STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY	:	
	:	No. 14-0312
Annual formula rate update and revenue	:	
requirement reconciliation under	:	
Section 16-108.5 of the Public Utilities Act	:	

BRIEF ON EXCEPTIONS

THE RETAIL ENERGY SUPPLY ASSOCIATION

I. INTRODUCTION

Pursuant to the Public Utilities Act (the "PUA"), 220 ILCS 5/10-111, and Section 200.830 of the Commission's Rules of Practice, 83 Ill. Admin. Code § 200.830, the Retail Energy Supply Association ("RESA")[1] submits this Brief on Exceptions to the Administrative Law Judges' Proposed Order ("Proposed Order" or "ALJPO").

In this proceeding RESA has presented significant evidence that a portion of Commonwealth Edison Company's ("ComEd) customer care costs should be allocated to the default supply rate. Specifically RESA advocated that the Commission should adopt ComEd's updated Allocation Study analysis, with RESA's proposed modifications,

[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.

which would allocate approximately $54 million to the default supply rate.[2] In the alternative, RESA advocated that if the Commission does not accept the Allocation Study, the Commission should adopt ComEd's updated Alternative Study, with modifications, in order to determine the appropriate amount of customer care costs to be allocated to the supply function.[3] Incorporating all of RESA's modifications into the Alternative Study would result in the allocation of approximately $34 million to ComEd's supply function.

The Proposed Order ultimately determined "consistent with Docket 13-0387, that some portion of ComEd's customer care costs must be allocated to ComEd's supply customers."[4] Further, the ALJPO correctly rejected the Switching Study supported by ComEd because it "fails to account for the fact that a portion of ComEd's customer care costs are related to providing electric supply service to default supply customers. . . (a)llowing ComEd to recover [customer care] costs through distribution rates provides a subsidy to ComEd's supply rate."[5]

The Proposed Order found that "[h]aving reviewed the evidence presented by all parties, the Commission determines that ComEd's Updated Alternative Study provides a good starting point for allocating customer care costs to the default supply function."[6] Thus, the ALJPO determined that ComEd should allocate approximately $11 million to the supply function.[7]

[2] RESA Ex. 2.0 at 31.
[3] Id. at 32
[4] ALJPO at 101
[5] Id.
[6] Id.
[7] Id.

While RESA continues to support the utilization of the Allocation Study to allocate customer care costs to the default supply rate, RESA also recognizes that the Alternative Study presented by ComEd is a reasonable starting point to determine the appropriate costs to allocate to ComEd's default supply rate. However, RESA believes that if the Alternative Study is used as a "starting point" for customer care cost allocation, certain modifications should be made to ensure that the Alternative Study appropriately allocates customer care costs to the supply rate. Specifically, the ALJPO should be revised to:

1) modify the Alternative Study to utilize the streamlined Revenue Allocation Factor rather than the Bill Allocation Factors used by ComEd; and
2) modify the Alternative Study to exclude ComEd's Rider PORCB (Purchase of Receivables with Consolidated Billing) revenue from the equation utilized to calculate its Revenue Allocation Factor.

Accordingly, while RESA does not object to using the Alternative Study as a starting point to allocate customer care costs, RESA respectfully requests that the ALJPO be modified in accordance with the Exceptions made herein; such modifications would result in allocating approximately $21 million of customer care costs to the default supply rate.[8]

[8] RESA Ex. 2.0 at 21

II. RESA Exception One: The ALJPO should be revised to modify the Alternative Study to utilize the streamlined Revenue Allocation Factor, rather than the Bill Allocation Factors.

While recognizing the importance of a level playing field and appropriately allocating costs to cost causers, the ALJPO also indicated that:

> ComEd's statutorily required POLR obligations are a convincing argument against a strict application of the general principle of rate design based on cost causation. This statutory obligation could lead to the problem of very few customers being on ComEd's supply service which ComEd must offer even if it does not make economic sense. Those few customers could arguably not support the cost of their own service. At this point in time, this is not the status of ComEd's service and allocating $11[9] million is reasonable. This further supports the Commission's adoption of the Alternative Study, as opposed to the Allocation Study.[10]

Although RESA maintains that the Allocation Study provides a reasonable allocation of customer care costs, RESA accepts that the support of multiple parties for the Alternative Study as a fallback position makes that position a reasonable and appropriate conclusion for this proceeding. RESA, however, recommends that the Commission make the following modification to the Alternative Study.

