

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

CENTRAL ILLINOIS LIGHT COMPANY d/b/a AmerenCILCO	:	Docket No. 06-0070
CENTRAL ILLINOIS PUBLIC SERVICE COMPANY d/b/a AmerenCIPS	:	Docket No. 06-0071
ILLINOIS POWER COMPANY d/b/a AmerenIP	:	Docket No. 06-0072 (Consolidated)
Proposed general increase in rates for delivery service.	:	

Direct Testimony of

Robert R. Stephens

On Behalf of

Illinois Industrial Energy Consumers

April 26, 2006
Project 8515



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Direct Testimony of Robert R. Stephens

1 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A My name is Robert R. Stephens. My business address is 1215 Fern Ridge Parkway,
3 Suite 208; St. Louis, Missouri 63141.

4 Q PLEASE STATE YOUR OCCUPATION.

5 A I am a consultant in the field of public utility regulation with Brubaker & Associates,
6 Inc. ("BAI"), energy, economic and regulatory consultants.

7 Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

8 A This is summarized in Appendix A to my testimony.

9 Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

10 A I am appearing on behalf of the Illinois Industrial Energy Consumers (“IIEC”). The
11 IIEC is an ad hoc group of industrial customers eligible to take power and energy or
12 delivery service from AmerenCILCO, and/or AmerenCIPS and/or AmerenIP
13 (collectively, “Ameren” or “Company”).

14 Q WHAT IS THE SUBJECT MATTER OF YOUR TESTIMONY?

15 A In addition to introducing the other IIEC witnesses and the topics that they cover, I will
16 address:

- 17 1. Ameren’s power procurement proposal for generation supply after 2006
18 and comment on the requested pre-approval process in ICC Docket No.
19 05-0160 et al.
- 20 2. Ameren’s rate design as it relates to large customers, including Ameren’s
21 proposal to introduce an overt inter-class rate subsidy by establishing a
22 floor on the revenue allocation to the large customer class (DS-4),
23 irrespective of cost of service.

24 The fact that I do not address an issue should not be interpreted as approval
25 of any position taken by Ameren.

26 Q WHAT OTHER WITNESSES ARE TESTIFYING ON BEHALF OF IIEC IN THIS
27 PROCEEDING?

28 A My BAI associates, Alan Chalfant and Michael Gorman, are also testifying.
29 Mr. Chalfant addresses issues related to Ameren’s cost of service study, particularly
30 as to its failure to use the minimum distribution system concept. He also addresses
31 the Company’s proposed levels of Administrative and General expenses and General
32 and Intangible Plant.

33 Mr. Gorman addresses Ameren's proposed return on equity, the appropriate
34 capital structure for a delivery service only company and the Company's proposed
35 recovery of integration costs associated with combining AmerenIP with the Ameren
36 system.

37 **Q PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

- 38 A 1. I do not object to the overall rate design structure proposed by Ameren for the
39 Large General Service (DS-4) class. The dramatic increase in DS-4 rates for
40 the AmerenIP customers is attributable more to the revenue requirement
41 request than to rate design.
- 42 2. I object to one of Ameren's revenue allocation criteria, which ensures that the
43 DS-4 class receives at least a 5% increase to Delivery Service Charges,
44 irrespective of the revenue allocation that would result without such a
45 constraint. The effect of this criterion is to create an overt inter-class rate
46 subsidy. DS-4 customers would provide revenues in excess of cost of
47 service. These revenues would be used to lower the rates of the DS-1
48 through DS-3 classes.
- 49 3. Under Ameren's proposed revenue requirement, the floor under cost
50 allocations to DS-4 customers that causes this inter-class subsidy would only
51 affect the rates of AmerenCILCO customers. If the revenue requirement
52 approved by the Commission is less than proposed by AmerenCILCO, the
53 inter-class subsidy flowing from AmerenCILCO DS-4 customers to other rate
54 classes increases. Furthermore, if the revenue requirements approved for the
55 other Ameren companies are less than requested the potential for inter-class
56 subsidies from similar cost allocation constraints increases in those
57 companies as well.
- 58 4. It appears from my review of past ICC Orders regarding delivery service cases
59 of the Ameren companies, that the rates approved by the Commission did not
60 contain the kinds of overt cross-subsidies that Ameren is proposing in this
61 case. Ameren has not justified its proposal to create an inter-class subsidy,
62 and it should be rejected in this case.

