

ILLINOIS COMMERCE COMMISSION
DOCKET NOS. 06-0070, 06-0071, & 06-0072

SUPPLEMENTAL DIRECT TESTIMONY

OF

WILBON L. COOPER

Submitted On Behalf

Of

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

March 8, 2006

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Wilbon. L. Cooper. My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63166.

Q. Are you the same Wilbon Cooper who previously submitted direct testimony in this proceeding?

A. Yes, I am.

Q. What is the purpose of your supplemental testimony?

A. The purpose of my testimony is to provide additional information regarding the application of the Supply Procurement Adjustment, Cash Working Capital Adjustment and Uncollectible Adjustments to the market value of power supply. As discussed in my direct testimony, delivery service tariffs, along with the

25 recently approved power supply tariffs in the Ameren Companies' Competitive
26 Procurement Auction cases before the Commission (ICC Docket Nos. 05-0160,
27 05-0161 and 05-0162 (consolidated) ("CPA Dockets"), will provide retail
28 customers of these operating companies with a continuation of bundled electric
29 service (*i.e.*, complete service from production to transmission to distribution) via
30 a combination of separate tariffs for power supply, transmission, and distribution
31 service. The application of the adjustments I mentioned is a necessary part of the
32 calculation of bundled service charges.

33 **Q. Why wasn't this information provided with your direct testimony?**

34 A. At the time of the Ameren Companies' filing, the Commission's order in the CPA
35 Dockets had not been issued. The Commission's order, which was entered on
36 January 24, 2006, has provided the Ameren Companies with additional guidance
37 on these issues.

38 **II. SUPPLY PROCUREMENT ADJUSTMENT**

39 **Q. Please describe the Ameren Companies' Supply Procurement Adjustment**
40 **("SPA").**

41 A. The SPA will compensate each Ameren Company for all direct and indirect costs
42 of procuring and administering power and energy supply for all customers, other
43 than amounts recovered in other charges to customers receiving power and energy
44 service from the Ameren Company. These costs incurred by the Ameren
45 Company will consist of costs not recovered from the supplier fee, including,
46 where applicable, professional fees, costs of engineering, supervision, insurance,
47 payments for injury and damage awards, taxes, licenses, and any other
48 administrative and general expense not already included in the auction prices for

49 power and energy service. This adjustment will also include any costs including
50 capital and operating costs for generation resources incurred outside of the CPA
51 process and any costs assigned to the power supply administration function in the
52 Ameren Company's delivery services rate case, as approved by the Commission
53 from time to time. The amount of this adjustment shall be established by the
54 Commission in a delivery services rate case.

55 **Q. What level of SPA costs is the Ameren Companies proposing to include in**
56 **these cases?**

57 **A.** Ameren Companies' witness Mr. Ronald D. Stafford's testimony and exhibits
58 provide detail on the Ameren Companies' proposed level of SPA costs to be
59 considered in these cases.

60 **Q. Did the Commission's order in the Ameren Companies' CPA case address**
61 **the recovery of SPA costs?**

62 **A.** Yes, the Commission's order, in part, stated, "In other words, the Commission
63 will decide the specific categories and associated levels of costs to be recovered
64 through the supply administration charge either in Ameren's next delivery
65 services rate proceeding or another appropriate proceeding." Additionally, the
66 Commission's order stated, in part, "While the Commission understands that
67 Ameren is concerned about the possibility of under-recovery due to fluctuating
68 kWh sales, the Commission is not prepared to adopt Ameren's proposed Rider
69 MV tracking mechanism for SPA costs at this time (emphasis added)."

