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**STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION**

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<b>Commonwealth Edison Company</b>	:	
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<b>Petition for approval of delivery services</b>	:	<b>Docket No. 01-0423</b>
<b>Tariffs and tariff revisions and of</b>	:	
<b>Residential delivery services implementation</b>	:	
<b>Plan, and for approval of certain other</b>	:	
<b>Amendments and additions to its rates,</b>	:	
<b>Terms, and conditions.</b>	:	

**DIRECT TESTIMONY OF CRAIG G. GOODMAN OF THE NATIONAL  
ENERGY MARKETERS ASSOCIATION**

1 Q. Please state your name and business address.

2 A. Craig G. Goodman, National Energy Marketers Association, 3333 K Street,  
3 NW, Suite 425, Washington, DC 20007.

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

5 A. I am President of the National Energy Marketers Association.

6 Q. Please describe your background and professional qualifications.

7 A. I have been intricately involved in policy decisions in the energy industry  
8 through five industry deregulations starting with oil and refined products in  
9 the late 1970's, through the natural gas markets in the 1980s and currently  
10 in the retail electricity markets. I represent the National Energy Marketers  
11 Association before regulatory commissions and legislatures, at both state  
12 and federal levels, on the deregulation, restructuring, and taxation of natural  
13 gas and electricity as well as the implementation of all forms of advanced  
14 energy technologies and distributed generation. For more information I  
15 have attached my resume to this testimony.

16 Q. Please describe the National Energy Marketers Association (NEM).

17 A. The National Energy Marketers Association (NEM) is a national, non-profit  
18 trade association representing both wholesale and retail marketers of energy  
19 and energy-related products, services, information and technologies  
20 throughout the United States. NEM's membership includes: small regional  
21 marketers, large traditional international wholesale and retail energy  
22 suppliers (as well as wind and solar power), billing and metering firms,

23 Internet energy providers, energy-related software developers, risk  
24 managers, energy brokerage firms, information technology providers and  
25 manufacturers and suppliers of advanced distributed generation.  
26 Membership includes both affiliated and unaffiliated companies. Affiliated  
27 and independent marketers have come together under the NEM auspices to  
28 forge consensus and to help eliminate as many issues as possible that would  
29 delay or impede the development of competition. NEM is committed to  
30 working with regulators and other stakeholders to devise fair and effective  
31 ways to implement the final deregulation and competitive restructuring of  
32 the U.S. markets for both natural gas and electricity. As a national trade  
33 organization, NEM brings a wide range of experiences, as well as broad  
34 perspectives to its comments in these proceedings that should aide the  
35 Commission and enhance the quality of the record to be developed here.  
36 NEM supports the implementation of laws and regulations that provide  
37 customers with meaningful choices, as well as implement open, efficient,  
38 liquid and price-competitive energy markets, and that encourage the  
39 development of new, and innovative energy services and technologies, at  
40 the earliest possible date. NEM has intervened and participated in a  
41 number of state restructuring proceedings.

42 Q. What is NEM's interest in this proceeding?

43 A. NEM represents a diverse group of providers of energy and energy-related  
44 services and has an interest to advocate the implementation of rates, tariffs,

45 operating procedures, standards of conduct, rules, and policies that will  
46 ensure the development and maintenance of efficient and reliable  
47 competitive electricity markets, nationwide and in the Commonwealth  
48 Edison service territory. As electricity marketers and providers of energy-  
49 related services and technologies, various NEM members intend to provide  
50 service to customers in the Commonwealth Edison service territory. The  
51 ability of NEM members to compete fairly in these markets will be  
52 specifically affected by the outcome of this proceeding. Additionally,  
53 given Commonwealth Edison's historic importance to the electricity  
54 industry, its size in Illinois and its prominence nationally, NEM is also  
55 vitally concerned about the precedents this case will establish both in  
56 Illinois and the nation.

57 Q. What is the purpose of your testimony?

58 A. NEM is concerned that implementation of Commonwealth Edison's  
59 delivery services filing could adversely effect the development of a  
60 competitive retail electric market in the State and potentially elsewhere, and  
61 NEM has a number of related recommendations for the Illinois Commerce  
62 Commission to foster competition in this docket and elsewhere in the State.