63 **Overview of Ameren's Power Procurement Case**

64 **Q PLEASE PROVIDE A BRIEF OVERVIEW OF AMEREN'S POWER**
65 **PROCUREMENT CASE.**

66 A In early 2005, Ameren filed with the Illinois Commerce Commission ("ICC" or
67 "Commission") a proposal for approval of its chosen method for procuring power for
68 its remaining generation service customers once the current transition period has
69 expired, on January 1, 2007. This multi-faceted case was the subject of ICC Docket
70 No. 05-0160 *et al.* I am familiar with this case, having participated on behalf of
71 certain IIEC companies that intervened in that case.

72 In its case, Ameren essentially asked the Commission to pre-approve a
73 regulatory process for procuring power and recovering the procurement cost from
74 retail customers. The procurement process involved holding auctions for power
75 supplies to serve its various customer groups. Under Ameren's proposal, if its
76 process was approved and Ameren followed the approved process, it would be
77 allowed to collect from customers its expenditures for power supply on a dollar-for-
78 dollar basis, including an opportunity for reconciliation of mismatches between
79 payments and collections. Hence, absent extraordinary circumstances, Ameren
80 would not be subject to any regulatory disallowances, such as prudence
81 disallowances, and changes in market costs of power from year to year would have
82 negligible impact on Ameren's bottom line. Hence, Ameren will have essentially
83 transferred all fuel cost, power procurement costs, and other operating risk
84 associated with generation supply from itself to customers and to wholesale
85 generation suppliers in the market.

86 Q WHAT IS THE CURRENT STATUS OF DOCKET NO. 05-0160 ET AL.?

87 A The Commission entered its Order approving the procurement process in January
88 2006.

89 Q DOES THE ORDER RESOLVE THE ISSUE OF AMEREN'S POWER
90 PROCUREMENT PRACTICES?

91 A It appears to do so.¹ The Order essentially approves Ameren's process with
92 modifications only to certain aspects. I would note the following statements in the
93 Order:

94 Based on the record in this proceeding, the Commission believes
95 that the proposed vertical tranche auction process, as modified
96 herein, is reasonably designed to enable Ameren to procure power
97 supply in a competitive and least-cost manner. In that regard, no
98 alternatives were presented that represent a more viable approach
99 for procuring power supply after January 1, 2007.

100 * * *

101 As indicated above, if the auction results are not rejected by the
102 Commission at the close of the initial post-auction review period,
103 then Ameren should be entitled to a presumption that the supply
104 obtained pursuant thereto was "prudently purchased." At the
105 reconciliation proceedings, if Ameren shows that power purchases
106 were made in accordance with the auction process, Ameren will
107 be deemed to have made a prima facie showing of prudence.

108 (Order, Docket No. 05-0160 et al. at pages 80 and 82).

109 As a result of this case, and through Ameren's transfer of generating units to third
110 parties and affiliates, Ameren has essentially eliminated virtually all of its commodity-
111 based supply risk, as it will be all but guaranteed recovery of its prudent purchases.

¹ My understanding is that the ICC's Order is currently on appeal.

