

**DIRECT TESTIMONY**

**of**

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**CENTRAL ILLINOIS LIGHT COMPANY d/b/a AmerenCILCO  
CENTRAL ILLINOIS PUBLIC SERVICE COMPANY d/b/a AmerenCIPS  
ILLINOIS POWER COMPANY d/b/a AmerenIP**

**Proposal to implement a competitive procurement process by establishing BGS,  
Rider BGS-L, Rider RTP, Rider RTP-L, Rider D, and Rider MV**

Docket Nos. 05-0160/05-0161/05-0162 (Consolidated)

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1           **Introduction**

2  
3  
4   **Q.    Please state your name and business address.**

5   A.    My name is Peter Lazare. My business address is 527 East Capitol Avenue,  
6        Springfield, Illinois 62701.

7  
8   **Q.    What is your present position?**

9   A.    I am a Senior Rate Analyst with the Illinois Commerce Commission  
10       ("Commission"). I work in the Financial Analysis Division on rate design and  
11       cost-of-service issues.

12  
13   **Q.    What is your experience in the regulatory field?**

14   A.    My experience includes thirteen years of employment at the Commission where I  
15       have provided testimony and performed related ratemaking tasks. My testimony  
16       has addressed cost-of-service, rate design, load forecasting and demand-side  
17       management issues that concern both electric and gas utilities.

18  
19        Previously, I served as a Research Associate with the Tellus Institute, an energy  
20       and environmental consulting firm in Boston, Massachusetts. I also spent two  
21       years with the Minnesota Department of Public Service as a Senior Rate Analyst,  
22       addressing rate design issues and evaluating utility-sponsored energy  
23       conservation programs.

25 **Q. Please discuss your educational background.**

26 A. I received a B.A. in Economics and History from the University of Wisconsin and  
27 an M.A. in Economics from the University of Illinois at Springfield in 1996.

28

29 **Q. What is the purpose of your testimony in this proceeding?**

30 A. I address the development of the proposed translation tariff filed by Central  
31 Illinois Light Company d/b/a AmerenCILCO (“AmerenCILCO”), Central Illinois  
32 Public Service Company d/b/a AmerenCIPS (“AmerenCIPS”), and Illinois Power  
33 Company d/b/a AmerenIP (“AmerenIP”) (collectively “Ameren” or the  
34 “Company”). I begin by explaining their translation tariff proposal. Then I discuss  
35 individual issues including the new set of proposed rate classes, bill impacts,  
36 market energy prices and Peak and Off-Peak periods.

37

38 **Q. Please summarize your recommendations.**

39 A. I recommend that the following changes be made to the Company’s proposed  
40 Rider MV translation tariff

41 - The recovery of power costs from customer classes should be subject to  
42 limits to prevent undue bill impacts.

43 - The Company should use Locational Marginal Prices (“LMPs”) as the  
44 foundation for market energy prices.

45 - The Company’s proposed changes to the definitions of Peak and Off-Peak  
46 periods should be rejected.

47

48 **Translation Tariff**  
49

50 **Q. Please explain your understanding of the purpose of the translation tariff**  
51 **proposed by Ameren.**

52 A. The tariff allocates the closing auction prices paid to suppliers among the various  
53 rate classes receiving bundled Basic Generation Service (BGS). Under the  
54 auction, suppliers will charge two prices for electricity supplied to Ameren; one  
55 price for the Summer months of June, July, August and September and a second  
56 price for the remaining non-Summer months. Those prices will not simply be  
57 passed along to ratepayers. Rather, they will be recovered through separate  
58 prices to rate classes to reflect how each class contributes to the cost of this  
59 power. The mechanism of breaking down supplier prices into component parts  
60 for rate classes has been dubbed the “translation prism”. The specific rates that  
61 individual classes pay for power are determined by three factors under Ameren’s  
62 proposed translation tariff: (1) when they consume electricity; (2) line losses the  
63 utility incurs in delivering electricity to them; and (3) generation capacity costs.

64

65 **Q. With regard to the first cost factor, please discuss the relationship between**  
66 **when ratepayers consume electricity and power costs.**

67 A. This relationship can be broken down into two parts. The first is a seasonal issue  
68 concerning the relative amount of electricity each class consumes in Summer  
69 and non-Summer months. Second, consumption within each season is broken  
70 down into daily periods consisting of Peak and Off-Peak hours. The combination  
71 of the two breaks down annual power costs into four component periods: (1)

72 Summer Peak, (2) Summer Off-Peak, (3) non-Summer Peak, and (4) non-  
73 Summer Off-Peak. The cost of serving customers during each of these periods is  
74 assumed to be different, with the highest costs expected during the Summer  
75 Peak period.

76  
77 The development of different electricity costs for each of these time periods  
78 provides a foundation for breaking down power costs among rate classes, with  
79 electricity costs passed along to individual rate classes depend on their  
80 consumption levels in each of these pricing periods. So, for example, classes  
81 that consume proportionately more electricity during the Summer Peak period will  
82 pay more than classes consuming more during non-Summer Off-Peak periods.

83

84 **Q. Please discuss the second cost factor pertaining to line losses for**  
85 **customer classes.**

86 A. Line losses vary from one class to the next depending on the level of the  
87 transmission and distribution system at which they receive service, with  
88 residential customers incurring the highest losses and larger non-residential  
89 customers the lowest losses. The costs paid by individual classes are ratcheted  
90 up by the percentage losses incurred in the delivery process.

91

92 **Q. What is the third cost factor in the translation tariff?**

93 A. The third cost factor is generation capacity costs. The Company proposes at this  
94 time to rely on estimated capacity costs for PJM because a MISO capacity  
95 market has yet to develop. The Company will switch to MISO capacity costs

96 when they become available. (Resp. Ex. 5.0, p. 25) The Company proposes to  
97 allocate these capacity costs among classes within each auction on a 4CP basis  
98 (Resp. Ex. 5.0, pp. 24-25).