63 Q. What are the main issues to which the Commission should give attention in  
64 the Edison filing?

65 A. In order to foster an efficient competitive retail electric market NEM offers  
66 the following:

67 1. Delivery Service Rates

68 Customers should only be required to reimburse ComEd for current, direct  
69 and verifiable costs that are reasonably incurred by the utility that can only  
70 be performed by a natural monopoly in providing distribution services. A  
71 decision in this case to include costs incurred in 2000 that exceed prior year  
72 costs into Commonwealth Edison's rate base will provide precedent for the  
73 Commission to treat these costs as prudent and reasonable if Edison seeks a  
74 general rate increase at the end of the transition period in Illinois. For  
75 example, Commonwealth Edison spent \$44 million on distribution  
76 consultants in 1998, and in 2000 spent \$203 million.

77 Additionally, such a proposed large rate increase would not be entirely  
78 absorbed by a reduction in CTCs and therefore, render open access service  
79 less economical compared to bundled service. At a future date when  
80 Transition Charges go to zero, customers selecting competitive supply will  
81 realize the full impact of this proposed distribution rate increase.

82 Such a large increase in delivery service rates results in great part by virtue  
83 of reallocations of costs from generation to distribution and transmission  
84 functions. Such costs should not properly be allocated to delivery charges  
85 and should instead be reflected on a line-item basis in Commonwealth  
86 Edison energy charges. NEM submits that shopping credits should be  
87 properly structured to reflect the full energy supply and commercial costs  
88 of serving retail load. Instead, Commonwealth Edison will have an

89 artificially low, cross-subsidized generation rate. Only those assets and  
90 employees properly associated 100% with natural monopoly distribution  
91 functions should be reflected in distribution charges and entitled to state  
92 franchise monopoly protection. The embedded costs of all other energy  
93 and related products, services, information and technologies should be  
94 separately identified in customers bills and offered to its customers as  
95 shopping credits so they may procure those services from competitive  
96 sources. These shopping credits should be offered to Commonwealth  
97 Edison customers and should be based on the utility's fully embedded costs  
98 for each of the products, services, information and technologies.

## 99 2. Properly Structured Back-Out Credits

100 The Commonwealth Edison filing seeks to significantly reduce customer  
101 credits for unbundled services (such as metering) by using the avoided cost  
102 of each product and service despite the fact that the Commission recently  
103 ruled that embedded costs should be the basis for such credits. The filing  
104 also includes a single bill credit that is also incorrectly computed and  
105 dramatically understated.

106 NEM asserts that in order to encourage the development of a competitive  
107 retail market, consumers in Commonwealth Edison's territory must be  
108 eligible for a back-out credit that reflects the fully embedded costs  
109 associated with energy supply and the myriad of commercial costs  
110 associated with serving retail load that are currently included in

111 Commonwealth Edison's fully bundled rates. Only if consumers have a  
112 fairly designed back-out rate based on embedded costs to use to shop for  
113 energy and related services can meaningful price competition occur. If the  
114 back-out credit does not reflect these costs, then Commonwealth Edison's  
115 generation price to customers will be an artificially low, subsidized price  
116 and Commonwealth Edison will be recovering these costs elsewhere in  
117 rates. Additionally, if back-out credits are not structured to include the full  
118 range of costs to serve retail load, customers will have to pay for the costs  
119 twice - once to the competitive supplier and once to the utility.

120 The energy supply costs associated with serving retail Commonwealth  
121 Edison customers include: the wholesale price of energy for delivery into  
122 Commonwealth Edison's service territory, installed capacity (on kWh  
123 basis), transmission and ancillary services, retail load shape factor costs,  
124 risk management, scheduling and control area costs, and pool operating  
125 costs plus transmission and distribution system line losses.

126 The additional commercial costs associated with serving retail  
127 Commonwealth Edison customers include: the costs of load forecasting,  
128 the costs of negotiating and managing contracts, the costs associated with  
129 regulatory compliance and litigation, taxes, administrative and general  
130 costs, customer service, billing, metering, bad debt, collections,  
131 environmental disclosure, marketing, and an appropriate return on equity

132 and debt. Commonwealth Edison's shopping credits to its customers should  
133 include its fully embedded costs for all of these services.

134 Furthermore, NEM has developed specific "National Guidelines to  
135 Implement Competitive Advanced Energy Metering and Related  
136 Information Technologies," a copy of which is attached hereto and  
137 incorporated by reference. NEM submits that if consumers are given  
138 shopping credits on their utility bills equal to the fully embedded utility  
139 costs of metering and information-related services, billing and customer  
140 care services and related technologies and are permitted to use the credits to  
141 shop for a full panoply of energy services, products and technologies, it will  
142 encourage significant new private investments in such products, services,  
143 information and technologies and drive prices down through bona-fide  
144 price competition for these services. Failure to give consumers credits that  
145 reflect the fully embedded costs historically associated with these  
146 monopoly provided services will continue to send erroneous pricing signals  
147 to consumers and cause consumers to pay far more than necessary for these  
148 same services.

