DIRECT TESTIMONY

of

TORSTEN CLAUSEN

Director
Office of Retail Market Development
Illinois Commerce Commission

Ameren Illinois Company d/b/a Ameren Illinois
Proposed General Increase in Electric and Natural Gas rates

Dockets Nos. 11-0279 and 11-0282 (Cons.)

June 29, 2011

Witness Identification

Q. Please state your name and business address.

A. My name is Torsten Clausen. My business address is 160 N. LaSalle Street, Suite C-800, Chicago, Illinois 60601.

Q. By whom are you employed and in what capacity?

A. I am currently employed as the Director of the Office of Retail Market Development ("ORMD") of the Illinois Commerce Commission ("ICC" or "Commission").

Q. Please describe your educational and occupational background.

A. I graduated in 1997 from the University of Giessen, Germany, with a Bachelor of Arts in Business and Economics. In May of 2000, I was awarded a Master of Science degree in Economics from the University of Wyoming. I joined the Staff of the Illinois Commerce Commission ("Staff") in June of 2000 as a Policy Analyst in the Telecommunications Division, where I also worked from October of 2003 until February of 2006. From March of 2002 until October of 2003 and from February of 2006 until February of 2008, I was employed as a Policy Advisor in the Commission's Chairman and Commissioners' Section. Since February of 2008, I have been the Director of the ORMD.

Q. Have you previously testified before any regulatory bodies?

A. Yes. I have testified before the Commission on several occasions.

Q. What is the purpose of your testimony in this proceeding?

A. I have reviewed and analyzed Ameren Illinois Company's ("AIC" or "Company") testimony and related documents. I have also reviewed certain data request ("DR") responses provided by the Company. The purpose of my testimony is to make recommendations regarding AIC's proposed electric supply charges.

Q. Why is the level of supply charges important?

A. Just as tying AIC's delivery service rates to a cost basis is usually a main goal of the Commission[1], the same goal should be applied to AIC's electric supply rates. In addition, unlike the setting of the delivery service rates, the setting of the retail supply rates of the utility have a profound effect on retail customer competition from other providers. While a customer has no alternative when it comes to paying the utility's delivery service rates, customers have a choice of either paying AIC's Basic Generation Service ("BGS") charges (the utility's fixed price bundled electric service) or receiving supply service from a retail electric supplier ("RES"). Generally speaking, if the utility's supply rates are set above cost, a customer is likely to find a retail electric supplier who will offer supply service at a lower price. However, this type of competition might be economically inefficient if the reason the retail electric supplier is able to offer a competitive supply service is because the utility's supply rate is set above cost. Similarly, if the utility's supply rates are set below cost, a customer is unlikely to find a retail electric

[1] Final Order, Docket No. 10-0517, March 15, 2011, p. 21.

supplier who will offer supply service at the same or lower price. However, this lack of competition might be economically inefficient if the reason the retail electric supplier is unable to offer a competitive supply service is because the utility's supply rate is set below cost.

Q. What is the current status of retail competition in the AIC service territories?

A. While the non-residential customer market is certainly seeing sustained competitive activity by RESs, the residential market is experiencing little or no activity. Recent switching statistics show that more than 20% of all non-residential customers are currently receiving supply service from a RES. In terms of customer usage among the three AIC Rate Zones, between 72 and 83% of all non-residential electric consumption is being provided by RESs.[2] However, out of the more than one million AIC residential customers, less than 200 are currently receiving supply service from a RES.

