

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 07-0165

REBUTTAL 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**

**ILLINOIS POWER COMPANY
d/b/a AmerenIP**

(THE AMEREN ILLINOIS UTILITIES)

June 1, 2007

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REBUTTAL TESTIMONY

OF

LEONARD M. JONES

Q. Please state your name and business address.

A. My name is Leonard M. Jones. My business address is 1901 Chouteau Avenue, St. Louis, Missouri 63103.

I. Introduction and Purpose

Q. Are you the same Leonard M. Jones that filed direct testimony in this proceeding?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to certain portions of the direct testimony of Illinois Commerce Commission Staff (“Staff”) witness Mr. Peter Lazare, Citizens Utility Board (“CUB”) witness Mr. Christopher Thomas, and Grain and Feed Association (“GFA”) witness Mr. Jeffery Adkisson.

II. Residential Rate Redesign

Q. Do you have any comments regarding the residential rate redesign outlined by Mr. Lazare?

A. Yes. Mr. Lazare supports the approach to residential rate redesign as provided in the response to Staff Data Request PL-1.01, and attached as Schedule 1.03 to Staff Exhibit 1.0. The approach and results are the same as what I provided in my

24 direct testimony at pages 12-17, and in Ameren Illinois Utilities' Exhibits 2.2
25 through 2.4. Thus, I believe that Staff and the Ameren Illinois Utilities are in
26 agreement on how to best approach residential rate redesign.

27 **Q. Has there been any other direct filed testimony submitted in this case that**
28 **has made you reconsider the residential rate redesign approach?**

29 A. No.

30 **III. Non-residential DS/BGS-2 Rate Redesign**

31 **Q. On page 31 of his direct testimony, Mr. Lazare states that redesign of**
32 **individual rate elements for DS/BGS-2 was incomplete. Have you provided a**
33 **general approach and individual rate elements to redesign DS/BGS-2 rates?**

34 A. Yes. I set forth a methodology in my direct testimony at pages 18 – 21. In that
35 testimony I describe the general approach for adjusting DS/BGS-2 rates. In
36 summary, BGS-2 is targeted to increase by approximately \$40.2 million (across
37 all of the Ameren Illinois Electric Utilities) as a result of shifting revenue from
38 BGS-1 to BGS-2. Next, Distribution Delivery Charges have been increased in the
39 summer by 0.75 cents/kWh, and the non-summer charge has been decreased by
40 about 0.4 cents/kWh. This step results in a revenue neutral shift of delivery
41 service revenue recovery from non-summer months to summer months. Third, a
42 declining block was created at 2,000 kWh/month and BGS-2 prices were adjusted
43 to recover the additional revenue responsibility target from BGS-1. Summer
44 prices were increased to a level to recover the added revenue responsibility. Non-
45 summer prices were increased for the first 2,000 kWh of monthly use and
46 decreased for monthly use over 2,000 kWh. The non-summer design is largely

47 revenue neutral within the BGS-2 class for each of the Ameren Illinois Utilities.
48 The pricing changes in this third step attempt to increase rates for customers that
49 either received a rate decrease or small increase, while not causing additional
50 hardship to customers already experiencing above average increases.

51 **Q. Before you continue, are there any updates to the usage information**
52 **previously provided in your direct testimony that should be made?**

53 A. Yes. Ameren Illinois Utilities' Exhibit 2.5 provided usage information by block
54 (0-2,000 kWh and all over 2,000 kWh) for DS/BGS-2 for each of the Ameren
55 Illinois Utilities. The usage information for the 0-2,000 kWh block for
56 AmerenCIPS-ME was overstated. Instead of "winter" use at 260,429,368 kWh, it
57 should be 59,019,392 kWh. Similarly, "summer" use should be changed from
58 159,118,612 kWh to 29,758,661 kWh.

