

DIRECT TESTIMONY

of

**Cheri L. Harden
Rate Analyst**

**Rates Department
Financial Analysis Division
Illinois Commerce Commission**

**Central Illinois Light Company d/b/a AmerenCILCO
Central Illinois Public Service Company d/b/a AmerenCIPS
Illinois Power Company d/b/a AmerenIP**

Proposed general increase in rates for delivery service

Docket Nos. 06-0070/06-0071/06-0072 (Consolidated)

April 26, 2006

1 **Q. Would you please state your name and business address?**

2 A. Cheri L. Harden, 527 East Capitol Avenue, Springfield, Illinois 62701.

3

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

5 A. I am employed by the Illinois Commerce Commission (“Commission”) as a Rate
6 Analyst in the Rates Department of the Financial Analysis Division. My
7 responsibilities include rate design and cost-of-service analyses for electric, gas
8 and water utilities and the preparation of testimony on rates and rate-related
9 matters.

10

11 **Q. How long have you been employed by the Illinois Commerce Commission?**

12 A. I have been employed by the Commission since September 2000.

13

14 **Q. Will you please briefly state your qualifications?**

15 A. I graduated from the University of Maryland in 1993, with a Bachelor of Science
16 degree in Management Studies.

17

18 Previously, I worked for the Wyoming Public Service Commission for almost
19 seven years. The last two positions I held were as the Consumer Services
20 Coordinator and as a Rate Analyst. I analyzed telecommunications, electric
21 (investor-owned and cooperative), gas, water and pipeline company filings. I
22 reviewed a variety of cases including mergers, tariff revisions, fuel adjustments,
23 certificate applications, complaints, contracts, interconnection agreements and

24 rate cases. I also worked on special projects such as the Universal Service
25 Fund, Annual Reports and Year 2000 Preparedness.

26

27 **Q. Have you testified in other Commission proceedings?**

28 A. Yes, I have testified on many occasions before the Illinois Commerce
29 Commission and the Wyoming Public Service Commission.

30

31 **Q. What is the purpose of your testimony?**

32 A. I have reviewed and analyzed the filings of Central Illinois Light Company d/b/a
33 AmerenCILCO ("AmerenCILCO"), Central Illinois Public Service Company d/b/a
34 AmerenCIPS ("AmerenCIPS"), and Illinois Power Company d/b/a AmerenIP
35 ("AmerenIP") (jointly "Ameren" or "Companies") for a proposed general increase
36 in rates for delivery service. The purpose of my testimony is to present my
37 analysis and proposed adjustments, if any, of the cost of service studies that
38 Ameren submitted in this filing for each Company and I discuss the revenue
39 allocation methodology.

40

41 **Q. What is the basis for Ameren's proposed rates in this docket?**

42 A. Ameren presented a traditional embedded class cost of service study ("ECOSS")
43 for each Company. The ECOSS is consistent with the most recent rulings of the
44 Commission in Docket Nos. 01-0637, 00-0802 and 01-0432 for AmerenCILCO,

45 AmerenCIPS and AmerenIP, respectively. The Companies analyzed all
46 elements of investment and expenses which were classified into their customer-
47 related or demand-related components for the purpose of allocating such items
48 to each customer class utilizing factors based on customer counts and demands
49 by customer class. (AmerenCILCO Exhibit 9.0, pp. 5-7, AmerenCIPS Exhibit 9.0,
50 pp. 5-7 and AmerenIP Exhibit 9.0, pp. 5-7)

51

52 **Q. What costs are allocated to the various customer classes for Ameren?**

53 A. The costs being allocated to the various customer classes are identified by
54 Ameren witness Ronald Stafford. (AmerenCILCO Exhibit 9.0, p. 5, AmerenCIPS
55 Exhibit 9.0, p. 5 and AmerenIP Exhibit 9.0, p. 5) Staff witnesses Theresa Ebrey
56 (ICC Staff Exhibit 2.0), Burma C. Jones (ICC Staff Exhibit 3.0) and Peter Lazare
57 (ICC Staff Exhibit 6.0) have recommended some adjustments to costs identified
58 by Mr. Stafford.

