

ILLINOIS COMMERCE COMMISSION

DOCKET No. 10-0568

REBUTTAL TESTIMONY

OF

RYAN K. SCHONHOFF

Submitted On Behalf

Of

AMEREN ILLINOIS COMPANY

d/b/a Ameren Illinois

November 12, 2010

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9 **I. INTRODUCTION**

10 **A. Witness Identification**

11 **Q. Please state your name.**

12 A. My name is Ryan K. Schonhoff.

13 **Q. Are you the same Ryan K. Schonhoff who submitted Direct Testimony on**
14 **behalf of Ameren Illinois on September 30, 2010?**

15 A. Yes, I am.

16 **B. Purpose, Scope and Identification of Exhibits**

17 **Q. What is the purpose of your Rebuttal Testimony in this proceeding?**

18 A. I will respond to testimony and positions offered by Staff in regards to the Petition
19 for Approval of Integrated Electric and Natural Gas Energy Efficiency Plan ("Plan"). In
20 particular, I will respond to assertions related to the calculation of natural gas savings
21 goals and spending limits, incentive compensation, and the reconciliation proceedings. I

22 want to emphasize that my failure to address a particular issue raised by Staff should not
23 be construed as an endorsement.

24 **Q. Will you be sponsoring any exhibits with your Rebuttal Testimony?**

25 A. Yes, I am sponsoring Ameren Exhibits 9.1, 9.2, and 9.3. Ameren Exhibit 9.1 will
26 aid in the explanation of the perceived difference in the spending limit between that
27 which was calculated in Ameren Exhibit 4.0 (Rev.) and that which was calculated by
28 Staff using the response to Staff Data Request RZ 1.01. Ameren Exhibit 9.2 provides an
29 update to a table from Staff Data Request RZ 1.01 that reflects the May 2010 rate case
30 Order adjustment. Ameren Exhibit 9.3 is a response from Staff witness Tosldorf to
31 Ameren Illinois' Data Request AIC-ST 1.4.

32 **II. DIRECT TESTIMONY OF STAFF AND INTERVENORS**

33 **A. Calculation of Natural Gas Savings Targets**

34 **Q. Staff witness Zuraski states that Ameren Illinois appears to have computed**
35 **the natural gas therm savings by multiplying the percentage savings requirements**
36 **specified in the Act for each of the three years of the Plan by the calendar year 2009**
37 **therms that were sold by Ameren Illinois. Staff Ex. 4.0, p. 3, lines 53-61. Is this an**
38 **accurate description as to how Ameren Illinois calculated the natural gas therm**
39 **savings targets?**

40 A. Yes, it is.

41 **Q. Mr. Zuraski proposes an alternative interpretation of the Act for which a**
42 **utility “would not exclude any third-party sales volumes, not even those sold to large**
43 **customers, unless they would otherwise be excluded due to Section 8-104(m).” Staff**

44 **Ex. 4.0, p. 5, lines 91-92. Mr. Zuraski sponsored Staff Exhibit 4.2, illustrating the**
45 **natural gas savings targets for Ameren Illinois under this alternative interpretation.**
46 **Staff Ex. 4.2. Do you agree that, assuming the appropriateness of excluding third-**
47 **party sales volumes, the calculations relating to Ameren Illinois in Staff Exhibit 4.2**
48 **are accurate?**

49 A. If the Commission chooses to follow this alternative interpretation, I agree that
50 the Ameren Illinois' therm savings goals would be consistent with Mr. Zuraski's
51 calculation in Staff Exhibit 4.2. That is, numerically, Mr. Zuraski's numbers are
52 accurate. I emphasize that this is not an endorsement of Mr. Zuraski's interpretation of
53 the Act.

54 **B. Calculation of Natural Gas Spending Limit**

55 **Q. As mentioned, Staff witness Zuraski sponsored Staff Exhibit 4.2, illustrating**
56 **that the budget constraint would be unaffected by this alternative interpretation as**
57 **described in the previous question. Do you find this to be accurate?**

58 A. Yes. I agree that using Mr. Zuraski's alternative interpretation of the law would
59 not affect the spending limit reflected in Ameren Illinois' Energy Efficiency Plan. This is
60 because the savings goals and spending limit calculations are independent of each other.

61 **Q. Mr. Zuraski states that Ameren Illinois provided inconsistent numbers for**
62 **the forecasted revenues used in calculating the natural gas spending limit. Staff Ex.**
63 **4.0, p. 6, lines 110-112. How do you respond?**

64 A. The rate class level revenue forecast used to support this calculation was
65 completed prior to the corrected general rate case Order on May 6, 2010 (Dockets 09-
66 0306-09-0311 Cons.). In that Order, the Commission directed Ameren Illinois to

67 decrease the revenue requirement for the natural gas business by \$20.4 million¹.
68 Dividing this revenue decrease by test year delivery volumes of roughly 1.5 billion
69 therms² produces an average delivery service rate decrease of approximately 1.3¢/therm.
70 This unitized rate decrease was reflected as a “topside” adjustment to total utility
71 revenues in Ameren Exhibit 4.2 (Rev.), column 6. Ameren Exhibit 9.1 provides
72 additional details on this calculation.

