Ameren Exhibit 16.0G

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 09-_____

DIRECT TESTIMONY

OF

PAUL M. NORMAND

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

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Submitted on Behalf of

The Ameren Illinois Utilities

I. INTRODUCTION

Q. Please state your name, address and position.

A. My name is Paul M. Normand. I am a management consultant and Principal with the firm of Management Applications Consulting, Inc., 1103 Rocky Drive, Suite 201, Reading, PA 19609.

Q. Please state your qualifications.

A. My qualifications are provided in Ameren Exhibit 16.1G.

II. SCOPE OF TESTIMONY

Q. What is your responsibility in connection with this proceeding?

A. I am responsible for preparing the class gas cost of service study submitted on behalf of the Ameren Illinois Utilities (AIUs). In addition to developing the accounting cost of service study, I am also responsible for the rate design as presented herein for each of the AIUs.

Q. Please outline the organization of your testimony and exhibits.

A. My testimony is organized into two major sections: the first presents the results of my Gas Cost of Service studies (GCOS) for each AIUs and the methods I have employed to calculate costs by rate class of service, including the more significant allocation factors. The second section of my testimony presents the development of the proposed rate design for each AIUs.

The accompanying exhibits are labeled sequentially beginning with Ameren Exhibit 16.1G which details my qualifications and experience. Exhibit 16.2G summarizes the results of my GCOS studies. In addition to these traditional class cost of service summary results, Ameren Exhibit 16.3G presents the more detailed, line-by-line results of my GCOS studies supporting the results presented in 16.2G for AmerenIP. In a similar approach, Ameren Exhibits 16.4G and 16.5G present the detailed cost study results for AmerenCILCO and AmerenCIPS, respectively. Ameren Exhibit 16.6G presents a detailed functional unbundled summary of the costs to serve from Ameren Exhibits 16.3G, 16.4G, and 16.5G for each rate class and AIUs at present and proposed rates of return. Ameren Exhibit 16.7G contains a description of the allocation factors, both externally developed and those developed internal to the GCOS to provide a complete reference and understanding of the allocation methods employed in my studies. Ameren Exhibit 16.8G contains the three major cost allocation factors utilized in each AIUs GCOS study: weather normalized volumetric sales (therms) for each AIUs, Design Day demands for each rate class, and the development of the transmission, distribution, and on-system storage allocation factors for sales and transportation volumes.

III. <u>ACCOUNTING COST OF SERVICE STUDY – GAS</u>

A. Allocated Cost of Service Study

Q. Would you briefly define your GCOS?

A. The cost to serve the customers of any utility consists generally of operating expenses and return. For a historical test period, these costs are recorded on the books and on records of the utility, and the overall cost to serve the collective customers of the utility can be readily established. On the other hand, the unique cost to serve customers in the various service classifications is much less apparent. Costs can vary significantly between customer classes depending upon the nature of their demands upon the system and the facilities required to serve them. The purpose of an Allocated Cost of Service Study is to assign or allocate each relevant component of overall costs on an appropriate basis in order to determine an appropriate cost to serve each AIUs' respective customer rate classes. The final result of each GCOS study is essentially a cost matrix displaying, by cost category, the detailed costs of serving each rate class.

Q. Please describe the procedure used in preparing your Allocated Cost of Service Study?

A. Through the application of a computerized microcomputer cost model developed by Management Applications Consulting specifically for each of the AIUs, it was possible to address each element of rate base, revenue and operating expense in detail and to assign or allocate each element to customer classes. The completed process is summarized in Ameren Exhibit 16.2G and mirrors each AIUs' total cost to serve.

B. Weather Normalization

Q. What is the purpose of a weather normalization adjustment?

A. For the purposes of gas cost of service studies and rate making, the test year must represent typical or normal circumstances. In the historic test year some of the actual

costs incurred may be atypical. The AIUs have identified specific pro forma adjustments to the test year to reflect the expenses that normally would be anticipated in the test year, based on those changes which are known and measurable at the present time. In the same vein, the sales volumes (therms) in the test year may be atypical, since weather patterns in the test year may be different than normal and customer loads are very weather sensitive for a large segment of their consumption. Even small variations in weather can have a material impact on these sales and related revenues, especially for a gas utility. The weather normalization adjustment is targeted to identify the change in sales and related revenue and expense that would have occurred if actual weather in the test year had been normal. The use of these adjustments in the allocation process provides a more robust cost of service result which can then be used as a reasonable foundation for establishing revenue targets and proposed rate design as I have presented in Section IV of my testimony.

Q. Were test year sales and revenues used in your cost studies adjusted for weather?

A. Yes, they were. A summary of the weather adjusted results for sales in the test year are included in my Ameren Exhibit 16.8G. These results are the same data also presented in each of the AIUs Part 285 E-4 and E-5 Schedules.

Q. Did the weather adjustment apply to all rate classes in your cost of service study?

A. No, it did not. Only the more weather sensitive residential and smaller general service classes were adjusted (GDS-1, 2, and 3).

Q. Are there any other allocation factors that are computed based on weather data used in your CCOS?

A. Yes, there are. Other than weather adjusted sales (therms) and revenues, another significant allocation factor is the Design Day demand. In the test year, the AIUs provided capacity to serve customer requirements on the Peak Day, the coldest day observed. However, AIUs actually designed its system and had capacity available to ensure reliable delivery on a Design Day, the coldest possible sendout day that can be anticipated in the planning process. Planning for a Design Day is crucial to the reliable operation of any gas delivery system. In order to properly allocate these costs, estimates were developed of the class loads expected on a Design Day, as if it had occurred in the test year. These Design Day results are presented on Ameren Exhibit 16.8G for each of the AIUs.