Under the Alternative Study, ComEd allocates customer care costs to default supply rate for some categories of costs based on factors such as the surface area of the bill dedicated to supply service and the number of lines on the ComEd bill dedicated to supply service (hereinafter "Bill Allocation Factors").[11] For other categories, ComEd

[9] RESA agrees that allocating $11 million to default supply rate will not place an unreasonable burden onto default service customers. Mr. White testified that based upon existing shopping levels, allocating $34 million "would lead to a default service supply price increase of only $0.00295 (or less than 3 mils) per kwh." RESA Ex. MW 1.0 at 23. Thus, allocating approximately 1/3 of that amount would lead to a price increase of approximately 1 mil or $0.001 for default service customers. RESA maintains that neither 3 mils nor 1 mil would be an unreasonable amount of costs to allocate to the default service rate.
[10] ALJPO at 102
[11] See ComEd Ex. 7.0 at 42-43.

allocates costs based on the percentage of ComEd's default supply revenue as compared to ComEd's total revenue (hereinafter "Revenue Allocation Factor").[12] As explained in the testimony of RESA witness White, the Alternative Study should be modified to utilize the Revenue Allocation Factor methodology for *all* categories of costs that are deemed related to the default supply rate.[13],[14]

The Revenue Allocation Factor has two primary benefits. First, it simplifies the Alternative Study by using one allocation factor for all cost categories that are related to default service. Second, and perhaps more importantly, the Revenue Allocation Factor ties 100% of the customer care cost allocation to the level of customer migration. Because the Revenue Allocation methodology is a function of default supply revenue, divided by the total amount of ComEd revenue (supply/(distribution + supply), as customers migrate away from the default rate, fewer costs are allocated to the default rate. And as customers migrate to the default rate, more costs are allocated to the default rate. [15] Ultimately the Revenue Allocation methodology results in the exact same costs *per customer* being allocated to the default supply rate, regardless of the level of customer migration.

Conversely, because ComEd's Bill Allocation Factors are calculated based on the amount of lines on the bill and space on the bill dedicated to default supply service (which never changes) the dollars allocated to default supply service do not change as

[12] Id.
[13] RESA Ex. 1.0 at 15-17
[14] It should be noted that ComEd's Witness Donovan also discusses a category of costs that are 100% distribution related. For those costs ComEd utilizes a Distribution Allocator that allocates 0% of those costs to the default rate. See ComEd Ex. 7.0 at 42. In these Exceptions RESA is not asking that the Revenue Allocation Factor be applied to costs that are entirely distribution related.
[15] RESA Ex 1.0 at 23-24.

the level of customer migration changes. Further, as explained by witness White, the amount of space on the bill dedicated to the supply rate is not a reasonable proxy for customer care costs ComEd incurs to support the default rate.[16]

Plainly, this approach remedies the circumstances described in the ALJPO relating to ComEd's provider of last resort obligation and cost allocation to a potentially shrinking, or expanding, default customer base. This is a dynamic that must be addressed. Using the Revenue Allocation Factor instead of the Bill Allocation Factors results in appropriately allocated costs following customers as they switch from, or return to, ComEd default service.

The proportion of revenue recovered from default rate customers divided by ComEd's total revenue is the best proxy to allocate customer care costs to the default supply rate. By modifying the revenue allocation methodology as explained by Witness White, the allocation of customer care costs would be much simpler and there would no longer be the concern that a few customers remaining on default rate would have to support a large allocation of customer care costs. Accordingly, the ALJPO should be modified to adopt RESA's proposed streamlined Revenue Allocation Factor so that customer care costs are allocated in proportion to the amount of default supply revenue recovered by ComEd.

III. RESA Exception Two-The ALJPO should be revised to exclude Rider PORCB revenues from the calculation of the Revenue Allocation Factor.

In addition to utilizing the Revenue Allocation Factor instead of the Bill Allocation Factors to allocate costs, the Revenue Allocation Factor calculation should be modified

[16] RESA Ex 1.0 at 16.

to exclude Rider PORCB revenues As already noted, the Revenue Allocation Factor is based upon the relationship of ComEd's supply-related revenue to ComEd's total revenue: it is calculated by dividing ComEd default supply revenue by the sum of default supply revenue and total distribution revenue.[17] When determining the total distribution revenue, however, ComEd incorrectly included Rider PORCB revenue.[18]

PORCB revenue is the revenue ComEd collects from Alternative Retail Electric Suppliers ("ARES") which provide supply service to shopping customers and which enrolled in ComEd's Rider PORCB.[19] This revenue is clearly not distribution revenue and should not be treated as such when determining the Revenue Allocation Factor.[20] Instead, a simple formula should be utilized to calculate ComEd's Revenue Allocation Factor. It should be the total default supply revenue divided by ComEd's total revenue (supply/(distribution + supply). This formula recognizes that there is a proportional relationship between the amount of default supply service provided by ComEd and the amount of customer care costs incurred by ComEd. There is no rational basis for including PORCB revenue in the denominator of this equation. Doing so implies a mathematical proportional relationship that does not exist in fact or logic. ARES incur their own call center costs to support the generation service they provide customers, thus ARES supply revenue has neither causation nor correlation to the amount of ComEd call center costs that should be allocated to the default supply rate.

