

ILLINOIS COMMERCE COMMISSION

DOCKET No. 11-_____

DIRECT TESTIMONY

OF

KAREN R. ALTHOFF

Submitted on Behalf Of

**AMEREN ILLINOIS COMPANY
d/b/a Ameren Illinois**

February, 2011

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7 **I. INTRODUCTION**

8 **A. Witness Identification**

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

10 A. My name is Karen R. Althoff. My business address is 370 S. Main Street,
11 Decatur, Illinois 62523.

12 **Q. By whom are you employed and in what position?**

13 A. I am employed as Supervisor – Rates and Analysis for Ameren Illinois Company
14 d/b/a Ameren Illinois (Ameren Illinois or AIC).

15 **Q. What are your current job duties and responsibilities?**

16 A. My duties and responsibilities relating to the gas and electric rates of AIC include
17 developing rate analyses, rate design and cost of service studies, development and
18 interpretation of gas and electric tariffs including standard terms and conditions; rules,
19 regulations and conditions; testifying in regulatory proceedings; and other rate or
20 regulatory projects as assigned.

21 **Q. Please describe your educational background and work experience.**

22 A. See my Statement of Qualifications attached as an Appendix to this direct
23 testimony.

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

25 **Q. What is the purpose of your direct testimony?**

26 A. The purpose of my testimony is: (1) to present the results of AIC's gas embedded
27 cost of service study (ECOSS), (2) to develop AIC's proposed gas rate design, (3) to
28 sponsor gas billing units, (4) to sponsor certain revisions to AIC's tariffs, and (5) to
29 provide an update to both base rate and Purchase Gas Adjustment (PGA) uncollectible
30 factors.

31 **Q. Please summarize the conclusions of your direct testimony.**

32 A. The gas ECOSS allocates AIC's test year costs to its customer classes to
33 determine the revenue requirement and rates of return under present and proposed rates
34 for each customer class. The results of the gas ECOSS are the starting point for rate
35 design and provide support for AIC's proposed changes to its gas rate schedules. Based
36 on the results of the gas ECOSS, the following changes to AIC's existing gas tariffs
37 should be made:

- 38 • Charges for each delivery component should be adjusted in accordance
39 with the gas ECOSS results as modified by the rate increase mitigation
40 model and other factors.
- 41 • The GDS-2 customer charge rate structure for Rate Zone III should be
42 conformed to rate structures utilized in Rate Zones I and II.
- 43 • The GDS-4 rate structure for Rate Zone I should be modified to include a
44 demand charge based on Maximum Daily Contract Quantity (MDCQ), as
45 currently reflected in Rate Zone II and Rate Zone III. Also, delivery
46 charges will no longer be separate based on pressure in Rate Zone I and
47 Rate Zone II. The customer charge for all GDS-4 Rate Zones has been
48 modified. Charges will no longer be based on average daily usage, but
49 instead on MDCQ.

50
51 **Q. Please summarize the results of the gas ECOSS.**

52 A. As stated by Ameren witness Mr. Ronald Stafford in his direct testimony, AIC's
53 gas business has a revenue deficiency of \$50.7 million, or 16.9 percent. Based on the

54 results of the gas ECOSS, AIC’s earned Rate of Return on Rate Base (“RORB”) at
 55 present rates and the resulting gas revenue deficiency at present rates by customer class,
 56 assuming an equalized RORB of 9.436% for each class, is summarized below:

Gas Service Classification	Gas Revenue Deficiency \$(000)
GDS-1 Residential Delivery Service	\$28,559
GDS-2 Small General Delivery Service	\$9,314
GDS-3 Intermediate Delivery Service	\$4,768
GDS-4 Large General Delivery Service	\$7,688
GDS-5 Seasonal Gas Delivery Service	\$364

57 **Q. Please summarize AIC's proposed revenues with respect to present revenues**
 58 **for its gas service classes after your rate increase mitigation constraints have been**
 59 **applied to the gas ECOSS results.**

60 A. Listed below are the proposed revenues and the amounts of rate increase by rate
 61 class after application of the rate increase mitigation constraints to the gas ECOSS
 62 results, discussed later in testimony, as compared to present revenues for each customer
 63 class.

Gas Service Classification	Revenue in \$(000)		
	Proposed	Present	Increase
GDS-1 Residential Delivery Service	\$238,192	\$206,408	\$31,784
GDS-2 Small General Delivery Service	\$ 62,525	\$ 52,392	\$10,133
GDS-3 Intermediate Delivery Service	\$ 16,654	\$ 13,223	\$ 3,431
GDS-4 Large General Delivery Service	\$ 24,029	\$ 19,078	\$ 4,951
GDS-5 Seasonal Gas Delivery Service	\$ 2,327	\$ 1,933	\$ 394
Total Company			\$ 50,693

64 **Q. Will you be sponsoring any exhibits with your direct testimony?**

65 A. Yes. I am sponsoring the following exhibits:

- 66 • Ameren Exhibit 13.1G - AIC Gas ECOSS Summary - Rate Base, Expenses
- 67 and Rates of Return
- 68 • Ameren Exhibit 13.2G - Summary of Unbundled Cost of Service Results
- 69 at Present and Proposed Returns

