

**ILLINOIS COMMERCE COMMISSION
DOCKET NOS. 07-0585 – 07-0590 (CONSOLIDATED)**

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)**

APRIL 14, 2008

TABLE OF CONTENTS

I. INTRODUCTION..... 1

II. ACROSS THE BOARD INCREASE VS. CLASS COST OF SERVICE 2

III. RATE LIMITER ISSUES 5

IV. UNIFORM CUSTOMER, METER, AND OTHER CHARGES 10

V. MINIMUM DISTRIBUTION SYSTEM DISCUSSION..... 15

VI. MUNICIPAL STREET LIGHTING 17

IX. UNCOLLECTIBLES ADJUSTMENT FACTORS 26

X. CONCLUSION..... 27

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

ILLINOIS COMMERCE COMMISSION
DOCKET NOS. 07-0585 – 07-0590 (CONSOLIDATED)

REBUTTAL TESTIMONY
OF
LEONARD M. JONES

I. INTRODUCTION

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

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. I will respond to testimonies and positions offered by members of the Staff of the Illinois Commerce Commission (“Staff”) and various intervenors. In particular, I respond to the electric rate design discussion of Staff witness Peter Lazare, rate design issues addressed by Attorney General (“AG”) witness Scott J. Rubin, positions or recommendations being made by Illinois Industrial Energy Consumers (“IIEC”) witnesses Robert R. Stephens and David L. Stowe, recommendations proposed by the Grain and Feed Association (“GFA”) witness

23 Jeffrey Adkisson, recommendations offered by the Commercial Group witness
24 Richard A. Baudino, the recommendations regarding street lighting offered by
25 Cities witness Nancy Hughes, the proposal by Kroger witness Kevin C. Higgins
26 to collapse the DS-3 and DS-4 rates, the comments of Staff witnesses Cheri L.
27 Harden and Greg Rockrohr regarding proposed tariff language, and revised
28 uncollectibles factors suggested by Staff witness Theresa Ebrey.

29 **II. ACROSS THE BOARD INCREASE VS. CLASS COST OF SERVICE**

30 **Q. What positions have parties taken with respect to the across the board**
31 **increases on existing revenues for the individual rate classes?**

32 A. It has been mixed. Staff witness Lazare and AG witness Rubin express support;
33 witnesses for IIEC and the Commercial Group oppose the across-the-board
34 approach.

35 **Q. Do you agree with the rationale offered by Staff and the AG in support of the**
36 **across the board approach?**

37 A. Staff witness Lazare points to the fact that insufficient time has elapsed since the
38 rate redesign case was settled by which customer concerns regarding bill impacts
39 would be resolved. Mr. Rubin offers similar remarks concerning bill impacts and
40 points to my direct testimony in support. I generally concur in their observations.

41 **Q. What are the arguments of the witnesses who advocate that revenues be**
42 **allocated based on customer class cost of service?**

43 A. Before proceeding, the Ameren Illinois Utilities do believe when appropriate, it
44 would be ideal to set rates in accordance with customer class cost of service.

45 Indeed, setting rates based on cost of service is one of the driving reasons behind
46 my recommendation to eliminate the DS-4 limiter, which I later address.

47 Mr. Stephens believes that the across-the-board revenue allocation approach is
48 self-serving, and the proposed reasons (offered by the Ameren Illinois Utilities)
49 for such allocation are not sufficient to justify abandonment of cost-causation
50 principles. (IIEC Exhibit 1.0, p. 14) Both Mr. Stephens and Mr. Baudino
51 reference the Ameren Illinois Utilities' cost of service studies provided in
52 Schedule E-6 that depict unequal rates of return among classes, and note the
53 Commission elected to set delivery rates without subsidies in the previous
54 delivery services rate case.

55 **Q. Does the Commission's conclusion from its Order in Docket Nos. 06-0070/06-**
56 **0071/06-0072 (cons.) regarding revenue allocation preclude it from deviating**
57 **from that decision in future proceedings?**

58 A. Not to my knowledge. In its Order in Docket Nos. 06-0070/06-0071/06-0072
59 (cons.) the Commission stated the "circumstances in this case lead us to believe
60 that no customer class here should subsidize the delivery services rates of
61 another." However, by March 2007 the Commission initiated a proceeding,
62 Docket No. 07-0165, to evaluate the rates of the Ameren Illinois Utilities and
63 determine if adjustments could be made to make them "more just and more
64 reasonable" (Docket No. 07-0165, Initiating Order, p. 4)). The Commission
65 approved changes to delivery service rates that were "revenue neutral" within
66 each class, though intra-class subsidies were created within DS-3 and DS-4
67 classes and inter- and intra-class subsidies were created within the Basic

68 Generation Service (BGS) rates, BGS-1 (residential) and BGS-2 (small non-
69 residential). The circumstances of the time surrounding Docket No. 07-0165 led
70 the Commission to permit those subsidies. Subsequently, in Docket No. 07-0527,
71 the Commission chose to retain the subsidies inherent in BGS rates. In both
72 Docket Nos. 07-0165 and 07-0527, the Commission expressed a general dislike
73 for subsidies, but the large rate increases to the residential and space heat
74 customers due to the change from legacy frozen rates and new power supply costs
75 warranted the rate redesign as approved by the Commission. (Docket No. 07-
76 0165, Order, pp. 27-28; Docket No. 07-0527, Order, p.84) Given the nearness in
77 time to the events of 2007, the Ameren Illinois Utilities believe a continuation of
78 the recently approved rate regime warrants use of an across-the-board revenue
79 allocation.

