

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

Central Illinois Light Company)	
d/b/a AmerenCILCO)	
)	
)	
Central Illinois Light Company)	
d/b/a AmerenCIPS)	Docket Nos. 07-0585, 07-0586, 07-0587
)	07-0588, 07-0589, 07-0590 (cons.)
)	
Illinois Power Company)	
d/b/a AmerenIP)	
)	
Proposed general increase in rates for)	
delivery service)	

**REBUTTAL TESTIMONY OF
RICHARD A. BAUDINO
ON BEHALF OF THE COMMERCIAL GROUP**

J. KENNEDY AND ASSOCIATES, INC.

May 14, 2008

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

2 A. My name is Richard A. Baudino. My business address is J. Kennedy and Associates, Inc.
3 ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia
4 30075.

5 **Q. Did you submit Direct Testimony in this proceeding?**

6 A. Yes. I submitted Direct Testimony on behalf of The Commercial Group.

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

8 A. The purpose of my Rebuttal Testimony is to respond to the Direct Testimonies of Mr.
9 Peter Lazare, witness for the Staff of the Illinois Commerce Commission ("ICC" or
10 "Commission"), Mr. Jeffrey Adkisson, witness for The Grain And Feed Association of
11 Illinois, and Mr. David Stowe and Mr. Robert Stephens of the Illinois Industrial Energy
12 Consumers ("IIEC"). I will also respond to the Rebuttal Testimony of Mr. Leonard
13 Jones, witness for the Ameren Illinois companies.

14 **ICC Staff Revenue Allocation**

15 **Q. On page 42, lines 965 through 983 of his direct testimony, Mr. Lazare cited the**
16 **Commission's Order in Docket No. 07-0165 and stated "bill impacts remain a**
17 **critical ratepayer concern for this case as well." Does the Commission's Order**
18 **necessarily support an across-the-board increase in this case?**

19 A. No. The ICC discussed the issue of "rate shock" in its Final Order in Docket Nos. 06-
20 0070/06-0071/06-0072 (cons.), which I cited on page 7 of my Direct Testimony.
21 However, the Commission clearly came down on the side of cost-based rates and the
22 elimination of class subsidies. The Commission provided limited relief to certain

23 customers in its Order in Docket No. 07-0165, but this Order does not preclude setting
24 rates on the basis of costs in this proceeding.

25 I continue to recommend that the ICC set rates based on costs in this proceeding. This
26 approach is consistent with past Commission rate setting practice and most appropriately
27 balances the goals of bill impacts with cost-based rates.

28 **Rate Limiter Issues**

29 **Q. On pages 48 and 49 of his Direct Testimony, Mr. Lazare explains his opposition to**
30 **the Company's proposed phase-out and elimination of the Rate Limiter in the DS-3**
31 **and DS-4 classes. Please respond to this portion of his testimony.**

32 A. Mr. Lazare begins his discussion on page 48 by making a general statement that
33 eliminating the Rate Limiter "does not make sense given the current stresses on all
34 Ameren ratepayers, including those that qualify for the rate limiter." Mr. Lazare does not
35 provide specific evidence or quantify the "stresses" to which he refers. I would point out
36 that the Commission ordered that the subsidies being provided to customers who qualify
37 for the Rate Limiter be collected from the classes to which the rate limiter provisions
38 apply. Given that the rate limiter subsidies must be collected only from DS-3 and DS-4
39 customers, phasing out the rate limiter would certainly relieve the "stresses" on the DS-3
40 and DS-4 customers who are required to provide intra-class subsidies to the customers
41 taking advantage of the Rate Limiter. This stress is particularly high on those customers
42 also saddled with paying interclass subsidies in their rates. For example, as demonstrated
43 in my direct testimony, DS-3 customers subsidize customers in other classes. Forcing
44 those customers also to subsidize customers within the DS-3 class through the Rate
45 Limiter is unfair and unequal treatment.

46 On page 49, lines 1128 through 1130, Mr. Lazare also testified that elimination of the
47 Rate Limiter "is inconsistent ratemaking that singles out one group of customers for
48 unequal treatment." I disagree with this statement. Eliminating a rate provision that
49 created intra-class subsidies does not result in unequal treatment. Rather, it puts all
50 customers within that rate class on a more equal footing with respect to rates being based
51 on the true cost to serve. Mr. Lazare's statement here is incorrect and should be rejected
52 by the Commission.