IV. Proposed Exceptions Language

[17] ComEd Ex. 7.0 at 42.
[18] RESA Ex. 1.0 at 14-15
[19] Id. at 14
[20] Id.

The ALJPO should be revised as follows to reflect the modifications proposed in this Brief on Exceptions.

First, the following paragraph should be added to page 96 of the ALJPO after the second paragraph:

In its Brief on Exceptions, RESA takes the position that if the Commission does not adopt RESA's fallback position—acceptance of Mr. White's modified version of the Alternative Study, which would allocate approximately $34 million in customer care costs to ComEd's default supply function—it should accept two of the modifications that Mr. White proposed to the Alternative Study. First, the Revenue Allocation Factor, instead of the Bill Allocation Factors, should be used to allocate customer care costs in the Alternative Study. (RESA Ex. 1.0, at 15-17) Second, the Revenue Allocation Factor calculation should be modified to exclude Rider PORCB revenues from ComEd's total revenue. RESA Ex. 1.0, at 14-15 These two modifications would result in an allocation of approximately $21million in customer care costs to ComEd's supply function. RESA Ex. 2.0, at 21.

Second, the carryover paragraph on pages 101-102 of the ALJPO should be revised as follows:

Having reviewed the evidence presented by all parties, the Commission determines that ComEd's Updated Alternative Study provides a good starting point for allocating customer care costs to the default supply function. The evidence indicates that ComEd's call center expenses do in fact decrease as customers switch to RESs. ComEd Ex. 8.0 at 27-28. Allowing ComEd to recover these costs through distribution rates provides a subsidy to ComEd's supply rate. Finally, RESA, ComEd, and Staff each agree that the Alternative Study may provide an acceptable basis for allocating customer care costs to the default supply rate if the Commission rejects the Switching Study. Thus, the Commission adopts ComEd's Alternative Analysis, ComEd Ex. 16.03, ~~which consists of a two-step costing method that relies upon a combination of embedded and avoided costing principles and~~ with two of the modifications proposed by RESA. First, the Revenue Allocation Factor, rather than the Bill Allocation Factors, should be used to allocate customer care costs. Second, Rider PORCB revenues should be excluded in the calculation of the Revenue Allocation Factor. With these two modifications, the Alternative Study would allocate~~s~~ ~~$10,927,146~~ $20,906,524 of ComEd's customer service costs to its supply function. Thus, ComEd should allocate this amount of customer care costs to its supply function.

V. Conclusion

RESA provided testimony demonstrating that, under the Alternative Study that utilizes the streamlined allocation factor and excludes PORCB revenue for the Revenue Allocation Factor, approximately $21 million should be allocated to the default supply rate.[21] This allocation, which amounts to approximately $.0019 per KWH to the default rate, represents a reasonable allocation of customer care costs to default supply service and will result in a reduction of costs to distribution service customers, who have been subsidizing the default supply service under rates that have been based on ComEd's Switching Study.

For the reasons stated herein, RESA respectfully requests that the Commission grant its proposed modifications to the Alternative Study as set forth in these Exceptions which would result in approximately $21 million being allocated to default supply service and returned to distribution customers.

Respectfully submitted,

Retail Energy Supply Association

By: */s/GERARD T. FOX*

Gerard T. Fox

[21] See RESA Ex. 2.0 at 21-22. As Mr. White notes, the Alternative Study only allocates customer contact center costs to the default rate. Thus, by applying the Revenue Allocation Factor to all default supply related costs and removing ARES PORCB revenue from the Revenue Allocation Factor, the amount of money allocated to the default rate is approximately $21 million.

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NOTICE OF FILING

Please take note that on October 23, 2014, I caused to be filed via e-docket with the Chief Clerk of the Illinois Commerce Commission, the attached Brief on Exceptions of the Retail Energy Supply Association in this proceeding.

/s/GERARD T. FOX

Gerard T. Fox

CERTIFICATE OF SERVICE

I, Gerard T. Fox, certify that I caused to be served copies of the foregoing Brief on Exceptions of the Retail Energy Supply Association upon the parties on the service list maintained on the Illinois Commerce Commission's eDocket system for Ill. C. C. Docket 14-0312 via electronic delivery on October 23, 2014.

/s/ GERARD T. FOX

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