80 **Q. In arguing against an across-the-board revenue allocations, Mr. Stephens**
81 **does not find the statement that “customers have been served under current**
82 **rates less than one year and are likely still adjusting to the new structure and**
83 **resultant prices” convincing. He states “by the time rates resulting from this**
84 **case take effect, in the latter part of 2008, the delivery service rates will have**
85 **been in effect for nearly two years.”(IIEC Ex.1.0, p.9) How do you respond?**

86 A. Current delivery rates were last adjusted in Docket No. 07-0165. Prices for DS-1
87 and DS-2 were adjusted on January 1, 2008 to include a seasonally differentiated
88 Distribution Delivery Charge. These price changes, in conjunction with BGS
89 price changes implemented in December 2007, will have been in place for less
90 than one year. Demand-based delivery prices for DS-3 and DS-4 were adjusted in

91 October 2007 by a relatively small amount to reflect implementation of a rate
92 limiter. In any event, customers adjusting to new rate structures and resultant
93 prices is not an issue about “familiarity” as suggested by Mr. Stephens. It is an
94 issue of customers being able to readjust their budgets. An across-the-board
95 revenue allocation approach ensures customers receive an equal distribution of
96 rate increases.

97 **Q. Did the Ameren Illinois Utilities propose an across-the-board revenue**
98 **allocation as a means to minimize the amount of the voluntary residential**
99 **rate cap, as described at length by Mr. Stephens?**

100 A. No. The decision to use an across-the-board revenue allocation approach was
101 made before the class cost-of-service analysis had been completed. The
102 Commission employed an equalized rate of return revenue allocation in the
103 Ameren Illinois Utilities previous delivery services rate cases. The Ameren
104 Illinois Utilities chose to rely on the results of those previous cost-of-service
105 studies and employ an across-the-board increase, in the interest of rate stability.
106 Mr. Stephens apparent attempt to accord some malice on the part of AmerenIP is
107 speculative at best.

108 **III. RATE LIMITER ISSUES**

109 **Q. Staff opposes changes to the DS rate limiters and GFA witness Adkisson**
110 **opposes eliminating the DS-4 limiter and increasing the DS-3 limiter by more**
111 **than the class average increase. What are the reasons offered for their**
112 **respective positions?**

113 A. Both Mr. Lazare and Mr. Adkisson offer that the rate limiter will have been in
114 effect for about one year and it is too soon to begin its phase-out.

115 **Q. Do you agree with their positions?**

116 A. Not entirely. Both Staff and Mr. Adkisson appear to dismiss the Commission's
117 direction provided in the Order in Docket No. 07-0165. In addition to stating "the
118 rate limiter should be in place only as long as necessary", the Order also stated
119 "the Commission encourages the parties to revisit the rate limiter in the next rate
120 case; evaluating the period of time the rate limiter needs to be in place to ensure
121 just and reasonable rates, and if it is to end, consider the manner by which it
122 should do so." (Docket No. 07-0165, Order, p. 39) Mr. Lazare and Mr. Adkisson
123 both apparently believe now is not the time to reduce the subsidy, but do not offer
124 discussion on how long the limiter should remain in place.

125 **Q. What is your recommendation regarding the DS-3 rate limiter?**

126 A. In the interest of narrowing issues in the case, the Ameren Illinois Utilities will
127 support an increase to the DS-3 rate limiter equal to the class average increase.
128 Mr. Adkisson's discussion concerning seasonal demand charges raises the
129 question whether there is a cost basis for a lower rate to seasonal customers. Until
130 such analysis is completed, the Ameren Illinois Utilities can support the status
131 quo regarding the DS-3 rate limiter. A seasonal demand charge analysis should
132 include an assessment of seasonal use customers' contributions to circuit peaks,
133 cost of service, and revenue contribution toward cost of service.

134 **Q. What impact does holding the DS-3 rate limiter to an average class rate**
135 **increase have on overall revenue?**

136 A. Before answering the question, in the course of reviewing overall revenue impacts
137 due to the rate limiter, it was discovered that the previously calculated rate limit
138 impacts contained some inadvertent errors. The previously proposed and
139 corrected DS-3 rate limitation amounts assuming a 3 cents/kWh limit are shown
140 in Ameren Exhibit 26.1. A reduction in the proposed 3 cents/kWh rate limiter
141 will increase the rate limitation revenue. The impact of decreasing the rate limit
142 to a class average is also shown on Ameren Exhibit 26.1.