73 Retail revenues provided in Staff Data Request RZ 1.01 did not include this
74 adjustment because the underlying class level revenue forecast does not contain this
75 adjustment. To help clarify, Ameren Exhibit 9.2 shows the utility retail revenue forecast
76 (36 months ending May 2014) including this adjustment to the specific groups requested
77 in Staff Data Request RZ 1.01. I continue to recommend the original spending limit
78 calculation filed under Ameren Exhibit 4.2 (Rev.) as reinforced by the clarifying exhibits
79 provided in this rebuttal testimony.³

80 C. Incentive Compensation

81 **Q. Staff witness Tolsdorf states that the proposed Plan budgets do not include**
82 **incentive compensation. Staff Ex. 3.0, p. 4, lines 77-80. Do you agree?**

83 A. Yes. Ameren Illinois presently does not include costs associated with company
84 employees in recovered costs under Riders EDR and GER. Thus, incentive
85 compensation costs are presently not recovered through Rider EDR and GER charges.

¹ The aggregate revenue requirement decrease is comprised of \$1.7 million for Rate Zone I, \$7.4 million for Rate Zone II, and \$11.3 million for Rate Zone III.

² The aggregate delivery service volumes from the test year are comprised of 325,119,829 therms for Rate Zone I, 539,133,140 therms for Rate Zone II, and 681,646,706 for Rate Zone III.

³ Although it is a minor deviation from Staff Exhibit 4.2, it should be noted that the three year spending limit as filed in Ameren Exhibit 4.2 (Rev.) is \$56,641,426, rather than \$56,641,420 as shown in Staff Exhibit 4.2, a difference of \$6.

86 However, this should not be construed to be a commitment that Ameren Illinois will
87 never pursue recovery of such costs through the riders.

88 **Q. Mr. Tolsdorf argues incentive compensation costs should not be recovered in**
89 **Riders EDR or GER. Staff Ex. 3.0, p. 2, lines 27-29. Do you agree?**

90 A. No. Mr. Tolsdorf does not demonstrate any persuasive reasoning in support of his
91 position. Further, Mr. Tolsdorf states incentive compensation was not litigated in the
92 original three-year plan nor the first year reconciliation of Riders EDR and GER.
93 Therefore, this issue has not yet been decided, and Mr. Tolsdorf provides no good reason
94 to do so before incentive compensation becomes an issue.

95 **Q. Does Mr. Tolsdorf address the appropriateness of Ameren Illinois recovering**
96 **incentive compensation costs associated with approved energy efficiency program**
97 **costs?**

98 A. No. Mr. Tolsdorf only states that allowing incentive compensation recovery
99 could lead to prolonged contested proceedings in the annual reconciliation.

100 **Q. As you mentioned earlier, Mr. Tolsdorf states that allowing rider recovery of**
101 **incentive compensation costs for incremental employees could lead to prolonged**
102 **contested proceedings during annual reconciliations. Staff Ex. 3.0, p. 2, lines 38-40.**
103 **Do you agree?**

104 A. No. I understand that incentive compensation can be a contested issue in rate
105 cases. I appreciate Mr. Tolsdorf's desire to avoid an annual repeat of litigating incentive
106 compensation expense recovery issues. Thus, in order to facilitate the computation
107 associated with determining the appropriate level of incentive compensation expense

108 recovery, I propose a compromise position where the level of incentive compensation
109 expenses recovered through Riders EDR and GER be limited to the level of incentive
110 compensation percentage allowed in the most recent general rate case proceeding. This
111 approach presents an easy means to determine the appropriate amount of incentive
112 compensation and adequately addresses Mr. Tolsdorf's concerns that incentive
113 compensation not become a major issue within Rider EDR and GER reconciliation
114 proceedings.

115 The computation would be as follows: Per the final Order of Ameren Illinois'
116 most recent rate case, the Commission approved \$3,264,231 of incentive compensation.
117 Because total incentive compensation expenses of \$4,690,185 were sought, the
118 Commission allowed 69.6% of incentive compensation to be recovered through delivery
119 rates. Thus, 69.6% of incentive compensation paid to incremental Company employees
120 hired specifically for implementation of Rider EDR and/or GER measures should be an
121 allowed incremental cost.