Q. Did you undertake any other adjustments in preparing your cost of service studies?

A. Yes, adjustments to the existing non-residential customer rate groupings (GDS-2, GDS-3 and GDS-4) for AmerenCILCO and AmerenCIPS were made to be consistent with the rate class definitions employed by AmerenIP. The rationale for the reclassification of these rate classes are discussed more fully in the direct testimony of Ameren witness Mr. Peter Millburg. Weather normalization and design day demand estimates for both AmerenCILCO and AmerenCIPS were also prepared after reclassifying their existing customers to the AmerenIP customer class definitions.

Q. Why did you reclassify the existing AmerenCILCO and AmerenCIPS customers before performing your cost of service studies?

A. One of the goals of my studies was to incorporate a basic tenet of the Commission's last order which was to consider a more common pricing goal for all three gas utilities. (See Final Order, Docket Nos. 07-0585(cons.), pp. 283; 290; 335-336.) In order to explore this approach, I prepared all of the cost of service studies using the same customer class definitions. These GCOS results will provide a more meaningful guide and reference point for proposing a uniform pricing structure foundation for AIUs.

C. Description of Cost Model

Q. How does the computerized cost model operate?

A. The cost model is essentially a matrix of cost information. The vertical dimension of the study consists of the detailed costs to serve as provided by the utility. The horizontal dimension of the study can consist of either customer rate classes or cost functions. The development of the cost of service study begins with rate base and continues with revenues, operating expenses, taxes, and the computation of a labor allocator. The cost model includes three additional reports, a summary of costs to serve, a revenue requirements section, and a list of the allocation factors employed in the study.

Each page, starting with page 1, has a column immediately preceding the numerical data marked "ALLOC," an abbreviation for ALLOCATOR. The ALLOC column contains an acronym to indicate the allocation factor used to allocate or spread the costs shown in the Total Company column to individual customer rate classes along the horizontal. A listing of these allocators, typically expressed in dollars or volumes has been provided at the end of each GCOS study (reference Ameren Exhibits 16.3G, 16.4G and 16.5G) beginning on page 26. In addition to a simple tabulation, these allocation factors are further presented as a unitized ratio of the Total Company column in these

same exhibits beginning on page 33. Ameren Exhibit 16.7G briefly describes each of these allocators.

Using these allocation factors, costs shown in the Total Company column are assigned to each customer class or function as shown on the horizontal of the cost study. The cost of service information provided in the vertical column can be of two forms: either per books numbers as reported for the test year or pro forma adjustments, to reflect the adjustments as identified in Ameren witness Mr. Andrew Wichmann's testimony and exhibits.

D. Cost of Service Model Allocation Methodology

Q. How did you choose allocation factors for your cost study?

A. Generally speaking, I use a hierarchal approach to assigning or allocating costs to customer classes, choosing the highest level available to assign cost elements in the cost study. The first or highest level is to identify a direct relationship between the cost under study and the individual classes. This level is called a direct assignment for obvious reasons. For example, test year actual revenues were weather adjusted from recorded data by customer class, so in the cost study, I directly assigned these revenues to each rate class. The second level in the hierarchy employs the results of a special study. When costs cannot be directly assigned to a specific class, an additional analysis can be undertaken to replicate the intended use of specific plant investments or expenses and then assign costs based on the specific use of these assets in the test year. The next level in the hierarchy employs an external allocator to serve as a basis for cost assignment. For example, the cost of processing a computer generated bill is the same for all classes. An external allocator representing the number of bills produced for each customer class in

the test year was developed to allocate these costs. The final alternative, using an internal allocator for cost assignment, involves selecting some combination of cost elements previously allocated in the cost study to assign certain remaining costs appropriately to customer classes. An internal allocator is a relationship computed from combining more than one cost already allocated in the cost study. As an example, reserves for depreciation are reported by plant account. In order to properly allocate these reserves as a reduction to plant, I used an internal allocator for each account based on the corresponding plant allocation. Using these various costing approaches, I assigned each AIU rate base and operating expense item to customer rate classes in their respective GCOS studies.