112 **Overview of Ameren's Revenue Allocation**
113 **and Rate Design Proposal in the Current Case**

114 **Q PLEASE BRIEFLY DESCRIBE AMEREN'S OVERALL APPROACH TO REVENUE**
115 **ALLOCATION AND RATE DESIGN AS IT RELATES TO LARGE CUSTOMERS.**

116 A This information is detailed in the Direct Testimony of Leonard M. Jones, Ameren
117 Exhibit 10.0.² Briefly, Ameren proposes to consolidate its rates to a large degree
118 among the three current, formerly four, operating companies. To begin, the former
119 AmerenUE – Illinois service area, which had already been transferred to the
120 AmerenCIPS system but which had retained its own set of rates, is now fully
121 integrated into the AmerenCIPS system and there will be no longer any distinction
122 between the traditional AmerenCIPS area and the former AmerenUE area.

123 Also, as explained at pages 32-33 of Mr. Jones' testimony, Ameren proposes
124 to have only one set of terms and conditions for the entire Ameren – Illinois footprint,
125 although certain of the charges will be kept separate. Particularly, for large
126 customers, the customer charges, meter charges, transformation charges and
127 reactive demand charges are proposed to be the same for the customers of all three
128 operating companies. The Distribution Delivery Charge is the only charge for these
129 customers that varies among the three companies.

130 Ameren proposes Rate Classes DS-1 through DS-5, representing Residential
131 Service (DS-1), Small General Service (DS-2), General Service (DS-3), Large
132 General Service (DS-4), and Lighting Service (DS-5). Mr. Jones states at page 4 of
133 his testimony that these service classifications are synchronous with those proposed

² Mr. Jones submitted identical testimony in each of the AmerenCIPS, AmerenIP and AmerenCILCO cases, as confirmed in response to IIEC Data Request 1-10. In the event there are any differences in page numbering, references in my testimony will be made to Mr. Jones' AmerenIP testimony, AmerenIP Exhibit 10.0.

134 by Ameren in the Company's competitive procurement auction for BGS cases. My
135 testimony focuses on the Large General Service, or DS-4 class, although some of the
136 principles may be applicable to other classes as well.

137 **Q HOW DOES AMEREN PROPOSE TO RECOVER THE REVENUE ALLOCATED TO**
138 **THE DS-4 CLASS?**

139 A As mentioned in my previous answer, Ameren proposes uniform customer charges,
140 meter charges, transformation charges and reactive demand charges across the
141 three service territories. The Distribution Delivery Charge will vary and will be set to
142 recover the revenues allocated to the class that are not recovered through the four
143 charges mentioned above. Hence, because the allocated revenue varies for the
144 three utilities, the Distribution Delivery Charges, set on this residual basis, will also
145 vary for the three utilities.

146 **Q DO DISTRIBUTION DELIVERY CHARGES ALSO VARY BY SERVICE VOLTAGE?**

147 A Yes, the Distribution Delivery Charges are also differentiated by service voltage, as is
148 the case under the existing rates for the three operating companies.

149 **Q DO YOU HAVE ANY OBJECTION TO THE OVERALL REVENUE ALLOCATION**
150 **AND RATE DESIGN STRUCTURE YOU HAVE JUST DESCRIBED?**

151 A I do not object to the basic rate design structure. However, I do object to one of
152 Ameren's revenue allocation criteria, which ensures that the DS-4 class receives at
153 least a 5% increase to delivery service revenue responsibility, irrespective of the
154 revenue allocation that would result without such constraint.

155 Q HAS AMEREN SHOWN THE IMPACT OF ITS PROPOSED INCREASES ON
156 DELIVERY SERVICE RATES FOR THE DS-4 CLASS?

157 A Mr. Jones shows a rate impact analysis for each of the utilities in his Schedule 10.1.
158 However, in the presentation, he shows the change in terms of the total bundled
159 service bill of customers and, thus, blends the distribution charges with transmission
160 and generation supply costs. By this process, Ameren significantly masks the
161 delivery service increases in their own respect. In addition, the “present” and
162 “proposed” rates utilize a “Power Proxy” for the generation component, which is not
163 an actual charge necessarily paid by any customers. Hence, the analysis is
164 hypothetical in any event.