53 In its Order in Docket No. 07-0165, the Commission made it clear that the Rate Limiter is
54 a transitional mechanism for certain customers who were facing large rate increases and
55 that it should only be in place as long as necessary. Ameren's proposal in its Direct
56 Testimony to phase out and eliminate the Rate Limiter is reasonable and consistent with
57 the Commission's Order in that Docket.

58 **Q. On page 6 of his Rebuttal Testimony, Ameren witness Jones stated that in the**
59 **interest of narrowing the issues in this case, the Companies would support an**
60 **increase in the DS-3 rate limiter equal to the class average increase. Should the**
61 **Commission accept this proposal?**

62 A. No. I recommend that the Commission reject this proposal on the same basis that I
63 recommend the rejection of Mr. Lazare's proposals regarding the Rate Limiter. This
64 proposal increases the limiter subsidies from the Companies' original proposal.

65 **Q. Please address Mr. Adkisson's opposition to the elimination of the Rate Limiter.**

66 A. Mr. Adkisson testified on page 4 of his Direct Testimony that it is too soon to eliminate
67 the Rate Limiter. I disagree with this position for the same reasons that I disagree with
68 Mr. Lazare's opposition to phasing out and eliminating the Rate Limiter. Further, Mr.

69 Adkisson supported the Company's proposed use of on-peak demand, which provides an
70 incentive for Rate Limiter customers to reduce on-peak demands and potentially reduce
71 their bills. I recommend that the Commission reject Mr. Adkisson's position on
72 eliminating the Rate Limiter for DS-3 and DS-4 rate schedules.

73 **IIEC Direct Testimony**

74 **Q. Did you review the Direct Testimony of IIEC witnesses David Stowe and Robert**
75 **Stephens?**

76 A. Yes. Mr. Stowe presented IIEC's class cost of service analyses and, among other things,
77 recommended that the Commission adopt a minimum size distribution system ("MDS")
78 approach to the classification and allocation of certain distribution system costs. Mr.
79 Stowe also presented class rate of return results and the required percentage increases for
80 each class from Ameren's class cost of service ("CCOS") studies. These results were
81 presented on Tables 5, 6, and 7 in his Direct Testimony.

82 Mr. Stephens presented IIEC's recommended class increases based on Mr. Stowe's
83 analyses.

84 **Q. Do you agree with Mr. Stowe's position regarding the use of MDS to classify and**
85 **allocate certain distribution costs?**

86 A. Yes. As I stated in my Direct Testimony, a CCOS study approach that utilizes the MDS
87 approach is reasonable and appropriate. I recommend that the ICC consider the MDS
88 approach in allocating the revenue increases to Ameren's customer classes in this
89 proceeding.

90 **Q. Referring to the DS-4 intra-class rates of return contained in his Tables 5, 6, and 7,**
91 **do you have concerns regarding the results from Ameren's CCOS studies presented**
92 **by Mr. Stowe?**

93 A. Yes. The required increases shown for the DS-4 Secondary classes are astronomically
94 high, ranging from 509% (AmerenCIPS) to 3,726% (AmerenCILCO). Based on my
95 review of the Company's CCOS studies, these results appear to be driven by very low
96 current operating revenues for the DS-4 Secondary subclass. For example, in the
97 AmerenCILCO CCOS study, only \$53,000 is shown for current revenues for the DS-4
98 Secondary subclass. The secondary classes for DS-3 and DS-4 receive the allocations of
99 the cost of line transformers in the Company's CCOS studies. The customers taking at
100 primary and higher voltages do not receive allocations of the cost of line transformers in
101 the CCOS studies. And the Ameren Companies apply a \$.50/kW transformation charge
102 to customers who must have the voltage stepped down in order to receive service. In
103 Ameren Exhibit 12.7E, CILCO received \$2.642 million in present revenues from the
104 transformation capacity charge.

105 In my opinion, the DS-4 Secondary revenues appear to be drastically understated in the
106 Companies' CCOS studies because they do not include the revenues from the
107 transformation capacity charge, which is designed to recover the costs of line
108 transformers. As a result, the intra-class rates of return are skewed.

109 **Q. What do you conclude and recommend based on the foregoing discussion and**
110 **analysis?**

111 A. I continue to recommend that intra-class charges for DS-3 and DS-4 be increased
112 according to the method I presented on page 9 of my Direct Testimony. I also continue

113 to recommend that Ameren's CCOS studies be used to allocate inter-class revenue
114 increases.

115 **Q. Does this conclude your testimony?**

116 A. Yes.