143 **Q. What is your recommendation regarding the DS-4 rate limiter?**

144 A. I continue to recommend that the DS-4 rate limiter be eliminated. A review of the
145 circuits serving DS-4 grain drying customers eligible for the rate limiter shows
146 that the peak for those circuits is driven predominantly by customer demands
147 occurring in the fall. Thus, it is clear that the rate limiter provides a subsidy to
148 these seasonal customers at the expense of other DS-4 customers. Moreover,
149 assuming a DS-4 limiter of 2.82 ¢/kWh, 2.31 ¢/kWh, and 2.17 ¢/kWh, for
150 AmerenIP, AmerenCIPS, and AmerenCILCO, respectively, grain drying
151 customers would experience a benefit equivalent to just under 0.45 ¢/kWh.
152 Assuming an average price per kWh paid of 9 ¢/kWh, the rate limiter would
153 reduce the overall energy costs for a grain drying customer by about 5%.

154 However, if the Commission finds the DS-4 limiter is still appropriate, but would
155 like to begin the process of reducing reliance on the subsidy and set the rate at 3

156 cents/kWh as originally proposed for DS-3, rate limitation reductions to class
157 revenue would need to be reflected in the Ameren Illinois Utilities' proposed
158 jurisdictional operating revenue. These values are provided in the third table on
159 Ameren Exhibit 26.1. If the Commission instead chooses to simply increase the
160 existing 2 cent/kWh rate limiter by the average DS-4 rate increase for each
161 Ameren Illinois Utility, the corresponding limited revenue amount are also shown
162 within the third table of Ameren Exhibit 26.1.

163 **Q. Is Mr. Adkisson's recommendation for seasonally differentiated DS-3 and**
164 **DS-4 demand charges offered as a means to reduce or eliminate the rate**
165 **limiter?**

166 A. No, the recommendation was offered in addition to keeping the rate limiter.

167 **Q. What rationale does Mr. Adkisson offer for the seasonally differentiated DS-**
168 **3 and DS-4 demand charges?**

169 A. Mr. Adkisson argues that delivery service costs in the summer season are higher
170 than those in the non-summer season. Consequently, Mr. Adkisson argues prices
171 should be higher in the summer season than in the non-summer season.

172 **Q. Do you agree that seasonally differentiated DS-3 and DS-4 demand charges**
173 **are appropriate at this time?**

174 A. No. A proposal of this magnitude requires further analysis to determine if
175 delivery costs are indeed different by season. Such analysis would require again
176 an assessment of seasonal use customers' contributions to circuit peaks, cost of

177 service, and revenue contribution toward cost of service. Mr. Adkisson has not
178 provided any empirical data to substantiate his position.

179 Continuing, it should not be assumed that all circuits peak in the summer.
180 For example, a circuit with no or few residential or small commercial customers,
181 a few high load factor industrial customers, and a few grain drying customers,
182 may peak in the fall during grain drying season. If this is the case, greater costs
183 should be appropriately allocated to the fall season to coincide with the peak.
184 Also, if costs are different by season, pricing structures need to be developed and
185 customer impacts need to be evaluated, including the appropriateness of
186 continuing a rate limiter.

187 **Q. Have you examined the peak times for circuits connecting large rate limited**
188 **grain drying customers?**

189 A. Yes. An examination of the circuits connecting DS-4 grain drying customers who
190 are served under the provisions of the rate limiter was conducted. The results
191 indicate the majority of the circuit peaks serving these DS-4 customers are driven
192 by the seasonal customer's demand contribution in the fall. There are four rate
193 limited DS-4 customers served by AmerenCILCO. Two of the circuits serving
194 these customers have peaks in the fall, and one circuit has a peak in the summer
195 equivalent to the one that occurs in the fall, and one circuit has an equal
196 probability of peaking in the summer, fall, or winter. AmerenCIPS serves three
197 rate limited DS-4 grain drying customers. All three circuits serving these
198 customers peak in the fall. There are five rate limited DS-4 grain drying
199 customers served by AmerenIP on four different circuits. Three of the circuits

200 serving these customers peak in the fall. In the end, adopting Mr. Adkisson's
201 position results in false price signals and an undue shifting of revenue to other
202 customers.

203 **Q. Do you have any other objections to the GFA recommendation?**

204 A. Yes. DS-4 customers all have peak demands over 1,000 kW. These customers'
205 demands are often large enough relative to all other customers on the circuit to
206 drive the coincident peak to the fall grain drying season. A seasonal rate would
207 not provide a lower price for these customers. An examination of circuits serving
208 smaller (DS-3) customers eligible for the rate limiter has not yet been conducted.
209 Until such analysis has been conducted, we do not know if demands contributed
210 by DS-3 grain drying customers cause the circuit to peak in the fall.

211 **IV. UNIFORM CUSTOMER, METER, AND OTHER CHARGES**

212 **Q. Do you agree with Mr. Lazare and Mr. Rubin that residential Customer and**
213 **Meter charges should no longer be uniform among Ameren Illinois Utilities?**

214 A. While not conceding to their arguments on the mater, the Ameren Illinois Utilities
215 at this time will no longer seek uniform residential Customer and Meter charges.
216 Instead, we agree to adjust those charges by a level equal to the average change in
217 residential delivery service revenue for each of the Ameren Illinois Utilities.