- 70 • Ameren Exhibit 13.3G - Tabulation of External Allocation Factors relating
- 71 to Class Cost of Service
- 72 • Ameren Exhibit 13.4G - Existing Rate Structure Comparison
- 73 • Ameren Exhibit 13.5G - AIC Gas ECOSS Summary Results – Current and
- 74 Proposed Rates of Return and Per Therm Rates with Constrained Revenue
- 75 Targets
- 76 • Ameren Exhibit 13.6G - Development of Proposed Revenue Targets
- 77 • Ameren Exhibit 13.7G - Development of Proposed Rate Design
- 78 • Ameren Exhibit 13.8G - Gas ECOSS Results Based on Proposed Rates and
- 79 Revenue Levels
- 80 • Ameren Exhibit 13.9G - Summary of Present and Proposed Revenue
- 81 Increases on Base and Total Revenues by Rate Class
- 82 • Ameren Exhibit 13.10G - Comparison of Present and Proposed Rate
- 83 Structure
- 84 • Ameren Exhibit 13.11G – Residential Bill Impact Comparisons at Various
- 85 Usage Levels
- 86 • Ameren Exhibit 13.12G – Evaluation of GDS-4 Customers

87 **Q. Are you sponsoring any of the Commission’s Part 285 Standard Information**
88 **Requirements in this filing?**

89 A. Yes, I am sponsoring Part 285 Schedule E-6 – Embedded Cost of Service Study
90 results. Additionally, I am sponsoring Schedule E-4 – Billing Units and Schedule E-5
91 Jurisdictional Operating Revenue. In conjunction with this filing, bill comparisons for
92 each rate were prepared and presented in Part 285 Schedule E-9 along with bill frequency
93 information presented in Schedule E-8. Since proposed base rates were designed without
94 any gas cost, it was necessary to include gas cost estimates in order to make more
95 meaningful bill comparison and customer impact determinations.

96 **II. AIC GAS COST OF SERVICE STUDY**

97 **Q. What is the purpose of AIC's gas ECOSS?**

98 A. The cost to serve the customers of any utility consists generally of net plant
99 investment, operating expenses, other taxes and income taxes for a given test year. The
100 unique cost to serve customers in the various service classifications is less apparent.

101 Costs can vary significantly between customer classes depending upon the nature of their
102 demands upon the system and the facilities required to serve them. The purpose of an
103 ECOSS is to assign each relevant component of overall costs to determine the appropriate
104 cost to serve AIC's respective customer rate classes. The final result of the gas ECOSS
105 study is essentially a cost matrix displaying, by cost category, the detailed costs of
106 serving each customer class. Detailed results from the gas ECOSS are included AIC's
107 Schedule E-6 as previously discussed.

108 **Q. Please describe the procedures used to prepare the gas ECOSS?**

109 A. Through the application of a model developed by Management Applications
110 Consulting specifically for Ameren Illinois, it was possible to address each element of
111 rate base, revenue and operating expense in detail and to assign or allocate each element
112 to customer classes.

113 **Q. How does AIC's cost model operate?**

114 A. As mentioned above, the cost model is essentially a matrix of cost information.
115 The model's vertical rows consist of the detailed costs to serve as provided by the utility.
116 The horizontal columns of the model can consist of either customer rate classes or cost
117 functions depending on the sheet tab viewed. The development of the cost of service
118 study begins with rate base items then continues on with revenues, expenses, taxes and
119 the development of the labor allocator as provided by Ameren witness Mr. Stafford. The
120 cost model continues by reflecting three separate reports: summary of costs to serve each
121 customer class, revenue requirement by customer class, and a list of allocation factors
122 employed in the study. Gas ECOSS results were based on total AIC customer class costs.

123 **Q. What are the steps in preparing a class cost of service study?**

124 A. A class cost of service study involves three separate steps: functionalization,
125 classification and allocation. Functionalization relates to the assignment of rate base and
126 expenses to cost functions; i.e., transmission or distribution. In classification, rate base
127 and expenses are classified into energy, demand or customer related. Allocation involves
128 the assignment of rate base and expenses by customer rate class.

129 **Q. How did you choose allocation factors for the gas ECOSS?**

130 A. The process of selecting allocation factors takes several steps. The first step in
131 assigning or allocating costs to customer classes is to review the rate base, revenue,
132 expense or tax item to determine if the item has a direct relationship to a specific
133 customer class. If so, then this is directly assigned to an individual customer class. The
134 second step is for items that cannot be directly assigned; as such, additional analyses
135 must be performed to determine the intended use of the specific plant investment or
136 expense and then assign the costs based on the identified use of these items in the test
137 year. This step requires the development of external allocators which serve for the basis
138 of cost assignment. For example, number of bills produced for each customer class in the
139 test year can be used to allocate costs associated with this function. The final step of cost
140 assignment entails using internal allocators developed within the cost model itself. This
141 involves selecting combinations of cost elements previously developed in the cost model
142 to assign remaining costs appropriately. For example, real estate taxes are allocated to
143 the customer classes based upon the relationship of plant in service previously assigned
144 or allocated to the customer classes. The combination of the three above steps establishes

145 assignment of the rate base, operating expenses and taxes to the various customer rate
146 classes.

147 **Q. Please describe generally the allocation of rate base items to customer classes.**

148 A. Rate base consists of Plant in Service, Accumulated Depreciation, and various
149 adjustments including but not limited to Current Gas Stored Underground, Working
150 Capital and Deferred Income Taxes. Plant in Service accounts are defined by 3-digit
151 numbers as specified in the Uniform System of Accounts and is functionalized into
152 Intangible, Production, Natural Gas Storage and Processing, Transmission, Distribution
153 and General Plant. Intangible and General Plant accounts are allocated to the other
154 functional classes based upon an internally developed labor allocator. Accumulated
155 Depreciation is allocated based upon its relationship to the Plant in Service accounts.
156 Rate base adjustments were reviewed to determine the relationship to other
157 functionalized accounts; i.e., Deferred Income Taxes or Customer Deposits.