Q. Has the Commission recently addressed this lack of residential competition in the AIC service territories?

A. Yes. In December 2010, the Commission asked the ORMD to provide the Commissioners with an informal report as to the reasons for the apparent lack of supplier activity with respect to residential service in the Ameren Illinois territories.[3] As a result of that directive, the ORMD sent out a request for written comments to the RES community. Eight different suppliers responded to the request for comments and one of the frequently mentioned barriers to entry was

[2] Taken from the April 2011 switching report at http://www.icc.illinois.gov/electricity/switchingstatistics.aspx.
[3] See Attachment to the April 18, 2011 Ex Parte Report filed by Alicia Allen.

the apparent inability of the suppliers to compete against the Ameren Illinois' retail supply rates.[4] One of the responding suppliers stated that it is "convinced that lack of competition in Ameren's service territory is directly tied to a Commission decision authorizing Ameren to subsidize its residential rate structure." It further stated that "the Commission's decision in docket 07-0165 is probably the largest culprit that stopped development of residential competition in Ameren's territory."[5]

Q. How do the current AIC supply rates compare to cost-based rates?

A. The following table shows the current effective residential supply rates (BGS-1 rates) as percentages of cost-based rates. A value above 100% means that the current rate is set above cost and a value below 100% means that the current rate is below cost. The cost-based values for summer and non-summer rates were derived by reviewing the results of the last two procurement events (explained further below).

Table 1:

	Rate Zone I			Rate Zone II	Rate Zone III	
Over/Under Cost for Current Rates	Non-Heat	Space Heat	Metro-east	All customers	Non-Heat	Space Heat
Summer - All kWh	91.86%	91.86%	91.86%	91.39%	91.24%	91.24%
Non-Summer, First 800	119.42%	119.42%	119.42%	118.69%	113.03%	113.03%
Non-Summer, +800 kWh	119.42%	67.71%	39.91%	75.95%	113.03%	37.09%

Q. What does the table above reveal?

[4] *Id.*, p. 2.
[5] *Id.*, p. 5.

A. The table shows that the current rates for non-summer usage below 800kWh, as well as the non-space heat rates for non-summer usage above 800kWh for Rate Zone I and Rate Zone III, are subsidizing the current summer rates for all customers, as well the current rates for most of the non-summer usage above 800kWh. In other words, if judging by cost-basis, the current summer rates and most of the rates for non-summer usage above 800kWh (primarily for space heat customers) are too low, while the non-summer rates for usage below 800kWh are too high. It also shows that the current rate for usage above 800kWh for Rate Zone I Metro East customers and Rate Zone III space heat customers is less than 40% of cost.

Q. What is AIC's proposal with respect to the BGS-1 charges?

A. AIC witness Jones makes the following four proposals:[6]

1. Create uniform summer rates
2. Create uniform non-summer rates for the first 800 kWh
3. Set summer rates at the cost level
4. Slowly reduce the subsidies to the rates for non-summer usage above 800kWh

Q. What is your response to AIC's proposals with respect to the streamlining of the BGS-1 charges?

A. When it comes to the first two proposals, I strongly recommend that the Commission adopt AIC's proposed changes. The ORMD recently completed a detailed explanation of AIC's residential supply rates on the Commission's

[6] Ameren Ex. 13.0E, p. 32-34.

electric choice website, PlugInIllinois.org. While it is challenging to explain the various components of a residential customer's electric bill in simple yet accurate terms, the challenge becomes even greater when there are numerous different supply rates depending on the customer's location or rate classification. Between summer and non-summer rates, there are currently no fewer than ten different levels of the BGS-1 rate among the three rate zones. Moving to a uniform summer rate brings that number down to eight and simultaneously moving to a uniform non-summer rate for the first 800kWh brings it down to five different BGS-1 rates. I agree with AIC witness Jones that both sets of charges are quite similar for all three rate zones. Current summer charges range from $0.05011 for Rate Zone III to $0.05019 for Rate Zone II up to $0.05045 for Rate Zone I. The current non-summer first block charges (first 800kWh) range from $0.05733 for Rate Zone III to $0.06020 for Rate Zone II up to $0.06057 for Rate Zone I. The similarities in the current rate levels provide an additional reason to set those charges at the same level across the three rate zones.

Q. Please explain why the Commission should accept Ameren's proposal to move supply charges toward uniformity when Staff is opposing the Company's efforts to make distribution charges uniform.