218 **Q. Are the Ameren Illinois Utilities forever foregoing making these charges**
219 **uniform?**

220 A. No. Understand that the Meter Charge is intended to recover the cost of the
221 meter, associated recurring meter expenses, and meter reading. The Customer

222 Charge is intended to recover administrative costs of servicing the account (i.e.,
223 call centers, billing systems, etc...), service lines, and meter transformers. Over
224 the coming years, meters, meter transformers, and service lines will become
225 standardized across the Ameren Illinois Utilities. Indeed, substantial
226 standardization has already occurred for new customer installations and at
227 existing locations where equipment replacement was required. Additionally, a
228 common billing system is utilized. From an incremental cost perspective, there is
229 very little difference in customer or meter costs between each of the Ameren
230 Illinois Utilities. Since the incremental cost of service for a customer and meter
231 components is similar, it follows that the charges should be similar as well. This
232 concept was not contested in the previous delivery services rate cases, and the
233 Commission approved uniform Meter and Customer Charges for the Ameren
234 Illinois Utilities. This is not to say that the present Meter and Customer Charges
235 ignored the embedded cost of service presented in the previous case. In fact, the
236 proposed revenue recovered through the Meter and Customer Charges was tied to
237 the Ameren Illinois Utilities' embedded cost of service for each respective cost
238 components. Thus, current prices were developed using both embedded and
239 incremental pricing concepts.

240 **Q. Was an incremental cost pricing concept followed when setting the**
241 **Transformation Charge for DS-3 and DS-4 and the Reactive Demand Charge**
242 **for DS-4 in the previous delivery services rate cases?**

243 A. Yes, both the Transformation Charge and the Reactive Demand Charges were
244 established by examining the current cost to install, maintain, and operate

245 transformers or substations (for the Transformation Charge) and capacitors (for
246 the Reactive Demand Charge), while taking into consideration prices of similar
247 services offered by each of the Ameren Illinois Utilities prior to 2007. The
248 existing Transformation Charge \$0.50/kW was set below the \$0.70/kW per month
249 to \$0.85/kW per month cost range for transformers and up to \$1/kW per month
250 cost for substations. The proposed \$0.62/kW per month Transformation Charge
251 still falls below the low end of the cost range provided in the previous delivery
252 services rate case. The existing Reactive Demand Charge of \$0.20/kVAR was set
253 within a range of capacitor costs of \$0.12/kVAR to \$0.48/kVAR for various sized
254 facilities. The proposed Reactive Demand Charge of \$0.26/kVAR still falls
255 below the cost for one-half of the capacitor types examined in the previous case.

256 **Q. Do you agree with Staff that uniform non-residential customer and meter,**
257 **transformation, and reactive demand charges among each of the three**
258 **Ameren Illinois Utilities should no longer be pursued?**

259 A. No. First, several non-residential customers take service from more than one
260 Ameren Illinois Utility. Similarly, several ARES operate in more than one
261 Ameren Illinois Utility service area. Keeping differences between the Ameren
262 Illinois Utilities to a minimum reduces the administrative oversight by customers
263 and ARES operating in multiple jurisdictions as compared to an environment
264 where all prices are different. The Commission has long promoted uniformity of
265 delivery service rates and practices.

266 Second, the Transformation and Reactive Demand Charges are designed to
267 provide customers competitive benchmarks for transformer or substation
268 ownership (in lieu of paying the Transformation Capacity Charge), and
269 installation of capacitor banks to minimize reactive demands on the distribution
270 system (in lieu of paying a Reactive Demand Charge). Price consistency across
271 the Ameren Illinois Utilities will lead to consistent economic choices for
272 customers. Both the Transformation and Reactive Demand charges were set
273 uniformly in the previous delivery services rate cases based on incremental cost of
274 service analyses, as previously discussed. The results of the cost analysis
275 performed for the previous rate cases still validate the proposed charges of
276 \$0.62/kW for Transformation Capacity and \$0.26/kVAR for Reactive Demand. If
277 the cost studies were updated today, I am confident that costs would be higher
278 than those calculated for the previous delivery services rate cases.

279 Third, I acknowledge that IIEC witness Stephens does not oppose uniform
280 Customer, Meter, Transformation, and Reactive Demand Charges, and
281 Commercial Group witness Mr. Baudino agrees with the basic approach for
282 designing DS-3 and DS-4 rates.

283 **Q. Mr. Stephens takes issue with escalating existing Customer, Meter,**
284 **Transformation, and Reactive Demand Charges by 27%, citing doubt that**
285 **the underlying replacement cost forming the basis for the charges have**
286 **increased by a similar amount. How do you respond?**

287 A. As a point of clarification, the Ameren Illinois Utilities have proposed DS-3 and
288 DS-4 Customer and Meter Charges to increase by 28%, Transformation Charges

289 to increase by 23%, and the DS-4 Reactive Demand Charge to increase by 29%.
290 The overall revenue recovered from Customer and Meter Charges was tied to the
291 overall customer and meter embedded component cost of service in the previous
292 delivery services rate case, not a replacement cost as suggested by Mr. Stephens.
293 Incremental costs were used to develop voltage differentiated Meter and
294 Customer Charges, and justify uniform charges, but were not used to determine
295 how much revenue to recover from those charges. In this case, it was assumed
296 that if revenue requirement was increasing by 28% for DS-3 and DS-4, the
297 customer and meter revenue contribution should increase by a similar amount. If
298 the Commission was to approve less than the Ameren Illinois Utilities' full
299 requested revenue requirement, the increase in Customer and Meter Charges will
300 also decrease.