158 **Q. Please describe how you allocated the various components of AIC's plant in
159 service.**

160 A. AIC's gas Plant in Service was allocated in the following ways:

- 161 • Intangible and General Plant: These accounts were allocated based on the
162 relationship of labor allocated to the customer rate classes.
- 163 • Production Plant: This account was assigned to sales customers only using
164 a Design Day allocation factor recognizing that the sizing of production
165 plant is based on the need to provide peaking supplies on a peaking day.
- 166 • Underground Storage Plant: Underground storage facilities were
167 segregated into the portion that supports the delivery function applicable to
168 sales customers and to transportation customers. The allocation between
169 sales and transportation customers is based upon the "Equitable Method" as
170 described by Ameren witness Mr. Timothy Eggers. The sales portion was
171 then allocated to customer classes based on their respective Design Day

172 demands and four-month winter season use; whereas, the transportation
173 portion was allocated to customer classes based upon demands.

- 174 • Transmission Plant: Transmission plant was allocated to each customer
175 rate class based on a combined Design Day and Average allocator.

- 176 • Distribution Plant: Distribution related plant accounts were first segregated
177 into high pressure (>60#) and low pressure (<60#) based upon usage and
178 MDCQ demands. After this was completed, the costs were assigned to the
179 customer classes on the basis of the allocators DEMDHP and DEMDLP.
180 Both of these allocators were externally developed and have been applied
181 to the following distribution accounts: Land and Land Rights, Structures
182 and Improvements, Compressor Station Equipment, Mains, and Measuring
183 and Regulating Station Equipment. These two external allocators were
184 developed using a combined Design Day and Average method by customer
185 rate class – the ratio of two factors: the average daily class demand
186 (normalized annual sales for the class delivered through the distribution
187 system divided by the 366 days in the test year) and the customer class’
188 Design Day. This combined allocator assigns costs to each customer class
189 to recognize that a portion of the delivery systems are required throughout
190 the year and that a much higher capability or throughput is required on a
191 design day.

- 192 • Customer-related Plant: Customer-related plant includes Services, Meters,
193 House Regulators and Industrial Measuring and Regulating Station
194 Equipment. The allocator factors for these plant accounts are all based
195 upon external analyses relating to the actual installed facilities by customer
196 rate class. For example, meter types currently installed by customer rate
197 class were extracted from our billing system. The current cost associated
198 with each meter type was used to derive the total current cost of meter
199 investment for each respective rate class which was then used to allocate
200 historical plant balances among the customer classes. See Ameren Exhibit
201 13.3G for a listing of externally developed allocators.

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

203 A. Each account of the reserves was allocated based on the corresponding allocated
204 costs of its respective plant account.

205 **Q. What other elements of rate base were allocated?**

206 A. Other elements of rate base were allocated in the following ways:

- 207 • Material and Supplies: This rate base adjustment was allocated based upon
208 the relationship of transmission and distribution plant.
- 209 • Gas in Storage: This represents the current inventory in storage and was
210 allocated based upon the associated plant account.
- 211 • Cash Working Capital: Cash Working Capital was allocated based upon
212 the relationship of total plant.
- 213 • Customers Deposits: This account was allocated based upon the
214 company's billing system records by tariffed rate class reflecting deposits
215 held.
- 216 • Customer Contributions: This account was allocated to customer classes
217 on the basis of base rate revenue.
- 218 • Accumulated Deferred Income Taxes: Accumulated Deferred Income
219 Taxes were allocated based upon total plant.

220 **Q. Please describe the allocation of AIC's operating revenues.**

221 A. Operating revenues were developed by taking the forecasted test year billing units
222 multiplied by the current tariffed rates in effect for Ameren Illinois' three rate zones.
223 Special contract revenues were allocated to classes using the storage, transmission and
224 distribution plant allocations so that these revenues would offset the costs allocated to
225 those customers. Other operating revenues, which include late payment revenues, rents,
226 and miscellaneous service revenues, were reviewed to determine the most appropriate
227 allocation basis to assign to the customer classes. Late payment revenues (FERC
228 Account 487) were assigned to customer classes based upon billing system records for
229 the class which generated such revenues. Rents and miscellaneous services were
230 allocated to customer classes based on number of customers per customer class.

231 **Q. Please describe the allocation of AIC's expense items.**

232 A. AIC's expense items were allocated as follows:

- 233 • Production Expenses, Underground Storage Expenses, Transmission
234 Expenses, and Distribution Expenses generally follow the Plant in Service
235 accounts to which they relate.
- 236 • Customer Accounts, Customer Service, Sales, and Administrative and
237 General Expenses have been allocated using a variety of methods based on
238 direct assignments, revenues, sales, gas costs, number of customers and
239 number of bills.
- 240 • Depreciation and Amortization Expenses are allocated based upon their
241 relationship to the Plant in Service account generating this expense.
- 242 • Taxes Other Than Income Taxes include payroll tax expense which has
243 been allocated based on labor along with real estate, franchise, use and
244 invested capital tax which have been allocated on plant.
- 245 • State and Federal Income Taxes and Interest Deductions were computed
246 for each customer class based on the overall rate of return and allocated
247 rate base.

248 **Q. Please summarize the results of the gas ECOSS at present class revenue**
249 **levels.**

250 A. Ameren Exhibit 13.1G presents the results of present revenues by customer class.
251 In summary, this exhibit reflects that detailed rate base items, operating revenues and
252 detailed expenses by customer rate class along with the present rates of return of each
253 class. This exhibit also reflects the rates of return for each class under proposed
254 revenues.

255 **Q. Has AIC prepared any unbundled cost of service studies?**

256 A. Yes. Ameren Exhibit 13.2G presents a summary of functional unbundled costs to
257 serve the customer rate classifications. The functional unbundled costs are the starting
258 point to develop rate design as discussed next.