70 **Q. What method does the Ameren Companies propose for the recovery of SPA**
71 **costs?**

72 A. The Ameren Companies are proposing the SPA costs be recovered through its
73 Rider Market Value (“Rider MV”) and its associated Market Value Adjustment
74 Factor (“MVAF”) – mechanisms that were approved by the Commission in the
75 CPA Dockets. More specifically, the Ameren Companies are proposing the
76 allocation and recovery of SPA costs across the Basic Generation Service and
77 Real Time Pricing rate classes on an energy volumetric basis, meaning they will
78 be equally weighted across the supply kilowatt-hour of all classes. The Ameren
79 Companies’ Commission approved Rider MV – Appendix A which contains
80 power and energy charges by charge type and by BGS or RTP rate class also
81 contains a line item for SPA. The Ameren Companies propose that the Appendix
82 A SPA charges be initially determined based on forecasted power and energy
83 sales to customers and SPA costs established by the Commission. As a result, the
84 SPA charges would be the Commission established SPA costs divided by
85 forecasted power and energy sales.

86 **Q. Would the above described imposition of the Appendix A SPA charge ensure**
87 **precise recovery of the SPA costs established by the Commission in this case?**

88 A. No, the use of estimated or historical MWh for bundled customers in the
89 denominator will always result in an over or under recovery of SPA costs. This
90 “imbalance” can be attributed to the ever fluctuating level of sales due to
91 customer switching and variations in weather to name a couple of key variables.

92 **Q. How do the Ameren Companies propose to address the imprecise recovery of**
93 **SPA costs in Appendix A of Rider MV?**

94 A. As stated above, the Ameren Companies are proposing a combination of
 95 Appendix A of Rider MV and the MVAF as the method to best address the
 96 precise recovery of SPA costs. The introduction of the MVAF's tracking nature
 97 to the recovery of SPA costs would result in a precise recovery of these costs and
 98 assurance that customers will not over pay for SPA costs due to a fluctuating
 99 customer base and sales level.

100 **Q. Please provide a hypothetical example of how the Rider MV Appendix A and**
 101 **MVAF combination method would ensure a precise recovery of SPA costs.**

102 A. The example below illustrates for a given month how the mechanics of the
 103 method work:

Supply Procurement Adjustment Costs **\$ 2.25**

<u>Month</u>	<u>Forecasted</u> <u>kWh Sales</u>	<u>Appendix</u> <u>A</u> <u>Charge</u> <u>(¢/kWh)</u>	<u>Actual</u> <u>Sales</u>	<u>MVAF</u> ¹ <u>ADJUSTMENT</u> <u>(\$/kWh)</u>
January	2,000	\$ 0.00015	1,600	N/A
February	1,500	\$ 0.00015	1,200	N/A
March	1,000	\$ 0.00015	800	\$ 0.000075 ²
April	800	\$ 0.00015	640	
May	600	\$ 0.00015	480	
June	1,000	\$ 0.00015	800	
July	1,500	\$ 0.00015	1,200	
August	1,800	\$ 0.00015	1,440	
September	1,500	\$ 0.00015	1,200	
October	1,100	\$ 0.00015	880	
November	900	\$ 0.00015	720	
December	<u>1,300</u>	\$ 0.00015	1,040	
Total	15,000			

¹ - Assumes two months lag in accounting

² - ((Jan. estimate of 2,000 less Jan. actual 1,600) * \$0.00015)/(March estimate 800)

104

105 As shown above, March's MVAF would contain a factor of \$0.000075/kWh to
106 compensate for the January's sales and associated SPA revenues being below the
107 estimated levels. This tracking process or over-or-under recovery for a given
108 month would be further adjusted in subsequent months by a balancing amount
109 (debit or credit) derived from prior applications of the SPA related MVAF, a step
110 to ensure the SPA MVAF is accurate. The Ameren Companies will file the total
111 MVAF charge or credit each month with the Commission, along with sufficient
112 detail of the calculations, prior to the effective date. It should again be noted that
113 this proposal of MV/MVAF tracking of SPA costs would be limited to the fixed
114 level of SPA costs established by the Commission in this case, and would not
115 change until a subsequent rate case.