301 Regarding the Transformation and Reactive Demand Charges, those services were
302 priced using an incremental cost analysis in the previous delivery services rate
303 case. As previously discussed, proposed prices for both of those services are still
304 within the cost ranges provided in the previous delivery services rate case. As
305 with the Customer and Meter Charges, if the Commission was to approve less
306 than the Ameren Illinois Utilities' full requested revenue requirement, the
307 increase in Transformation and Reactive Demand Charges will also decrease.

308 **Q. Mr. Warwick has agreed to non-uniform Customer Charges for non-**
309 **residential customers in the Ameren Illinois Utilities' gas rate cases. Does**
310 **this support abandoning uniform non-residential electric Customer and**
311 **Meter Charges?**

312 A. No. The Ameren Illinois Utilities' gas Customer Charges are not uniform today,
313 and thus there is no loss in administrative efficiency by non-uniform rates.
314 Instead, separate gas Customer Charges will continue the status-quo. Electric
315 Customer and Meter Charges are already uniform, and such structure should be
316 preserved for non-residential customers.

317 V. MINIMUM DISTRIBUTION SYSTEM DISCUSSION

318 Q. **IIEC witness Stowe argues that the Ameren Illinois Utilities should account**
319 **for delivery costs that do not vary with customer demand in setting the cost**
320 **of service, suggesting that the cost of service should incorporate the**
321 **minimum distribution system (“MDS”) cost allocation approach. How do**
322 **you respond?**

323 A. As we indicated in the most recent delivery services rate cases, the Ameren
324 Illinois Utilities agree the MDS method has theoretical merit. However, the
325 Commission has not supported this approach. Furthermore, adoption of the MDS
326 would only have an effect on rates if the Commission were to require adherence
327 to cost of service based rates in this proceeding.

328 Q. **Please describe Mr. Stowe's method for incorporating a minimum**
329 **distribution system cost allocation approach in the embedded cost of service**
330 **studies of the Ameren Illinois Utilities.**

331 A. As shown on IIEC Exhibit 4.0, Table 4, Mr. Stowe simply used an average of the
332 customer and demand percentages from five electric companies, one of which was
333 AmerenUE. The other four companies were affiliates of Aquila Networks.

334 **Q. Is it appropriate to develop an MDS method for the Ameren Illinois Utilities**
335 **by relying on cost of service study data from other electric utilities, as Mr.**
336 **Stowe does?**

337 A. No. While such an approach may be useful to make generalizations about
338 expected results, use of one utility's cost of service study is not appropriate for
339 setting rates for another utility. As noted in the National Association of
340 Regulatory Utility Commissioners Electric Utility Cost Allocation Manual, upon
341 which Mr. Stowe relies in other instances, "Each utility is a unique entity whose
342 design has been dictated by the customer density, the age of the system, the
343 customer mix, the terrain, the climate, the design preferences of management, the
344 planning for the future and the individual power companies that have merged to
345 form the utility." (NARUC Manual, p.19) Mr. Stowe's average percentages based
346 on data from other utilities do not provide meaningful information about Ameren
347 Illinois Utilities' distribution system costs.

348 **Q. Do you have any specific concerns about the average percentages used by**
349 **Mr. Stowe to classify distribution plant into customer and demand related**
350 **categories?**

351 A. Yes. There is a very broad range of percentages among the five utilities included
352 in his analysis, as can be seen on Table 4 of his testimony. For example, for
353 FERC Account 366 – Underground Conduit, the percentage of costs deemed to be
354 customer related ranges from a low of 6% to a high of 82%. Similarly for FERC
355 Account 367 – Underground Conductors and Devices, the percentage of costs
356 deemed to be customer related ranges from a low of 21% to a high of 91%. The

357 significant variation seen in Mr. Stowe's analysis makes the application of his
358 average percentages to Ameren Illinois Utilities even more inappropriate.

359 **Q. What is your recommendation with regard to the MDS method presented in**
360 **Mr. Stowe's testimony?**

361 A. My recommendation is that the modifications to the Ameren Illinois Utilities
362 COSS to incorporate the MDS method as developed by Mr. Stowe should be
363 rejected. Using cost of service data from one utility to design rates for another is
364 inappropriate. The data for the five utilities used to develop the average
365 percentages showed significant variation, which makes the averages less
366 meaningful.

367 **VI. MUNICIPAL STREET LIGHTING**

368 **Q. Have you reviewed the testimony of the Cities witness Hughes?**

369 A. Yes. Ms. Hughes makes four recommendations regarding the DS-5 Lighting
370 class.

371 **Q. Please restate those recommendations.**

372 A. 1. The Ameren Illinois Utilities should be required to file a detailed cost-of-
373 service study in their next rate cases showing the allocation of costs between the
374 Delivery Service customer classes, including a company-wide lighting cost-of-
375 service analysis for the Ameren Illinois Utilities to identify lighting fixture costs.

376 2. Streetlight fixture charges should be uniform among all three Ameren Illinois
377 Utilities, by type and size of fixture.

