

ILLINOIS COMMERCE COMMISSION

DOCKET NOS. 06-0691, 06-0692, 06-0693

DIRECT TESTIMONY

OF

LEONARD M. JONES

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**

(Ameren Illinois Utilities)

DECEMBER 1, 2006

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I. Introduction and Purpose

- Q. Please state your name and business address.**
- A. My name is Leonard M. Jones. My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.
- Q. By whom are you employed and in what capacity?**
- A. I am employed by Ameren Services Company (“Ameren Services”) as Managing Supervisor – Restructured Services – Regulatory Policy and Planning.
- Q. Please provide your educational and employment history.**
- A. I graduated from Western Illinois University with a Bachelor of Arts Degree in Economics in 1987. In 1988, I received a Master of Arts Degree in Economics, also from Western Illinois University. From 1988 through 2004 I was employed by Illinois Power Company (“Illinois Power”) as a Rate Analyst, Senior Rate Analyst, Rate Specialist, Team Leader - Costing and Economic Services, and Director – Business Planning and Forecasting. Shortly after completion of Ameren Corporation’s (“Ameren”) acquisition of Illinois Power, I was assigned to my current position.

22 **Q. Have you previously testified before the Illinois Commerce Commission (the**
23 **“Commission”, “ICC”)?**

24 A. Yes. I previously testified in Docket No. 91-0335, regarding Illinois Power
25 Company’s (“Illinois Power”) electric marginal cost of service study; Docket No.
26 93-0183, regarding Illinois Power’s gas marginal cost of service study; Docket No.
27 98-0348, regarding Illinois Power’s proposed Rider DA-RTP II; Docket No. 98-
28 0680, regarding the investigation concerning certain tariff provisions under Section
29 16-108 of the Public Utilities Act (“PUA”, or “Act”) and related issues; Docket No.
30 98-0769, regarding requirements governing the form and content of contract
31 summaries for the 1999 Neutral Fact Finder; Docket Nos. 99-0120 & 99-0134
32 (Cons.) regarding approval of Illinois Power’s Delivery Service Implementation
33 Plan and Tariffs; Docket Nos. 00-0259/00-0395/00-0461 (Cons.) regarding
34 proposed Rider MVI and revisions to Rider TC; Docket 01-0432 regarding electric
35 Delivery Service Tariff rate design and related matters; Docket 04-0476 regarding
36 gas rate design; and Docket Nos. 06-0070/06-0071/06-0072 (Cons.) regarding
37 electric Delivery Service Tariff rate design and related matters.

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

39 A. The purpose of my testimony is to describe the primary features of Rider PRP –
40 Price Response Program (“Rider PRP”) which is proposed to be available to
41 residential customers of AmerenIP, AmerenCILCO and AmerenCIPS (the “Ameren
42 Illinois Utilities”, or “Company”) taking service in conjunction with Rider RTP.

43 **Q. In addition to your prepared direct testimony, do you sponsor any other**
44 **schedules?**

45 A. Yes, I am sponsoring Ameren Exhibits 2.1 through 2.3, which were prepared by me
46 or under my direction or supervision.

47 **II. Primary Features of Rider PRP**

48 **Q. Please describe the purpose of Rider PRP.**

49 A. Rider PRP is the tariff that outlines the service to be offered to those residential
50 customers who elect to participate in a real-time pricing program through the
51 assistance of a Program Administrator (“PA”). The proposed tariff outlines certain
52 of the responsibilities of the PA, certain terms and conditions required of
53 participating customers, and recovery of the Ameren Illinois Utility’s costs
54 associated with administering Rider PRP. Rider PRP is also intended to comply
55 with recently added provisions outlined in 220 ILCS 5/16-107 of the Act approved
56 on June 30, 2006. A copy of Rider PRP is attached as Ameren Exhibit 2.1. Since
57 the tariff is the same for all three Ameren Illinois Utilities, I have attached the tariff
58 only for AmerenCIPS.

