

**STATE OF ILLINOIS**  
**ILLINOIS COMMERCE COMMISSION**

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| <b>CENTRAL ILLINOIS LIGHT COMPANY</b><br>d/b/a AmerenCILCO                     | ) | Docket Nos. 07-0585, 07-0588 |
|  | ) |                              |
| <b>CENTRAL ILLINOIS PUBLIC SERVICE</b><br><b>COMPANY</b> d/b/a AmerenCIPS      | ) | Docket Nos. 07-0586, 07-0589 |
|  | ) |                              |
| <b>ILLINOIS POWER COMPANY</b><br>d/b/a AmerenIP                                | ) | Docket Nos. 07-0587, 07-0590 |
|  | ) |                              |
| <b>Proposed general increase in electric</b><br><b>delivery service rates.</b> | ) | <b>(Consolidated)</b>        |
|  | ) |                              |

Rebuttal Testimony of

**David L. Stowe**

On Behalf of

**Illinois Industrial Energy Consumers**

Project 8899  
May 14, 2008



**BRUBAKER & ASSOCIATES, INC.**  
ST. LOUIS, MO 63141-2000

STATE OF ILLINOIS

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Rebuttal Testimony of David L. Stowe

1 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A My name is David L. Stowe. My business address is 1215 Fern Ridge Parkway,  
3 Suite 208; St. Louis, Missouri 63141.

4 Q ARE YOU THE SAME DAVID L. STOWE THAT PROVIDED DIRECT TESTIMONY  
5 IN THIS CASE, IIEC EXHIBIT 4.0?

6 A Yes, I am.

7 Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

8 A I am testifying on behalf of Illinois Industrial Energy Consumers (“IIEC”). IIEC  
9 members have facilities of operation located in the service territories of Illinois Power  
10 Company (“AmerenIP”), Central Illinois Light Company (“AmerenCILCO”) and Central  
11 Illinois Public Service Company (“AmerenCIPS”). For purposes of this testimony,  
12 these three utilities will be referred to collectively as “Ameren” or “Company.”

13 Q PLEASE IDENTIFY THE ISSUES THAT YOU DISCUSS IN YOUR REBUTTAL  
14 TESTIMONY.

15 A I respond to Ameren's witness Mr. Leonard Jones's explanation of why the Company  
16 does not incorporate the minimum distribution system ("MDS") in its cost of service  
17 study ("COSS"). I address criticisms of my classification method that have been  
18 made by Mr. Jones. In doing so, I discuss my method of classifying customer- and  
19 demand-related costs associated with the MDS.

20 Q HAS AMEREN PROPOSED A COSS THAT RECOGNIZES THE MDS IN THIS  
21 CASE?

22 A No, it has not. However, Ameren has stated in testimony that it believes the MDS  
23 method has merit,<sup>1</sup> and Ameren's sister utility in Missouri consistently proposes cost  
24 studies that recognize the MDS. In the instant case, however, the Company has not  
25 recognized the MDS because, as Mr. Jones explains, "... the Commission has not  
26 supported this approach" (Rebuttal Testimony of Mr. Leonard Jones at page 15,  
27 line 324).

28 It is important to note that Ameren's COSS, by ignoring the MDS altogether,  
29 classifies 100% of FERC Account Nos. 364 (Poles and Towers), 365 (Overhead lines  
30 and devices), 366 (Conduit), and 367 (Underground cables and devices) costs as  
31 demand-related. This treatment assumes that the standardized safety and reliability  
32 requirements have no effect whatsoever on these costs.

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<sup>1</sup>See Rebuttal Testimony of Mr. Leonard Jones (Ameren Ex 26.0), at page 15.