E. Rate Base Allocation

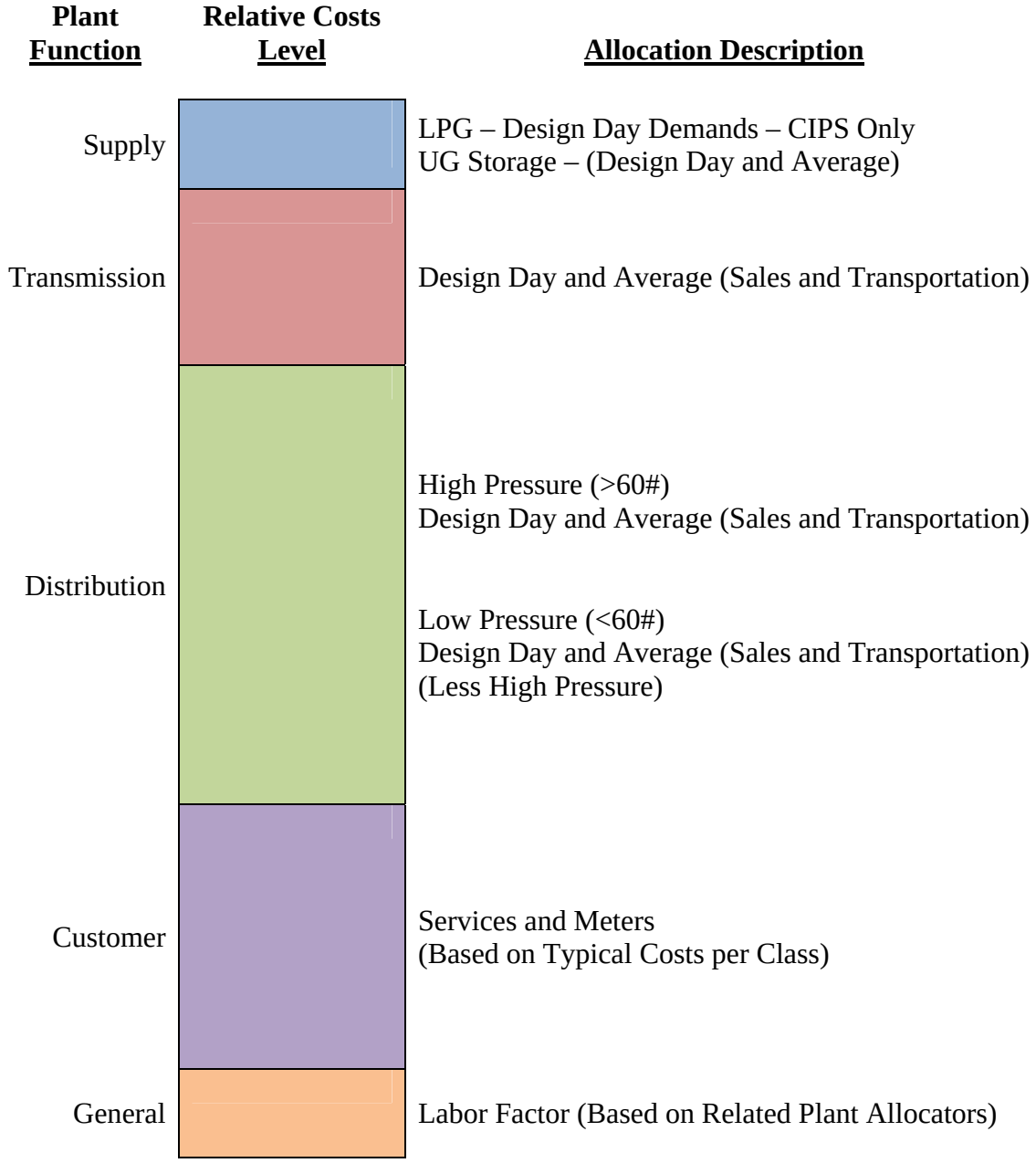
Q. Please describe the allocation of rate base to customer classes.

A. Rate base allocations are shown on pages 2 through 7 of Ameren Exhibits 16.3G, 16.4G, and 16.5G. Plant is shown sequentially at the 3-digit Uniform System of Accounts level. The utility's intangible plant was the first item allocated. Since intangible plant could not be assigned to classes using any of the first three levels in the hierarchy of allocation methods, intangible plant was assigned on an internally developed allocator, total plant.

The Figure 1 provides for a graphical overview of the plant allocation process I undertook for AIUs. For each plant function, I have identified the relative level of significance of each along with a brief description of the major allocation method for each function. Next, I will discuss the process of choosing allocation methods in my cost of service studies.

FIGURE 1

PLANT ALLOCATION OVERVIEW



Production LPG plant (AmerenCIPS only) is assigned to sales customers only using a Design Day allocation factor recognizing that the sizing of production plant is based on the need to provide peaking supplies on a peaking day.

Underground storage plant facilities were segregated into a portion that supports the delivery function applicable to all sales customers and a separate portion assignable to transportation customers based on their ability to withdraw gas from their transportation banks on a peak day. These cost categories were allocated to customer classes based on their respective Design Day demands and three-month average winter use as summarized in Ameren Exhibit 16.8G, Workpapers, with the resulting allocation factor shown on page 26 of each GCOS. The percentage allocation to transportation for each utility (AmerenIP 6.15%, AmerenCILCO 10.27%, AmerenCIPS 31.81%) was based on the transportation customers' ability to rely on these facilities to serve 20% of their peak day usage with bank withdrawals. The actual calculations to derive these amounts are shown on Ameren Exhibit 16.8G, Workpapers.

Transmission plant was allocated to each service class based on a combined Design Day and Average calculation. The derivation of these allocation factors has also been included in Ameren Exhibit 16.8G.

Distribution capacity-related plant was first segregated into high pressure (>60#) and low pressure (<60#) cost categories based on the AmerenIP historical results. Next, these costs were assigned to classes on the basis of specific **DEMDHP** and **DEMDLP** allocation factors**.** These two allocation factors were developed externally and are used for the allocation of distribution plant capacity-related costs including distribution land and land rights, structures and improvements, compressor station equipment, mains and measuring and regulating station equipment. These two allocators are based on a combined Design Day and Average method where the allocator for each class is computed as the ratio of two factors: (1) the average daily class demand, computed as the

normalized annual sales for the class delivered through the distribution system divided by the 366 days of the test year and (2) the class's Design Day. Using this combined Design Day and Average allocator, costs are assigned to each customer class based on a composite factor that recognizes that a portion of the delivery systems are required throughout the year and that a much higher capability or throughput is required on a design day. The derivation of these two allocators has also been provided in Ameren Exhibit 16.8G. The Design Day and Average methodology was also utilized in AIU's last rate case (Docket Nos. 07-0585 (cons.)) in preparation of the Part 285 E-schedules. Additionally, the methodology employed is consistent with the Commission's preferred Average and Peak methodology as approved in Illinois Power Company's most recent gas rate case where COSS allocations were a litigated issue. (*See* Final Order, p. 64, Docket No. 04-0476)

Q. What are the customer-related plant allocation factors included in your cost study?

A. Customer-related distribution plant items were allocated using **CUST**-prefixed allocators for services, meters, and other such customer-related items. These factors, taken from the AIUs continuing property records, general accounting records, and any other available sources, serve to allocate the specific customer-related costs incurred for each customer class.

The two most significant customer-related allocators are for service and meter investments. The allocation of Services (Account 380) was based on each customer class using Company-specific data with a recognition of an estimated number of services per class in arriving at the final allocation to each service class. Similarly, the allocation of

Meters (Account 381) was developed by identifying the cost for each rate class and the number of meters used to serve each class.

