

**ILLINOIS COMMERCE COMMISSION  
DOCKET NOS. 06-0070 / 06-0071 / 06-0072 (CONSOLIDATED)**

**SURREBUTTAL TESTIMONY  
OF  
PHILIP B. DIFANI**

**Submitted On Behalf  
Of  
AMEREN COMPANIES**

**July 14, 2006**

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**OF**

**PHILIP B. DIFANI**

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

A. My name is Philip Difani. My business address is 1901 Chouteau Avenue, Saint Louis, Missouri 63166.

**Q. Are you the same Philip Difani that provided direct testimony in this proceeding?**

A. Yes.

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

A. The primary purpose of my testimony is to respond to the rebuttal testimony of Mr. Christopher C. Thomas on behalf of the Citizens Utility Board. Specifically, I will respond to his assertions regarding the appropriateness of the average and peak (A & P) allocation method for allocating cost of service. I will also comment on his discussion regarding the minimum distribution system recommendations made by others in this proceeding. I also respond to Staff witness Mike Luth's testimony regarding certain meter charges. Finally, I have reviewed Staff witness Cheri Harden's rebuttal testimony with regard to the revised cost of service studies that I introduced in my rebuttal testimony, and will comment on statements she makes in that regard.

24 **Q. Mr. Thomas, while acknowledging that the Commission has historically used**  
 25 **the non coincident peak (NCP) method to allocate costs for electric**  
 26 **distribution in utilities, states it is important to note this case is the “first**  
 27 **Ameren Company distribution-only rate case to determine residential**  
 28 **delivery service rates”. Is Mr. Thomas’ statement accurate?**

29 A. No. The Commission has, in fact, set rates for delivery services customers in  
 30 several proceedings involving what are now the Ameren Companies. In 1999, in  
 31 ICC Dockets 99-0134, 99-0121, and 99-0131, the Commission set delivery  
 32 service rates for Illinois Power Company, AmerenCIPS and Central Illinois Light  
 33 Company, respectively. In each of these proceedings the Commission accepted  
 34 the allocation method being proposed by those utilities. The cost allocation  
 35 method approved by the Commission was the NCP method. Similarly, in ICC  
 36 Dockets 01-0432, 00-0802, and 01-0637, the Commission approved delivery  
 37 service rates for residential customers, among other customer classes, and again  
 38 the allocation method approved by the Commission in those dockets is the same  
 39 as being proposed at this time. Mr. Thomas, in a data request response, stated he  
 40 was unaware of any authority that recommended the use of NCP in the A&P  
 41 method. Indeed, this history of allocating costs by this method is a compelling  
 42 reason not to accept CUB’s proposal. Rate continuity is an important goal in rate  
 43 design. Moving to the A&P method will abruptly shift costs to the non-residential  
 44 customer classes.

45 **Q. Mr. Thomas acknowledges that the distribution system is designed to meet**  
 46 **each customer’s one time NCP demand but that the cost of the system is**

47 **recovered throughout the entire year. He then suggests that the demand**  
48 **imposed by ratepayers throughout the year justifies the use of the A & P**  
49 **allocation of distribution demand facilities. Can you please respond?**

50 A. Yes. It is important to recognize or understand that the cost allocation method  
51 approved by the Commission should not only consider how one customer or one  
52 customer class may use the system but how the system is designed and used by  
53 all. This is not just an engineering distinction but a distinction that has at its  
54 foundation ratemaking and cost causation:

55 'Cost causation is the central principle of all cost allocation. This principle  
56 means that a cost is allocated on the basis of factors that cause the cost to be  
57 incurred. For example, an LDC has to invest in building distribution capacity  
58 to meet customer peak demand. There is a causal relationship between  
59 customer peak demand and investments in capacity. The investments in  
60 capacity correspond to the peak demand and, therefore, causes the investment  
61 expenditures to be incurred. It follows that the investment expenditures  
62 would be allocated on the basis of some measure of peak responsibility of  
63 different customer groups or service categories.'<sup>1</sup>

64  
65 The NCP method is based on maximum demands of each class regardless of when  
66 they occur. In contrast, the A & P method advocated by Mr. Thomas, allocates  
67 costs not only based on the "average" use of the distribution system, but also the  
68 usage by customer classes at the time of peak. A double counting of class  
69 demand then results.

70 **Q. Can you elaborate as to why there is a double counting of demand?**

71 A. Yes. The average demand is also counted as part of the peak demand. Therefore  
72 the average demand is counted twice-once in the context of assessing the average  
73 demand and then next in assessing the peak demand. In its logical extreme, a

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<sup>1</sup> Mohammad Harunuzzaman and Sridarshan Koundinya, "Cost Allocation and Rate Design for Unbundled Gas Services," The National Regulatory Research Institute, NRRI 00-08, p. 44.

74 customer with a 100% load factor would be allocated their peak use both as  
75 average use and as peak use. The effect is to then move costs from residential  
76 customers to non-residential customers. The distribution system is built to  
77 provide for the customers usage at time of peak. The A&P allocator will allocate  
78 more cost to those more efficient customer classes, that because of their  
79 conservation efforts and/or effective control of their peak use, consume a higher  
80 percentage of their energy off-peak than other classes. While Mr. Thomas puts  
81 the best possible light upon it, he is advocating real-time prices (RTP) for the  
82 residential class to lower their costs by using more energy off-peak, and then  
83 proposing the A&P methodology for allocating distribution costs which penalizes  
84 those customer classes that actually use more energy off-peak. Mr. Thomas'  
85 contradiction at rewarding residential off-peak usage through RTP in the power  
86 arena yet at the same time punishing those same customers in the distribution  
87 arena with the A & P method, is puzzling. The Commission should recognize  
88 what is occurring and not allow this contradiction, and continue to affirm the NCP  
89 method as it has in prior cases.