165 However, by examining Schedule 10.6, also attached to Mr. Jones’ testimony,
166 one can isolate the change in annual delivery service revenues associated with the
167 total DS-4 class and see that it is large, as summarized in Table 1, below.

Table 1 Present and Proposes Revenues for the DS-4 Class			
Company	Present Revenues	Proposed Revenues	Percent Change
AmerenIP	\$12,130,780	\$26,207,352	216%
AmerenCIPS	\$16,858,568	\$18,603,092	10%
AmerenCILCO	\$7,248,126	\$7,613,233	5%

168 As can be seen from Table 1, Ameren proposes to dramatically increase rates
169 for the AmerenIP DS-4 customer class with much smaller increases for the
170 AmerenCIPS and AmerenCILCO DS-4 customer classes.

171 However, because the DS-4 class has subclasses with voltage differentiated
172 rates, the impact on individual customers can be significantly different, depending on

173 the service voltage. Table 2, below, shows the impact of Ameren's proposed
 174 increase in delivery service rates for a hypothetical 20 MW customer, with the
 175 charges shown at both High Voltage (15 kV up to 100 kV) and 100 kV and Above
 176 voltage levels.

Table 2
Ameren Delivery Service Cost Impact
Typical Bill Calculations - Delivery Service Only *
20 MW Demand

Company	High Voltage (above 15 kV up to 100 kV)			
	Current Cost	Proposed Cost	Increase Amount	Percent Increase
AmerenIP	\$ 88,835	\$ 293,544	\$ 204,709	230%
AmerenCILCO	\$ 116,213	\$ 145,704	\$ 29,491	25%
AmerenCIPS	\$ 311,418	\$ 394,344	\$ 82,926	27%
AmerenCIPS - Metro East	\$ 219,000	\$ 394,344	\$ 175,344	80%

Company	100 kV and Above Voltage			
	Current Cost	Proposed Cost	Increase Amount	Percent Increase
AmerenIP	\$ 25,686	\$ 50,519	\$ 24,833	97%
AmerenCILCO	\$ 66,541	\$ 40,919	\$ (25,622)	-39%
AmerenCIPS	\$ 148,260	\$ 57,479	\$ (90,781)	-61%
AmerenCIPS - Metro East	\$ 183,000	\$ 57,479	\$ (125,521)	-69%

* Excludes reactive demand charges, transformation charges and taxes.

177 As can be seen from Table 2, subclass customer impacts are significantly
 178 different, depending on voltage. In any case, the revenues to be collected from DS-4

179 customers are too high, whether due to the inadequate cost of service approach,
180 discussed by Mr. Chalfant, or the revenue requirement issues addressed by
181 Mr. Chalfant and Mr. Gorman. These revenue requirement issues are especially
182 pronounced in the AmerenIP area and their resolution would help moderate the
183 disproportionate increases shown above.

184 **Ameren's Proposed Inter-Class Subsidization**
185 **of DS-1 Through DS-3 Customer Classes by the DS-4 Class**

186 **Q EARLIER YOU MENTIONED AN OBJECTION TO AMEREN'S PROPOSED**
187 **REVENUE ALLOCATION AS IT RELATES TO THE DS-4 CLASS. WHAT ASPECT**
188 **OF THE REVENUE ALLOCATION DO YOU FIND OBJECTIONABLE?**

189 A At pages 5-6 of his testimony, Mr. Jones describes a two-step criteria revenue
190 allocation methodology. I am not addressing the first step, which applies only to the
191 DS-1 through DS-3 classes. However, the second step ensures that the DS-4 class
192 receives at least a 5% increase to delivery service, as a class, irrespective of the
193 revenue allocation that would result if unconstrained. As Mr. Jones points out, this
194 5% floor criterion affects only the AmerenCILCO customers under Ameren's
195 proposed revenue increase. However, this revenue allocation criterion would result in
196 an inter-class rate subsidy in at least the AmerenCILCO area, has not been justified
197 by Ameren, and should be rejected. Also, depending on the Commission's revenue
198 requirement conclusions in this case, it could affect the other Ameren utilities' DS-4
199 rates as well and create subsidies within those utilities' rates. Therefore, the proposal
200 should be rejected for all of the Ameren companies.