A complete list of the direct customer-related allocation factors are presented on page 27 of each cost of service study (reference Ameren Exhibits 16.3G, 16.4G and 16.5G) with an explanation of each factor also presented in Ameren Exhibit 16.7G.

Q. How was general plant allocated in your GCOS studies?

A. The cost items of general plant were allocated on an internally developed labor allocation factor (**LABOR**) which was based on labor expensed for each account in the test year. The labor portion of each Operation and Maintenance function was identified and allocated separately in the same manner as the corresponding total expense accounts were allocated. The allocated labor costs were then subtotaled by rate class to arrive at the composite allocation factor, **LABOR**. The detailed development of this allocator is presented on pages 21 through 24 of the cost of service studies with the resulting composite total shown on page 24, line 26 for each of the AIUs (Ameren Exhibits 16.3G, 16.4G and 16.5G).

Q. How was each account of reserves for depreciation allocated?

A. Each account of reserves was allocated on the subtotal of the corresponding allocated costs of its respective plant item.

Q. What other elements of rate base were included in your study?

A. Additions to net plant included working capital allowances such as materials and supplies and cash working capital. Material and supplies was allocated on transmission and distribution plant, while cash working capital was allocated on total plant.

Deductions from net plant were customer deposits, customer contributions, and a reserve for deferred federal income taxes. Each item was directly assigned or allocated on internally developed allocation factors utilizing the most appropriate calculation. For example, deferred income taxes were allocated based on prior allocated plant totals. Customer deposits and customer advances were directly assigned to rate classes based on available AIUs records.

F. Operating Revenue Allocations

Q. Could you discuss the allocation of operating revenues?

A. Revenue details are shown on page 8 of each GCOS study. Ms. Althoff provided the weather normalized sales revenues for each firm rate class shown on line 1 which are also detailed in each Ameren Part 285 Schedule E-5. Special contract revenues were allocated to classes using the storage and transmission plant allocated results, so that these revenues would flow back to all firm customers to offset the costs allocated to them.

Late payment charges represent charges for paying bills beyond their normally scheduled due date. The AIUs provided an assignment of these charges by customer class for use in the cost of service study.

G. Operating Expense Allocation

Q. How were operating and maintenance expenses allocated?

A. The allocation of O&M expenses generally follows the method by which these expenses were incurred. For example, the plant-related capacity and customer related expenses are allocated using the same allocators used for their associated plant investment.

Q. How were the purchased gas costs assigned?

A. The demand and commodity components of pipeline gas costs are removed from these delivery only cost of service studies.

The capacity-related expenses associated with Propane (LPG – AmerenCIPS only) were allocated on the DEMLPG factor which is based on a Design Day. Similarly, the expenses associated with storage facilities were allocated on the corresponding plant allocated results.

Q. How were the remaining operation and maintenance expenses allocated?

A. The allocation of Transmission and Distribution O&M expenses follow the corresponding allocation of plant. Customer Accounts, Sales Expenses, and Administrative and General (A&G) Expenses were allocated using a variety of methods based on direct assignments, revenues, sales, gas costs, number of bills and number of customers. Whenever possible, specific information detailing class cost responsibilities was utilized in order to develop the most accurate cost study possible. A&G expenses are primarily allocated on labor and plant in service, all developed internally and shown on page 13. The remaining A&G accounts were allocated on either plant or revenues which were chosen as best representing the nature of the costs in the expense category to be allocated. Ameren Exhibit 16.7G contains a complete description of each allocator utilized in the GCOS study.

Q. What are the remaining operating expenses?

A. The remaining operating expenses consist of depreciation and amortization expenses, taxes other than income taxes, interest deductions, and state and federal income taxes.

Q. How were they allocated?

A. Depreciation and amortization expenses were allocated on the basis of plant in service similar to the allocation of depreciation reserves. Taxes Other Than Income Taxes that are plant-related were allocated on **PLANT,** and those that are labor-related were allocated on the **LABOR** allocator discussed earlier. State and federal income taxes were computed for each customer class based on the overall AIU ROR and allocated rate base.

Q. Could you summarize the results of your overall cost of service studies at present class revenue levels for each of the AIUs?

A. The results of these cost studies demonstrate that the rates presently in effect generate somewhat different rates of return for each rate class. As Ameren Exhibit 16.2G demonstrates, the current rates produce inequities amongst rate classes.

For purposes of discussion, I have briefly summarized the GCOS results presented in Ameren Exhibit 16.2G for each of the AIUs as follows:

TABLE 1

Rate Classes	AmerenIP ROR	AmerenIP Index Of Return	AmerenCILCO ROR	AmerenCILCO Index Of Return	AmerenCIPS ROR	AmerenCIPS Index Of Return
GDS-1 Residential	3.93	0.75	3.20	0.60	-0.99	-0.30
GDS-2 Small GS	9.45	1.80	13.94	2.62	12.05	3.62
GDS-3 Intermediate GS	3.29	0.63	-0.45	-0.08	8.24	2.48
GDS-4 Large GS	8.29	1.58	21.12	3.96	28.26	8.50
GDS -5 Seasonal Service	42.12	8.01	-10.59	-1.99	-18.74	-5.64
GDS-6 Large Volume	N/A	N/A	3.59	0.67	N/A	N/A
Total AIU	5.26	1.00	5.33	1.00	3.32	1.00

The Index of Return is simply each rate class's ROR referenced to Total AIUs.

H. Unbundled Costs to Serve

Q. How do your GCOS studies develop the unbundled cost to serve functions?

A. The cost of service studies presented herein address the cost to serve as a three dimensional array. So far, I have discussed only two dimensions, the accounting cost dimension, showing the line-by-line details of the rate base and expense items which determine total cost to serve and the second dimension, the class dimension, showing how each of these costs is allocated or assigned to each rate class. This approach is the more traditional cost of service result.