99

100 **Q. How are power prices presented in the translation tariff?**

101 A. The translation tariff does not present the actual power costs that customers will  
102 have to pay under Post-2006 rates. Instead, it contains a set of formulas and  
103 references to data inputs for those formulas that in combination would produce  
104 the power costs that bundled customers will have to pay. The reason formulas  
105 are necessary is that much of the essential data inputs will not become available  
106 until a future point in time. First, the missing data includes the two years of load  
107 data necessary to determine class usage over the Summer and Non-Summer  
108 Peak and Off-Peak periods. That two year period continues up to 5 months  
109 before the first scheduled auction. A second future component is a set of forward  
110 prices that are to be collected over a period of ten consecutive business days  
111 ending 90 calendar days before the auction commencement date (ILL C.C. No.  
112 35, Original Sheet No. 27.035). This load and forward price data is entered into  
113 the translation formulas to produce a set of ratios for the various customer  
114 classes. These translation tariff ratios document the relative cost of power for the  
115 various classes.

116

117 The third data set necessary to produce power costs for customer classes are  
118 the closing auction power prices that will be known sometime in 2006. These  
119 auction power prices are multiplied by the translation tariff ratios to generate the

120 power costs charged to the various customer classes.

121

122 **Q. Does the presence of formulas without prices present any issues for the**  
123 **ratemaking process?**

124 A. Yes. As will be discussed in the Bill Impacts section below, the lack of actual  
125 numbers for the translation tariff means that the actual power costs to be paid by  
126 rate classes will remain unknown until after the auction is conducted.

127 Furthermore, the costs customers will incur for the delivery of that power will not  
128 be known until the conclusion of the upcoming delivery services docket. Thus,  
129 the potential bill impacts created by the translation prism will not be known before  
130 the conclusion of this docket.

131

## 132 **Design of BGS Rate Classes**

133

134 **Q. What is the Company's general approach to designing rate classes for**  
135 **bundled service customers?**

136 A. The Company proposes to consolidate and realign customer classes for its three  
137 operating companies, AmerenIP, AmerenCIPS and AmerenCILCO. The  
138 consolidation combines disparate rates classes for the three companies into a  
139 single set of five classes for the purpose of determining power prices under  
140 bundled service.

141

142 **Q. What specific classes does the Company propose?**

143 A. The proposed classes include (1) the residential class (BGS-1); and non-  
144 residential classes consisting of: (2) Small General Service (BGS-2); (3) General  
145 Service (BGS-3); (4) Large General Service (BGS-4); and (5) Dusk to Dawn  
146 Lighting (BGS-5). (Resp. Ex. 5.0, p. 8).

147

148 The non-residential classes are divided up along the following lines:

- 149 • Small General Service (BGS-2) applies to all non-residential customers  
150 with metered demands of less than 150 kW.
- 151 • General Service (BGS-3) covers customers with demands ranging from  
152 150 kW – 1 MW.
- 153 • Large Service (BGS-4) applies to customers with demands greater than 1  
154 MW.
- 155 • Dusk to Dawn Lighting (BGS-5) applies to unmetered outdoor lighting  
156 controlled by photocells. (Resp. Ex. 5.0, pp. 11-17)

157

158 **Q. How did this set of classes come about?**

159 A. The Company explains the development of its proposed classes as follows:

160

161 The Ameren Companies' development of customer classes was primarily  
162 based on intra-class homogeneity which promotes the principle of cost  
163 causation and equitable cost recovery. The new rate classes reflect the  
164 fact that the Ameren Companies do not own generation and must procure  
165 power and energy in the wholesale market, coupled with their "wires

166 company” obligations. Additional factors were the desire for one set of  
167 rates for the entire Ameren Illinois footprint, consistency with the  
168 Company’s existing Delivery Service rate classes, rate migration, rate  
169 administration, ease of customer understandability, the commoditized  
170 nature of today’s energy markets, BGS/DS rate synchronization, and  
171 existing customer metering installations. The final rate classifications were  
172 based on objective and subjective weighting of all of the above factors.

173 (Company Response to Staff Data Request PL 1.2(a))  
174

175 **Q. How do you assess this explanation?**

176 A. The Company’s response is incomplete. Although the Company identifies its  
177 objectives in the process of developing rate classes, it fails to explain how the  
178 specific rate classes it has created satisfy these objectives.  
179

180 **Q. Did the Company perform any studies or analyses to support the new set of**  
181 **classes?**

182 A. Ameren states that it did not perform any studies or analyses (Company  
183 Response to Staff Data Request PL 1.2(b)). The lack of any formal studies or  
184 analyses adds to the questions about how the proposed rate classes were  
185 developed.  
186

187 Bill Impacts  
188

189 **Q. Please begin by explaining why bill impacts should be considered in the**  
190 **ratemaking process.**

191 **A.** Utility bills can be a significant cost for ratepayers, both residential and non-  
192 residential alike. Significant increases in utility bills can have a disruptive effect  
193 on ratepayers' budgets. If the changes are sudden, rather than gradual,  
194 ratepayers may not have sufficient time to make changes in their behaviors to  
195 absorb the higher cost. Thus, it may be necessary to limit those increases to give  
196 affected customers the opportunity to adjust to the new paradigm by introducing  
197 rate changes on a gradual basis.

198  
199 Bill impacts are, by nature, a judgment issue. There is no clear and obvious way  
200 to consider bill impacts in a proceeding. Nevertheless, it would be poor policy to  
201 ignore bill impacts and focus solely on costs.

202  
203 **Q. What is the relationship between the terms “bill impacts” and “rate**  
204 **impacts”?**

205 **A.** These are closely related, but not identical, terms. Bill impacts pertain to the  
206 overall changes in customer bills while rate impacts focus on changes in  
207 individual rates.

208  
209 An example of a rate impact issue is the reaction to proposed increases in  
210 residential customer charges. Some customers react strongly (and negatively) to

211 an increase in the customer charge even when their overall bills do not rise  
212 significantly. Sometimes, limits may be placed on the level of increase for the  
213 customer charge to forestall such a reaction.

214  
215 Despite the difference between the two terms, there is a tendency among some  
216 participants in the regulatory process to use the term “rate impacts” in discussion  
217 of bill impact issues. The discussion in my testimony focuses on bill impacts.