59 **Q. What impact does this update have on pricing changes proposed in Ameren**
60 **Illinois Utilities' Exhibit 2.5?**

61 A. This change only impacts revenue and pricing targets for AmerenCIPS (including
62 AmerenCIPS-ME and customers served by AmerenCIPS in portions of
63 Henderson and Hancock counties ("AmerenCIPS-H&H")). Delivery service rates
64 for the non-summer period need to be adjusted to (0.41) cents/kWh from (0.42)
65 cents/kWh. Likewise, BGS-2 prices in the summer need to be increased over
66 those previously proposed in order to recover the revenue responsibility shift from
67 BGS-1. BGS-2 pricing for each of the Ameren Illinois Utilities has been refined.
68 Therefore, updates to AmerenCIPS' BGS-2 prices will be discussed in the context
69 of this further enhancement.

70 **Q. How has the pricing for BGS-2 been refined since your direct testimony**
71 **submittal?**

72 A. In general, non-summer rates have been redesigned to increase the price for the
73 first 2,000 kWh of use, and decrease the price for use over 2,000 kWh. Summer
74 prices for AmerenCILCO and AmerenIP remained the same as presented in my
75 direct testimony. Summer prices for AmerenCIPS were changed to also introduce
76 a block at 2,000 kWh, where the price for the first block is about 0.5 cents/kWh
77 higher than the price for the tail block. For each of the Ameren Illinois Utilities,
78 the increased prices in the summer still recover the additional revenue
79 responsibility allocated from BGS-1. Further, non-summer prices are still largely
80 revenue neutral within BGS-2 for each of the Ameren Illinois Utilities. An update
81 showing the refined pricing to BGS-2 and DS-2 for each of the Ameren Illinois
82 Utilities is shown in Ameren Illinois Utilities' Exhibit 3.01.

83 **Q. What is the impact of applying the refined pricing to DS/BGS-2 customers?**

84 A. Ameren Illinois Utilities' Exhibit 3.02 provides an update to Exhibit 2.6, showing
85 a comparison of formerly applicable 2006 rates to those expected in 2007 under
86 the status quo, and those expected if the rate redesign adjustments are adopted. In
87 general, compared to the DS/BGS-2 design presented in direct testimony, the rate
88 adjustments proposed here more aggressively attempt to bring small-use
89 customers that previously received rate decreases or small increases closer to the
90 class average increase. Conversely, larger customers with high non-summer use
91 were provided with additional rate relief. Lower-use customers should expect to
92 see increases from current 2007 rates by about 20%-30%, higher summer use

93 customers should expect to see increases from current 2007 rates by about 10%-
94 15%, and higher non-summer use customers should expect to see minor increases
95 (5% or less) or decreases. A distribution of DS/BGS-2 percentage rate increases
96 comparing 2006 bills to estimated 2007 bills, and 2006 bills to redesigned 2007
97 bills is provided in Ameren Illinois Utilities' Exhibit 3.03.

98 **IV. Rate Limiter for DS-3 and DS-4**

99 **Q. Please briefly describe the rate limiter proposal for DS-3 and DS-4**
100 **customers.**

101 A. In my direct testimony, I proposed a 2 cents/kWh demand limiter for certain DS-3
102 and DS-4 customers. The demand limiter would limit the monthly total cost of
103 the Distribution Demand Charge and Transformation Capacity Charge to 2
104 cents/kWh. The proposed limiter would be available to customers that limit their
105 total kWh usage during the four summer months of June through September to
106 20% or less of their annual kWh consumption.

107 **Q. Does GFA witness Mr. Adkisson support the limiter proposal?**

108 A. In his direct testimony, Mr. Adkisson supports the 2 cents/kWh limiter, but
109 proposed some alternatives to determine eligibility.