In order to provide a useful guide to the rate design efforts, the cost of service

study also identifies costs by major functions such as Supply, Transmission, Distribution (high and low pressure), and Customer related. Allocations to the class and function dimensions are performed automatically and simultaneously within each GCOS model. For example, the allocation of metering investment was determined to be related to the distribution function alone. The meter allocator was defined as 100% distribution customer-related and at the same time these costs were allocated to each rate classes. While many of the allocators used in the cost study were assigned directly to one function or another, other allocators were developed internally in the cost study as composites of other allocated costs and result in allocations to more than one functional cost category. This sub-detail is simply a matrix of cost recognition throughout the allocation process for each identified cost element. An example of this is with respect to the development of the **LABOR** allocation factor that I discussed earlier and is used throughout each GCOS study.

Q. Have you prepared any unbundling cost of service studies as part of your efforts to analyze the AIUs' overall costs?

A. Yes, I have. Following the standard cost allocation procedures outlined earlier in my testimony, I have aggregated costs and prepared a complete unbundled cost of service results for each of the AIUs as presented on Ameren Exhibit 16.6G.

Q. How do you utilize the unbundled cost result presented in your Ameren Exhibit 16.6G?

A. The results of the cost studies are presented at existing revenue levels as well as at a uniform rate of return (ROR) of each of the AIUs. The latter results are the primary measurement of costs used to identify a separate level of charges as an aid to the rate

design process. I will discuss the use of this cost information in more detail in my rate design testimony, Section IV that follows.

IV. RATE DESIGN ANALYSIS – GAS

Q. Please provide an overview of your rate design testimony.

A. My testimony briefly outlines the existing rate structure for each of the AIUs in Ameren Exhibit 16.9G. Next, I review the cost of service summary results as presented in Ameren Exhibit 16.2G by customer class for each of the AIUs. I have approached the actual rate design process as two sequential tasks. First, Ameren Exhibit 16.10G reviews the GCOS rate class results and identifies any rate class that will receive a revenue increase limit for each of the AIUs: AmerenIP, AmerenCILCO, and AmerenCIPS. Once these initial rate revenue limits are established, the remaining revenue requirement is spread to the remaining rate classes and the actual rate design process proceeds. Next, I outline the rate design objectives then describe the proposed rate design, presented in Ameren Exhibit 16.12G for each of the AIUs. The existing and proposed rates are multiplied by the appropriate normalized billing determinants to calculate the expected revenues. These revenue proofs demonstrate that both the existing and proposed charges actually generate the class revenues for each of the AIUs. Finally, a comparison between the class ROR resulting from present rates and from the proposed are presented on Ameren Exhibit 16.13G. Ameren Exhibit 16.14G presents an overall summary of the present and proposed revenues along with the final revenue increases and percent revenue increases relative to both base rates and total revenues which include gas costs. Finally, Ameren Exhibit 16.15G presents an additional rate design at full cost of service without any caps or limits as to any rate increases for informational purposes.

A. Existing Rate Structures

Q. Please outline and compare the major elements of each rate that are available to the Illinois consumers from AmerenIP, AmerenCILCO, and AmerenCIPS.

A. Ameren Exhibit 16.9G presents an overview of the currently approved charges provided by the AIUs to consumers in Illinois. A cursory review reveals that, as a result of these utilities being historically separate and independent, the rates currently in effect are somewhat dissimilar.

In order to propose a more common and uniform rate structure, my first step was to reclassify existing customers using a single, consistent set of rate class definitions. As I mentioned earlier in my cost of service testimony, Section III, the GCOS studies were based on a reclassification of customers for AmerenCILCO and AmerenCIPS using the existing AmerenIP rate class definitions as a guide. In using this approach, the AIUs GCOS results can be more appropriately compared. The simplest and most meaningful comparisons are the achieved ROR based on present rates and the unit costs to serve per therm ($/therm) at both existing and at an equalized ROR revenue requirement level. These comparisons allow for a logical and systematic approach to developing a common set of rates and targeted revenue requirements as I have proposed. The goal of attaining a unified AIU rate structure will occur over time, but we have taken a major step forward in achieving this goal with these proposed rates.

B. Rate Design Revenue Targets

Q. How did you establish class revenue targets?

A. My first priority was to determine rate class revenue targets on the basis of costs to serve using each AIUs' cost of service result from Ameren Exhibit 16.2G. In arriving at the proposed class revenue targets, I also relied initially on the unbundling GCOS results presented in Ameren Exhibit 16.6G. This exhibit provided unbundled base revenue requirements at the overall existing and equalized ROR levels for use in designing rates. The equalized class revenue requirements would be those revenue levels required for each rate class if they were to eliminate all inter-class subsidization and produce exactly the same ROR as the overall level for each of the AIUs. Ameren Exhibit 16.10G tabulates these full GCOS revenue requirement levels along with the revenue increases and percent increases required by rate class.

Q. How did you adjust the equalized revenue target developed in your GCOS results presented on AIU Exhibit 16.10G?

A. I carefully compared each rate class's existing revenue levels to those necessary to produce an equalized ROR level and found that the indicated increases in many instances were so great as to create the potential for disruptive increases. Good rate design practice requires some stability in rates and thus moderation in the potential increases. To accomplish this goal, I incorporated a commonly used rate increasing limit or capping mechanism. I capped the percentage or revenue increase such that each rate class proposed revenue requirement target would not exceed 1.20 times the existing revenue levels for AmerenIP. In other words, I limited the overall increase to a level no greater than 20% from the existing base revenue levels for any rate class. Due to a much

larger difference in ROR and revenue deficiency levels for certain rate classes, I did have to change this increase limit to 1.30 or a 30% increase in base revenues for both AmerenCILCO and AmerenCIPS. Ameren Exhibit 16.11G presents the calculations and assumptions that I made in developing my rate class revenue targets for each of the AIUs.