218

219 **Q. How does the Company believe rate impacts should be considered in this**  
220 **proceeding?**

221 A. The Company explained its views on the subject accordingly:

222

223 The Ameren Companies recognize that historically the Commission has  
224 considered the effects of a change in rates on specific rate classes,  
225 particularly the residential class. In many instances, the Commission has  
226 approved rates that do not provide a full rate of return for the residential  
227 class to mitigate the effect of rate changes on that class. The Commission  
228 has typically indicated in such instances that it supports a movement  
229 toward rates for each class that reflect the class’s full cost of service. The  
230 Ameren Companies do not believe that the Commission has the same  
231 latitude to approve inter-class subsidies for the generation component of  
232 electric service post-2006. Unlike in the past, or with respect to other  
233 commodities (such as water), members of rate classes that would be  
234 subsidizing the residential class (for example) have other supply options

235 available to them. Since the Ameren Companies are proposing that every  
236 customer be supplied generation at a market rate, any attempt by the  
237 Commission to understate residential rates (i.e., price generation below  
238 market) would require the Commission to approve rates overstating  
239 generation costs (i.e., price generation above market) for one or both  
240 other proposed rate classes. If members of those other classes are  
241 confronted with the choice of purchasing generation above-market from  
242 the Ameren Companies, or at market from a RES, they are likely to  
243 purchase from the RES. This means that the subsidy cannot flow from one  
244 class to the other, and the Ameren Companies will not recover the  
245 expected revenue from the subsidizing class(es). Under the Ameren  
246 Companies' proposal, the shortfall would be recovered from remaining  
247 customers - including (if not principally) the residential customers. The  
248 Commission can continue to consider rate impacts when designing  
249 delivery service rates. The Ameren Companies, however, have not  
250 proposed new delivery service rates in this filing. Accordingly, there is no  
251 role for consideration of rate impacts on specific rate classes in this  
252 proceeding. (Company Response to Staff Data Request PL 1.3(a))

253  
254 The Company's argument is straightforward. It believes that rate impacts should  
255 take a back seat to the objective of protecting the future revenue flows of  
256 Ameren-affiliated generation companies. The argument rests on the assumption  
257 that addressing rate impacts is synonymous with providing subsidies to the  
258 residential class. The Company argues that this will result in higher rates for non-

259 residential customers who will then migrate away from bundled power supplied  
260 by Ameren affiliates, a scenario the Company seeks to avoid.

261

262 **Q. How do you assess this argument by the Company?**

263 A. I believe the Company's priorities are misplaced. Ameren appears to  
264 demonstrate more concern for its unregulated affiliate than for ratepayers. I  
265 believe the Commission should have a different set of priorities that focuses on  
266 ratepayers, rather than non-regulated Ameren affiliates. It should be remembered  
267 that Ameren, not the Commission, made the proposal to spin off generation from  
268 the regulated utility. While Ameren may desire to serve the interests of its  
269 affiliated generators, the Commission has no responsibility to do the same.

270

271 **Q. Did Ameren further expand on its view of the bill impacts issue?**

272 A. Yes, when asked about whether impacts from the proposed rates might be  
273 considered "undue", Ameren responded as follows:

274

275 It is not clear what an "undue impact" might be. Under the Ameren  
276 Companies' proposal, each customer class will pay the cost of serving that  
277 class. Accordingly, no impact may reasonably be said to be "undue".

278 Further, the residential class has benefited from significant rate decreases  
279 throughout the mandatory transition period. The expiration of those  
280 benefits may not properly be deemed an "undue impact" – it is simply the  
281 expiration of a benefit that was never intended to exist in perpetuity.

282 (Company Response to Staff Data Request PL 1.3).

283

284 **Q. What is your opinion of the Company's argument?**

285 A. I find it problematic. It would be useful to address the Company's confusion about  
286 what an "undue impact" might be. Among the definitions of undue provided by  
287 Webster's New World Dictionary<sup>1</sup> are "excessive" and "inordinate". I believe that  
288 a cost-based approach could still produce excessive, inordinate increases for  
289 individual customer classes under certain circumstances.

290

291 **Q. Has the Company provided any analysis of potential rate impacts for its  
292 proposed Post-2006 rates?**

293 A. No. The Company apparently believes that discussions of rate impacts issues  
294 are not relevant for the current proceeding, as the following discovery response  
295 suggests:

296

297 Q. Please provide a copy of all Company memos, emails or other written  
298 materials that discuss in any manner the potential rate impacts for end-  
299 use customers resulting from the transition to post-2006 rates.

300

301 A. The Ameren Companies object to this request on the grounds that it is  
302 unlikely to lead to the discovery of relevant, admissible evidence. The  
303 Ameren Companies further object that it calls for the production of  
304 information that has been prepared at the request of counsel in

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<sup>1</sup> "New Webster's Dictionary of the English Language, College Edition", Copyright 1975 Consolidated Book Publishers, p. 1685.

305 anticipation of litigation, specifically the Ameren Companies' forthcoming  
306 delivery services rate case. Without waiving these objections, the Ameren  
307 Companies state their management has publicly stated that they presently  
308 anticipate average rate increases in the range of 10-20% for Illinois  
309 electric operations as a whole. (Company Response to Staff Data Request  
310 PL 1.3(f))  
311

312 **Q. Please comment on this response.**

313 A. It raises both confusion and concern. Confusion stems from the statement that  
314 information on rate impacts is not relevant to this docket but is relevant to the  
315 setting of rates for delivery services. Why this should not be a concern in the  
316 docket which determines the largest component of bundled rates, power costs, is  
317 not explained.  
318

319 **Q. Does the Company take an inconsistent approach on this issue?**

320 A. Yes. While Ameren as a general rule opposes the consideration of bill impacts, it  
321 does make one important exception. The Company proposes a declining block  
322 rate for residential customers during non-Summer months. The Company begins  
323 its discussion of the issue by stating that customers with usage in the non-  
324 summer lower priced block have electric space heating (Resp. Ex. 5.0, p. 12).  
325 The Company then proposes to maintain the declining block structure, arguing  
326 that it (1) maintains continuity with existing rate structures for Ameren operating  
327 companies and (2) "will help to mitigate concerns of customer rate impact, if any"  
328 (Resp. Ex. 5.0, p. 13).