201 Q HOW MUCH OF AN INTER-CLASS SUBSIDY IS CAUSED BY THIS REVENUE
202 ALLOCATION CRITERION IN THE AMERENCILCO RATES?

203 A Ameren's Schedule 10.1, page 5, indicates that under Ameren's proposed revenues,
204 the AmerenCILCO DS-4 class revenue responsibility should **decrease** by
205 approximately 21%, if Ameren's constraint were not in place. However, with the
206 aforementioned constraint, Ameren would seek to **raise** the DS-4 delivery service
207 revenues by 5%, thus resulting in a total 26% swing in revenues as shown on page 6
208 of Schedule 10.1. This will mean the AmerenCILCO DS-4 class revenues would be
209 approximately \$1.9 million higher than they would need to be, with this \$1.9 million
210 being credited against smaller customer classes' revenue requirements.

211 As I will explain later, the cross-subsidy will increase as the Commission
212 lowers the revenue requirement.

213 Q WHAT IS AMEREN'S JUSTIFICATION FOR THIS INTRODUCTION IN ALL THE
214 COMPANIES OF THE POTENTIAL FOR OVERT CROSS-SUBSIDIES?

215 A Mr. Jones provides virtually no justification for the proposed cross-subsidy in his
216 testimony. The closest thing I can find in his testimony to a reason for this criterion is
217 the following statement at page 7:

218 It has been many years since the Ameren Companies have had a
219 bundled rate increase, and in 2007 most customers (and all residential
220 customers) will be paying, separately stated, Delivery Service rates for
221 the first time.

222 In addition, in a data request, Ameren was asked to provide its **entire**
223 **justification** for the proposed revenue allocation criterion. As its complete response,
224 Ameren provides:

225 Application of the second step criteria, ensuring the DS-4 rate class
226 received at least a 5% delivery service increase, considered that other

227 rate classes were receiving delivery service rate increases much
228 greater than 5%. In the Company's judgment, under the pending
229 circumstances and in the rate transition paradigm, no class should
230 receive a rate decrease, but should instead receive a nominal
231 increase in order to alleviate higher delivery increases to other
232 classes.

233 (Ameren Response to IIEC Data Request 1-12(a)).

234 Neither rationale is sufficient to justify deviation from cost of service principles
235 and the introduction of an overt cross-subsidy, especially when the Commission
236 appears to have been careful to avoid introducing cross-subsidies in Ameren delivery
237 service rates thus far.

238 **Q PLEASE EXPLAIN.**

239 A I have reviewed the Commission's Orders in the prior delivery service cases of the
240 Ameren companies, both the original rate cases in 1999 and the subsequent rate
241 cases and have found no instances where the Commission has approved overt
242 cross-subsidies in delivery service rates. Hence, it appears the Commission has
243 been careful to avoid what Ameren is proposing in this case.

244 **Q WHAT WOULD BE THE IMPACT ON AMERENCILCO RATES IF THE**
245 **COMMISSION ACCEPTS AMEREN'S PROPOSAL?**

246 A It is impossible to tell at this time, as the impact will depend on the revenue
247 requirement approved by the Commission. As mentioned above, at Ameren's full
248 requested increase, the criterion would affect only the AmerenCILCO customers and
249 would be a \$1.9 million revenue shift. However, as the revenue requirement
250 decreases, the shift or cross-subsidy amount for AmerenCILCO customers would
251 increase, since the DS-4 revenues would be locked in at proposed levels while the

252 cost-based levels will decrease. Hence, the \$1.9 million shift likely would be the
253 minimum cross-subsidy that would occur if Ameren's proposal is adopted.