Q. Could you please describe your rate class revenue target calculations presented in Ameren Exhibit 16.11G?

A. This exhibit begins by utilizing the caps or limits developed in Ameren Exhibit 16.10G for each rate class as shown on lines 3, 13, and 23. These same lines also show the proposed increases for each remaining rate class that was not capped. These remaining percent increases were derived by adjusting their level so that the total revenue recovery for each of the AIUs was achieved.

For example, AmerenCIPS (lines 11-20) shows the present revenues on line 11 and the capped and targeted percent increases on line 13. The percent increase shown for GDS-2 and GDS-3 was adjusted until the revenue requirement shown on line 16 was essentially equal to line 17. An additional step was included in AmerenCIPS to further limit the increase to GDS-4 to only two-thirds of the increase to GDS-2 and GDS-3 in order to recognize the unusually high ROR achieved from existing rates based on the GCOS results. This process was briefly noted on lines 19 and 20 for AmerenCIPS.

The overall revenue requirement process followed the same approach for AmerenIP (lines 1-10) and AmerenCILCO (lines 21-30) in Ameren Exhibit 16.11G. The last two lines for each of the AIUs briefly note the assumptions incorporated into the calculations.

Q. Why did you select revenue caps or limits on your proposed rate increases?

A. My selection was based on several factors. First and foremost, I considered bill impacts. Since a cap is applied to the increase in base rates, which are normally less than one-third of a customer's total energy bill (with gas costs), the application of this cap level would generally not result in any undue hardship when the comparison is made with respect to a customer's total bill which includes gas costs for a twelve-month period. Second, the imposition of a cap implies that some inter-class subsidies will be necessary. Classes that would otherwise benefit from a rate decrease or little increase based on the cost of service results will continue to support a necessary subsidy. This combination, however, expedites a much needed rate consolidation effort while also supporting as much uniformity as possible in my rate proposals. Lastly, any rate class revenue proposal should also consider a bandwidth or range about the overall utility ROR target as a reasonable goal.

Q. Are there any other guidelines used in establishing your final class revenue targets?

A. Yes, there were three other primary goals which I considered: first, I established that the overall revenue recovery initially would be at an 80% fixed and 20% volumetric (variable) for the GDS-1 and 2 rate classes; second, I increased the proposed monthly customer charges for the remaining GDS-3, 4, and 5 closer to cost of service; and third, the movement of each of the proposed AIUs' rate structures towards a common goal which emphasizes both simplicity and uniformity in structure. This third goal is oftentimes the most difficult in the rate design process due to existing revenue levels, costs to serve, and customer impacts. Uniformity and transparency between each of the

AIUs is of paramount importance, and the underlying cost of service results as prepared provide for a sound foundation and direction. Unfortunately, achieving these goals cannot be easily accomplished in just this one rate case filing but will require future proposals before the Commission.

Q. Did you consult with any other AIUs personnel with regard to your class revenue allocations and rate recommendations?

A. Yes, I did. I reviewed my methodology, findings and conclusions with Ameren witness Leonard Jones. Mr. Jones has a historical perspective pertaining to gas rate changes over the years, is aware of their increases, and is generally aware of the changes in design and such. In his testimony he states that the AIUs' desire to move toward cost-based gas and electric rates, but doing so should be done at a pace that does not cause undue customer bill impacts.

C. Rate Design

Q. How did you approach the design of individual rates?

A. Once the revenue targets were established for each of the AIUs rate class (Ameren Exhibit 16.11G), the rate design process was guided by three general principles moving rates towards a reasonable customer impact by: considering limits (caps), eliminating inconsistencies between the AIUs, and emphasizing the 80%/20% fixed/variable thresholds authorized by the Commission for GDS-1 and 2 in the AIUs' last approved rate cases.

1. Initially, the proposed customer charges were based on the unbundled customer costs presented in Exhibit 16.6G at the uniform rate of return targets. These levels were subsequently increased to include a portion of the fixed

capacity-related costs along with the fixed customer costs to achieve an approximate 80% target revenue recovery for GDS-1 and 2. While I have modified the individual rate levels between AIUs to achieve uniformity where possible, I nonetheless maintained the overall total 80%/20% goal for AIUs for these two rate classes.

2. The proposed rates were arrived at through an iterative process with the goal of achieving the revenue target increases for each rate class while emphasizing the goal of uniform pricing, whenever practical. These initial revenue targets were identified in Ameren Exhibit 16.12G for each of the AIUs' rate design workpaper at the top on lines 2-4. The achieved overall increase is also shown on the same page for each rate class on the next-to-last line.

Q. Please briefly discuss each of your proposed rates.

A. Based on the overall guidelines presented above, the following actions were incorporated in the proposed rate designs presented in Ameren Exhibit 16.12G:

GDS-1 The existing customer and volumetric charges were increased proportionately to achieve an overall 80%/20% recovery ratio of the targeted revenues as shown on page 1, lines 19-21. These increases result in overall percent increases for each of the AIUs with respect to base and total revenues as shown on lines 32-34. The existing declining block for CILCO (lines 7-8) was eliminated and a flat charge was proposed consistent for all GDS-1 rates. The present usage blocking levels of the AmerenCILCO residential tariff are set at less than 90 therms per month and all over 90 therms per month. Presently only

about 30% of the annual therms are in the second or trailing usage block. The historical purpose of a blocked rate is to principally recover customer-related cost not recovered in the Customer Charge in the first block. Since the AIUs now recover 80% of their base revenue through the Customer Charge it is appropriate at this time to eliminate the declining block residential delivery charges of AmerenCILCO. The elimination of declining blocks is also one of today's most important pricing goals on the path of achieving efficient energy consumption. These proposed AIUs' rates all incorporate a capped increase as discussed earlier in my testimony and detailed in Ameren Exhibit 16.11G.