329

330 **Q. Does the Company provide any meaningful evidence to demonstrate that**  
331 **residential space heating customers deserve special treatment from a bill**  
332 **impacts standpoint?**

333 A. No. The Company was asked in discovery whether it had performed any  
334 analyses or studies of the impact on residential space heating customers of a flat  
335 non-summer rate. The Company failed to provide any in its response (Company  
336 Response to Staff Data Request PL 1.12).

337

338 **Q. What do you conclude from this discussion of Ameren's proposed non-**  
339 **summer declining block rate for residential customers?**

340 A. The Company has chosen to adopt a narrow definition of bill impacts that looks  
341 solely at one subclass of customers without taking into consideration other  
342 customers within the class or customers in other classes.

343

344 **Q. Do you believe that this proceeding should be concerned with bill impact**  
345 **issues?**

346 A. Yes. I believe that the proceeding should address bill impacts not just for  
347 residential space heating customers, but for all residential customers and for  
348 non-residential customers in a fair and equitable manner.

349

350 **Q. Why do you believe bill impacts should be considered in this case?**

351 A. There are a number of reasons. First, there is precedence. Bill impacts have

352 been an important consideration, in fact the overriding consideration, in designing  
353 rates under the Customer Choice and Rate Relief Law of 1997. Second,  
354 significant changes are being made to the alignment of customer classes and the  
355 way that power is procured which could create significant bill impacts for  
356 customers. Third, the proposed procurement approach makes it difficult to  
357 determine in advance the potential bill impacts under Post-2006 rates. It is  
358 essential to take a preventative approach to avoid increases significantly outside  
359 the norm.

360

361 **Q. Why do you believe that the 1997 Customer Choice and Rate Relief Law**  
362 **provides a precedent for considering bill impacts in the ratemaking**  
363 **process?**

364 A. The law states that the regulatory process should have a broader perspective  
365 than just costs as the following passage attests:

366

367 A competitive wholesale and retail market must benefit all Illinois citizens.  
368 The Illinois Commerce Commission should act to promote the  
369 development of an effectively competitive electricity market that operates  
370 efficiently and is equitable to all consumers. Consumer protections must  
371 be in place to ensure that all customers continue to receive safe, reliable,  
372 affordable and environmentally safe electric service. (220 ILCS 5/16-  
373 101A(d))

374

375 In addition, bill impacts have been the overriding concern in setting bundled

376 electricity rates in Illinois since the Customer Choice and Rate Relief Law was  
377 enacted in 1997. The law instituted a rate freeze for non-residential customers  
378 and actual rate reductions of 5-20% for residential customers. By the time that  
379 new rates go into effect in 2007, this rate freeze and reduction will have been in  
380 effect for nine years.

381  
382 The only factor considered in this rate freeze/reduction was bill impacts. No effort  
383 was made to determine the relationship of the frozen or reduced bundled rates to  
384 the underlying cost of service. Furthermore, when the rate freeze/reduction was  
385 revisited in 2003, there was no effort to align bundled electric rates with costs.  
386 Instead, the rate freeze and reduced rates were extended until the beginning of  
387 2007. Thus, over the nine years following the enactment of the 1997 Customer  
388 Choice and Rate Relief Law, costs have deferred to bill impacts as a basis for  
389 setting bundled electric rates in Illinois.

390

391 **Q. How do Ameren's proposed changes in customer classes affect the bill**  
392 **impacts issue?**

393 A. The Company is proposing a significant consolidation and realignment of bundled  
394 classes which can have a significant impact on bundled rates. The consolidation  
395 entails combining separate rates for customers for the three Ameren operating  
396 companies, AmerenIP, AmerenCILCO and AmerenCIPS, into one new set of rate  
397 classes. These steps can create adverse bill impacts independent of any change  
398 in power costs. When combined with the prospect of higher power and delivery  
399 costs which the Company itself believes will rise by an average of 10-20%

400 (Company Response to Staff Data Request PL 1.3), there is good reason for  
401 concern about significant adverse bill impacts for customers.

402

403 **Q. Please discuss the challenge Ameren's proposed translation tariff presents**  
404 **for assessing potential bill impacts?**

405 A. The challenge arises because Ameren's proposed Rider MV contains formulas  
406 but no hard numbers. The actual power costs that customers will actually pay in  
407 the Post-2006 environment will depend on the input of future data into those  
408 formulas. Until that data becomes available, the power costs to be paid by  
409 bundled customers are a matter for speculation.

410

411 **Q. Why does this lack of transparency present a particular problem for the**  
412 **consideration of Post-2006 rates?**

413 A. January 1, 2007 will mark the end of a decade-long era of frozen bundled rates  
414 for bundled service customers that reflected rate freezes for non-residential  
415 customers and rate reductions of up to 20% for residential customers. The key  
416 component of the future prices customers will pay will depend on the results of  
417 the power auction. Whether power prices increase and, if so, by how much will  
418 depend on the vagaries of the auction bidding process. How those costs are  
419 allocated among rate classes will depend on future load and forward price data.  
420 In this uncertain environment, it is not clear whether future costs will be spread  
421 evenly among rate classes or whether some classes will incur significantly higher  
422 increases than other classes and, if so, what the magnitude of those differences  
423 might be.

424

425 **Q. How do you propose to incorporate bill impact concerns into the**  
426 **translation tariff?**

427 A. Bill impacts present a particular challenge in this case because the remedy must  
428 be proposed before the details of the problem are actually known. The outcome  
429 of this proceeding will be the approval of a formula, rather than actual rates. The  
430 rates will not take form until the first auction is complete. Therefore, any remedy  
431 in this area must be prospective and designed to address potential scenarios that  
432 may or may not come to pass.

433

434 **Q. What is the starting point for your proposal to address bill impacts issues?**

435 A. The starting point is the overall increase in electric bills for bundled customers.  
436 The level of increase over existing customer bills due to the imposition of Post-  
437 2006 rates will be the overriding concern.

438

439 **Q. What mechanism do you propose to use to limit bill impacts for bundled**  
440 **customers?**

441 A. I propose a formula to limit overall bill impacts by adjusting the level of increase  
442 in power costs for customer groups. If the level of increase in bundled electric  
443 bills for an existing customer group exceeds an acceptable level, power costs for  
444 those customers will be adjusted downward.