A. These two different approaches are justified because two different cost standards are used for delivery and supply charges. When it comes to supply, Ameren is purchasing power for Illinois customers as a whole and therefore costs are uniform. However, delivery costs are shaped by Embedded Cost Of Service Studies ("ECOSS") prepared by rate zone. Staff witness Lazare explains why

Ameren's rate zone ECOSSs are problematic (ICC Staff Ex. 14.0). Those unique problems in the delivery level ECOSSs provide the basis for Staff's differing positions on uniformity for supply and delivery costs.

Q. Please explain AIC's proposals with respect to setting the summer rate at cost levels and slowly reducing the subsidies to the non-summer rates for usage above 800kWh.

A. Unless the Commission sets the rates for the non-summer usage above 800kWh (also referred to as the non-summer tail block rates) at its cost levels or creates new inter-class subsidies, the Commission has to decide which other residential supply rates should be set above cost in order to allow the rates for non-summer usage above 800kWh to be below cost levels. Ameren proposes to keep most of the non-summer tail block rates below cost but to limit the necessary subsidies to the universe of the non-summer rates. Ameren has used 2010 procurement cost data to determine that the cost of supply for service during the summer months is about 105% of the annual average cost of supply and that the cost of supply for service during the non-summer months is about 97% of the annual average cost of supply.[7] The most recent (2011) procurement results show very similar cost data for the summer and non-summer cost of supply service. Using the 105% value for the summer months and the most recent BGS-1 charges (which were not available when AIC filed its direct testimony[8]), Ameren's proposed uniform summer rate would be $0.05492 per kWh for all three rate zones. At that level, the summer rate for all three rate zones would be set at 100% of the cost of

[7] Ameren Ex. 13.0E, p. 33.
[8] Ameren Ex. 13.0E, p. 32-34.

procuring the supply for the summer months. Setting the non-summer rates at the cost level, which is 97% of the annual average cost of supply, would result in a uniform non-summer rate of $0.05072. However, if the Commission wishes to keep the non-summer tail blocks in place and also does not want the summer rate to be set above cost levels, the non-summer rate for the first 800kWh will need to be set above cost. The following table compares Ameren's proposed BGS-1 rates to cost-based rates:

Table 2:

	Rate Zone I			Rate Zone II	Rate Zone III	
Over/Under Cost for AIC's Proposed Rates	Non-Heat	Space Heat	Metro-east	All customers	Non-Heat	Space Heat
Summer - All kWh	100.07%	100.07%	100.07%	100.07%	100.07%	100.07%
Non-Summer, First 800	107.25%	107.25%	107.25%	107.25%	107.25%	107.25%
Non-Summer, +800 kWh	107.25%	75.33%	44.11%	83.59%	107.25%	44.11%

Q. Do you agree with AIC's proposal to keep the non-summer tail blocks in place and to set most of those rates below cost?

A. I agree with AIC to not bring the non-summer tail block rates up to cost-based levels in one single step. Doing so would almost triple some of those rates from one day to the next.

Q. Do you agree with AIC's proposal to set the summer rates at cost?

A. Yes, I agree with AIC to create seasonal prices that are in line with the cost of procuring power for the two separate seasons. Limiting the price distortions (setting rates above or below cost) to the non-summer rates is a worthy objective and sends the correct price signals to customers who are using electricity in the summer. In addition, current non-summer rates for the first 800kWh are substantially above cost (up to 20% above cost; see Table 1 above). By bringing

summer rates up to cost levels, AIC's proposed non-summer rates for the first 800kWh will still be decreasing from its current levels, even when subsidizing the non-summer tail block rates. This means that most high-use non-summer customers (primarily space heat customers) will see an increase in the rate for usage above 800kWh and at the same time a decrease in the rate for the first 800kWh. As a result, any increase in the non-summer tail block rate is buffered by a simultaneous decrease in the rate for the first 800kWh, producing net effects that depend on the customer's overall usage levels.