GDS-2 The existing rate structure for AmerenIP and the restructured rate classes for AmerenCIPS and AmerenCILCO recovers a varying level of fixed costs in the monthly customer ranging from a high of 80% for AmerenIP to a low of approximately 64% for AmerenCIPS. Both AmerenIP and AmerenCILCO have an extremely minor (about 0.4%) of revenues associated with transportation customers with AmerenCIPS having none. The proposed rate structure establishes the monthly customer charges at approximately 79% overall with the remaining revenue recovery through the proposed volumetric charges. The final rate charges were adjusted slightly to align certain aspects of the charges between each of the AIUs as can be noted on Ameren Exhibit 16.12G, page 2 of 8, lines 15-26. None of the existing GDS-2 rates required a cap in their proposed

revenue recovery levels. The proposed monthly customer charges for AmerenCILCO and AmerenCIPS did, however, require some modifications to mitigate the customer impact from the proposed increases. In order to moderate the overall proposed increase while also recognizing the importance of reclassifying customers, two levels of monthly customer charges are being proposed which consider a lower charge for bills below an annual 600 therm usage level. Finally, all of the AIU GDS-2 rate class customers have revenue levels that recover their full cost of service as well as additional revenues required from other capped rate classes.

GDS-3 The existing rate structures have varying levels of recovery through the monthly customer charges (33% to 11%) and a separate identification and pricing of sales and transportation volumes with the exception of AmerenIP which recovers all remaining transportation revenues through its existing demand charges. After reclassifying a considerable number of these customers and their volumes to other rates for AmerenCILCO and AmerenCIPS, the proposed rate design developed a more uniform recovery in the monthly customer charge from a high of approximately 30% to a low of 18%. The proposed sales and transportation charges were also adjusted to approach a more common price level, where possible, given revenue constraints. A summary of these results can be reviewed on Ameren Exhibit 16.12G, page 3, lines 24-40. Future rate studies will be required to more closely align each of the AIUs' GDS-3

rates as both AmerenIP and AmerenCILCO's revenue increases were capped in establishing the targeted rate design revenue levels.

GDS-4 Each of these AIUs' rates represented a very wide range of charges in monthly customer charges and revenue recovery levels between sales, transportation, and demand charges as can be noted on Ameren Exhibit 16.12G, page 4, lines 1-22.

- Customer Charges – With such a wide ranging level of these charges between each of the AIUs and the reclassification of customers, I have attempted to bring more uniformity by reducing the number of these charges to only two for each of the AIUs. The existing customer charges for AmerenCIPS are so much lower than any of the proposed levels for either AmerenIP or AmerenCILCO that I concluded proposing any of these higher levels would be too prohibitive at this time. However, the proposed levels for AmerenCIPS are consistent with the GCOS results presented in Ameren Exhibit 16.6G and have increased accordingly.
- Sales and Transportation Volumetric Charges – The volumetric charges were all increased with the exception of AmerenCILCO which was decreased as a result of reclassification of customers. Transportation volumetric charges were increased for AmerenCILCO from existing levels. Since billing demands were not readily available for AmerenCIPS, I have proposed to introduce a new level of charges to reflect some differences in pricing between

high and low pressure delivery for these customers. The difference I proposed was $0.01 per therm which also allows for an increase to all existing charges.

- Demand Charges – The existing demand charges for AmerenIP were all increased proportionately to maintain the existing level of revenue recovery at approximately 25% customer and 73% through various demand charges. The level of demand charges for AmerenCILCO was increased to recover approximately 50% of the revenues through the proposed demand charges. This increased level is also a result of considering customers who were reclassified from GDS-3. Future rate proposals should increase this revenue recovery through demand charges towards a 70% level. No demand charges were proposed for AmerenCIPS since the necessary data was unavailable.
- Overrun Charges – Existing overrun charges should be maintained but were adjusted to reflect a more uniform and standard amount which I proposed at two times the otherwise applicable demand charges. These are customers who exceed their established maximum and require that some level of additional revenue recovery be made as a result of exceeding their established demands.

All of the AIUs' GDS-4 rates required no revenue cap and are sharing in the subsidization of other rate classes.

GDS-5 These are seasonal customers who tend to use gas primarily during three to seven months of the year. Each of the AIUs' GDS-5 rate class also demonstrates a reasonably high use in the month of December which can be an AIUs annual peak. The GCOS results indicate a wide range of existing ROR as follows:

AIU	Existing ROR	Equalized Increase (+)
IP	42.12%	-42.99%
CILCO	-10.59%	76.21%
CIPS	-18.74%	82.23%

In order to bring more uniformity to the pricing of these customers, I have proposed a 5% decrease to the AmerenIP rate along with a capped increase level for both AmerenCILCO (16.22%) and AmerenCIPS (21.37%). This approach will bring their pricing closer to GCOS, but due to their existing price level, future filings will be required.

- Customer Charges – The proposed customer charges are an increase from existing levels and are reasonably reflective of costs while recognizing customer impacts except for AmerenIP which are reduced to reflect the proposed reduced revenue target.
- Sales and Transportation Volumetric Charges – Sales charges were increased to be in line with the proposed revenue targets established previously in Ameren Exhibit 16.11G. Transportation charges were also increased in line with revenue targets except for AmerenIP, where they were reduced to reflect an overall level decrease for the rate.

- Demand Charges – The proposed demand charges are only for AmerenIP customers and with these levels set equal to the proposed GDS-4 rate and reflect less than 0.1% of the base revenue recovery.

