

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

**REBUTTAL TESTIMONY
OF
PHILIP B. DIFANI, JR.**

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**

May 26, 2006

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11
12 **Q. Please state your name and business address.**

13 **A.** My name is Philip B. Difani, Jr. My business address is 1901 Chouteau Avenue,
14 St. Louis, Missouri 63103.

15 **Q. Are you the same Philip B. Difani, Jr. who submitted direct testimony on**
16 **December 27, 2005 in this case?**

17 **A.** Yes, I am.

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

19 **A.** The purpose of my rebuttal testimony is to:

- 20 1. Provide revisions to each of the Ameren Companies' Electric Cost of
21 Service Studies ("ECOSS"), and
22 2. Provide comments regarding the direct testimony filed by the Illinois
23 Industrial Energy Consumers ("IIEC") witness Mr. Alan Chalfant, Wal-Mart
24 witness Mr. James Selecky and Citizen Utilities Board ("CUB") witness Mr.
25 Christopher Thomas in the areas of class cost of service. My failure to address

26 a particular witness' position or argument should not be construed as
27 endorsement of same.

28 **Q. Earlier you mentioned that you would be making revisions to each of the**
29 **Ameren Companies' Electric Cost of Service Studies ("ECOSS"). Will these**
30 **revisions be made to the ECOSS based on Ameren Companies witness Mr.**
31 **Stafford's jurisdictional revenue requirement studies filed in his direct**
32 **testimony in this case or similar revised studies filed in his rebuttal testimony**
33 **in this case?**

34 A. My revised ECOSS are based on Mr. Stafford's jurisdictional revenue
35 requirement studies filed in his direct testimony. These results of these revised
36 studies have been reflected in Mr. Leonard Jones' rebuttal testimony.

37 **Q. Was there a common revision made to each of the Ameren Companies'**
38 **ECOSS?**

39 A. Yes. The Ameren Companies completed an energy and demand loss analysis of
40 its Illinois distribution system after the initial ECOSS were filed in these cases.
41 As a result, the ECOSS have been updated to reflect the results of this analysis.

42 **Q. Were there additional Ameren Company specific ECOSS revisions?**

43 A. Yes, in response to data requests from the IIEC and Kroger, the Ameren
44 Companies undertook a further investigation of the ECOSS and the load research
45 data used to populate the ECOSS for the development of certain plant allocators
46 and discovered an error in certain load research data. Additionally, the ECOSS
47 for AmerenCIPS was modified to remove the demands of a certain customer
48 whose billing units were excluded from Ameren Companies' witness Jones' rate

49 development in his direct testimony . This customer was one of AmerenCIPS'
50 largest customers; however, it has now significantly curtailed usage. The removal
51 of this customer's demands from the ECOSS results in no allocation of costs
52 associated with these demands and is commensurate with Mr. Jones' exclusion of
53 the billing demands of this customer from rate development. All necessary
54 revisions were made to the applicable ECOSS to correct for the above errors.

55 **Q. Have you revised the schedules presented in your direct testimony to reflect**
56 **the ECOSS revisions?**

57 A. Yes, I have revised Schedules 9.1, 9.2 and 9.3 of my direct testimony and
58 included them as Respondents Exhibits 19.1, 19.2 and 19.3 in this rebuttal
59 testimony.

60 **Q. What areas of the testimony do you intend to address of IIEC witness**
61 **Chalfant and Wal-Mart witness Selecky?**

62 A. I address their recommendation that distribution plant accounts 364-Poles, 365-
63 Overhead Conductors, 366-Underground Conduit, 367-Underground Conductors,
64 and 368-Line Transformers should be allocated based on a minimum system
65 approach with a component of the cost allocated on a customer basis. While the
66 Ameren Companies continue to believe either the zero intercept or minimum
67 system method has merit for allocation of these plant accounts, which is
68 consistent with these witnesses' position, the Commission has indicated a
69 preference for the Non-Coincident Peak ("NCP") method. Neither Mr. Chalfant
70 nor Mr. Selecky has presented any new evidence to likely persuade the
71 Commission from reversing its previous decision.

72 **Q. On page 22 of Mr. Chalfant's testimony, he recommends that the Ameren**
73 **Companies be required to recognize a minimum distribution component in**
74 **its next delivery service rate case or, at the very least, make available to**
75 **parties the results of either a zero intercept analysis or minimum size study**
76 **of its distribution accounts 364 through 368.' Please comment.**

77 A. As I stated previously the Commission has shown no interest in the minimum
78 distribution method. Therefore, I do not understand why Mr. Chalfant would
79 expect the Commission to order the Ameren Companies to produce such a study
80 in the next rate case. Further, such studies take significant person-hours and
81 resources to complete, which should be avoided.

82 **Q. CUB witness Thomas also addresses the Ameren Companies' filed ECOSS.**
83 **Can you respond?**

84 A. Yes, and I will comment on Mr. Thomas' proposed use of the Average & Peak
85 ("A&P") allocation method, his calculation of such method, and his hypothetical
86 class example.

