by ComEd. Thus, to the extent there is ComEd employee time and IT infrastructure to administer the Choice program, the same can be said for the default supply service. Just because ComEd has always recovered through distribution rates a significant amount of non-commodity costs required to support the default rate, doesn't mean that these costs do not exist to provide default generation service. Moreover, it does not mean that these costs should not be reallocated just because ComEd has always collected them through distribution rates. As an example, many years ago transmission towers and lines were built to move electricity from generation to distribution. But, due to later technology, fiber optic cable could also be added to those towers to move data. Does the fact that electricity transmission always recovered the tower costs require that later-added fiber optic cable should not be allocated some portion of the costs needed to keep it off of the ground? The answer is self-evident.

Q. Do you have any comments on Staff's testimony, the direct testimony of Mr. Philip Rukosuev?

A. Yes. In large part, Staff's testimony summarizes ComEd's testimony. Thus, my conclusions and responses are largely applicable to Staff's testimony.

Q. Does Staff make any claims not advanced by ComEd?

A. Yes. Staff claims that customer care costs have risen as a result of customers switching to an ARES.

Q. Do you agree with Staff's claims that customer care costs have risen as a result of switching?

A. No. I disagree, and I believe that Staff's testimony is one-sided. Staff provided a table that indicated ComEd's level of customer care costs from 2008 to 2014. But Staff failed to mention that the increased costs are related almost entirely to metering—mainly smart metering. Moreover, Staff failed to identify that ComEd has allocated 100% of these costs to the delivery function and did not even analyze these costs in any of its customer care cost studies. Thus, Staff's table includes $61,752,262 in metering expenses that are not customer care costs that ComEd itself indicates are not related to ARES customers. ComEd's metering expense in 2010 was $48,000,000, and those costs also were not analyzed in ComEd's customer care studies.

Q. Taking out smart meter deployment, do you think the increase in customer care costs is in line with inflation?

A. Yes, I do. In 2010, ComEd evaluated $125,000,000 in customer care costs. In 2014, ComEd evaluated $141,600,000 in customer care costs. Using an inflation rate of approximately 3%, $125,000,000 would grow to $140,500,000. *See* RESA Exhibit MW 2.1 (2010 Testimony Exhibit Tab and 2014 Testimony Exhibit Tab). This demonstrates that ComEd's customer care costs have stayed relatively flat when adjusted for inflation. Further, a number of factors could affect increases or decreases in ComEd's customer care costs that are not known by Staff, and thus are not accounted for in Staff's analysis.

V. <u>RESPONSE TO THE THREE WAY ALLOCATION PROPOSAL</u>

Q. Do you have any concerns with ComEd's witness Ms. Brinkman's testimony (ComEd Ex. 12.0, pp. 38-41) that consideration should be given to allocating

customer care costs among three functions (distribution, default generation supply, and ARES supply)?

A. Yes, I do. First, procedurally it is not appropriate for ComEd to advance this new proposal in its rebuttal testimony; any proposal along these lines should have been filed in ComEd's initial application in order to give the parties the full opportunity to develop the record in this proceeding. Further, the proposal is significantly underdeveloped as it was simply presented in a few questions and answers in the rebuttal testimony presented by Ms. Brinkman, without providing any evidentiary support for the proposal.

Q. Do you have any substantive objections to Ms. Brinkman's proposal?

A. Yes. Notwithstanding the procedural deficiencies of the three-way proposal, the three way-allocation methodology is not a reasonable means to allocate customer care costs. Under the three-way model ARES customers would first pay for the customer care costs for distribution service in distribution rates, which in and of itself, is not unreasonable; however, under the proposal ARES customers would also be required to pay ComEd customer care costs related to supply service through a separate rider charged to ARES customers only- this is in addition to the customer care costs that are already reflected in the ARES supply charges. Thus the three-way allocation proposal would amount to a double charge of supply related customer care costs to ARES customers. This clearly is an inequitable assignment of customer care costs to Choice customers.

Q. Would a three-way proposal discriminate against ARES customers?

A. Yes, as discussed previously in my testimony, the purpose of allocating a portion of ComEd's customer care cost to the default supply rate is to ensure that the default supply rate contains the same types of costs that are also reflected in the rates and charges for customers taking service from an ARES. ComEd's proposal does not address that problem. Instead it allocates an additional group of costs to customers taking service from an ARES *in addition* to the customer care costs that ARES customers must already pay in their rates and charges.

Q. Should the Commission give any consideration to the three-way allocation methodology proposed by Ms. Brinkman?

A. No. The three-way allocation proposal made by Ms. Brinkman appears to be a litigation tactic designed to put pressure on RESA. Further, from a practical stand-point ComEd testified in discovery in response to Staff's data requests that it does not keep track of customer care costs as they relate to customers taking service from an ARES or default supply service, so ComEd could not even implement its proposed allocation at this juncture.

Q. If the Commission does not believe that competitive parity requires allocating a portion of ComEd's customer care costs, should the Commission adopt the status quo or a three-way allocation?

A. While I recommend that a portion of ComEd's customer care costs should be allocated to the default supply price, if the Commission does not adopt my recommendation, I believe that the status quo is a more appropriate means to allocate customer care costs than a three-way allocation. As ComEd previously indicated, it does not keep track of whether its customer care costs are related to default service customers or customers taking service from an ARES. Thus, there is no evidentiary basis upon which ComEd could allocate any costs to ARES customers. Moreover, doing so would make little sense because it could have the tendency to discourage customer choice, which would be contrary to the policy of the state of Illinois.

VI. SUMMARY OF CONCLUSIONS

Q. Could you please summarize your recommendations regarding the Allocation Study?

A. My recommendations are as follows:

- **I recommend that the Commission adopt the Allocation Study, as modified in RESA Ex. MW 2.1 (excerpt contained in *Figure MW-3)*. That study would allocate $52 million in customer care costs to the default supply rate.**
    - **I also recommend that the Commission allocate $7 million in charitable contributions. Thus, in total, the Commission should allocate $59 million to the default supply rate.**
    - **If the Commission adopts the revenue allocation (as adjusted in my direct testimony and rebuttal testimony) to allocate a lesser amount of charitable contributions to the default supply rate, I recommend that the Commission allocate $54 million to the default supply rate.**
- **If the Commission adopts the Allocation Study, as modified in my testimony, but removes the meter reading calls and applies the allocation factor to the connection calls, identified in *Figure MW-4,* I recommend that the Commission allocate $36.5 million in customer care costs to the default supply rate. Additionally, I recommend that the Commission allocate charitable contributions to the default supply rate as discussed above (at a minimum, an additional $2 million).**

Q. Could you please summarize your recommendations regarding the Alternative Study?

A. Yes. My recommendations are as follows:

- **If the Commission does not adopt the Allocation Study, I recommend that, at a minimum, the Commission adopt the Alternative Study, as modified in my rebuttal testimony. Using my corrected allocation factors as represented in *Figure MW-3*, I recommend that the Commission allocate at least $34 million in call center costs to the default supply rate. Additionally, I recommend that the Commission allocate charitable contributions to the default supply rate as discussed above (at a minimum, an additional $2 million).**
- **If the Commission adopts my allocation factors but includes the adjustments identified in *Figure MW-4* related to meter reading and turn on calls, I recommend that the Commission allocate $21 million in call center costs to the default supply rate, as well as charitable contributions as discussed above.**

Q. Does this conclude your rebuttal testimony?

A. Yes it does.