445

446 **Q. When will this proposed adjustment process take place?**

447 A. Because Post-2006 electric bills for bundled customers will not be known until  
448 after the power auction and the upcoming delivery services case, the specific  
449 adjustment process must await the conclusion of these dockets.

450

451 **Q. Do you propose any limitations on the scope of your proposal to address**  
452 **bill impacts issues?**

453 A. Yes, I propose that all efforts to address bill impacts issues be limited to  
454 customers participating in the up to 1 MW fixed price (BGS-FP) auction.  
455 Customers from the other auction proposed by Ameren (the fixed price auction  
456 for 1 MW and above customers, or BGS-LFP) would be excluded from this  
457 proposal to address bill impacts.

458

459 **Q. Why do you propose to exclude customers participating in the BGS-LFP**  
460 **auction from your bill impacts adjustment plan?**

461 A. The features of the other auction justify the exclusion of customers one MW and  
462 above. Under the BGS-LFP auction, instead of a transition prism, the proposal  
463 is that all customers should pay the energy prices embodied in the winning bids.  
464 The fact that all bundled customers are paying the same power costs creates  
465 equity for all concerned and, thereby, addresses the issue of bill impacts.

466

467 Furthermore, it would not make sense to have customers in one auction  
468 subsidize power costs paid by customers in another auction. Such a result could  
469 create differences between the overall power costs paid by customers and power  
470 prices received by suppliers within an auction. That would add an unneeded level

471 of complexity to the process.

472

473 This process of elimination means that all efforts to address bill impacts issues  
474 should be limited to customers in the BGS-FP auction.

475

476 **Q. How do you determine an acceptable limit on bill impacts for customers**  
477 **within this auction?**

478 A. Such a determination is necessarily a matter of judgment. There is no generally-  
479 accepted formula to apply to each situation. Instead, the particular circumstances  
480 of each proceeding must be examined individually to determine what the  
481 appropriate limits, if any, should be. In this case the schedule for the proposed  
482 auction requires that the issue be addressed prospectively.

483

484 The specific formula I propose to address bill impacts is guided by three key  
485 considerations. First, bill impacts should be measured by how rate classes fare  
486 relative to the auction group as a whole. If the imposition of Post-2006 rates  
487 increased total rates for all customers by 50%, the impacts would be severe, but  
488 no basis would exist to make any bill impact adjustments because the impact of  
489 the rate increase is equally shared. However, if the overall rate increase is 5%  
490 and one customer group faces an increase of 50%, then the increase for that  
491 customer class should be limited to a lower level.

492

493 A second consideration for addressing bill impacts is the absolute level of  
494 increase facing individual rate classes and the BGS-FP auction group as a

495 whole. If the overall increase is smaller, then individual customer classes will be  
496 able to absorb a higher increase relative to the overall average. As the overall  
497 increase for the BGS-FP auction group rises, it becomes increasingly difficult for  
498 customer classes within that group to absorb increases that greatly exceed the  
499 overall average. For example, if Post-2006 rates produced a 5% overall increase  
500 in retail rates for the BGS-FP auction, then individual classes within that group  
501 would be more able to absorb an increase double that size (10%). If the overall  
502 increase rose to 25%, however, then imposing an increase twice as large (50%)  
503 for a customer class could be considered burdensome.

504

505 Third, bill impacts should be addressed solely within the context of the BGS-FP  
506 auction. If total bills were limited for a group of customers, only customers within  
507 the BGS-FP auction would be subject to an offsetting increase in power costs.  
508 So, for example, customers in the BGS-LFP auction would not be subject to an  
509 increase in power costs to offset a limit on bill increases for residential customers  
510 in the BGS-FP auction.

511

512 **Q. What specific limits on power costs do you propose to address bill**  
513 **impacts?**

514 A. I propose that the Commission adjust increases in power costs to limit overall bill  
515 increases for customers to the greater of the following: 20% or 150% of the  
516 average for customers in the BGS-FP auction. That means that if the overall bill  
517 increase for customers within that auction is 13.67% or less, the maximum  
518 increase for any group of customers within the auction should be 20%. For an

519 overall increase greater than 13.67%, the 150% of auction average limit would  
520 apply. So, if the average increase for the BGS-FP auction is 20%, no customer  
521 class would receive an increase greater than 30%.

522

523 **Q. How would you specifically adjust generation prices to conform bills to**  
524 **your proposed percentage limits?**

525 A. The adjustment process would take place after all components of the bundled  
526 ratemaking process are complete, which includes the current proceeding, the  
527 auction and the delivery service rate case. Then, the overall level of increase for  
528 customers would be used to determine which maximum, 20% or 150% of the  
529 BGS-FP auction average, should apply. After that, current and Post-2006 bills for  
530 each proposed rate class must be calculated. If the increase for an individual rate  
531 class climbs above the applicable proposed maximum, then the power price for  
532 that class would be set at a level that brings the class back down to the  
533 designated maximum and the resulting revenue shortfall would be allocated on  
534 an equal percentage basis to all remaining classes. If that reallocation served to  
535 raise a class above the maximum, then the maximum would be applied to that  
536 class as well and the revenue shortfall would be reallocated again among classes  
537 not subject to the maximum.

538

539 **Q. Do you have any specific proposal to address bill impacts for existing**  
540 **space heating customers?**

541 A. Yes, it will be necessary to maintain some form of the Non-Summer declining  
542 block rate for current space-heating customers to mitigate potentially adverse bill

543 impacts. The current blocking size for these customers should be maintained and  
544 the tailblock should be adjusted to conform these customers' average bill  
545 increases to the maximum of 20% or 150% of the BGS-FP auction average.  
546

547 **Q. How would your proposed approach align the power costs that customers**  
548 **pay with the power cost allocations they receive under the translation**  
549 **prism over time?**

550 A. Under the translation tariff, power prices will be updated annually (after an initial  
551 17-month period) to incorporate the results of auctions to replace expiring power  
552 contracts. Each time power prices are updated customers within the auction  
553 group would again be subject to the limit of the maximum of 20% or 150% of the  
554 average for the auction group. This would provide an opportunity to bring the  
555 power costs that customers pay further into line with the power costs they cause  
556 suppliers to incur, subject to these limits. Because future auctions will affect only  
557 a portion of overall power costs and not impact delivery services rates, there will  
558 be considerable latitude to bring the power costs that customers pay in line with  
559 the costs they cause to be incurred.  
560

561 **Q. What is the downside of your proposed constraints?**

562 A. To the extent that the constraints come into play, there will be a gap between the  
563 costs that ratepayers cause and the prices that they pay. However, that is clearly  
564 outweighed by the value of reducing rate shock for some ratepayers. In addition,  
565 the long experience of the rate freeze demonstrates that the electric industry in  
566 Illinois can effectively deal with rates developed according to non-cost factors.