110 **Q. Please describe Ameren Illinois Utilities' Exhibit 3.04.**

111 A. Ameren Illinois Utilities Exhibit 3.04 is a Memorandum of Understanding
112 ("MOU") between the Ameren Illinois Utilities and the GFA reflecting a joint
113 recommendation to the Commission in support of the 2 cent/kWh limiter and the
114 eligibility criteria of a maximum 20% of annual usage occurring in the summer
115 season (June through September Billing Periods). The terms contained in the

116 MOU are consistent with the arguments and analysis contained in my Direct
117 Testimony starting on line 485 of page 22 and continuing through line 556 of
118 page 26. Additionally, pages 1 and 2 of Exhibits 2.8 to my Direct Testimony
119 illustrate how the revenue shortfall created by the implementation of the demand
120 limiter is recovered from other customers within the DS-3 and DS-4 groups.

121 **Q. How do you respond to Mr. Adkisson's recommendation that the**
122 **Commission order the Ameren Illinois Utilities to collect on- and off-peak**
123 **demand data and present the same in the next Ameren Illinois Utilities'**
124 **electric rate case?**

125 A. The Commission has already ordered the Ameren Illinois Utilities to collect on-
126 and off-peak demand data for its demand metered customers for presentation in its
127 next delivery services rate case (Order, Docket Nos. 06-0070/06-0071/06-0072
128 (Cons.), pages 198-199). The Ameren Illinois Utilities intend to comply with that
129 directive.

130 **V. Timing of Implementation**

131 **Q. Please summarize the Ameren Illinois Utilities' position regarding when the**
132 **various rate design changes should be implemented.**

133 A. The rate redesign changes for DS/BGS-1 and DS/BGS-2 should be implemented
134 on January 1, 2008, unless other mechanisms are employed to hold the Ameren
135 Illinois Utilities revenue neutral. The rate limiter changes to DS-3 and DS-4
136 could be implemented anytime shortly after the Order in this case since the
137 proposal does not involve shifting revenue from one season to another, and thus
138 can be effectuated on a revenue neutral basis.

139 **Q. What comments did Staff witness Mr. Lazare provide regarding an**
140 **implementation date?**

141 A. Mr. Lazare proposed that revised rates take effect October 1, 2007; however, Mr.
142 Lazare acknowledges that an October implementation will result in revenue
143 deficiency for 2007 if DS rates are adjusted at that time. To address this problem,
144 Mr. Lazare proposes a two-step method whereby the full effect of DS/BGS-1 and
145 DS/BGS-2 rate changes are implemented through BGS rate design changes on
146 October 1, 2007 (step 1). In the second step, DS rate design changes would
147 become effective on January 1, 2008, and BGS prices would be readjusted by an
148 offsetting amount. The appropriate values may be derived from Ameren Illinois
149 Utilities' Exhibit 2.3 (showing residential prices) and Ameren Illinois Utilities'
150 Exhibit 3.01 (showing non-residential DS/BGS-2 prices).

151 **Q. Do you have any concerns regarding Mr. Lazare's proposal?**

152 A. I find Mr. Lazare's proposal palatable; however, I have a few caveats. First, the
153 Ameren Illinois Utilities have been negotiating with state legislators and other
154 parties regarding the level of rate increases experienced by customers. It is my
155 understanding that rate relief programs have been part of those negotiations, and
156 much emphasis has been on large winter use residential customers that
157 experienced the sharpest increases under rates that began on January 2, 2007. It is
158 possible that if the Ameren Illinois Utilities implement one or more of these
159 negotiated rate relief programs, increases to customers that heat their households
160 with electricity will be substantially mitigated this autumn. Implementing rate
161 redesign changes on top of a special negotiated program could result in rates and

162 bills below those paid by customers in 2006. If such special program were to
163 expire at the end of 2007, customers may perceive that they have received a rate
164 increase starting with their January bills. Thus, the first qualification is this: If the
165 Ameren Illinois Utilities have implemented a special negotiated program
166 providing substantial benefits to residential high non-summer use customers prior
167 to the final Order in this docket, rate redesign implementation should be withheld
168 until January 1, 2008.