59

60 **Q. What is your opinion of the ECOSS for each Company?**

61 A. I have found no issues that would prevent the acceptance of each ECOSS for
62 ratemaking in this case. Furthermore, each ECOSS is consistent with studies
63 approved by the Commission in delivery service rate cases of which I am
64 familiar.

65

66 **Q. Do you agree with the proposed class revenue allocation factors?**

67 A. Yes I do. Ameren witnesses Philip B. Difani Jr. and Leonard M. Jones have
68 discussed the proposed class revenue allocation factors at great length in their
69 direct testimonies (AmerenCILCO Exhibit 9.0, AmerenCIPS Exhibit 9.0 and
70 AmerenIP Exhibit 9.0; and AmerenCILCO Exhibit 10.0, AmerenCIPS Exhibit 10.0
71 and AmerenIP Exhibit 10.0) and summarized in Schedules 9.1 – 9.3 attached to
72 AmerenCILCO Exhibit 9.0, AmerenCIPS Exhibit 9.0 and AmerenIP Exhibit 9.0.

73

74 **Q. What are the proposed classes in this case?**

75 A. The Companies are proposing to use five service classifications. DS-1 is for all
76 residential service; DS-2 is small general service for all non-residential up to
77 150kW; DS-3 is general service for all non-residential from 150 kW up to 1,000
78 kW; DS-4 is large general service for all non-residential 1,000 kW and greater;
79 and DS-5 is for lighting service. (AmerenCILCO Exhibit 10.0, p. 4, AmerenCIPS
80 Exhibit 10.0, p. 4 and AmerenIP Exhibit 10.0, p. 4) In the Companies'
81 Procurement Auction Proceedings, the Commission approved similar customer
82 supply groups defined under Rider MV: Residential Service Customer Group
83 (BGS-1), Small General Service Customer Group (BGS-2), General Service
84 Customer Group (BGS-3), Large General Service Customer Group (BGS-4), and
85 Dusk to Dawn Lighting Customer Group (BGS-5). (Docket Nos. 05-0160/05-
86 0161/05-0162 Consolidated, Final Order dated January 24, 2005, p. 204)

87

88 **Q. Do you agree with the new classes proposed?**

89 A. Yes I do. Rate classifications are primarily differentiated by customer usage and
90 the voltage level at which customers are served. The classes are based on the
91 results of allocating and/or assigning the various cost elements (direct and
92 indirect) of providing electric delivery service that reflects the way costs are
93 incurred. (AmerenCILCO Exhibit 9.0, p. 4, AmerenCIPS Exhibit 9.0, p. 4 and
94 AmerenIP Exhibit 9.0, p. 4)

95

96 **Q. How do the Companies propose to allocate their revenue requirements**
97 **among rate classes?**

98 A. The class revenue requirements are based on each respective class' rate of
99 return being equal to the individual Companies' proposed delivery services rate
100 of return on rate base. (AmerenCILCO Exhibit 9.0, p. 6, AmerenCIPS Exhibit
101 9.0, p. 6 and AmerenIP Exhibit 9.0, p. 6) However, the movement to an
102 equalized rate of return may produce too large of an impact on customers whose
103 delivery service bill constitutes a larger relative portion of their total electric power
104 bill. The Companies have proposed a revenue allocation methodology that
105 redistributes a portion of the class equalized revenue requirement in order to
106 lessen the impact on the customer's total bill. They use a two step criteria
107 revenue allocation methodology. The first step of the methodology keeps the