259 **III. RATE DESIGN ANALYSIS - GAS**

260 **Q. Now that the former legacy utilities have been reorganized and merged into**
261 **one utility, how are AIC's tariffs structured?**

262 A. Shortly after the effective date, on October 4, 2010, AIC filed to replace its
263 existing rate schedules for the legacy utilities with one set of tariffs for AIC's electric and
264 gas businesses. On November 4, 2010, the Commission entered Do Not Suspend Orders,
265 allowing AIC's proposed single tariff book to take effect on November 19, 2010. AIC
266 now operates under a single tariff schedule, although prices currently differ by rate zone
267 as reflected on Ameren Exhibit 13.4G.

268 **Q. What is the basic rate structure proposed for delivery service pricing in this**
269 **proceeding?**

270 A. The availability criteria for each of AIC's rates is consistent among each of the
271 rate zones. AIC is proposing to maintain the same rate availability structure. The pricing
272 structure within GDS-1, GDS-3, and GDS-5 is also consistent among the three rate zones,
273 and is proposed to remain so. The pricing structure for GDS-2 is slightly different for
274 Rate Zone III than it is for Rates Zones I and II. AIC proposes to conform the pricing
275 structure for GDS-2 for Rate Zone III to that of Rate Zones I and II. Similarly, the
276 pricing structure for GDS-4 differs for Rate Zone I, whereas GDS-4 for Rate Zones II and
277 III have similar rate structures as far as demand charges. AIC proposes to conform the
278 pricing structure of GDS-4 for Rate Zone I to that used for Rate Zones II and III
279 regarding demand charges.

280 **Q. What were some of AIC's goals and objectives in the development and design**
281 **of gas delivery service rates?**

282 A. The principal rate design objective used for development of tariff pricing is to
283 develop customer class rates that are cost-based and eliminate inter- and intra-class
284 subsidies. AIC, however, also recognizes that it needs to be mindful of bill impacts to
285 customer classes to avoid rate shock. Further, AIC must balance rate continuity and
286 stability with movement towards rate uniformity across the rate zones, in particular with
287 respect to the proposed changes to the GDS-2 and GDS-4 rate structures.

288 Additionally, Ameren Illinois was cognizant of the directives made by the
289 Commission in ICC Docket Nos. 09-0306 et al. (cons.) and incorporated changes into its
290 cost allocation and rate design development where appropriate. For example, as
291 discussed by Ameren witness Mr. Eggers, gas banking workshops were held in the latter
292 part of 2010. As a result of that initiative, I have modified our prior allocation of
293 underground gas storage costs. For rate design, the Commission also directed AIC to
294 evaluate Rate Zone II's GDS-4 rate structure, which is discussed later in my testimony.

295 **Q. In AIC's last rate case, the Commission stated that "continued movement**
296 **toward cost-based rates and the elimination of inter- and intra-class subsidies**
297 **should be considered a priority in AIU's next rate filing." Order, Docket No. 09-**
298 **0306, p. 260. How do AIC's proposed gas rates accomplish that goal?**

299 A. The AIC proposed revenue allocation and rate design attempts to balance the
300 desire to move toward cost-based class rates uniform across rate zones by mitigating
301 excessive customer bill impacts. The AIC revenue allocation constrains movement to
302 full class cost of service for any one class. The percentage revenue increase for any one
303 class is limited to 1.5 times the overall percentage revenue increase for AIC gas. Further,
304 percentage revenue increases for an individual class within each rate zone are also limited

305 to 1.25 times the percentage revenue increase for the whole AIC class. The application
306 of these two constraints allows for movement toward costs based rates overall and by
307 Rate Zone.

308 **Q. Has AIC proposed uniform delivery services prices across rate zones by**
309 **customer class?**

310 A. No, AIC is not proposing uniform pricing in this proceeding; however, AIC has
311 made appropriate movement toward pricing uniformity. For example, Customer Charges
312 for Rate Zone I's GDS-4 customer class are much lower than the two other rate zones; as
313 such, these prices were moved closer to those rate zones. It is one of AIC's goals to
314 eventually eliminate pricing differences among Rate Zones, consistent with the
315 Commission's directive that AIC have uniform customer class rates wherever possible.

316 **A. Revenue Allocation and Mitigation**

317 **Q. How does AIC propose to recover the gas revenue requirement from each**
318 **customer class?**

319 A. AIC is proposing to move toward the cost based directive of the Commission by
320 recovering each customer class' revenue requirement assuming an equalized rate of
321 return as determined by the gas ECOSS.

322 **Q. How did you establish class revenue targets?**

323 A. The AIC revenue allocation approach constrains movement to full class cost of
324 service for any one class 1.50 times the overall average rate increase. Further, rate
325 increases within each rate zone were also constrained to 1.25 times the increase allocated
326 to an AIC class. The application of revenue constraints will allow AIC to move toward

327 price uniformity of the three rate zones over time, while limiting impacts on customers'
328 bills. Ameren Exhibit 13.6G reflects the increases by customer class for each rate zone
329 using the revenue constraints discussed above.

330 **B. Rate Design**

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

332 A. Once the constrained revenue targets by rate zone by GDS class were established,
333 I adjusted tariff prices in order to achieve total proposed revenues that aligned to the
334 constrained revenue targets. My rate design calculations are provided in Ameren Exhibit
335 13.7G.