59 **Q. Please outline the salient provisions of revised Section 16-107?**

60 A. The law requires electric utilities with more than 100,000 retail electric customers
61 to file a tariff or tariffs that allow residential customers to elect real-time pricing
62 (“RTP”). It states that such tariff “shall, at a minimum, describe (i) the
63 methodology for determining the market price of energy to be reflected in the real-
64 time rate and (ii) the manner in which customers who elect real-time pricing will be
65 provided with ready access to hourly market prices, including, but not limited to,

66 day-ahead hourly energy prices.” (220 ILCS 5/16-107(b-5)) The definition of RTP
67 applicable to residential customers was also modified to require hourly pricing
68 rather than prices that change on a periodic basis (i.e., by season and on/off-peak).
69 The law also requires utilities to hire the services of a PA provided that the Illinois
70 Commerce Commission (“ICC”) finds net economic benefits will accrue to all
71 residential customers. If net economic benefits can be demonstrated, the cost of
72 hiring and retaining the PA may be shared by all residential customers.

73 **Q. Do you address the issue of net economic benefits in your testimony?**

74 A. No, Mr. Richard A. Voytas, Manager of Corporate Analysis for Ameren Service
75 Company, provides testimony addressing this issue.

76 **Q. Who is eligible to take service under Rider PRP?**

77 A. Rider PRP is available to all residential customers taking Rate DS-1 – Residential
78 Delivery Service (Rate DS-1) and that also agree to take service under Rider RTP –
79 Real-Time Pricing (Rider RTP). Thus, residential customers may take service
80 under Rider RTP without also taking Rider PRP; however, customers on Rider PRP
81 must also take service under Rider RTP.

82 **Q. Does Rider PRP describe the methodology for determining the market price of**
83 **energy to be reflected in the real-time rate, or the manner in which customers**
84 **who elect real-time pricing will be provided with ready access to hourly**
85 **market prices, including, but not limited to, day-ahead hourly energy prices?**

86 A. Not in itself. Rider PRP must be taken in conjunction with Rider RTP. Rider RTP,
87 in conjunction with Rider MV, describes the methodology for determining the
88 appropriate market price of energy. Rider RTP also provides that hourly prices be

89 posted on www.ameren.com. The Ameren Illinois Utilities plan to show both real-
90 time and day-ahead prices for the applicable MISO delivery point. In addition,
91 Rider PRP requires the PA to establish and administer an information system, plus
92 technical and other customer assistance necessary to enable customers to efficiently
93 manage their electric usage.

94 **Q. What additional charges are proposed for customers taking service under**
95 **Rider PRP?**

96 A. Customers will be assessed a \$3/month Participation Charge; however, the
97 otherwise applicable \$5/month Incremental Metering Charges for Rider RTP shall
98 be waived. The Participation Charge is intended to defray some of the cost of
99 administering the rider. In part, Section 16-107(b-25) states: “The electric utility
100 may apportion greater costs on the residential customers who elect real-time
101 pricing, but may also impose some of the costs of real-time pricing on customers
102 who do not elect real-time pricing, provided that the Commission determines that
103 the cost savings resulting from real-time pricing will exceed the costs imposed on
104 customers for maintaining the program.” The Ameren Illinois Utilities propose to
105 recover the difference between the charges (\$2/month per customer), plus other
106 program costs, from all residential customers. Charging participants \$3/month
107 attempts to strike a balance between apportioning greater costs on the residential
108 customers who elect real-time pricing and costs imposed on all other residential
109 customers and, also, reflects the incremental cost of the installation of hourly or
110 load profiling metering. All other things equal, a higher Participation Charge would
111 lower the threshold for determining if the cost savings resulting from real-time

112 pricing will exceed the costs imposed on customers for maintaining the program,
113 and vice versa. Further, Mr. Voytas explains why it is reasonable to assume that
114 non-participating customers can expect savings as a result of customers taking
115 service under Rider PRP. I will discuss recovery of additional program costs later
116 in my testimony.

117 **III. The Program Administrator**

118 **Q. What are the responsibilities of the PA outlined in the proposed tariff?**

119 A. The PA is required to develop and implement a program to provide consumer
120 outreach, enrollment, and education concerning RTP to customers. The PA is also
121 required to establish and administer an information system, and provide technical
122 and other customer assistance necessary to enable customers to effectively manage
123 their electric usage.

124 **Q. How is the PA selected?**

125 A. The PA is selected for the utility and approved by the ICC. The PA must have
126 demonstrated technical and managerial competence in the development and
127 administration of demand management programs. The Ameren Illinois Utilities are
128 in the process of issuing a request for proposal (“RFP”) to several dozen entities
129 who could possibly serve as the PA. A copy of the RFP is attached as Ameren
130 Exhibit 2.2. The Ameren Illinois Utilities will seek approval from the ICC for its
131 services’ agreement with the PA. A copy of the services’ agreement is attached as
132 Ameren Exhibit 2.3.