149 Relatedly, the New York Public Service Commission ordered that the  
150 appropriate method for determining back-out credits is to utilize long run  
151 avoided cost studies, and the NYPSC also decided that the utilities'  
152 embedded costs are a reasonable proxy for long run avoided costs. In Case  
153 94-E-0952, the NYPSC ordered that,

154 [b]ecause of the extensive existing inventory of utility  
155 metering stock, the short run avoided cost of metering  
156 would be low, and it is likely to be difficult for competitors  
157 to provide service at less than the utilities' short run avoided  
158 costs during the early implementation stages of competitive  
159 metering. Using long run avoided costs may better facilitate  
160 market entry. This approach will allow firms that can  
161 provide metering more efficiently in the long run to enter  
162 the market under more favorable conditions. We will  
163 require that utilities use, for now, long run avoided costs for  
164 such services to establish backout credits in the filings  
165 pursuant to this order. The utilities' cost of service is a  
166 reasonable proxy for long run avoided costs for this  
167 purpose.<sup>1</sup>  
168

169 The Commission further stated that:

170  
171 [T]here is a reasonable basis for concluding that until the  
172 utilities can complete adequate long-run cost studies and  
173 those studies are approved, embedded costs are an  
174 appropriate proxy for long run avoided costs. . . Many of the  
175 components of metering are labor intensive, (such as meter  
176 reading and testing) and for these items embedded costs are  
177 a very good proxy for long run costs. Alleged changes in  
178 capital costs of meters will have only a small overall impact  
179 on actual rates.<sup>2</sup>

180 Additionally, the NYPSC also ordered the use of the long run  
181 avoided cost approach for the development of billing back-out  
182 credits.

183 We will require that the credits be based on long run  
184 avoided costs (LRACs) for the billing functions described  
185 herein and the associated customer care functions that would  
186 be avoided if ESCOs do the billing, and they may be  
187 differentiated by customer class if supported by the LRACs.

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<sup>1</sup> NYPSC CASE 94-E-0952 - In the Matter of Competitive Opportunities Regarding Electric Service, ORDER PROVIDING FOR COMPETITIVE METERING(Issued and Effective June 16, 1999), page 18.

<sup>2</sup> NYPSC CASE 94-E-0952 - In the Matter of Competitive Opportunities Regarding Electric Service - Competitive Metering. Petitions for Rehearing, ORDER DENYING PETITIONS FOR REHEARING AND CLARIFYING ORDER (Issued and Effective September 15, 1999) pages 13-14.

188 If determination of such LRAC estimates cannot be  
189 accomplished within the time periods provided by this order,  
190 proxy amounts, using the same methodology as above, but  
191 based on embedded cost of service studies instead of  
192 LRACs, can be presented and used, subject to provision of  
193 the LRAC estimates in a reasonable time thereafter. Further,  
194 the LRACs should be derived based on an assumption that  
195 the utilities exit the retail billing function for all customers,  
196 or, alternatively, based on the incremental cost for the total  
197 billing function if it were being established today. In either  
198 case, the calculation should include the cost of all support  
199 functions associated with billing to serve the full  
200 complement of customers.<sup>3</sup>

201 In no case should the Illinois Commerce Commission permit  
202 Commonwealth Edison to hide the above costs in delivery service rates as  
203 such a rate design would send erroneous price signals to consumers and  
204 undermine the ability for true price competition.

### 205 3. Metering Credits

#### 206 **a. Commonwealth Edison's proposed meter service charges amount to** 207 **bait and switch.**

208 An MSP that has invested in supplying competitive services and certified  
209 by the ICC and after being tested and approved by Edison now finds itself  
210 facing a reduction in standard metering service charges by its utility  
211 competitor by as much as 17,500 percent. While part of Edison's staff has  
212 worked with a potential MSP while it goes through its certification process  
213 with Edison, Edison has proposed a reduction in standard metering service

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<sup>3</sup> NYPSC Case 99-M-0631-In the Matter of Customer Billing Arrangements, Order Denying Petitions for Rehearing, issued and effective September 1, 2000, page 2, affirming methodology set forth previously in

214 charges that could force competing MSPs to leave the market. For  
215 example, for meters of 6,000 - 10,000 kW, Edison proposes a change that  
216 represents a reduction of 17,550 percent - \$172.56 vs. \$0.98. For 800 –  
217 1,000 kW meters it represents a reduction of 2,900 percent - \$29.14 vs.  
218 \$0.98.