33 Q HAS THE COMMISSION STATED WHY IT DOES NOT SUPPORT THE MDS  
34 APPROACH?

35 A Yes. In Ameren's last delivery services tariff ("DST") case, the Commission said:

36 "The MDS method fails to properly emphasize the purpose of the  
37 distribution system - that being to satisfy a customer's daily demand for  
38 electricity." [Emphasis added.] (Page 160, Final Order, November 22,  
39 2006, ICC Docket 06-0070, 06-0071, and 06-0072 consolidated)

40 However, in my direct testimony, I explained that a utility's COSS in general, and  
41 MDS methods in particular, are not intended to address the purpose of the  
42 distribution system, but rather to identify cost-causative factors so that distribution  
43 plant and O&M costs can be fairly and equitably allocated to the customer classes.  
44 Strictly focusing on the purpose of the distribution system rather than cost-causative  
45 factors does not provide the cost analyst the necessary information and data to  
46 properly allocate costs or to develop proper rates.

47 I have proposed that Ameren's COSS be modified to recognize the MDS  
48 because Ameren incurs distribution costs in conforming to the minimum safety and  
49 reliability standards. Furthermore, Ameren incurs these costs for every additional  
50 customer it serves, and the costs are independent of customer demand and energy.  
51 Ameren recognizes this to be the case and has stated in past cases, as well as in the  
52 present case, that the MDS concept has merit.

53 Q IS IT APPROPRIATE TO IGNORE A VALID ANALYTIC METHOD SIMPLY  
54 BECAUSE IT HAS NOT BEEN PREVIOUSLY ACCEPTED?

55 A No, it is not. The Commission has changed its view of cost of service study methods  
56 or components in the past, presumably in an effort to improve the validity of the  
57 studies it uses to set rates. This case gives the Commission an opportunity to further  
58 improve the cost study via incorporation of IIEC's approach to quantifying the MDS.

59 This is appropriate in light of the new and additional evidence I have provided in  
60 support of the MDS in this proceeding.

61 **Cost Classification Using Average Data Proxy**

62 **Q DID MR. JONES OFFER ANY CRITICISMS OF YOUR MDS ANALYSIS?**

63 A Yes, he did. Ameren witness Mr. Jones discussed the MDS briefly in his rebuttal  
64 testimony. He also discussed the method I used to determine customer- and  
65 demand-related cost percentages for specific distribution facilities accounts. He  
66 concluded that my “average percentages, that are based on data from other utilities,  
67 do not provide meaningful information about Ameren Illinois Utilities’ distribution  
68 system costs.”

69 **Q HOW DID YOU CLASSIFY THE CUSTOMER- AND DEMAND-RELATED COSTS**  
70 **ASSOCIATED WITH THE MDS IN YOUR MODIFIED COSS?**

71 A I used the average of results from a study performed by Ameren for its affiliate  
72 company in Missouri, and from four zero-intercept studies that I conducted on electric  
73 companies in Missouri, Kansas, and Colorado.

74 **Q WHAT IS THE BASIS FOR MR. JONES’S CRITICISMS?**

75 A Mr. Jones testifies:

76 “While such an approach may be useful to make generalizations about  
77 expected results, use of one utility’s cost of service study is not  
78 appropriate for setting rates for another utility. As noted in the National  
79 Association of Regulatory Utility Commissioners Electric Utility Cost  
80 Allocation Manual, upon which Mr. Stowe relies in other instances,  
81 ‘Each utility is a unique entity whose design has been dictated by the  
82 customer density, the age of the system, the customer mix, the terrain,  
83 the climate, the design preferences of management, the planning for

84 the future and the individual power companies that have merged to  
85 form the utility.’ (NARUC Manual, p.19)<sup>2</sup>

86 Having already admitted that the MDS concept, which classifies certain FERC  
87 plant and expense accounts as customer- and demand-related, is meritorious, Mr.  
88 Jones now recognizes that averages from comparable electric companies are useful  
89 “to make generalizations about expected results.” To that extent, Mr. Jones appears  
90 to agree that the Company’s COSS, which classifies the distribution plant and  
91 expense costs in question as 100% demand-related, could reasonably be modified to  
92 classify a percentage of these costs as customer-related, and the remainder as  
93 demand-related.

94 Instead, Mr. Jones attempts to re-cast the issue by concluding that the “use of  
95 one utility’s cost of service study is not appropriate for setting rates for another utility.”  
96 This statement is, of course, true, but irrelevant. No attempt has been made by any  
97 party in this case to use a COSS from one utility to set rates for another. There has  
98 only been an attempt to reasonably and appropriately classify distribution costs using  
99 averages from comparable electric companies.