122 **Q. Mr. Tolsdorf states that the Commission "has offered some guidance as to**
123 **the inappropriateness of Rider recovery treatment of incentive compensation costs"**
124 **by rejecting Commonwealth Edison Company's ("ComEd") inclusion of incentive**
125 **compensation costs in a rider for its advanced metering system. Staff Ex. 3.0, p. 3,**
126 **lines 51-56. How do you respond?**

127 A. As I understand, Rider AMP is a voluntary program, and ComEd can choose to
128 incur costs associated with the program. Electric and gas energy efficiency programs, on
129 the other hand, are mandated by law. The law also provides for recovery of energy
130 efficiency and demand response program costs. Incentive compensation can be one of

131 those costs and should not be dismissed simply because it could arguably “complicate”
132 the review process. Riders EDR and GER are in place to recover the costs incurred by
133 the utility through legislatively-mandated programs. Though not an attorney, I
134 understand the subject statute reads as follows:

135 It is the policy of the State that electric utilities are required to use
136 cost-effective energy efficiency and demand-response measures to
137 reduce delivery load. Requiring investment in cost-effective energy
138 efficiency and demand-response measures will reduce direct and
139 indirect costs to consumers by decreasing environmental impacts
140 and by avoiding or delaying the need for new generation,
141 transmission, and distribution infrastructure. It serves the public
142 interest to allow electric utilities to recover costs for reasonably
143 and prudently incurred expenses for energy efficiency and
144 demand-response measures .

145 220 ILCS 5/8-103(a).

146 In my opinion, the law makes clear these programs are being pursued for the
147 public interest, and the public certainly includes Ameren Illinois customers. Moreover,
148 Ameren Illinois customers benefit directly from these programs. I find it hard to
149 understand any claim that incentive compensation expenses incurred in advancement of
150 the Plan are not recoverable when the Plan was approved by the Commission.

151 **D. Reconciliation Proceedings**

152 **Q. Staff witness Tolsdorf states that the statute allows the recovery of only**
153 **prudently and reasonably incurred costs. Staff Ex. 3.0, p. 4, lines 95-96. Do you**
154 **agree?**

155 A. Yes, I do.

156 **Q. Mr. Tolsdorf recommends that the company shall provide testimony in a**
157 **reconciliation proceeding addressing the reasonableness and prudence of the costs**

158 **recovered through riders. Staff Ex. 3.0, p. 2, lines 31-33. Did Mr. Tolsdorf provide**
159 **any guidelines as to the scope or depth of this testimony?**

160 A. No. In fact, when asked for these specific details through a data request,⁴ Mr.
161 Tolsdorf stated that “the manner by which the Company elects to provide such evidence
162 is a decision to be made by the Company in each reconciliation proceeding.”

163 **Q. Please respond to Mr. Tolsdorf’s recommendation “to include specific**
164 **language that requires the Company to provide testimony in a reconciliation**
165 **proceeding addressing the reasonableness and prudence of costs recovered through**
166 **the Riders.” Staff Ex. 3.0, p. 4, lines 97-100.**

167 A. While there is no dispute that costs recovered should be prudently and reasonably
168 incurred, it is not necessary to modify language in Riders EDR and GER. I am told by
169 counsel that the decisional prudence and reasonableness of the Plan are determined
170 within the Commission’s approval process in this proceeding. I believe that Mr.
171 Tolsdorf’s proposed change to the riders would invite parties to challenge in the future
172 what the Commission has already found to be prudent and reasonable. Thus, rather than
173 clarifying the matter, Mr. Tolsdorf’s proposed tariff change would muddy it.

174 Further, as I understand it, the law provides for independent annual and full three-
175 year period reviews and evaluations of Company and the Department of Commerce and
176 Economic Opportunity’s (“DCEO”) portfolio and program impacts. During a
177 reconciliation proceeding, it should be sufficient to rely on these independent reports to
178 determine if any managerial imprudence exists during the execution of Plan programs.

⁴Response to Ameren Illinois Data Request AIC-ST 1.4, attached as Ameren Exhibit 9.3.

179 At this juncture, Ameren Illinois may, if necessary, file testimony in the appropriate
180 docket to address any issues raised by these independent evaluations.

181 **Q. Please provide the purpose of introducing language changes to Rider GER in**
182 **this proceeding.**

183 A. The purpose of introducing language changes to Rider GER was to allow for
184 recovery of energy efficiency plan costs from eligible retail customers.⁵ Current Rider
185 GER language only allows for recovery from residential and small commercial
186 customers. There were no changes introduced to Rider EDR language because all
187 electric retail customers currently pay a charge under the rider.

188 **Q. If the Commission chooses to follow Mr. Tolsdorf's recommendation of**
189 **requiring Ameren Illinois to file testimony in a reconciliation proceeding that**
190 **addresses the reasonableness and prudence of costs recovered in the Riders, should**
191 **Mr. Tolsdorf's recommended language be accepted?**

192 A. No. The current language is unworkable. The current rider requires that the
193 Company complete an annual audit report to be filed at the Commission by September
194 30, subsequent to the completion of a Program Year. Such testimony would need to
195 allow for proper review of the independent evaluations. Mr. Tolsdorf recommends
196 requiring testimony to be filed by September 30, which would not provide adequate time
197 to develop such testimony. Staff Ex. 3.0, p. 5, lines 117-124. At the earliest, the
198 Company could file testimony by the later of October 31, or 35 days after Company
199 receipt of the final copies of the independent evaluations.

⁵ "Eligible," in this context, refers to all retail customers excluding those specifically exempt in 220 ILCS 5/8-104 (m)

200 **III. CONCLUSION**

201 **Q. Does this conclude your Rebuttal Testimony?**

202 **A.** Yes, it does.