116 **Q. Is the magnitude of the actual SPA as proposed by the Ameren Companies in**
117 **this case significant in terms of the overall BGS costs?**

118 A. No. The SPA costs are expected to remain a relatively small component of the
119 total Retail Supply Charge. For example, if one were to assume that the cost of
120 managing power procurement function including overhead was \$3 million
121 annually, the SPA cost would represent about \$0.10 to \$0.20 per MWh,
122 depending on the amount of bundled load being served. On a kilowatt-hour basis,
123 this translates to \$0.0001 to \$0.0002 per kWh. Assuming a residential customer
124 who has 1,000 kWh of monthly usage, the monthly bill impact would be 10 to 20
125 cents.

126 **Q. If the Commission adopts your MV/MVAF method for administering SPA**
127 **costs, will Rider MV have to be modified and filed with the ICC?**

128 A. Yes. I would have to revise the MVAF formula to permit the specific tracking of
129 the SPA cost recovery from month to month as I have proposed.

130 Q. **If the Commission were to decide that the Ameren Companies’ proposed**
131 **Rider MV/MVAF method for recovery of SPA costs is not warranted at this**
132 **time, what would be the Ameren Companies’ recommendation for an**
133 **alternative method for recovery of SPA costs?**

134 A. While the Ameren Companies believe the recovery of the SPA costs via Rider
135 MV/MVAF to be just and reasonable based on the rationale above, an alternative
136 method of recovery would be the application of delivery service charges (i.e.,
137 energy only or energy and demand) to collect the Commission ordered SPA costs
138 across the entire Ameren Illinois footprint. It should be noted that adoption of the
139 delivery services method would require certain modifications to the Ameren
140 Companies’ Rider MV tariffs “approved” by the Commission in the CPA dockets
141 and, possibly, the delivery services’ tariffs in the instant docket.

142

143 **III. CASH WORKING CAPITAL ADJUSTMENT**

144 Q. **What is the purpose the Ameren Companies’ Cash Working Capital**
145 **Adjustment?**

146 A. The purpose of the Ameren Companies’ Cash Working Capital Adjustment is the
147 equitable recovery of the time value of expenses incurred to purchase power and
148 energy for customers in a manner that recognizes the time lag between the
149 incurrence of these expenses and the revenue stream or receipts from customers
150 who pay for said power and energy. The supplemental direct testimony of
151 Ameren Companies’ witness Mr. Stafford provides additional detail regarding

152 Cash Working Capital (“CWC”) and, also, the calculation of the other adjustment
153 factors.

154 **Q. What method do the Ameren Companies propose for the recovery of CWC?**

155 A. The Ameren Companies are proposing the recovery of Cash Working Capital via
156 the Rider Market Value (“Rider MV”) as approved by the Commission in the
157 Ameren CPA Dockets. More specifically, the Ameren Companies are proposing
158 that the Cash Working Capital Adjustment Factors contained in Mr. Stafford’s
159 testimony be used as multipliers to all power and energy expenses resulting from
160 the procurement of power and energy supply for customers. Adoption of this
161 method results in the recovery of these costs in the same manner (i.e., cents/kWh)
162 as approved by the Commission for the recovery of all CPA power and energy
163 related costs. Additionally, the application of the CWC Adjustment Factors to
164 power and energy expenses from the auction has the benefit of “scaling”. Such
165 scaling is just and reasonable, as the Ameren Companies’ Cash Working Capital
166 costs will vary based on power and energy expenses. To the extent that power
167 and energy expenses rise or fall due to either customer switching or expiration
168 and replacement of Supplier Forward Contracts for power and energy, the
169 application of the aforesaid factors will reflect these changes immediately as
170 opposed to specific or absolute CWC charges, based on some fixed level of CWC
171 costs, that would require changes as power and energy expenses change.