100 Furthermore, as a basis for his criticism, Mr. Jones applies an excerpt from  
101 the National Association of Regulatory Utility Commissioners Electric Utility Cost  
102 Allocation Manual (“NARUC Manual” or “Manual”) that specifically pertains to cost  
103 functionalization to techniques specific to cost classification.

104 **Q PLEASE EXPLAIN WHAT YOU MEAN.**

105 **A** The excerpt that Mr. Jones’s cites, which describes each utility as a “unique entity,” is  
106 taken out of context. It comes from a section of the NARUC Manual that specifically  
107 discusses cost functionalization, but Mr. Jones applies it to an analytical technique

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<sup>2</sup>Rebuttal Testimony of Leonard M. Jones, Ameren Exhibit 26.0 at 16.

108 that is used in cost classification. The two processes, functionalization and  
109 classification, are fundamentally different.

110 **Q HOW DO THE PROCESSES OF FUNCTIONALIZATION AND CLASSIFICATION**  
111 **DIFFER FROM EACH OTHER?**

112 A Cost functionalization is, to a large extent, an accounting process; one that is  
113 performed by the utility in the normal course of its operations as investments are  
114 made and expenses incurred. Consequently, functionalization reflects the unique  
115 accounting record entries of each utility. Thus, if a utility has not incurred a certain  
116 cost or does not record a balance in a particular FERC account, it would be  
117 inappropriate to use an average of that account's balance from other utilities as a  
118 proxy.

119 In contrast, cost classification typically involves special studies wherein  
120 cost-causative factors are identified, quantified, and applied to functionalized costs.  
121 These studies do not focus on the balance within the FERC accounts. Instead, they  
122 focus on the comparative impact that energy usage, peak demand, and the number  
123 of customers have on costs. In other words, cost classification focuses on  
124 cost-causative factors shared by all utilities. Unlike cost functionalization, in the  
125 absence of classification data specific to a particular utility, as is the case for Ameren  
126 here, it is appropriate to use averages reflecting cost classifications in the  
127 corresponding accounts of comparable companies.

128 Q DOES THE NARUC MANUAL SUPPORT YOUR EXPLANATION OF THE  
129 DIFFERENCES BETWEEN THE FUNCTIONALIZATION AND CLASSIFICATION  
130 PROCESSES?

131 A. Yes. The NARUC Manual introduces the concept of cost functionalization as follows:

132 “Once the *relevant data on investment and operating costs* are  
133 gathered and the relevance determined by the type of study and  
134 *unique circumstances of each utility*, the costs are then separated  
135 according to *function*.” [Emphasis added.] (NARUC Manual, page 18)

136 By comparison, the NARUC Manual introduces the classification of costs as follows:

137 “The next step is to separate the functionalized costs into  
138 classifications based on the components of utility service being  
139 provided. The *three principal cost classifications for an electric utility*  
140 are demand...energy..., and customer...”

141 The messages contained in the two quotes are: (1) that functionalization of  
142 costs reflects unique accounting entries of individual companies; and (2) that  
143 classification of costs reflects the three principal cost-causative factors common to all  
144 utilities – peak demand, energy usage, and number of customers.

145 Q DID MR. JONES HAVE OTHER OBJECTIONS TO YOUR METHOD OF  
146 CLASSIFYING COSTS ASSOCIATED WITH THE MDS?

147 A Yes. Mr. Jones stated in reference to the average percentages I used to classify  
148 distribution plant:

149 “There is a very broad range of percentages among the five utilities  
150 included in his analysis, as can be seen on Table 4 of his testimony.  
151 For example, for FERC Account 366 – Underground Conduit, the  
152 percentage of costs deemed to be customer related ranges from a low  
153 of 6% to a high of 82%. Similarly for FERC Account 367 –  
154 Underground Conductors and Devices, the percentage of costs  
155 deemed to be customer related ranges from a low of 21% to a high of  
156 91%. The significant variation seen in Mr. Stowe’s analysis makes the  
157 application of his average percentages to Ameren Illinois Utilities even  
158 more inappropriate.”<sup>3</sup>

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<sup>3</sup>Rebuttal Testimony of Leonard M. Jones, Ameren Exhibit 26.0 at 16-17.