GDS-6 This is a very large use rate where customers exceed 2 million annual therms and is only available for AmerenCILCO customers. The proposal as discussed more fully in the direct testimony of Ameren witness Mr. Peter Millburg is to eliminate the separate GDS-6 tariff for this rate class and in its place create new provisions within the existing AmerenCILCO GDS-4 tariff for the GDS-6 customers. The proposed GDS-4 will reflect the very large use pricing provisions below:

- Customer Charges – The proposed monthly customer charge was set equal to the proposed GDS-4 charge of $2,000.
- Sales and Transportation Volumetric Charges - Therms – These charges were increased and are set equal to those levels proposed for the GDS-4 charges.
- Demand Charges – The demand charges were developed based on recognizing a pricing differential between high and low pressure delivery costs. The proposed demand charges increase the recovery of revenues in the demand charges from 43% to 52% primarily as a result of setting these charges at the proposed GDS-4 level. The demand charges proposed are the GDS-4 with the provision that they are applicable only to customers whose annual volumes exceed 2 million therms. The GDS-6 revenue recovery level was determined

by capping or limiting the final increase as presented on Ameren Exhibit 16.12G, page 8 of 8, lines 58-60.

GDS-7 – No change.

– Allocated margin revenues on the allocated sum of storage and transmission plant costs.

Q. Did you verify that the proposed rates generate the delivery revenue requirements you established?

A. Yes, the proposed rates were multiplied by the appropriate weather normalized billing determinates to derive a revenue proof as shown on Part 285 Schedule E-5which compares the existing revenue levels to the proposed revenue recovery.

Q. Have you calculated the rate of return that would be produced for each rate class using your proposed rates?

A. Yes, I have. First, Ameren Exhibit 16.13G summarizes the existing ROR (line 3), percent revenue increase required at equalized ROR (line 13) and the achieved ROR at the proposed revenues for each rate class (line 20). Table 2 below summarizes these results:

TABLE 2
GCOS ROR (%) Results

AIU	Rate	Existing	Proposed
AmerenIP	GDS-1	3.93	9.09
	GDS-2	9.45	11.48
	GDS-3	3.29	7.22
	GDS-4	8.29	9.96
	GDS-5	42.12	38.44
	GDS-6	N/A	N/A
TOTAL AmerenIP		5.26	9.55
AmerenCILCO	GDS-1	3.20	8.10
	GDS-2	13.94	14.29
	GDS-3	-0.45	2.58
	GDS-4	21.12	21.56
	GDS-5	-10.59	-6.35
	GDS-6	3.59	7.10
TOTAL AmerenCILCO		5.33	9.15
AmerenCIPS	GDS-1	-0.99	5.12
	GDS-2	12.05	14.70
	GDS-3	8.24	10.58
	GDS-4	28.66	30.87
	GDS-5	-18.74	-11.95
	GDS-6	N/A	N/A
TOTAL CIPS		3.32	8.47

Briefly stated, the proposed rate structures achieve the overall goal of simplifying and moving the existing AIUs' rates towards a more uniform structure and pricing. The proposed rate designs have also taken a step towards reducing inter-class subsidies and ROR levels by moving the more deficient rate classes towards a unity ROR goal.

Q. Have you prepared any additional rate design results for the Commission to consider in your analyses?

A. Yes, I have based on the Commission's prior request that rates be developed at full cost of service levels for each rate class. Ameren Exhibit 16.15G presents the development of the proposed rate structure increased to full GCOS revenue requirement levels at the equalized uniform ROR for each of the AIUs. The rate design approach maintained approximately the same individual pricing differentials where possible in deriving full GCOS revenues as was proposed in Ameren Exhibit 16.12G. The full GCOS results from Ameren Exhibits 16.6G and 16.13G were the primary reference points for establishing these pricing levels.

As an additional rate design effort, the same full cost of service revenue requirement has also been calculated for each of the AIUs at a fixed monthly charge equal to 100% and at an 80% level in Ameren Exhibit 16.6G, rows 38-42. This same data was also presented on Ameren Exhibit 16.10G along with other GCOS results.

D. Bill Impacts

Q. Have you assessed the impact of your rate design on existing customers?

A. The bill comparisons for each rate and the AIUs were prepared and presented in Part 285 Schedule E-9. Since the proposed base rates were designed without any gas cost, it was necessary to include gas cost estimates in order to make a more meaningful bill comparison and customer impact determinations.

V. <u>CONCLUSION</u>

Q. Does this conclude your direct testimony?

A. Yes, it does.

COMPLETE LIST OF EXHIBITS

Ameren Exhibit Number	Description
	Accounting Cost of Service Study – Gas
16.1G	Qualifications of Paul M. Normand
16.2G	Summary of Class Cost of Service Studies (IP, CILCO, CIPS)
16.3G	Detailed Cost of Service Results (IP)
16.4G	Detailed Cost of Service Results (CILCO)
16.5G	Detailed Cost of Service Results (CIPS)
16.6G	Summary of Unbundled Cost of Service Results at Present and Proposed Returns (IP, CILCO, CIPS)
16.7G	Tabulation of External and Internal Allocators (IP, CILCO, CIPS)
16.8G	Workpapers (IP, CILCO, CIPS) – Weather Adjusted Sales (therms) – Development of Demand Allocators • Transmission • Distribution • Storage
	Rate Design Analysis – Gas
16.9G	Existing Rate Structure Comparisons (IP, CILCO, CIPS)
16.10G	AIU GCOS Summary Results
16.11G	Development of Proposed Revenue Targets (IP, CILCO, CIPS)
16.12G	Development of Proposed Rate Design (IP, CILCO, CIPS)
16.13G	GCOS Results Based on Proposed Rates and Revenue Levels (IP, CILCO, CIPS)
16.14G	Summary of Present and Proposed Revenue Increases on Base and Total Revenues by Rate Class (IP, CILCO, CIPS)
16.15G	Additional Rate Design at Full Cost of Service Requirements