169 Second, acceptance of Mr. Lazare's proposal must be accompanied with an
170 adequate means to address the impact on the over/under recovery mechanism
171 within Rider MV and an acknowledgment that further decreasing BGS rates for
172 October through December 2007 will create an under-recovery deficit not
173 designed to be offset with rate re-design adjustments to future BGS rates. As
174 discussed in my direct testimony, shifting BGS revenue recovery from the non-
175 summer to summer period will result in a mismatch with the underlying supply
176 cost paid to suppliers. Without a modified over/under recovery mechanism in
177 place, the adjustment value would become volatile and undermine the efforts
178 made in this docket to reduce significant rate impacts felt by customers.

179 Moreover, further reducing BGS prices by an amount equivalent to the non-
180 summer DS rate change (about (0.4) cents/kWh) would create an additional
181 estimated deficit of about \$16.5 million in BGS revenue that must be recovered in
182 the future. This additional amount would be recovered through the over/under
183 calculation within Rider MV, and would raise effective rates in 2008, muting
184 some of the intended benefits of rate redesign.

- 185 **Q. Please explain in more detail how you arrived at the \$16.5 million BGS**
186 **under-recovery if Mr. Lazare's proposal is adopted.**
- 187 A. Even though the preferred rate redesign proposal involves shifting some revenue
188 between BGS-1 and BGS-2, total BGS redesigned rates are revenue neutral by
189 utility. Similarly, proposed changes to DS rates are designed to be revenue
190 neutral by utility. Ameren Illinois Utilities' Exhibits 3.05 and 3.06 show an
191 updated version of Ameren Illinois Utilities' Exhibit 2.09 and 2.11 reflecting
192 estimated monthly revenue impacts of rate redesign for BGS and DS rate
193 elements, respectively. Both of those exhibits show that implementing the
194 proposed rate redesign changes are substantially revenue neutral on an annual
195 basis. However, if the changes intended for DS rates were instead made to BGS
196 rates for the period from October through December, the DS revenue deficit for
197 each of those months (\$5.2 million in October, \$4.8 million in November, and
198 \$6.5 million in December (see Ameren Illinois Utilities' Exhibits 3.06)) would
199 instead shift to a BGS under-recovery that would roll forward to recovery in 2008.

200 **VI. Over/Under Recovery Mechanism Within Rider MV**

- 201 **Q. Please review the Ameren Illinois Utilities' proposal for adjusting the**
202 **monthly over/under calculation within Rider MV to ensure that the benefits**
203 **of redesigning BGS rates do not "wash-out."**
- 204 A. The over/under calculation within Rider MV is a formulaic mechanism that
205 ensures monthly costs of supply and monthly revenue are equal. When costs and
206 revenues are not equal, an over/under adjustment is created. Because the rate
207 redesign proposals involve shifting revenue between seasons, usage block, and

208 customer classes, absent any other intervention, monthly over/under adjustments
209 could become quite large and volatile. On pages 27 through 29 of my direct
210 testimony, I outline a proposal that would artificially increase or decrease revenue
211 by monthly factors to reflect the effect of the BGS rate changes. It is a somewhat
212 complex methodology, and the monthly factors need to be monitored and perhaps
213 adjusted if DS-2 customer switching increases much beyond current levels.

214 **Q. Would this “fixed factor” methodology properly address the estimated \$16.5**
215 **million BGS revenue deficit that would be created by implementing Mr.**
216 **Lazare’s proposed rate design changes on October 1, 2007, through changes**
217 **solely to BGS prices?**

218 A. No. The method whereby revenue is artificially adjusted up or down by fixed
219 factors assumes that over the course of one year, application of the price changes
220 will result in no net change to expected annual revenue. The monthly BGS price
221 adjustment factors would not correct for this additional revenue deficit, leaving
222 the under-recovered costs to begin recovery starting in January 2008.