336 **Q. Please briefly describe your proposed price changes to GDS-1 rates and**
337 **charges.**

338 A. GDS-1 rate structure is unchanged from what is currently in effect. The Customer
339 Charge for GDS-1 (and GDS-2) has been set to recover 80% of the class revenue
340 requirement, consistent with the Commission directive in Docket Nos. 07-0585 (cons.).
341 The Distribution Delivery Charge recovers the remaining allocated revenue requirement
342 presented in Ameren Exhibit 13.6G. Ameren Exhibit 13.10G provides a comparison of
343 present and proposed prices. Additionally, as reflected on Ameren Exhibit 13.11G, I
344 provide residential bill impacts by Rate Zone at various usage levels. The average
345 residential customer using approximately 785 therms per year are proposed to receive
346 total bill increases ranging from 2.6%, or \$1.88/month, for Rate Zone I to 7.1%, or
347 \$4.53/month, for Rate Zone II.

348 **Q. Please briefly describe your proposed price changes to GDS-2 rates and**
349 **charges.**

350 A. AIC is proposing to conform the GDS-2 Customer Charge rate structure for Rate
351 Zone III to that of Rate Zones I and II . Currently, Rate Zones I and II have two
352 Customer Charges – one for Customers that use less than or equal to 600 therms per year
353 and a second for Customers who use more than 600 therms per year. Conversely, Rate
354 Zone III has one Customer Charge, regardless of annual use. Rate Zone III is proposed to
355 also have application of the Customer Charge determined based on annual use,
356 conforming to Rate Zones I and II which reflects the 600 therm split.

357 **Q. Please briefly describe your proposed price changes to GDS-3 rates and**
358 **charges.**

359 A. GDS-3 rate structure is unchanged from what is currently in effect; however, rates
360 and charges were adjusted to recover the revenue allocation targets presented in Ameren
361 Exhibit 13.6G. Ameren Exhibit 13.10G provides a comparison of present and proposed
362 prices.

363 **Q. Please briefly describe your proposed price changes to GDS-4 rates and**
364 **charges.**

365 A. AIC is proposing the following changes to GDS-4 rates and charges:

- 366
- 367 • Customer Charges: AIC is proposing the same Customer Charges structure
368 across all Rate Zones. Specifically, the Customer Charges will be based on
369 MDCQ, and not usage. Previously, Rate Zones I and III were based on
370 average daily usage, and Rate Zone II was based on annual usage.
 - 371 • Sales and Transportation Volumetric Charges: The volumetric charge for
372 Rider S customers as presently in effect for Rate Zones II and III is now
373 being proposed for Rate Zone I such that a single rate will be charged for
374 these therms regardless of the pressure that the customer is being served.

375 The Rider T volumetric delivery charge for Rate Zone I will no longer be
376 differentiated by pressure which is consistent with Rate Zone II.

377 • Demand Charges: Rate Zone II and III's present rate structure for Demand
378 Charges will remain unchanged. Rate Zone I now has the necessary
379 metering equipment installed to record demands; as such, Demand Charges
380 will now be based upon the same structure as Rate Zone III.

381 • Overrun Charges: Present rate structure for Rate Zones II and III will be
382 unchanged with Rate Zone I now conforming to Rate Zone III's rate
383 structure.

384 **Q. Please briefly describe your proposed price changes to GDS-5 rates and**
385 **charges.**

386 A. GDS-5 rate structure is unchanged from what is current in effective; however,
387 rates and charges adjusted to recover the increased costs to serve this class with the basis
388 being the revenue constraints as previously discussed.

389 **Q. How did you verify that the proposed rates generate the delivery service**
390 **requirements you established?**

391 A. Once rates and prices were established by customer class, they were multiplied by
392 the respective billing determinants; i.e., number of bills, therms, and demand to derive
393 proposed revenues by customer class which were then compared back to the customer
394 class revenue constraint reflected in Ameren Exhibit 13.6G.

395 **Q. What are the calculated rates of return that would be produced for each**
396 **customer class using your proposed rates?**

397 A. The proposed rates of return calculated by GDS rate class are provided on
398 Ameren Exhibit 13.1G.

399 **IV. BILLING UNITS**

400 **Q. Please provide an overview of the gas billing units filed under the Part 285**
401 **filing requirements.**

402 A. The gas billing units comprise the billed usage of AIC's customers as presented
403 by rate classification. The billing units assume normal weather given they are forecasted.
404 The development of the forecasted billing units also included reductions in usage due to
405 projections relating to energy efficiency programs, reclassification of expired special
406 contracts to appropriate tariff rates and customer load reductions due to operational
407 changes.

408 **V. TARIFF CHANGES**

409 **Q. Please describe the processes by which AIC's gas tariffs were reviewed and**
410 **proposed to be modified for this filing.**

411 A. GDS-1 through GDS-5's gas tariffs were reviewed to ensure provisions were
412 updated to reflect any operational changes being proposed. Once rates were determined
413 in the rate design analysis, rates within the tariffs were updated accordingly. In
414 proposing modifications to its gas tariffs, AIC ensures that operational changes are
415 properly reflected in rates and tariff language was amended to match any proposed
416 adjustments to AIC's riders and any updates to the rates within each tariff. As part of my
417 rate design, I have determined the affect on various rates which will change once Rider
418 TBS becomes operational. Specifically, costs associated with Rider TBS were pulled out
419 of transportation-related rates for GDS-2, GDS-3, GDS-4, and GDS-5 which lower the
420 proposed tariffed rates. For example, the Rider TBS associated costs allocated to GDS-5

421 will result in lower Delivery Charge for customers taking this service. These rate
422 calculations are provided on Ameren Exhibit 13.7G.