378 3. The Ameren Illinois Utilities should be required to file a detailed streetlight
379 rate design study to determine cost-based lighting fixture charges.

380 4. Any reductions to the Company's filed revenue requirement resulting from the
381 Commission's decision should be passed along to all DS customer classes,
382 including the DS-5 Lighting class, in the form of a lower across-the-board
383 percentage rate increase. (Cities Ex. 1.0, p.5)

384 **Q. Do you agree with the first and third recommendation, that "Ameren should**
385 **be required to file a detailed cost-of-service study in its next rate case**
386 **showing the allocation of costs between the Delivery Service customer classes,**
387 **including a company-wide lighting cost-of-service analysis for the Ameren**
388 **Illinois Utilities to identify lighting fixture costs", and "to file a detailed**
389 **streetlight rate design study to determine cost-based lighting fixture charges"**
390 **(Cities Ex. 1.0, p.5)?**

391 **A.** The Ameren Illinois Utilities do not oppose these recommendations. Class cost of
392 service studies have been provided within the standard filing requirements 83 Ill.
393 Adm. Code Part 285, Schedule E-6. (Please note that Schedule E-6 filings for
394 AmerenIP and AmerenCILCO were inadvertently labeled as for the year 2004.
395 The cost studies provided in Schedule E-6 are indeed for the year 2006 for all of
396 the Ameren Illinois Utilities.) A lighting specific incremental cost of service
397 analysis was provided in the Ameren Illinois Utilities previous delivery services
398 rate case, and was used to help guide lighting pricing by fixture size and type for
399 each of the utilities. Nonetheless, we will make the requested filing in the next
400 rate cases.

401 **Q. How were fixture prices established for each of the Ameren Illinois Utilities**
402 **in the previous Delivery Services rate cases?**

403 A. The fixture prices for the Ameren Illinois Utilities started from a common
404 incremental cost study of fixture costs by type and size. The Ameren Illinois
405 Utilities employ many common work practices, material, and labor to install and
406 maintain lighting fixtures. Thus, when viewed on a forward-looking basis, the
407 cost to add a new lighting fixture at AmerenIP is about the same as it is at
408 AmerenCIPS or AmerenCILCO. If all we had to examine were forward looking
409 costs, uniform fixture charges among all three Ameren Illinois Utilities makes
410 logical sense. However, in the previous Delivery Services case, class revenue
411 allocations were based on the results of an embedded cost of service study with an
412 equalized rate of return. The common incremental lighting fixture costs were
413 adjusted on an equal percentage basis to a level where prices were adequate to
414 generate sufficient revenue to meet the revenue requirement target for each of the
415 Ameren Illinois Utilities' Lighting classes.

416 **Q. Do you agree with the Cities second recommendation, that streetlight fixture**
417 **charges be uniform among all three Ameren Illinois Utilities by type and**
418 **size?**

419 A. The Cities recommendation poses a couple of challenges. First, use of a uniform
420 fixture charge suggests that Lighting class revenue for an individual Ameren
421 Illinois Utility no longer should be based on embedded class cost of service, as
422 they were in the previous delivery services case. If this is the case, Ms. Hughes

423 has not offered a plan for how the revenue excess or deficiency generated for an
424 individual Ameren Illinois Utility should be recovered.

425 In a sense, Ms. Hughes has assumed that the Ameren Illinois Utilities are already
426 operating as a single legal entity. This is not the case and instead each Ameren
427 Illinois Utility must set rates to recover its individual revenue requirement. For
428 example, the “Cities Recommend Phase-in Lighting Fixture Charges”, Exhibit
429 NHH-4 (also labeled as Cities Ex.1.0, p. 36) shows an additional increase of
430 \$3,601,211 to AmerenCIPS’ DS-5 class (\$8,915,204 Cities Recommended vs.
431 \$5,313,993 Ameren Proposed). Ms. Hughes’ methodology uses the additional
432 \$3.6 million increase to AmerenCIPS DS-5 to substantially offset a decrease to
433 AmerenIP’s DS-5 class. There was no mention of how AmerenCIPS’ rates for
434 DS-1 through DS-4 should be adjusted downward to meet its overall revenue
435 requirement. Likewise, there was no mention how AmerenIP’s rates for DS-1
436 through DS-4 should be increased to meet its overall revenue requirement target.

437 In a discovery response to DR 2.02, the Cities portray revenue from the Lighting
438 class as an “other revenue” item for purposes of determining the across-the-board
439 increase to the delivery service customer classes. Any revenue Lighting revenue
440 deficiency at AmerenIP would be offset through higher charges to all other
441 AmerenIP classes. Conversely, the increase of Lighting revenue at
442 AmerenCILCO and AmerenCIPS would offset the need for revenue from other
443 delivery service classes at the respective utility. Implementing such an approach
444 would be unconventional, and essentially strip the Lighting class of its
445 independence as a separate rate class.

446 The Ameren Illinois Utilities are not conceptually opposed to further exploring
447 the idea in the future, especially if the Ameren Illinois Utilities someday
448 consolidate into a single legal entity. Until then, we recommend to continue to
449 treat the Lighting group as a separate class of customers, as has been done
450 historically.