108 DS-1 through DS-3 classes targeted to receive an equal percent rate change.
109 The second step then ensures that the DS-4 class also receives an increase.
110 The methodology and results are shown in Schedule 10.1. (AmerenCILCO
111 Exhibit 10.0, p. 5, AmerenCIPS Exhibit 10.0, p. 5 and AmerenIP Exhibit 10.0, p.
112 5) The sum of each utility's fixture, distribution and other charges is set to
113 recover the revenue requirement allocated to DS-5. (AmerenCILCO Exhibit 10.0,
114 p. 25, AmerenCIPS Exhibit 10.0, p. 25 and AmerenIP Exhibit 10.0, p. 25)

115

116 **Q. How does this revenue allocation methodology affect each Company?**

117 A. Schedule 10.1, which is attached to AmerenCILCO Exhibit 10.0, AmerenCIPS
118 Exhibit 10.0 and AmerenIP Exhibit 10.0, has six pages, two for each Company.
119 Ameren has applied the revenue allocation methodology to all three Companies
120 with mixed results as discussed below.

121

122 **Q. How does this revenue allocation methodology affect AmerenIP?**

123 A. For AmerenIP (Schedule 10.1, pp. 1-2), there is an unconstrained rate change of
124 18.12% increase for DS-1 (Residential), a 13.18% increase for DS-2 (Small
125 General) and a 10.46% increase for DS-3 (General) as shown on page 1. In
126 applying the first step of the revenue allocation methodology, Ameren proposed
127 that these three classes would all receive an average increase of 15.56% as
128 shown on page 2 of 6 of Schedule 10.1 for AmerenIP rates.

129

130 **Q. Do you agree with the revenue allocation methodology for AmerenIP?**

131 A. Yes, I believe that it is reasonable to balance the increase for the three classes
132 without causing rate shock for any one particular rate class.

133

134 **Q. How does this revenue allocation methodology affect AmerenCIPS?**

135 A. For AmerenCIPS (Schedule 10.1, pp. 3-4), there is an unconstrained rate change
136 of 2.49% increase for DS-1 (Residential), a -0.39% decrease for DS-2 (Small
137 General) and a 0.16% increase for DS-3 (General). In applying the first step of
138 the revenue allocation methodology, Ameren proposed that these three classes
139 would all receive an average of 1.31% as shown on page 4 of 6 of Schedule 10.1
140 for AmerenCIPS rates.

141

142 **Q. Do you agree with the revenue allocation methodology for AmerenCIPS?**

143 A. Yes, I believe that it is reasonable to balance the increase for the three classes
144 without causing rate shock for any one particular rate class.

145

146 **Q. How does this revenue allocation methodology affect AmerenCILCO?**

147 A. For AmerenCILCO (Schedule 10.1, pp. 5-6), there is an unconstrained rate
148 change of 19.67% increase for DS-1 (Residential), a 2.97% increase for DS-2
149 (Small General) and a 13.45% increase for DS-3 (General). In applying the first

150 step of the revenue allocation methodology, Ameren proposed that these three
151 classes would receive an average increase of 13.73% as shown on page 6 of 6
152 of Schedule 10.1 for AmerenCILCO rates.

153

154 **Q. Do you agree with the revenue allocation methodology for AmerenCILCO?**

155 No. While it is reasonable to balance the increase for the three classes,
156 AmerenCILCO DS-2 small general customers are the hardest hit by these
157 changes. Ameren's proposal provides that DS-2 customers have an added
158 increase of more than 10% above their allocated cost while reducing the
159 residential customers increase by almost 6%. I recommend that, for
160 AmerenCILCO customers, the DS-2 rate increase should be from 2.97% to
161 5.94%. Then the remaining revenue requirement should be added to the DS-3
162 customers. This will reduce the rate shock for the DS-1 residential class, yet will
163 not cause rate shock for the DS-2 class and will increase the DS-3 customers by
164 a small amount above their allocated cost.

165

166 **Q. Does this conclude your direct testimony in this proceeding?**

167 A. Yes.