567

568 **Translation Energy Prices**

569

570 **Q. What issue arises concerning the energy prices used by Ameren to develop**  
571 **its proposed translation prism?**

572 A. The issue concerns the reasonableness of the forward prices used to develop  
573 the Peak and Off-Peak prices.

574

575 **Q. What set of forward prices does the Company propose to use for**  
576 **developing its market energy prices?**

577 A. Ameren proposes to use forward prices for energy delivered into the MISO  
578 Central Illinois Hub (Ill C.C. No. 35, Original Sheet No. 27.037).

579

580 **Q. Why does the Company's proposed use of forward price products to**  
581 **develop market energy prices present a concern?**

582 A. Ameren has failed to establish the viability of the forward price product as a  
583 foundation for market energy prices. The problem centers on the low level of  
584 activity in the Central Illinois Hub forward price product market which calls into  
585 question its use in developing the translation prism.

586

587 **Q. Do you have any concerns about the use of these forward prices?**

588 A. Yes, Ameren has failed to establish that these are viable prices to use as a  
589 foundation for market energy prices. The Company appears to have questions of

590 its own about these forward prices because it has included language in its  
591 proposed Rider MV translation tariff which offers another set of forward prices in  
592 the “Into Cinergy Hub” as a backup in the event that the MISO energy markets  
593 fail to “develop in a timely manner” (Ill C.C. No. 35, Original Sheet No. 27.037).

594

595 Furthermore, the Company has failed to provide any information that would  
596 provide confidence in the forward prices it proposes to rely upon. The Company  
597 was asked to provide the number of contracts traded each day of the most recent  
598 year for which data exists. The Company responded that “[t]he Ameren  
599 Companies do not have the data requested” (Company Response to Staff Data  
600 Request PL 1.6(a)). Similarly, the Company was asked to provide the number of  
601 MWhs traded on each day of the most recent year for which data exists. Again,  
602 the Company indicated that the data was not available (Company Response to  
603 Staff Data Request PL 1.6(b)).

604

605 This lack of data leaves the regulatory process in the dark. It is impossible under  
606 these circumstances to independently evaluate the viability of Ameren’s  
607 proposed foundation for developing market energy prices. Thus, Ameren has  
608 failed at this juncture to demonstrate that the MISO Central Illinois Hub forward  
609 price market provides a reasonable price foundation for its proposed translation  
610 prism.

611

612 **Q. Why should the Commission be concerned about the liquidity of this**  
613 **market?**

614 A. If the market is not liquid, then it is easier for a small number of participants to  
615 game or exert control over the resulting prices. This can create a divergence with  
616 the prices that would result from a more competitive market in which a larger  
617 number of trades take place.

618

619 **Q. How should this problem be addressed?**

620 A. I propose that the Company's forward market pricing approach should be  
621 replaced with a method based on LMPs. Specifically, I propose to base Peak and  
622 Off-Peak prices on the weighted average of hourly LMPs in Ameren's service  
623 territory for the year ending 90 calendar days before the earliest possible auction  
624 commencement date.

625

626 The first step in the process would be to calculate an average LMP for each hour  
627 of the month. That average LMP would be the simple average of all LMPs across  
628 Ameren's service territory. Then each of these LMPs would be weighted by the  
629 corresponding MWh load for Ameren's retail customers for that hour. The sum of  
630 these weighted LMPs for each hour of the Peak period would be divided by the  
631 total MWh for the Peak period to produce a monthly Peak price. Similarly, the  
632 sum of weighted LMPs over the remaining hours of the month would be divided  
633 by the corresponding MWhs of load to produce a monthly Off-Peak price.

634

635 **Q. What advantage do weighted LMPs offer over forward prices for developing**

636 **Peak and Off-Peak market energy costs in the translation tariff?**

637 A. The advantage is that LMPs are more viable. In contrast to forward price  
638 products that result from sporadic trades in a fledgling market, LMPs represent  
639 the spot prices of power at various locations within Ameren's territory and  
640 throughout MISO for each five minute interval throughout the year. The LMPs are  
641 not just financial instruments but rather are prices that buyers and sellers rely on  
642 in the power markets. In short, LMPs comprise an important and essential price  
643 foundation for Ameren and the MISO system as a whole and it would be  
644 reasonable to extend their use to the development of the translation prism.

645

646 **Q. How would you address the criticism that historical LMPs are incompatible**  
647 **with a forward-looking prism?**

648 A. The issue is secondary to the issue of which is the more stable foundation for  
649 market energy prices. On this count, LMPs hold a distinct advantage. The  
650 forward price products on which Ameren seeks to rely appear to have been  
651 created in a weak, unstable market and undermines their usefulness as a  
652 ratemaking tool. The LMPs incurred in Ameren's service territory are not saddled  
653 with such a credibility issue. In short, whatever advantage the forward price  
654 products may offer by being future-oriented is outweighed by the weakness of  
655 the market in which they are developed. Thus, on balance, LMPs offer the more  
656 reasonable foundation for developing the translation prism.

657

658

659

## **Peak and Off-Peak Periods**

660

661 **Q. How are Peak and Off-Peak periods employed in Ameren's proposed**  
662 **translation tariff?**

663 A. The Company proposes to use Peak and Off-Peak periods as a foundation for  
664 allocating generation costs among rate classes. For each month of the year, the  
665 Company divides the total number of hours into Peak and Off-Peak periods.  
666 Then the Company develops average Peak and Off-Peak market energy prices  
667 for each month. These averages are then multiplied by the corresponding MWhs  
668 sold to each rate class to develop a total cost of serving each class during the  
669 Peak and Off-Peak hours of each month.