133 **IV. Terms and Conditions**

134 **Q. Please describe certain of the material terms and conditions required of**
135 **customers served under Rider PRP.**

136 A. Customers are required to meet certain prerequisites of service before taking Rider
137 PRP. Customers must complete a PRP enrollment form with the PA
138 acknowledging that they: 1) agree to participate in the Price Response Program; 2)
139 are eligible for and agree to take service under Rider RTP; 3) have reviewed the
140 terms and conditions of Rider PRP and Rider RTP; 4) authorize the Company to
141 release to the PA electric energy usage and billing information of such Customer
142 and all other information as permitted by law, rule, regulation or tariff; 5) authorize
143 a participation agreement to be secured and maintained by the PA; and 6) authorize
144 their electrical usage data and billing information to be aggregated or combined
145 with data of other Rider PRP participants for purposes of evaluating consumer and
146 system benefits under this Rider. Customers must also have in place the necessary
147 interval metering prior to commencing service under Riders RTP and/or PRP.

148 **Q. Is there a minimum service obligation associated with service under Rider**
149 **PRP?**

150 A. Customers must take service for a minimum term of 12 months. A 12 month
151 minimum term is required under the provisions of Section 16-107(b-5) of the Act.
152 Of course, customers who terminate utility service with the Ameren Illinois Utilities
153 will not be bound to the 12 month minimum stay.

154 **Q. Will the Ameren Illinois Utilities limit participation on Rider PRP?**

155 A. No.

156 **Q. Can a residential customer on Rider PRP switch to service from a Retail**
157 **Electric Supplier (“RES”) or select fixed pricing service from the Ameren**
158 **Illinois Utilities?**

159 A. Yes, a customer may switch from Rider PRP to RES service by following the
160 Company’s applicable Direct Access Service Request procedures, provided that
161 such customer has fulfilled the required 12 month minimum stay.

162 **Q. Please describe the terms and conditions pertaining to Rider PRP Termination**
163 **and Program Evaluation.**

164 A. Rider PRP contains a sunset date of December 31, 2010, unless an extension has
165 been approved by the ICC. Information will also be collected and retained for
166 purposes of program evaluation though the term of the proposed rider. It is
167 expected that the program evaluation will monitor the net economic benefit of
168 maintaining Rider PRP.

169 **V. Recovery of Costs Associated with Rider PRP**

170 **Q. You previously mentioned that Rider PRP customers would be assessed a**
171 **Participation Charge of \$3/month, but would not pay the \$5/month**
172 **Incremental Metering Charge for Rider RTP. How will the Ameren Illinois**
173 **Utilities recover the costs of administering Rider PRP?**

174 A. The cost of administering the program will be shared by all residential customers
175 and added to the Supplemental Customer Charges currently assessed to residential
176 customers. Currently, residential customers pay Supplemental Customer Charges
177 of \$0.40 for energy assistance and \$0.05 for renewable energy resources and coal
178 technology development assistance which will (i.e., post-2006) be added to

179 Residential Rate DS-1 customers' Customer Charge. The amount added to the
180 Supplemental Customer Charges will be calculated within Rider PRP each six
181 months for application on or about January 1 and July 1 of each year, except the
182 initial charge will be applicable within 60 days of ICC approval of Rider PRP.

183 **Q. Please describe the costs expected to be incurred as a result of providing Rider**
184 **PRP.**

185 A. There are four primary expenses, and one cost offset. The expenses included are:

- 186 • Waived Incremental Metering Charges for Rider RTP. This amount
187 represents the revenue the Company would have collected from Rider PRP
188 customers to pay for a portion of the cost of installing interval metering at
189 the customer's premises and processing interval demand data (i.e., the
190 \$5/month per customer charge).
- 191 • The PA administrative costs will be captured and invoiced to the Ameren
192 Illinois Utilities. In the Ameren Illinois Utilities' delivery services rate
193 cases, the Citizens Utility Board ("CUB") provided an exhibit showing total
194 annual cost estimates for PA duties ranging from \$325,000 in year one
195 (assuming 2,000 participants) to nearly \$500,000 in year four (assuming
196 20,000 participants).
- 197 • Program evaluation costs associated with determining if the program is
198 resulting in net benefits to residential customers.
- 199 • Data processing costs associated with enabling the Ameren Illinois Utility to
200 process hourly data for large numbers of interval-metered Customers.