254 **Q WHAT WOULD BE THE IMPACT ON THE OTHER AMEREN COMPANIES' RATES**
255 **IF THE COMMISSION ACCEPTS AMEREN'S PROPOSAL?**

256 A Again, it is impossible to tell at this time, as the impact will depend on the revenue
257 requirements approved by the Commission for the other two Ameren companies. If
258 their revenue requirements were reduced enough from the requested levels,
259 Ameren's revenue allocation criterion could be triggered and result in cross-subsidies
260 in those operating companies' rates as well.

261 **Q SHOULD THE COMMISSION ADOPT THE AMEREN PROPOSAL TO ENSURE**
262 **THAT THE DS-4 CUSTOMER CLASS GETS AT LEAST A 5% INCREASE?**

263 A No. This proposal will result in the creation of a cross-subsidy in the AmerenCILCO
264 rates and the potential for cross-subsidies in the other Ameren companies' rates.
265 This is bad policy. Delivery service rates for these companies, as approved by the
266 Commission, appear to be devoid of any overt cross-subsidies to date. The
267 Commission should not open the door to such subsidies now. Adoption of the
268 Ameren proposal would open that door and therefore, the proposal should be
269 rejected.

270 **Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

271 A Yes.

Qualifications of Robert Stephens

272 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

273 A Robert R. Stephens. My business address is 1215 Fern Ridge Parkway, Suite 208,
274 St. Louis, Missouri 63141.

275 Q PLEASE STATE YOUR OCCUPATION.

276 A I am a consultant in the field of public utility regulation with the firm of Brubaker &
277 Associates, Inc. (BAI), energy, economic and regulatory consultants.

278 Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

279 A I graduated from Southern Illinois University at Carbondale in 1984 with a Bachelor of
280 Science degree in Engineering. During college, I was employed by Central Illinois
281 Public Service Company in the Gas Department. Upon graduation, I accepted a
282 position as a Mechanical Engineer at the Illinois Department of Energy and Natural
283 Resources. In the summer of 1986, I accepted a position as Energy Planner with City
284 Water, Light and Power, a municipal electric and water utility in Springfield, Illinois.
285 My duties centered on integrated resource planning and the design and
286 administration of load management programs.

287 From July 1989 to June 1994, I was employed as a Senior Economic Analyst
288 in the Planning and Operations Department of the Staff of the Illinois Commerce
289 Commission. In this position, I reviewed utility filings and prepared various reports
290 and testimony for use by the Commission. From June 1994 to August 1997, I worked
291 directly with a Commissioner as an Executive Assistant. In this role, I provided

292 technical and policy analyses on a broad spectrum of issues related to the electric,
293 gas, telecommunications and water utility industries.

294 In May 1996, I graduated from the University of Illinois at Springfield with a
295 Master of Business Administration degree.

296 In August 1997, I joined Brubaker & Associates, Inc. as a Consultant. Since
297 that time, I have participated in the analysis of various utility rate and restructuring
298 matters in several states and the evaluation of power supply proposals for clients. I
299 am currently an Associate in the firm.

300 The firm of Brubaker & Associates, Inc. provides consulting services in the
301 field of energy procurement and public utility regulation to many clients, including
302 large industrial and institutional customers, some utilities, and on occasion, state
303 regulatory agencies. More specifically, we provide analysis of energy procurement
304 options based on consideration of prices and reliability as related to the needs of the
305 client; prepare rate, feasibility, economic and cost of service studies relating to energy
306 and utility services; prepare depreciation and feasibility studies relating to utility
307 service; assist in contract negotiations for utility services; and provide technical
308 support to legislative activities.

309 In addition to our main office in St. Louis, the firm also has branch offices in
310 Phoenix, Arizona; Chicago, Illinois; Corpus Christi, Texas; and Plano, Texas.

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