451 Second, a 100% increase to AmerenCIPS fixture charges is indeed significant,
452 and in effect larger (in dollars per fixture) than proposed for most AmerenIP
453 communities. Notably, Ms. Hughes is offering testimony for only AmerenIP
454 communities. Ms. Hughes points out that a 100% increase to the AmerenCIPS
455 fixture charge for a 100-watt SV Area light is \$3.12, which is less than the \$3.49
456 increase proposed for the same 100-watt SV light. However, each of the Cities
457 (Champaign, Urbana, Decatur, Bloomington, and the Town of Normal) has
458 entered a franchise agreement with AmerenIP that provides a 50% discount on all
459 lighting service. (Most AmerenIP communities have similar franchise
460 agreements.) Thus, the proposed \$3.49 increase for a 100-watt SV Area light is in
461 effect a \$1.75 increase. Even if an acceptable solution to the first challenge is
462 found, the Cities proposed “phase-in” to equalized fixture charges is too
463 aggressive and would likely harm municipalities in the other Ameren Illinois
464 Utility territories.

465 **Q. How do you respond to the Cities fourth recommendation, that any**
466 **reductions to the Company’s filed revenue requirement resulting from the**
467 **Commission’s decision should be passed along to all delivery service**

468 **customer classes, including the DS-5 Lighting class, in the form of a lower**
469 **across-the-board percentage rate increase?**

470 A. I agree with this recommendation, but from the perspective of using the Ameren
471 Illinois Utilities proposed fixture charges as the starting point for any adjustments.

472 **VII. COMBINING DS-3 AND DS-4 RATES**

473 **Q. Kroger witness Kevin Higgins recommends that the demand-based**
474 **Distribution Delivery Charges for DS-3 and DS-4 be jointly determined. Do**
475 **you agree with Mr. Higgins' recommendation?**

476 A. A more thorough cost analysis on differences between DS-3 and DS-4 classes and
477 the effect such consolidation would have on bills of individual customers should
478 be undertaken prior to adopting Mr. Higgins' recommendation. The Ameren
479 Illinois Utilities plan to provide such an analysis in their next delivery services
480 rate cases, consistent with the Order in Docket Nos. 06-0070, 06-0071, and 06-
481 0072 (cons.; see pages 156, 175). Also, jointly determining the DS-3 and DS-4
482 delivery demand charges would in effect consolidate the DS-3 and DS-4 classes
483 for revenue allocation purposes, since all other charge components for those rates
484 are already jointly determined. As outlined in direct testimony and earlier in this
485 testimony, the Ameren Illinois Utilities propose to use an across-the-board
486 revenue allocation so class impacts are equally shared. Adopting Mr. Higgins'
487 proposal in this proceeding would result in lower charges for DS-3 but higher
488 charges for DS-4, all other variables constant.

489 **Q. Please explain why DS-3 and DS-4 would in effect be consolidated for**
490 **revenue allocation purposes.**

491 A. Presently, DS-3 and DS-4 price components are either the same (Customer
492 Charges, Transformation Charge) or similar (Meter Charges) between the rates.
493 The demand-based Distribution Delivery Charge was set to recover the remaining
494 revenue requirement allocated to the respective class. Thus, if the Distribution
495 Delivery Charge is also set jointly, there is no independent pricing component to
496 recover a revenue requirement target for only DS-3 or only DS-4. Instead, the
497 revenue requirement target would need to be set and recovered as a group. Again,
498 a more thorough cost analysis on differences between DS-3 and DS-4 classes
499 should be undertaken prior to adopting this approach.

500 **Q. Is Mr. Higgins' analysis sufficient by which to consider combing the DS-3**
501 **and DS-4 rates?**

502 A. No. Mr. Higgins relies on statements made in the previous delivery services cases
503 that conceptually, the cost per kW of serving a customer of the same voltage level
504 at 900 kW is not much different than serving a similar customer at 1,100 kW of
505 demand. While the cost of serving the customers may be similar, the revenue
506 from both customers may or may not be sufficient to recover their individual
507 costs, depending on their monthly demands through the year. For example,
508 assume both customers are expected to peak at the same time, requiring 2,000 kW
509 of capacity at \$12/kW-year, or a total annual system cost of \$24,000. Further
510 assume the customer using 1,100 kW at peak contributes 10,200 kW in annual
511 billing demands (1,100 kW in two months and 800 kW in 10 months), and the

512 customer using 900 kW at peak contributes 6,800 kW in annual billing demands
513 (900 kW in two months and 500 kW in 10 months), for a combined total of billing
514 demands of 17,000 kW. The average price needed to cover costs from both
515 customers is \$1.41/kW ($\$24,000 / 17,000 \text{ kW}$). However, the first customer
516 contributed to the need for 45% of the total cost of the system (900 kW / 2,000
517 kW), or \$10,800. Dividing the first customer's cost responsibility (\$10,800) by
518 annual billing demands (6,800 kW) produces an average price of \$1.588/kW. By
519 comparison, the larger customer is responsible for 55% of the cost of the system,
520 or \$13,200 and has annual billing demands of 10,200 kW, producing an average
521 price per kW of \$1.294/kW. Thus, while the cost per kW may be the same, the
522 relative revenue contribution toward that cost may not be the same. Again, a
523 more thorough cost analysis on differences or similarities between DS-3 and DS-4
524 classes and the effect such consolidation would have on bills of individual
525 customers should be undertaken prior to adopting Mr. Higgins' recommendation.
526 The Ameren Illinois Utilities plan to undertake such analysis, in addition to
527 examining the propriety of creating a DS-3 subclass for customers with demands
528 400 kW and over. I note that further analysis of seasonal rates, in addition to a
529 DS-3 subclass, may lead to more rate differentiation rather than less.