670

671 **Q. What specific hours of the week does the Company propose for its Peak**  
672 **period?**

673 A. Ameren proposes that Peak hours be between the hours of 6 a.m. – 10 p.m.,  
674 Monday – Friday Central Prevailing Time (excluding holidays) (Resp. Ex. 50, p.  
675 10). The Company justifies these hours in the following terms:

676

677 The Ameren Companies are proposing the use of an on-peak period that  
678 extends from 6 a.m. to 10 p.m. on weekdays, to promote consistency  
679 between its on-peak peak pricing period and those of the prevailing power  
680 markets, and, also the on-peak pricing period of the Midwest Independent

681 System Operator, Inc. (MISO) of which the Ameren Companies are a  
682 member. Then proper matching of costing periods and pricing periods  
683 promotes cost causation and equitable cost recovery principles in that  
684 there is a true alignment between the cost incurrence period and the  
685 pricing or cost recovery period. Additionally, the proposal to mirror market  
686 on-peak hours is competitively neutral in that it does not encourage or  
687 discourage customers to opt for power and energy supply from the  
688 Company vs. ARES. (Company Response to Staff Data Request PL 1.1).

689

690 **Q. Please comment on Ameren's proposed revision to the definitions of Peak**  
691 **and Off-Peak periods.**

692 A. Ameren's proposed Peak and Off-peak time periods are too broad and should  
693 not be used to price power. These periods should be developed according to the  
694 impact of customer classes on the wholesale cost of power. Simply put, the Peak  
695 periods should cover the part of the day when the demand for power is higher  
696 and more supply resources are needed. The higher prices are designed to  
697 discourage demand during the Peak periods and reduce the strain on resources  
698 needed to meet that demand. Setting the Peak period too broadly will produce  
699 prices that are too high when demand is low and prices that are too low when  
700 demand is high. Lower peak prices will reduce the incentive to curb demands at  
701 the peak period and ratepayers may have to incur additional costs for securing  
702 the necessary supply resources to cover those demands.

703

704 The Company has selected Peak and Off-Peak periods solely for the purpose of

705 aligning the retail Peak period with wholesale market Peak and Off-Peak periods.  
706 A Peak period this broad combines hours when demand is high with hours when  
707 demand is considerably lower and thereby weakens the potential signal sent to  
708 ratepayers of the significant resources necessary to serve customers during peak  
709 times.

710  
711 The problem is represented in the attached Schedule 1 which presents average  
712 peak and off-peak demands for each Summer 2004 (June through September)  
713 weekday (excluding holidays). The schedule shows that average hourly system  
714 demand for the hours of 6 a.m. – 10 a.m. on these days averages 4,410 MWs. In  
715 contrast, hourly demand for 10 a.m. – 10 p.m. averages 5,675 MWs, more than  
716 28% higher than the 6 a.m. – 10 a.m. period.

717  
718 This example shows that the shoulder hours of 6 a.m. – 10 a.m. have a different  
719 character and should not be considered part of the peak period. To lump demand  
720 during these hours into the Peak period creates an improper signal concerning  
721 the impact of ratepayer demands on power costs during this time.

722

723

724 **Q. Please comment on Ameren's argument for its proposed Peak and Off-**  
725 **Peak periods.**

726 A. I find the argument to be flawed. The Company is arguing that the best way to  
727 send proper price signals to customers is to align the retail electricity market as  
728 closely as possible with the wholesale market. However, the Company itself does

729 not follow its own advice in the development of its proposed translation prism.  
730 The Company has chosen not to directly pass the prices paid to suppliers along  
731 to ratepayers. Instead, Ameren has developed a translation prism that creates  
732 differences between the prices that Ameren pays in the wholesale market and  
733 the prices that consumers pay in the retail market.

734

735 **Q. Please explain.**

736 A. Ameren's auction proposal will produce two prices for power in the wholesale  
737 market; one for the Summer months and a second for non-Summer months.  
738 However, in recovering electricity costs from ratepayers, Ameren does not simply  
739 propose that these costs be passed directly through to ratepayers. Instead, the  
740 Company proposes that each rate class pay a different price. In addition, while  
741 auction prices are not differentiated by time of day, Ameren will recover power  
742 costs through Peak and Off-Peak rates for larger customers.

743

744 **Q. What does this discussion indicate about the purpose of the translation  
745 prism?**

746 A. The purpose of the prism is not simply to align the retail market with the  
747 wholesale market. Rather, the prism seeks to determine how each customer  
748 class contributes to the wholesale power cost and then sets prices accordingly.

749

750 **Q. What alternative approach do you propose for determining the Peak and  
751 Off-Peak periods?**

752 A. I propose that the Company employ a definition for Peak and Off-Peak periods

753 that seek to maintain consistency with the current definitions for Ameren  
754 customers. Currently, the three operating companies have different definitions of  
755 the weekday Peak period. For AmerenIP it is 10 a.m. – 9 p.m. (Ill. C.C. No. 31,  
756 Second Revised Sheet No. 5.7); for AmerenCIPS, 10 a.m. – 10 p.m. (Ill. C.C. No.  
757 18, Original Sheet No. 9.001); and for AmerenCILCO, 10 a.m.-10pm during the  
758 Summer and 7 a.m.-10 p.m. in other months (Ill. C.C. No. 9, Fifth Revised Sheet  
759 No. 49). The time period that is most consistent with current practices by the  
760 three companies begins at 10 a.m. and ends at 10 p.m. This proposal, which  
761 provides continuity with the current Peak period, offers benefits to customers who  
762 are on time-based rates and have aligned their consumption behavior to take  
763 advantage of the current definitions of Peak and Off-Peak hours. If the definition  
764 of the Peak were to be broadened to the range proposed by Ameren, then these  
765 customers would find it necessary to make significant changes in their  
766 consumption behavior to adjust to an extended peak period.