172 **Q. Is the magnitude of the CWC significant in terms of overall BGS costs?**

173 A. No, the CWC will be a relatively small component of the total Retail Supply
174 Charge. The CWC for each respective Ameren Company is approximately 0.30

175 percent or 0.0030. If one were to assume, for example, a \$50/MWh power price,
176 the resultant CWC adder would be \$0.15/MWh or \$0.00015/kWh. A residential
177 customer using 1,000 kilowatt-hour/month would be billed an additional 15 cents
178 per month.

179 **IV. UNCOLLECTIBLE ADJUSTMENT**

180 **Q. Your direct testimony in this case includes a discussion on the topic of**
181 **uncollectibles gross-up rates. Would you please provide additional detail on**
182 **the development of uncollectible gross-up rates by Delivery Service/Basic**
183 **Generation Service rate class?**

184 A. Yes. The Ameren Companies propose that a “factor” be established for the
185 expected level of uncollectible BGS and Transmission Service (“TS”) bill
186 amounts. This factor would be calculated for each DS/BGS rate class based on
187 the relative relationship between total uncollectible expenses to the total bundled
188 revenue amounts by class for the test year in this case. Uncollectibles, like CWC,
189 vary with the bill amount and the use of the CWC factor method for
190 Uncollectibles provides the same scalable benefit mentioned earlier.
191 Additionally, this factor method properly reflects the fact that the residential
192 customer class causes a greater percentage and expense for total uncollectible
193 expense than do other rate classes. These factors would then be applied to the
194 BGS (adjusted) price by class to account for the expected level of uncollectible
195 BGS bill amounts.

196 **Q. Have you developed an uncollectible factor by BGS supply rate class based**
197 **on uncollectibles' experience during the test year in this case?**

198 A. Yes. The following table illustrates uncollectible gross-up factors by BGS supply
 199 class:
 200

<u>Operating Company</u>	<u>Uncollectibles Factor Gross-Up (by Rate Classification)</u>				
	<u>BGS - 1</u>	<u>BGS - 2</u>	<u>BGS - 3</u>	<u>BGS - 4</u>	<u>BGS - 5</u>
AmerenCIPs	1.01350	1.00387	1.00021	1.00004	1.00000
AmerenCILCO	1.02088	1.00722	1.00038	1.00017	1.00000
AmerenIP	1.00489	1.00205	1.00013	1.00004	1.00190

201

202 **Q. In summary, you have addressed the Ameren Companies proposals for SPA,**
 203 **CWC, and Uncollectibles. Would you please provide a simple numerical**
 204 **example of the application of these proposals?**

205 A. Yes. The following example for AmerenCILCO, based on Appendix A of Rider
 206 MV may be useful in explaining the Ameren Companies' positions:

Assumptions:

AmerenCILCO BGS - 1 Rate Class

CPA Summer Supply Charge:	5.000	¢/kWh	(1)
Transmission Service Charge	0.200	¢/kWh	

Adjustments To Retail CPA Charges

Supply Procurement Adjustment	0.015	¢/kWh	(2)
Cash Working Capital Adjustment (.0030)	0.015	¢/kWh	(3)= 0.0030*(1)
MVAF (Including MVAF-SPA)	<u>0.000</u>	¢/kWh	(4)
Subtotal	<u>5.030</u>	¢/kWh	(5)= (1) +(2) + (3) +(4)
Uncollectible Factor Gross-Up (1.02088)	5.135	¢/kWh	(6)= 1.02088*(5)

Adjustment to Rider TS Charges

TS Charge	0.200	¢/kWh	(7)
Uncollectible Factor Gross-Up (1.02088)	<u>0.204</u>	¢/kWh	(8)= 1.02088*(7)

Total BGS and TS Charges 5.339 ¢/kWh = (6) + (8)

(2) Commission established SPA Expenses/Forecasted Sales

(4) Reflects all MVAC calculations, including SPA tracking

209 **Q. Does this conclude your supplemental direct testimony?**

210 A. Yes, it does.