530 VIII. TARIFF LANGUAGE CHANGES

531 A. Budget Billing

532 Q. Staff witness Harden recommended that the Ameren Illinois Utilities provide
533 more specific language concerning the methodology used in its budget billing

534 **plan regarding over or under recovery of customer revenue. How do you**
535 **respond?**

536 A. The Customer Terms and Conditions submitted with the Ameren Illinois Utilities
537 electric rate cases removed language dictating how customers “settle-up” after 12
538 months of participation on the budget billing program. Our goal is to provide a
539 budget billing service satisfying to our customers. In response to Ms. Harden,
540 Ameren Exhibit 26.2 shows revised language that 1) reinstates much of the
541 “annual settle-up” (i.e., lump-sum settlement) language in existing tariffs, and 2)
542 provides flexibility for the Ameren Illinois Utilities to offer a second choice to
543 customers to smooth any annual settlement amount over the next 12 months. If
544 the Ameren Illinois Utilities offer a “Smooth Settlement” budget billing plan,
545 customers will be allowed to pick between that program and the “Lump-sum
546 Settlement” program currently offered. Similar language would also be
547 applicable to the Ameren Illinois Utilities gas tariffs, as discussed by Mr.
548 Warwick.

549 **B. Refundable Deposits for System Expansion**

550 **Q. Have any issues been raised regarding the Ameren Illinois Utilities’ proposed**
551 **tariff language concerning refundable deposits for system expansion?**

552 A. Yes. Proposed language within the Ameren Illinois Utilities Standards and
553 Qualifications for Electric Service attempted to clarify that non-cash options for
554 deposits may be allowed under the Company’s discretion. Staff witness Rockrohr
555 viewed the initial proposed language as “troubling because it could be interpreted
556 to mean that the Ameren Illinois Utilities have sole discretion as to the form of the

557 refundable deposit,” which could make it appear that the Ameren Illinois Utilities
558 have sole discretion to determine the period of time over which the applicant
559 qualifies for a refund. (ICC Staff Ex.10.0, p. 17)

560 In response to Staff data request GER 1.04, alternative language clarifying that
561 Customers will always have a cash deposit option available was suggested, and
562 found acceptable to Mr. Rockrohr. (ICC Staff Ex. 10.0, p. 18) The Ameren
563 Illinois Utilities also find this modified language acceptable.

564 **IX. UNCOLLECTIBLES ADJUSTMENT FACTORS**

565 **Q. What are “uncollectibles factors”?**

566 A. The Uncollectibles Adjustment factors are a subset of the Supply Cost
567 Adjustment contained within Rider PER – Purchased Electricity Recovery, the
568 Ameren Illinois Utilities’ tariff governing prices and cost recovery for fixed price
569 power supply service. In direct testimony, I provided a table of uncollectibles
570 factors by rate class. Staff witness Ebrey has recommended changes to the
571 methodology used to develop such factors.

572 **Q. How were the uncollectible adjustment factors shown in your direct
573 testimony developed?**

574 A. The uncollectibles adjustment factors by customer class were developed as
575 described by Ms. Ebrey. Specifically, a percentage of gas and electric write offs
576 for those customers taking only gas or only electric service was determined, and
577 those percentages were then applied to the total write offs for combination
578 customers (those taking both gas and electric service).

579 **Q. What methodology changes does Ms. Ebrey recommend?**

580 A. Ms. Ebrey recommends that write offs for combination customers be allocated
 581 based on the relative gas versus electric revenues for combination customers.
 582 This approach is reasonable.

583 **Q. Has the total amount of uncollectible expense changed from that originally**
 584 **proposed by the Ameren Illinois Utilities?**

585 A. Yes. Mr. Stafford has updated the total uncollectible expense in his Ameren
 586 Exhibit 19.4. Consequently, the uncollectibles adjustment factor should also be
 587 updated to reflect the new level of uncollectibles expense.

588 **Q. What are the level of the updated uncollectibles adjustment factors?**

589 A. The updated uncollectibles adjustment factors, taking into account the adjustment
 590 proposed by Ms. Ebrey and the total level of uncollectible account expense
 591 proposed by Mr. Stafford, are shown below.

**Ameren Illinois Utilities
 Proposed Uncollectibles Factors**

	AmerenCILCO	AmerenCIPS	AmerenIP
DS/BGS-1	0.013649	0.013750	0.012875
DS/BGS-2	0.001948	0.000997	0.002020
DS/BGS-3	0.000000	0.000189	0.001935
DS/BGS-4	0.000000	0.000000	0.000000
DS/BGS-5	0.000000	0.000000	0.001851

592

X. CONCLUSION

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

595 A. Yes, it does.