90 **Q. Mr. Thomas asserts there is little difference in the regulated natural gas and**  
91 **electric distribution demand facilities and that this is a critical point to be**  
92 **made by the Commission in deciding on a method for allocating cost amongst**  
93 **customers or customer classes. How do you respond?**

94 A. I agree with Mr. Thomas that, in general system operations, the natural gas and  
95 electric distribution systems are similar in concept. However, the same can be  
96 said for the electric, land-line telephone and cable TV/Internet access systems,

97 which in fact use the same poles to deliver services. The rates for line telephone,  
 98 cable TV, and Internet access systems generally include everything into a flat rate,  
 99 essentially the same thing as a customer charge, which no one is proposing in this  
 100 case. The point being, each of these industries has their own historical  
 101 perspective for developing rates or charges, and Mr. Thomas's suggestion of  
 102 selecting the method used for natural gas could easily lead to the question of why  
 103 not use the telephone or cable TV or internet access pricing methods instead?  
 104 Nonetheless, there are material differences between the electric and gas systems.  
 105 Demands on electric systems vary significantly hour-by-hour, and the coincident  
 106 peak is described as that use in one hour. For gas systems the coincident peak is  
 107 described in terms of a daily peak. Further, electric systems are considered to be  
 108 'on-demand', in that there generally is no effective storage system for electrical  
 109 power or energy. In contrast gas can be stored underground or, to a lesser degree,  
 110 in what is called 'line-packing', which is simply running a higher pressure in  
 111 supply lines to hold more gas.

112 **Q. Mr. Thomas also refers to IIEC witness Alan Chalfant and Wal-Mart witness**  
 113 **James T. Selecky's recommendations in favor of the use of the minimum**  
 114 **distribution system approach. Do you have any comments?**

115 A. Yes. I stated previously in my rebuttal testimony why the Commission should not  
 116 employ the minimum distribution system in this proceeding, at this time. Mr.  
 117 Thomas offers his reasons for the same result. I note, parenthetically, the contrast  
 118 at issue. The large industrial and commercial customer groups desire the  
 119 minimum distribution system which, at least from a results oriented standpoint,

120 results in costs being shifted to the residential class. Mr. Thomas, on behalf of  
 121 residential customers, recommends the use of the A & P allocation method which  
 122 would then have the result of shifting costs to the large industrial and commercial  
 123 classes. Perhaps, then, from the perspective of rate continuity and consistency,  
 124 the Commission should remain with the positions that are consistent with its  
 125 previous decisions.

126 **Q. Have you reviewed the testimony of Mr. Chalfant and his objections to the**  
 127 **use of the A & P method?**

128 A. Yes. I will not repeat Mr. Chalfant's criticisms but I agree with the positions he  
 129 has taken.

130 **Q. Did you review Mr. Luth's rebuttal testimony regarding meter cost?**

131 A. Yes. Mr. Luth is concerned that the accounting for meter costs ensures that the  
 132 proper amount is subject to the meter charge versus the amount in the customer  
 133 charge. As such, I reviewed Ameren Companies' development of meter costs  
 134 versus customer costs and found that it was consistently performed using the cost  
 135 of meters for the meter charge, and that the cost of the current and potential  
 136 transformers (CTs and PTs) is included in the customer charge.

137 **Q. Please explain the relationship of meter costs to CTs and PTs which remain**  
 138 **in customer costs given those assets are not subject to meter unbundling.**

139 A. The vast majority of DS-1 and DS-2 customers require only a single phase  
 140 secondary meter, which is the simplest and least expensive meter in the system.  
 141 There is a small faction of DS-1 and DS-2 customers taking service at three-phase  
 142 in which CTs and/or PTs are required. The cost of the CTs / PTs increase the

143 total meter configuration considerably; however, there are very few of them so  
 144 there is a very low percentage of cost involved as stated in Mr. Luth's testimony.  
 145 However, DS-3 and DS-4 customers are opposite in nature given they are often  
 146 served at voltages above secondary and usually with three phase connections.  
 147 While the cost of a meter is higher for these customers due to the additional  
 148 information that must be kept and recorded, the significant additional cost is the  
 149 CT and PT needed to bring the voltage from the meter tap point to the meter's  
 150 voltage and current rating. The cost of the CT and PT becomes higher for each  
 151 higher level of line voltage reduction required. Furthermore, each phase of the  
 152 supply must be similarly configured. The CT and PT costs can range to 30 or 40  
 153 times the cost of the meter which results in the differences between meter costs  
 154 and customer charges noted by Mr. Luth.

155 **Q. Did you review Ms. Harden's rebuttal testimony?**

156 A. Yes. I acknowledge Ms. Harden's acceptance of the revised cost of service  
 157 studies I presented in rebuttal testimony. I also agree that she has accurately  
 158 presented how the revenue allocation methodology affects the Ameren  
 159 Companies.

160 **Q. Does this conclude your surrebuttal testimony?**

161 A. Yes.

162 CHI-1543738v1