423 **Q. Please explain the proposed changes to the tariffs for GDS-1.**

424 A. The only proposed change to the GDS-1 tariff reflects the updated rates as a result
425 of the proposed increase in the revenue requirement. Ameren Exhibit 13.7G reflects the
426 development of the proposed customer class charges and rates for all customer classes.
427 For GDS-1, the determined constrained revenues by rate zone were split into a Customer
428 Charge and Delivery Charge. The individual rate zones' related Customer Charge
429 revenues were then divided by rate zone bills to derive the proposed monthly Customer
430 Charge. The residual Delivery Charge revenue for each rate zone was then divided by
431 the annual therms to derive the per unit Delivery Charge.

432 **Q. Please explain the proposed changes to the tariffs for GDS-2.**

433 A. The only proposed changes to the GDS-2 tariffs are (i) to conform the rate
434 structure of Rate Zone III to Rate Zones I and II to a 600 meter split; and (ii) to reflect the
435 updated rates as a result of the proposed increase in revenue requirement. As with GDS-
436 1, the Customer Charge revenue amounts by rate zone were determined. Customer
437 Charges for Rate Zone I and Rate Zone II's ≥ 600 therms per year were escalated
438 upward based on the percentage increase resulting from the revenue constraint. Since
439 Rate Zone III currently only has one customer charge, a base price of \$40 was determined
440 based on the level of Rate Zone I and Rate Zone II's ≤ 600 therm per year Customer
441 Charges, and then escalated upward by the percentage increase for this Rate Zone. The
442 residual Customer Charge revenues were divided by the number of bills with usage over
443 600 therms per year. The Delivery Charge revenue for each rate zone was then

444 compared to present Delivery Charge revenues to determine a percentage increase for
445 each rate zone. This percentage was then applied to current Rider S and Rider T Delivery
446 Charge rates to determine the proposed rates.

447 **Q. Please explain the proposed changes to the tariffs for GDS-3.**

448 A. AIC is not proposing any tariff charge changes to the GDS-3 tariff other than to
449 adjust prices to reflect current cost. The monthly Customer Charges and two Delivery
450 Charges for Rider S and Rider T were increased based on the percent increase determined
451 in the revenue constrained revenue determination presented in Ameren Exhibit 13.6G.

452 **Q. Please explain the proposed changes to the tariffs for GDS-4.**

453 A. AIC is proposing that customer charges for all rate zones be based on MDCQ.
454 Also, for Rate Zone I, delivery charges for both Rider S and Rider T customers will no
455 longer be distinguished by pressure. Finally, demand charges for Rate Zone I have been
456 added and will be distinguished by operating pressure for both Rider S and Rider T
457 customers. The approach to rate design for the GDS-4 customer class was developed as a
458 step toward rate structure uniformity as provided in Ameren Exhibit 13.7G.

459 **Q. In Docket 09-0306 - 03-0311 (Cons.), page 264, AIC was ordered to evaluate**
460 **whether special pricing provisions should be extended to customers with annual**
461 **usage over 2 million therms in Rate Zones I and III. What are the results of that**
462 **analysis?**

463 A. Ameren Illinois has evaluated the directive in the Commission order regarding
464 Rate Zone II's separate pricing provision for usage in excess of 2 million therms. AIC
465 believes that customer demand provides a superior price signal versus customer delivery

466 volumes for such GDS-4 customers as demand matches the criteria used to plan and
467 design facilities serving customers; not throughput. As such, in the movement toward
468 rate uniformity, AIC would like to migrate toward one uniform demand charge versus
469 two as currently in place for Rate Zone III, as bill impacts prohibit this from occurring in
470 this rate proceeding.

471 The results of our evaluation of the GDS-4 customers are presented in Ameren
472 Exhibit 13.12G, which reflects a sample size of 40 GDS-4 customers. In aggregate, all
473 three rate zones serve approximately 50 customers with annual usage over 2 million
474 therms, out of a GDS-4 customer base of approximately 440, representing slightly over
475 10% of the class. Amounts of usage vary greatly for customers served under GDS-4
476 along with varying MDCQs and load factors. One customer, an ethanol plant, has 35
477 million annual therms with a 98% load factor based on a MDCQ of 99,160. Conversely,
478 another customer reflects usage of 2.8 million therms, with a monthly MDCQ of 10,740
479 and a load factor of 71% as compared to a customer with 5,260 annual therms, a monthly
480 MDCQ of 57,000, and a load factor of 0.03%. Another customer, a power plant, has
481 annual therm usage of 2.6 million therms, an MDCQ of 250,000, and a load factor of 3%.
482 As I have pointed out, the results from the study vary greatly and do not support a reason
483 to design rates with a 2 million therms designation.

484 **Q. What is the benefit to customers as a result of these changes to the GDS-4**
485 **tariffs?**

486 A. Demand charges better capture the recovery of fixed costs of the plant facilities
487 installed that provide service to the customers than charges based on usage. Rate Zone I
488 now has now installed the necessary metering equipment to record demands and bill

489 accordingly which will allow movement in uniformity with the other two rate zones;
490 however, total conformity to Rate Zone III's rate structure cannot occur in one rate
491 proceeding. As such, we are proposing both delivery and demand charges as a step
492 toward demand charges for Rider T customers in Rate Zone I. After analysis of Rate
493 Zone II's rate structure, it was determined that AIC could not yet conform the delivery
494 and demand rates to that of Rate Zone III's given customer bill impacts. AIC will
495 continue to re-evaluate the rate structure for Rate Zone II in future rate filings. Finally,
496 the change in the Customer Charge more appropriately captures the recovery of the fixed
497 costs installed to serve these customers as it is now based on MDCQ; not average daily
498 usage.