219 Competitive metering provides value added services, improved services  
220 and allows Retail Energy Suppliers to incorporate a metering MSP system  
221 that works best for them and their customers. Yet, Edison by its filing  
222 seeks to ensure its continued status of a monopoly metering provider by not  
223 providing embedded cost credits that customers should receive. In  
224 addition, the issue of cost credits for metering services has already been  
225 decided and should not be changed at the expense of customers who elect  
226 to use a competing MSP.

227 **b. Commonwealth Edison has not demonstrated that its proposed**  
228 **standard metering service charges provide for all the embedded cost**  
229 **credits to customers who have switched and have chosen a competitive**  
230 **MSP.**

231 Edison has not provided sufficient detail to show how it arrived at a cost  
232 credit of only \$0.98 per month and hasn't provided clear information on savings  
233 to Edison that would result from customers selecting competitive metering.  
234 Besides the direct saving in meter reading expenses, the savings to Edison

235 include: meter maintenance that would not be required to be performed by  
236 Commonwealth Edison; cost savings derived by having outdated meters  
237 replaced by MSPs/RESs and paid for by someone else; cost savings derived  
238 from meter testing no longer needed to be performed by Commonwealth  
239 Edison for high bill complaints and service problems; cost savings due to a  
240 reduction in “missed reads” and special reads; reduction in cost of  
241 responding to high bill complaints; and reduction in cost of meter  
242 installations for new customers.

243 Edison proposes a limited credit based on some "marginal" cost savings,  
244 but it continues to propose that customers who have switched MSPs should  
245 still be charged by Edison for its ROI (and implied profit) on its metering  
246 assets even though these customers receive no benefit from these assets.

247 Edison has not shown that customers who select alternative MSPs will not  
248 be charged for Edison overhead that said customers do not benefit from.

249 Edison has not shown that customers will not be charged for its operational  
250 and customer service management overhead and tools and supplies no  
251 longer needed to serve the customer.

252 Further, Edison proposes a cost credit of only \$0.98 per month for all  
253 meters. Since the cost of meters varies by customer size and maintenance  
254 costs and service charges can also vary by meter complexity and customer  
255 size, a single cost credit number for all customer classes cannot be justified.

256 **c. Commonwealth Edison's Standard Metering Service Charge,**  
257 **included in the proposed delivery service tariff, does not facilitate**  
258 **choice and amounts to a barrier to competition.**

259 The proposed tariff is anti-competitive because it does not give fair  
260 embedded cost-based credits to customers and also places competing MSPs  
261 at a significant economic disadvantage. By not giving fair embedded cost-  
262 based credits to customers who have switched to a competitive MSP, these  
263 customers will in effect subsidize the metering expenses of customers who  
264 have not switched and will incent them not to select an alternative MSP.

265 The proposed metering service charges would raise the net cost to MSPs to  
266 provide advanced metering services to customers and would deter  
267 customers and new competitors from building a competitive electric  
268 business in Illinois.

269 **d. Commonwealth Edison, through its Standard Metering Service**  
270 **Charge, seeks to compete with MSPs for metering services to**  
271 **customers who have left Commonwealth Edison, while preventing**  
272 **MSPs from competing to offer similar services to Edison customers at**  
273 **competitive prices.**

274 This tactic prevents customers who have not chosen an RES from receiving  
275 price competitive metering services. It also prevents competing MSPs from  
276 achieving large economies of scale and thereby further lowering their costs  
277 to consumers.

278 4. Customer Enrollment Procedures

279 The Commonwealth Edison filing requires outdated methods for attaining  
280 customers, such as “wet signatures” and Letters of Agency described in  
281 Commonwealth Edison’s tariffs resulting in prohibitive costs for suppliers  
282 to acquire customers. Unless other common modes of customer acquisition  
283 methods are allowed, such as internet sign-ups and/or voice verification  
284 systems, the result will be higher costs to consumers and little or no  
285 competitive options available for residential or small commercial  
286 customers. The wet signature requirement is consistent with the Consumer  
287 Fraud and Deceptive Business Practices Act which requires an electric  
288 service provider to obtain written authorization from a customer for a  
289 change in electric service provider, but is inconsistent with the recently  
290 adopted Electronic Commerce and Security Act as well as the new federal  
291 Electronic Signatures in Global and National Commerce Act which provide  
292 that electronic records and signatures satisfy rules of law requiring  
293 information to be "written" or "in writing."