767

768 **Q. Is there precedence for Peak periods diverging between the retail and**  
769 **wholesale markets?**

770 A. Yes. In New Jersey, utilities do not consistently adhere to the 7 a.m.-11 p.m.  
771 (Eastern) Peak period prevailing in the PJM wholesale market to devise Peak  
772 periods for their retail customers. For example, Public Service Electric and Gas  
773 defines the Peak period for residential time-of-day customers as 7 a.m. to 9 p.m.  
774 (EST) (B.P.U.N.J. No 14 Electric, Original Sheet No. 92) and 8 a.m. to 10 p.m.  
775 for Large Power and Lighting customers (B.P.U.N.J. No 14 Electric, Original  
776 Sheet No. 127). The two applicable tariffs sheets are included in Schedule 2

777 attached to my testimony.

778

779 **Q. Does this conclude your direct testimony?**

780 **A. Yes.**

**Hourly Summer Load Data for Ameren Customers  
 2004**

	Total Summer Usage MWh	Average Daily Usage Mwh 1/
12-1am	364,974	4,244
1am-2am	348,305	4,050
2am-3am	338,087	3,931
3am-4am	330,438	3,842
4am-5am	329,133	3,827
5am-6am	335,318	3,899
6am-7am	347,799	4,044
7am-8am	369,901	4,301
8am-9am	390,651	4,542
9am-10am	408,677	4,752
10am-11am	424,319	4,934
11am-Noon	437,854	5,091
Noon-1pm	448,629	5,217
1pm-2pm	458,447	5,331
2pm-3pm	466,370	5,423
3pm-4pm	471,273	5,480
4pm-5pm	472,973	5,500
5pm-6pm	470,133	5,467
6pm-7pm	461,358	5,365
7pm-8pm	451,905	5,255
8pm-9pm	445,775	5,183
9pm-10pm	438,539	5,099
10pm-11pm	417,486	4,854
11pm-12am	393,734	4,578
<hr/>		
Average Hourly		
6am-10am	379,257	4,410
10am-10pm	453,965	5,279

1/ Average of 86 weekdays, excluding holidays.

Source: Company Response to Staff Data Request PL 1.04(a), Attachment 1.

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

B.P.U.N.J. No. 14 ELECTRIC

Original Sheet No. 92

**RATE SCHEDULE RLM  
RESIDENTIAL LOAD MANAGEMENT SERVICE  
(Continued)**

**Transmission Obligation:**

The customer's Transmission Obligation, in kilowatts, is determined in a similar manner to the Generation Obligation described above. The Transmission Obligation represents the level of transmission network service that must be procured by the customer's electric supplier from PJM to provide service to the customer.

Costs associated with the Generation and Transmission Obligations are included in the charges for Basic Generation Service and may affect the price offered by a Third Party Supplier.

**TIME PERIODS:**

The On-Peak time period shall be considered as the hours from 7 A.M. to 9 P.M. (EST) Monday through Friday. All other hours shall be considered the Off-Peak time period.

**TERMS OF PAYMENT:**

Bills are due on presentation.

**TERM:**

The term for delivery service is one year and thereafter until terminated by five days notice.

**SPECIAL PROVISIONS:**

- (a) **Limitations on Service:** This rate schedule is available where all service is measured by one meter, except for service provided under Rate Schedules WH or WHS:
- (a-1) In individual residences and appurtenant outbuildings;
  - (a-2) In residential premises where customer's use of electric service for purposes other than residential is incidental to its residential use;
  - (a-3) On residential farms;
  - (a-4) For rooming or boarding houses where the number of rented rooms does not exceed twice the number of bedrooms occupied by the customer;
  - (a-5) To a customer in a two- or three-family building who has the service for incidental common-use equipment registered on its meter;
  - (a-6) In individual flats or apartments in multiple-family buildings;
  - (a-7) In multiple-family buildings of two or more individual flats or apartments where electric service is furnished to the tenants or occupants of the flats or apartments by the owner without a specific charge for such service.
- (b) **Resale:** Service under this rate schedule is not available for resale.

Date of Issue: August 4, 2003

Effective: August 1, 2003

Issued by FRANCIS E. DELANY, Jr., Vice President and Corporate Rate Counsel  
80 Park Plaza, Newark, New Jersey 07102

Filed pursuant to Order of Board of Public Utilities dated July 31, 2003  
in Docket No. ER02050303

PUBLIC SERVICE ELECTRIC AND GAS COMPANY

First Revised Sheet No. 127

B.P.U.N.J. No. 14 ELECTRIC

Superseding

Original Sheet No. 127

**RATE SCHEDULE LPL  
LARGE POWER AND LIGHTING SERVICE  
(Continued)**

**Generation Obligation:**

The customer's Generation Obligation, in kilowatts, is determined by Public Service no less frequently than once a year. The Generation Obligation for existing customers or for new customers utilizing an existing building or premise is based upon the customer's share of the overall summer peak load assigned to Public Service by the Pennsylvania-New Jersey-Maryland Office of the Interconnection (PJM) as adjusted by PJM assigned capacity related factors and shall be in accordance with Section 9.1, Measurement of Electric Service, of the Standard Terms and Conditions. The Generation Obligation for customers taking service in a new building or premise, as determined by Public Service, is based upon the load requirements, as estimated by Public Service, of the customer's building or premise. The Generation Obligation represents the generator capacity that PJM requires an electric supplier to have available to provide electric supply to a customer.

**Transmission Obligation:**

The customer's Transmission Obligation, in kilowatts, is determined in a similar manner to the Generation Obligation described above. The Transmission Obligation represents the level of transmission network service that must be procured by the customer's electric supplier from PJM to provide service to the customer.

Generation and Transmission Obligations are used in the determination of the customer's charges for Basic Generation Service and may affect the price offered by a Third Party Supplier.

**TIME PERIODS:**

The On-Peak time period shall be considered as the hours from 8 A.M. to 10 P.M. Monday through Friday. All other hours shall be considered the Off-Peak time period.

**TERMS OF PAYMENT:**

Bills are due on presentation subject to a late payment charge at the rate of 1.416% per monthly billing period in accordance with Section 9.12 of the Standard Terms and Conditions. Service to a body politic will not be subject to a late payment charge.

**TERM:**

The term for delivery service is one year and thereafter until terminated by five days notice.

Customers who transfer from third party supply to Basic Generation Service may be subject to additional limitations regarding the term of Basic Generation Service as detailed in Section 14 of the Standard Terms and Conditions of this Tariff.

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80 Park Plaza, Newark, New Jersey 07102

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