223 **Q. Is there another method that could be employed to adjust monthly Rider MV**
224 **over/under calculations?**

225 A. Yes. The Ameren Illinois Utilities filed a proposed change to Rider MV on May
226 30, 2007, (ICC Docket Nos. 07-0350, 07-0351 and 07-0352) to allow for greater
227 flexibility in managing large over/under recoveries. The proposed language
228 would allow for amortization of adjustments for up to 12 months, and would
229 include interest at the rate established by the ICC in accordance with 83 Illinois
230 Administrative Code 280.70(e)(1). At this time, the Ameren Illinois Utilities’

231 position is that the Commission should approve changes in the Rider MV.
232 However, even if the Commission does not elect to approve the Ameren Illinois
233 Utilities' Rider MV in the manner requested in the recent filing, the Commission
234 should still provide for recovery of any revenue losses associated with the deferral
235 of dollars due to changes made in rate design in this docket.
236 Rather than adhering to a rigid set of factors, as proposed in my direct testimony,
237 the Ameren Illinois Utilities could instead use the proposed Rider MV language to
238 manage expected over/under recoveries. The expected monthly deficit/excess
239 amounts provided in Ameren Illinois Utilities' Exhibit 3.05 (reflecting an update
240 to Ameren Illinois Utilities' Exhibit 2.9), could be taken into consideration when
241 deciding whether to amortize large over/under recoveries and for how long. But,
242 these factors reflect a set of static usage characteristics, usage characteristics that
243 will differ from those planned due influences of weather and customer switching.
244 The newly proposed over/under recovery language within Rider MV would
245 permit adjustments the monthly over/under factor based on more current
246 information.

247 **VII. Alternate Rate Redesign Scenario**

248 **Q. In your direct testimony, you developed an alternate set of rates should the**
249 **Commission decide to reduce or eliminate the proposed subsidization of**
250 **BGS-1 by BGS-2. How do these alternate rates change based on what you**
251 **have provided in this rebuttal testimony?**

252 A. The alternate redesigned residential rates do not change from those proposed in
253 my direct testimony. Rates for DS/BGS-2 would change given the modification

254 to BGS-2 pricing (modifications primarily increasing the non-summer 0-2,000
255 kWh block prices, and decreasing non-summer prices for use over 2,000 kWh)
256 and the update to AmerenCIPS-ME 0-2,000 kWh usage; however, the method for
257 adjusting BGS-2 prices remains the same. All summer-season BGS prices, and
258 initial block non-summer prices, could be reduced by an equal amount until the
259 subsidy is eliminated. Specifically, AmerenCILCO prices would need to be
260 decreased by about 1.264 cents/kWh, AmerenCIPS prices would decrease by
261 about 1.163 cents/kWh, and rates AmerenIP rates would decrease by about 1.434
262 cents/kWh. These adjustments are shown in Ameren Illinois Utilities' Exhibit
263 3.07 (updating Ameren Illinois Utilities' Exhibit 2.14). A comparison of
264 DS/BGS-2 non-residential bill impacts, using the price adjustments from Ameren
265 Illinois Utilities' Exhibit 3.07, is shown in Ameren Illinois Utilities' Exhibit 3.08.

266 **VIII. Future Rate Prism Issues**

267 **Q. Mr. Lazare proposes to adjust electric supply prices on an across-the-board**
268 **basis to meet the supply costs that emerge from the upcoming 2008 auction**
269 **(ICC Staff Exhibit 1.0, lines 923-924). Do you agree with this approach?**

270 A. I agree the approach has merit for BGS-1 and BGS-2, but I have concerns if the
271 approach is also meant to apply to BGS-3 and BGS-5. Mr. Lazare appears to
272 propose that the retail rate prism will no longer be used as a mechanism to adjust
273 prices for any of the BGS-FP customer classes. In addition to BGS-1 (residential)
274 and BGS-2 (small general service), the retail rate prism would also set electric
275 supply rates for BGS-3 (general service) and BGS-5 (lighting service). In my
276 direct testimony, I proposed that BGS adjustments proposed in this docket be

277 adjusted on a uniform basis (lines 683-688). Since we are proposing to adjust
278 only BGS-1 and BGS-2 rates in this case, it follows that adjustments to changes to
279 supply costs that arise from replacing supply contracts would be limited to only
280 BGS-1 and BGS-2. Rates for BGS-3 and BGS-5 would be allowed to take effect
281 as originally designed (per the existing tariff). Adjusting existing BGS-1 and
282 BGS-2 retail supply charges, plus any applicable adjustments resulting from this
283 case, up or down to reflect the overall increase to power procurement costs for the
284 BGS-FP group seems reasonable. Conversely, supply prices for BGS-3 and BGS-
285 5 should be set by Rider MV as it is presently designed.