294 NEM has developed recommendations entitled, "***National Energy***  
295 ***Technology Policy***," a copy of which is attached hereto and incorporated  
296 herein by reference. NEM also urges the Illinois Commerce Commission  
297 to implement the consensus positions set forth in the sections of the

298            *"Uniform Business Practices for Retail Energy Markets"*<sup>4</sup> ("UBP")  
299            Report applicable to customer information, enrollment and switching,  
300            billing and payment processing and load profiling at the earliest possible  
301            date. A diverse group of utilities, energy suppliers, regulators, vendors,  
302            consumer advocates and trade organizations participated in the  
303            development of the UBP document. The primary goal of the UBP is to  
304            provide Regulators and the industry with a set of "road tested" business  
305            practices based on the experience of competitive retail energy markets that  
306            should be used as guidelines to establish effective, low cost retail energy  
307            choice programs. The document presents a set of recommended business  
308            principles and practices to guide the interaction of various market  
309            participants where choice of a retail energy supplier is being made  
310            available. Chapter IV of the UBP pertaining to Customer Enrollment and  
311            Switching specifically recognizes the use of electronic, telephonic and  
312            written enrollments.

313            The Internet will likely become a significant, perhaps dominant vehicle to  
314            aggregate the supply and demand for energy as well as to facilitate the  
315            delivery of energy-related products, services and information. It is equally  
316            clear that the Internet can lower operating costs, facilitate a wide array of  
317            value-added products and services, lower barriers to entry and provide an

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<sup>4</sup> Uniform Business Practices for the Retail Energy Market, November 2000; for information visit [www.ubpnet.org](http://www.ubpnet.org) sponsored by the Edison Electric Institute ("EEI"), the National Energy Marketers

318 ideal platform for true price competition. Seamless, low-cost, efficient data  
319 and information exchange is the key to lowering the cost of energy and  
320 related services as well as enhancing reliability. Accordingly, NEM  
321 recommends that the ICC implement customer switching rules that allow  
322 customers to exercise choice through electronic, written and telephonic  
323 means.

#### 324 5. Distributed Generation

325 NEM has issued "*National Guidelines for Implementing Distributed*  
326 *Generation and Related Services*," a copy of which is attached hereto and  
327 incorporated by reference, recommending that the competitive supply and  
328 implementation of distributed generation technology be opened immediately  
329 to competition. As congestion on the existing grid mounts, investment in  
330 distributed generation can provide significant relief to consumers quickly  
331 and cost effectively. NEM maintains that utility tariffs, operating practices  
332 and procedures must be rewritten to permit distributed generation to  
333 increase energy supplies, enhance system reliability and lower energy costs  
334 to both the utility and the consumer.

335 NEM urges the Illinois Commerce Commission to provide equal, non-  
336 discriminatory access to markets for power and auxiliary services.

337 Interconnection of distributed generation, in and of itself, does not provide

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Association ("NEM"), the Coalition for Uniform Business Rules ("CUBR"), and the Electric Power Supply Association ("EPSA").

338 distributed generation with equal and open access to either wholesale or  
339 retail markets. Distributed generation must have access to markets for the  
340 sale of generation and capacity as well as ancillary services. Distributed  
341 generators must also be able sell the output of their generation to the  
342 wholesale market and trade demand or energy reduction as a replacement  
343 for generation ("negawatt market"). Additionally, the ICC should  
344 immediately implement uniform and reasonable retail wheeling rates to  
345 maximize customer choice and permit a market for the local sale of power.

346 The ICC should immediately also implement uniform technical  
347 requirements and procedures for the interconnection of distributed  
348 generation technology plus uniform technical safety and reliability  
349 requirements, application procedures, forms, standards agreements, related  
350 testing and certification requirements and eliminate any existing penalties  
351 to reduce the costs and risks of investments by consumers in competitive  
352 new distributed generation technology. Utility reimbursement for costs  
353 associated with the installation of distributed generation should be based on  
354 reasonable incremental costs not currently recovered in the utility's base  
355 rates.

356 NEM submits that utilities should not be granted a monopoly or  
357 competitive advantage to provide competitive products, services,  
358 information or technology. Utilities should perform solely natural  
359 monopoly functions. Essentially, regulated utilities should sell regulated

360 distribution services on a "no frills" cost of service basis. Regulations, tariff  
361 structures, interconnection rules, back-up rates and operational protocols should  
362 be designed to permit competitive, non-utility suppliers to provide each of the  
363 products, services, information and technologies that are not natural monopoly  
364 functions.

365 Q. Does this conclude your direct testimony?

366 A. Yes.