87 **Q. Has Mr. Thomas correctly calculated the A&P method?**

88 A. No, he has not. Mr. Thomas explains that the A&P method takes the $(NCP \% * Load Factor) + (Average \% * (1 - Load Factor))$ to determine the class allocation (CUB Exhibit 2.02, note 4). Traditionally, the A&P method utilizes the system load factor to weight the Average demand, as opposed to the peak demand and conversely the $(1 - Load Factor)$ to weight the Peak demand. Without explanation, Mr. Thomas has reversed this traditional weighting. This error does, of course, affect the schedules and tables in his testimony.

95 **Q. Do you agree with Mr. Thomas' use of the A&P allocation method for**
96 **allocating fixed distribution costs?**

97 A. No, I do not. The distribution system must be capable of delivering electricity to
98 each customer's location and be sized adequately for the maximum demand of
99 that customer or group of customers. This factual statement, along with basic
100 principles of cost causation and equitable cost recovery, supports the allocation of
101 fixed distribution cost to customer classes based upon a combination of individual
102 or customer group non-coincident peak demands depending on the particular plant
103 account being allocated. The A&P approach relies heavily on energy, a variable
104 allocator, to allocate fixed costs. Such an approach is counterintuitive to the fact
105 that maximum demand is a significant factor in the design and construction of a
106 utility's distribution system and is reflected in the Ameren Companies' overall
107 cost of service or revenue requirement. An electric distribution system is of little
108 value to a customer if it can not be counted on to supply the customer's needs at
109 the time of maximum demand. For instance, a residential customer would
110 understandably be upset to discover the distribution system has been designed and
111 constructed to serve its average load and can not be counted on to serve all the
112 appliances, including the air conditioner, on a 100 degree day! Similarly, an
113 industrial customer would find it prohibitively expensive to have back-up
114 generation systems for its industrial or fabrication processes during periods of
115 greatest use due to lack of capacity on the distribution system. Cost causation is a
116 bedrock principle of a cost of service study, and those customers that cause
117 company investment should be allocated (pay) those costs. While cost causation

118 is only one of several factors to consider when determining class revenue
119 responsibility, it is the foundation for establishing or tracking where responsibility
120 lies among customer classes. The use of the A&P approach for allocation of these
121 electric distribution plant accounts establishes an extremely weak foundation and
122 provides little opportunity for constructive discussions on class revenue
123 responsibility and, therefore, should be rejected.

124 **Q. Would you further elaborate on Mr. Thomas' example of two hypothetical**
125 **customer classes on lines 272 through 277 of his direct testimony?**

126 A. I believe the example he presented can be illustrative for cost causation purposes.
127 Mr. Thomas's illustration is that two separate classes (*i.e.* class A and class Z)
128 have the same load or megawatts of demand at the same time although their
129 average energy usage differs by a 3:1 ratio. To further illustrate Mr. Thomas'
130 example, let's assume each class has a peak demand of 10 megawatts and that the
131 line to be allocated is sized for 20 megawatts NCP demand (non-coincident in
132 terms of overall system peak, but peaking at the same time on the local
133 distribution system). Both classes use differing amounts of energy during a given
134 interval; however, neither could increase their maximum non-coincident demand
135 without the company increasing its investment in fixed distribution plant.
136 Applying the Ameren Companies NCP allocation method, each class would
137 receive the exact same portion of the investment – in this case 50% to each class,
138 irrespective of the 3:1 energy usage.
139 The table below illustrates the differences between the NCP allocation method
140 and the A&P allocation method for the situation just described.

141

NCP vs. A&P Allocation Method
(Utilizing Mr. Thomas' Direct Testimony Example)

<u>Class</u>	(1) <u>Peak/NC P MW</u>	(2) <u>Annual MWh</u>	(3) <u>Average MW</u>	<u>NCP Method</u>	<u>A&P Method</u>	<u>A&P's Over Allocation (Difference)</u>
A	10	26,280	3	50%	35%	-15%
Z	10	78,840	9	50%	65%	15%

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Note: System load factor of 60% utilized to accommodate Mr. Thomas' 3:1 customer usage ratio.

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The A&P allocation method would allocate 35% of demand related cost to the class A and 65% to class Z, despite the exact same necessary investment for each class by the company. Stated differently, energy usage drove the allocation of cost even though each customer imposed the same demand on the system. Obviously, this over-allocation of costs to class Z creates an undue subsidy for class A which is why the A&P method for electric distribution plant should be rejected.

153 **Q. Has the Commission adopted the A&P method for use in allocating electric**
154 **fixed distribution plant?**

155 A. Not in recent memory nor should the Commission adopt it in this case. The A&P
156 method relies heavily on energy, a variable allocator, for allocating fixed
157 distribution cost, which for reasons stated earlier is completely wrong because it
158 simply does not reflect cost causation.

159 **Q. Does this conclude your rebuttal testimony?**

160 A Yes, it does.

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