286 **Q. Why should retail supply charges for BGS-3 and BGS-5 be allowed to change**
287 **by an amount other than a uniform up or down amount?**

288 A. There are a few reasons. First, changes to BGS-3 and BGS-5 are not proposed in
289 this case. Second, BGS-3 prices can directly influence a customer's decision to
290 switch to a third-party supplier. About 1/3 of DS-3 customers are served by third-
291 party suppliers, and thus do not take service under BGS-3. Providing such
292 customers with a set of prices that is reflective of more current market factors
293 (and thus the market) allows these customers to make efficient switching
294 decisions. For example, the current pricing structure contains higher non-summer
295 prices than summer prices. A future update to the prism could result in a shift
296 back to lower non-summer prices compared to summer prices (see Ameren
297 Illinois Utilities' Exhibit 2.1, page 43 of 49). Retail prices that no longer reflect
298 market-based seasonal price differences could encourage customers with
299 proportionately high summer use to return to (or stay on) BGS-3, and customers

300 with proportionately high winter use to leave for (or remain with) a third-party
301 supplier. In the end, BGS-3 customers may provide less than anticipated revenue,
302 which would fall back to the monthly over/under calculation applicable to all
303 BGS-FP customers – a group dominated by residential and small general service
304 customers. In other words, not updating BGS-3 prices may increase costs to
305 BGS-1 and BGS-2 customers, all other things constant.

306 Third, the overall annual relationship between BGS-1, BGS-2, and BGS-3 prices
307 is unlikely to significantly change over time. For example, if BGS-3 prices
308 increase by 5% annually, BGS-1 and BGS-2 annual prices will also likely
309 increase by a similar amount. For this to not be the case, a group's usage
310 characteristics would have to undergo a fundamental transformation. For
311 example, DS/BGS-3 customers shifting a significant portion of their usage to the
312 summer on-peak period would represent a fundamental change. Such a change is
313 unlikely to have occurred since load information was last collected. (As presently
314 designed, the auction price retail translation mechanism within Rider MV uses
315 load information for the entire customer population for a customer class to shape
316 retail prices, not just those served on BGS rates.)

317 **IX. Response to CUB witness Mr. Thomas**

318 **Q. You indicated that you are responding to CUB witness Thomas' testimony.**

319 **Do you have any observations?**

320 **A.** Yes. Mr. Thomas speaks generally about guiding principles to be considered in
321 rate making and rate design. While I do not dispute these principles, like any other
322 guideline or operating parameters, they must be considered in context. While we

323 are mindful of rate impacts to a select group of residential customers, the rate
324 impacts to other residential and non-residential customers should not be ignored
325 either. We have attempted to strike an appropriate balance in this docket.

326 **Q. Do you have any other comments in response to Mr. Thomas?**

327 A. Yes. Mr. Thomas offers a commentary on how power supply and the resulting
328 rate structure came to be. First, issues related to procurement are outside the
329 scope of this docket and should not be considered as part of this proceeding.
330 Second, Mr. Thomas comments on the interclass cost of service allocation issue
331 CUB proposed in ICC Docket Nos. 06-0070 (cons.) as a means of rate relief.
332 However, delivery service costs make up only about 1/3 of a residential
333 customer's total bill. While I am not sure of the magnitude of an interclass
334 revenue allocation shift that would be expected, if residential DS rates were
335 reduced by 15%, for example, and shifted to other classes, the total bill impact
336 would only be about 5% reduction to the residential class. The bill impact issues
337 we are addressing for many customers are much greater than a 5% bill impact.

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

339 A. Yes.