159

For convenience, I have included below the table to which Mr. Jones refers.

| <b>Line</b> | <b>Company</b>        | <b>Classification</b> | <b>FERC Accounts</b> |                 |                 |                 |
|-------------|-----------------------|-----------------------|----------------------|-----------------|-----------------|-----------------|
|             |                       |                       | <b>Acct 364</b>      | <b>Acct 365</b> | <b>Acct 366</b> | <b>Acct 367</b> |
| 1           | AmerenUE - 2006 COS   | Demand                | 88%                  | 72%             | 94%             | 79%             |
| 2           |                       | Customer              | 12%                  | 28%             | 6%              | 21%             |
| 3           | Aquila Networks - MPS | Demand                | 75%                  | 90%             | 25%             | 13%             |
| 4           |                       | Customer              | 25%                  | 10%             | 75%             | 87%             |
| 5           | Aquila Networks - L&P | Demand                | 86%                  | 90%             | 37%             | 16%             |
| 6           |                       | Customer              | 14%                  | 10%             | 63%             | 84%             |
| 7           | Aquila Networks - WPK | Demand                | 89%                  | 85%             | 18%             | 9%              |
| 8           |                       | Customer              | 11%                  | 15%             | 82%             | 91%             |
| 9           | Aquila Networks - WPC | Demand                | 83%                  | 85%             | 19%             | 14%             |
| 10          |                       | <u>Customer</u>       | <u>17%</u>           | <u>15%</u>      | <u>81%</u>      | <u>86%</u>      |
| 11          | Five Study Average    | Avg Demand            | 84%                  | 85%             | 39%             | 26%             |
| 12          |                       | Avg Customer          | 16%                  | 15%             | 61%             | 74%             |

160

Mr. Jones has testified in his rebuttal that the MDS concept has merit (Ameren Exhibit 26.0 at 15), so it would be reasonable to assume that Ameren agrees that some non-zero percentage of costs in these accounts is incurred to serve customers, and that those costs are independent of peak demand. If Ameren is now at the point of arguing about only the precision of my estimates, my main point has been made and accepted; that there is a non-zero percentage of the costs in Account Nos. 364-367 that is customer-related, not demand-related. That cost-causation fact should be recognized in setting rates.

168

In my direct testimony I described the methods I used to determine the customer- and demand-related portions of certain distribution accounts. I concluded that portion of my direct testimony with the following statement:

171

“While this is a reasonable approach, if the Company can document the actual customer and demand percentages, it would be reasonable to use the Company’s actual percentages rather than my estimates.”  
 (Direct Testimony of David L. Stowe, IIEC Exhibit 4.0 at 30)

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173

174

175                   In the absence of an Ameren specific MDS study, my use of average  
176                   customer- and demand-related data from the five studies is an appropriate method of  
177                   estimating the MDS components for the Ameren Illinois Utilities, and is preferable to  
178                   completely ignoring the fact that a significant portion of Ameren's distribution system  
179                   is customer-related.

180   **Q       WHAT IS THE RESULT OF NOT USING ESTIMATES TO CLASSIFY THESE**  
181   **COSTS?**

182   A       As I noted earlier, that approach effectively assumes these costs are 100 percent  
183           demand-related and zero percent customer-related, despite Mr. Jones's  
184           acknowledgement of the validity of the MDS approach. This extreme *de facto*  
185           assumption of the ratio is more arbitrary than any reasonable estimate, especially one  
186           that considers several comparable utilities in its development.

187                   As I stated in my direct testimony, a study specific to Ameren Illinois Utilities is  
188           preferable to my estimates, and I recommend such studies be used in the future. In  
189           the meantime, however, my reasonable estimates are the best the Commission has.  
190           It is better to use reasonable and potentially accurate estimates than certainly  
191           inaccurate *de facto* assumptions.

192   **Q       DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

193   A       Yes, it does.