201 The cost offset is the Participation Charge described previously.

202 **Q. Please describe the additional data processing costs the Ameren Illinois**
203 **Utilities will incur to process hourly data for residential customers.**

204 A. Processing interval meter data is largely a manual process today. Presently, the cost
205 of processing interval data is approximately \$85/year per customer, or \$7.08 per
206 month. In the recent delivery services rate cases (Docket Nos. 06-0070/0071/0072
207 Cons.), I testified that automating the interval meter data handling process would
208 require approximately \$906,600 of additional software and software development.
209 Further, CUB had projected residential participation to increase from 2,000 in 2007
210 up to 20,000 by 2010. At those higher participation levels, it is cost effective to
211 automate RTP data management.

212 A value of \$94,800 is embedded within Rider PRP for recovery of the incremental
213 data processing cost. This amount was developed by multiplying \$906,600 by
214 20.91%, a levelized carrying charge for software. The product, \$189,570, is
215 divided by 2 to reflect the appropriate amount to recover each six months, or
216 approximately \$94,800.

217 **Q. How does the cost recovery mechanism differ from your earlier proposal for**
218 **Rider ESP in the delivery services rate case?**

219 A. The methodology being proposed for Rider PRP is designed to recover the actual
220 costs of offering Rider PRP, as defined in the tariff, rather than a revenue
221 requirement value based on a projection for participation and PA costs as was the
222 case for the now rejected Rider ESP.

223 **VI. Other Prices Applicable to Rider RTP**

224 **Q. How has rejection of the BGS-LRTP auction product by the ICC impacted**
225 **Rider RTP customers?**

226 A. The auction product for BGS-LRTP would have set the price for the Hourly Price
227 Section Supplier Charge (HPSSC) for Rider RTP-L – Real-Time Pricing – Large
228 (Rider RTP-L) customers. The same pricing would have been used to establish the
229 same charge for Rider RTP customers. Thus, the rejecting of the auction results for
230 Rider RTP-L by default rejected the pricing for Rider RTP customers. In general,
231 the HPSSC recovered the cost of capacity, ancillary services, and market settlement
232 associated with serving customers. Additionally, suppliers would have included
233 their profit margin and risk premium within the bid.

234 **Q. Is there a plan to replace the HPSSC auction-based product with an**
235 **alternative?**

236 A. Yes. The Ameren Illinois Utilities have filed modifications to Rider MV tariffs to
237 replace the auction product with a series of services procured by them. In
238 summary, the Ameren Illinois Utilities propose to assess separate capacity, ancillary
239 service, and market settlement charges. Each of the charges will be developed and
240 filed in informational sheets prior to the effective month of the charge. As was the
241 case before the auction results were known, the Ameren Illinois Utilities proposed
242 to use the same charges for RTP and RTP-L customers, except that the market
243 settlement provision shall not apply. In other words, Rider RTP customers will be
244 assessed a separate capacity and ancillary services charges. With regard to capacity
245 service charges, a customer's estimated peak demand at the time of the previously

246 established annual system peak demand, plus applicable reserve requirement
247 required by the regional reliability entity to which the Company belongs, shall be
248 used as the billing unit. This is the same billing unit that would have been used if
249 the auction product had been approved by the ICC. The ancillary service charge
250 will be assessed based on a customer's peak at the time of the system peak
251 occurring in the current billing period. This approach is similar to MISO's
252 application of ancillary service rates.

253 **Q. Why is the market settlement charge not applied to Rider RTP?**

254 A. Capacity and ancillary service costs serve as an adequate cost proxy for serving
255 Rider RTP customers. For both components, a set charge will be determined and
256 applied to the customer's appropriate demand. Capacity costs will come from a
257 competitive bidding process. Ancillary service costs will come from the
258 appropriate MISO Schedules. Conversely, market settlement is designed to
259 specifically apply to the loads of Rider RTP-L customers, and the amount of the
260 charge will change based on the expected and actual usage of Rider RTP-L
261 customers.

262 Second, Rider RTP customers will fall under the same power and energy cost true-
263 up mechanism in Rider MV as those customers who choose the fixed price product
264 (BGS-FP). Each BGS-FP supplier is ultimately responsible for market settlement
265 costs for serving Rider RTP load. Since the market settlement provision is a true-up
266 for Rider RTP-L, also applying the component to Rider RTP needlessly complicates
267 the rate and lacks a solid cost basis.

268 **Q. Does this conclude your direct testimony?**

269 A. Yes, it does.