499 **Q. Why is a demand based rate a better measure than a volumetric based rate?**

500 A. The demand based rate aligns prices closer to the basis for how the facilities are
501 designed to service the customer. Specifically, the engineering planning criteria used to
502 evaluate service adequacy is a customer's Maximum Daily Quantity (MDQ), peak hourly
503 demand, and operating pressure. Indeed, when a new customer requests service (or
504 existing customer requests expansion of service), they are asked to provide estimated
505 MDQ, peak hourly demand, and operating pressure; not throughput. The MDQ and peak
506 hourly demand are what drives the facilities required to serve customers. Annual
507 throughput, on the other hand, is a poor indicator of cost causation. For instance, a large
508 grain drying customer with seasonal load might not use two million therms in a year;
509 however, the facilities that are installed must be sized in order to handle those demands
510 during the month that peak usage does occur. Likewise, power plants utilize only when
511 the need occurs at various times throughout the year; however, again, facilities are

512 designed to supply the demand they may require; not the volume taken on an annual
513 basis.

514 **Q. What is AIC's rate structure for large volume electric use customer?**

515 A. AIC's DS-4 – Large General Delivery Service does not have rates based upon
516 kilowatt-hour sold. Conversely, the Distribution Delivery Charge is on a per kW billing
517 demand basis. Again, demand is a better indicator of the facilities required to serve
518 customers.

519 **Q. Please explain the proposed changes to the tariffs for GDS-5.**

520 A. Ameren Illinois is not proposing any tariff charge changes to the GDS-5 tariff
521 other than to adjust prices to reflect current cost, as with the changes to GDS-3.
522 Specifically, the monthly Customer Charges and two Delivery Charges for Rider S and
523 Rider T were increased based on the percent increase determined in the revenue
524 constrained revenue determination as reflected in Ameren Exhibit 13.6G.

525 **Q. Is AIC proposing any changes to its gas Customer Terms and Conditions?**

526 A. Yes. Our current tariffs make numerous references to customer use of gas during
527 a “day” and billing using “daily” usage data. “Day” is not a defined term and its
528 application creates some confusion with customers and with Company coworkers who
529 administer gas tariffs. The confusion centers on the common understanding of the
530 calendar “day” that starts at midnight as opposed to the gas industry standard of a “day”
531 that runs from 9:00 a.m. and ends the subsequent day at 8:59 a.m.

532 To minimize confusion over the time period covered by a “day,” AIC proposes to
533 add the following as item L. under the Miscellaneous General Provisions section of the

534 gas Customer Terms and Conditions, Sheet 3.029 as filed in Part 285 Schedules E-1 and
535 E-2:

536 The Company shall utilize the time from 9:00 a.m. of one day to 9:00 a.m. of the
537 next day as a base period to determine customer's daily natural gas usage,
538 nominations and deliveries.

539 This change is reflected in our gas Customer Terms and Conditions which is filed in Part
540 285 Schedules E-1 and E-2.

541 **Q. Are there other gas tariff changes being proposed by AIC?**

542 A. Yes. AIC is proposing to implement a single PGA, as discussed by Ameren
543 witness Ms. Seckler, and to implement certain transportation banking provisions through
544 Rider T, Rider S, and Rider TBS, as discussed by Ameren witness Mr. Eggers.

545 **Q. Are there other gas tariff changes necessary to implement AIC's proposed
546 combined PGA and proposed transportation banking provisions?**

547 A. Yes. There are several changes that will need to be made in our gas delivery
548 service tariffs if the Commission approves AIC's proposals to combine the PGA and
549 implement Rider TBS - Transportation Banking Service. These changes primarily reflect
550 revisions to timeframes and deadlines, and they maintain for customers an orderly and
551 sequential progression of information and commitments.

552 **Q. Please identify the additional tariff changes necessary to implement AIC's
553 proposed changes to Riders TBS and T.**

554 A. The "Delivery Service Rate Reassignment" provisions of GDS-2 (Sheet 12),
555 GDS-3 (Sheet 13), and GDS-4 (Sheet 14) will need to be changed to better coordinate the
556 period for usage review and tariff reassignment with the timeframes proposed in Rider

557 TBS and Rider T. Currently, the usage review period covers the 12 monthly billing
558 periods beginning in March and ending in February. Customers whose tariff
559 classification changes as a result of their usage are notified of the reassignment in March,
560 and the change is effective on August 1. Under the current provisions of Rider T,
561 customers who are changing their supply source are required to notify the company of
562 their intention to switch prior to April 1, and the effective date for the supply source
563 change is also August 1. The consistency in the effective dates for both the tariff
564 classification and supply source implementation has shown to be desirable from both
565 customer and rate administration perspectives.

566 **Q. Please identify the additional tariff changes necessary to implement the**
567 **proposed combined PGA.**

568 A. To implement the proposed combined PGA, tariffs GDS-4 and GDS-5 will need
569 to be modified. GDS-5 will require a modification in the “Gas Supply Charge”
570 component of the tariff on Sheet 15.002 to delete the unique calculation methodology for
571 customers in Rate Zone I. However, since the implementation of the combined PGA
572 cannot occur immediately upon the issuance of a Commission order in this proceeding,
573 the proposed deletion of the unique Gas Supply Charge methodology for Rate Zone I
574 customers will need to be delayed until the combined PGA goes into effect. The GDS-5
575 tariff modifications needed to implement the uniform Gas Supply Charge methodology in
576 a timeframe consistent with the implementation of a combined PGA is shown in Part 285
577 – Schedules E-1 and E-2. In addition, the Company proposes to correct a typographical
578 error in GDS-5, Sheet 15.003, in the Definition of Winter Demand. The word “Day” is

579 currently capitalized, denoting that it is a defined term. “Day” is not a defined term, and
580 the company proposes to change its spelling to all lower case letters.

581 To implement the combined PGA in tariff GDS-4, changes will be required in the
582 following sections:

- 583 • Availability (Sheet 14);
- 584 • Monthly Charges - Distribution Delivery Charge (Sheet 14.002);
- 585 • Monthly Charges - Demand Charge (14.002 and 14.003);
- 586 • Monthly Charges - MDCQ Overrun Charge (Sheet 14.004);
- 587 • Monthly Charges - Gas Supply Charge (Sheet 14.005); and
- 588 • Terms and Conditions (Sheet 14.006).

589 These proposed changes are included in Part 285 – Schedules E-1 and E-2

590 **Q. Do you have any further comments regarding AIC's billing of the proposed**
591 **combined PGA charge?**

592 A. Previously, because tariffs for large gas customers at the legacy AmerenCIPS did
593 not include a demand component, Ameren Illinois did not have interval meters installed
594 at these customer locations. The lack of interval meter information prevented the
595 Company from applying a uniform billing methodology to GDS-4 customers in Docket
596 09-0306 et.al.

597 Subsequent to the order in Dockets Nos. 09-0306 et al. (cons.), Ameren Illinois
598 installed interval meters at GDS-4 customer locations in Rate Zone I. The availability of
599 demand data from these customer locations now allows Ameren Illinois to further
600 implement a uniform billing methodology for all GDS-4 customers and has been factored
601 into our proposed rate design. Again, though, the timeframe associated with the

602 implementation of a combined PGA delays the implementation of the uniform
 603 methodology until a date subsequent to the anticipated date for an order in this
 604 proceeding. These proposed changes are included in Part 285 – Schedules E-1 and E-2.

605 **Q. Rider GUA provides for a true-up of uncollectible expense “included in**
 606 **rates” and recorded in FERC Account 904. Have the average uncollectible base**
 607 **rate components “included in rates” been updated under proposed rate levels?**

608 A. Yes. The proposed uncollectibles base rate values considered to be “included in
 609 rates” are as follows:

<u>Delivery Rate</u>	<u>Average Amount per Customer/Mo*</u>
GDS-1	\$0.53
GDS-2	\$0.23
GDS-3	\$1.33
GDS-4	\$1.12
GDS-5	\$0.00

610

611 These values are shown in each GDS rate for informational purposes, considered a subset
 612 of the Customer Charge, and used by the AIC to track the amount of uncollectible
 613 expense is “included in rates” for administration of Rider GUA.

614 **Q. What are the proposed uncollectible factors applicable to PGA rates for each**
 615 **rate class?**

616 A. The uncollectible factors are as follows:

<u>Delivery Rate</u>	<u>Uncollectible Factor</u>
GDS-1	0.02586
GDS-2	0.00285
GDS-3	0.00109
GDS-4	0.00053
GDS-5	0.00000

617 **VI. CONCLUSION**

618 **Q. Does this conclude your direct testimony?**

619 **A. Yes, it does.**

APPENDIX**STATEMENT OF QUALIFICATIONS****KAREN R. ALTHOFF**

My educational background consists of a Bachelor of Science Degree in Accounting from Millikin University. In addition, I am currently taking classes toward a Master of Business Administration degree. I am a Certified Public Accountant and a member of the American Institute of Certified Public Accountants (“CPA”) and the Illinois CPA Society. I began employment with Illinois Power Company upon graduation from Millikin University. I then became an employee of Ameren Corporation upon the acquisition of Illinois Power Company by Ameren in September 2005. Beginning in 2009, I became an employee of AmerenCILCO. I then became an employee of Ameren Illinois on October 1, 2010 upon the merger of the three Ameren Illinois legacy companies.

While employed by Illinois Power Company, my initial position was in the Internal Auditing Department where I performed customer service, power plants and corporate function audits. I then held several positions in the Accounting Department including Accountant, Staff Accountant, Business Leader and Supervisor – Financial Reporting. My duties in the Accounting Department encompassed general accounting activities, reporting to various regulatory bodies and internal management reporting, and accounting for both electric fuel and gas purchases. I also worked in the company’s Finance Department where I was responsible for capital expenditure forecasting. While in Finance, my work experience also included responsibilities for Investor Relations where I would respond to various inquiries of shareholders and financial analysts along with developing financial community presentations.

I then transferred to Illinois Power Company's Rate Department where I have held the positions of Senior Regulatory Specialist, Pricing and Costing Manager and Lead Rate Specialist. My duties and responsibilities relating to the gas and electric rates of Illinois Power have included developing rate analyses, rate design and cost of service studies, development and interpretation of gas and electric tariffs including standard terms and conditions; rules, regulations and conditions; testifying in regulatory proceedings; monitoring the Company's rate of return performance; and other rate or regulatory projects as assigned. Upon the acquisition of Illinois Power Company by Ameren, I continued these responsibilities and also acquired additional responsibilities relating to regulatory filings and support in Ameren's Missouri operating company. In January 2008, I assumed duties solely related to Ameren Illinois regulatory responsibilities.

I have submitted testimony concerning class cost of service before the Illinois Commerce Commission in Docket No. 98-0680 regarding an investigation concerning certain tariff provisions under Section 16-108 of the Public Utilities Act and related issues, Docket Nos. 99-0120 and 99-0134 (Consolidated) regarding approval of the Company's Delivery Services Implementation Plan and Tariffs, Docket No. 01-0432 regarding electric Delivery Service Tariffs, Docket No. 04-0476 regarding embedded class cost of service study for the gas business, and Docket No. 09-0306 – 09-0308 (Consolidated) regarding embedded class cost of service study for the electric business.. In addition, I have presented testimonies on various electric and gas miscellaneous type charges including single bill option credit and other various electric delivery charges (i.e.,

off-cycle switching, Purchase Power Option calculator, etc) along with gas electronic metering equipment fees.