Q. Do you agree with AIC's proposal to keep some of the non-summer tail block rates at less than 50% of cost?

A. No. While I agree that immediate rate increases to full cost-based levels would likely create "rate shock" for some high-use non-summer customers, I also recommend that the Commission take this opportunity to bring all rates to at least 50% of its cost-based value. The non-summer tail block rate for Rate Zone I Metro East customers is currently at 39.91% of cost and the same rate for Rate Zone III space heat customers is currently at 37.09% of cost. While AIC's proposal would bring both of these rates to 44.11% of cost, I recommend that these rates be set at 50% of cost. Further, the non-summer tail block rate for Rate Zone I space heat customers is currently at 67.71% of cost and the same rate for Rate Zone II customers is currently at 75.95% of cost. While AIC's proposal would bring these rates to 75.33% and 83.59% of cost, respectively, I recommend that these rates be set at 80.84% and 91.09% of cost, respectively. The following table compares my proposed BGS-1 rates to cost-based rates:

Table 3:

Over/Under Cost for my proposed rates	Rate Zone I			Rate Zone II	Rate Zone III	
	Non-Heat	Space Heat	Metro-east	All customers	Non-Heat	Space Heat
Summer - All kWh	100%	100%	100%	100%	100%	100%
Non-Summer, First 800	105.93%	105.93%	105.93%	105.93%	105.93%	105.93%
Non-Summer, +800 kWh	105.93%	80.84%	50%	91.09%	105.93%	50%

Q. What is the net impact on the BGS-1 charges for AIC's proposal as well as your proposal?

A. Both AIC's and my proposal (1) increase the summer rates for all customers, (2) decrease the non-summer rate for the first 800kWh for all customers, (3) increase the non-summer tail block rate for some customers, and (4) decrease the non-summer tail block rate for some customers. In addition, my proposal (1) decreases the non-summer rate for the first 800kWh for all customers more than AIC's proposal, (2) increases the non-summer tail block rate for some customers more than AIC's proposal, and (3) decreases the non-summer tail block rate for some customers more than AIC's proposal. The net impact on any particular customer varies greatly with the customer's level of electric consumption and with the time of year during which such electric consumption occurs. The following tables show the cumulative effect of redesigning the BGS-1 charges under AIC's proposal and under my proposal:

Table 4:

AIC's proposed BGS-1 Charges **% change in annual average price per kWh**	Rate Zone I		Rate Zone II	Rate Zone III	
	Non-Heat	Space Heat	Metro-east	All customers	Non-Heat	Space Heat
2000summer/3000non-summer[9]	-5.50%	3.97%	2.47%	4.16%	-1.37%	6.79%
2000summer/2000non-summer	-3.90%	2.36%	1.30%	2.73%	-0.09%	5.09%
2000summer/1000non-summer	-1.20%	0.20%	-0.05%	0.74%	2.03%	3.14%
1200summer/3000non-summer	-7.10%	3.22%	1.28%	3.39%	-2.65%	6.21%
1200summer/2000non-summer	-5.87%	1.11%	-0.33%	1.49%	-1.66%	4.05%
1200summer/1000non-summer	-3.59%	-1.96%	-2.32%	-1.41%	0.16%	1.41%
800summer/3000non-summer	-8.04%	2.75%	0.52%	2.92%	-3.41%	5.83%
800summer/2000non-summer	-7.10%	0.30%	-1.44%	0.69%	-2.65%	3.34%
800summer/1000non-summer	-5.24%	-3.48%	-3.94%	-2.92%	-1.16%	0.17%

Table 5:

My proposed BGS-1 Charges **% change in annual average price per kWh**	Rate Zone I		Rate Zone II	Rate Zone III	
	Non-Heat	Space Heat	Metro-east	All customers	Non-Heat	Space Heat
2000summer/3000non-summer	-6.33%	6.70%	5.92%	7.84%	-2.23%	10.39%
2000summer/2000non-summer	-4.67%	3.85%	3.08%	4.86%	-0.89%	6.93%
2000summer/1000non-summer	-1.88%	0.00%	-0.23%	0.68%	1.33%	2.95%
1200summer/3000non-summer	-7.99%	6.39%	5.41%	7.62%	-3.57%	10.54%
1200summer/2000non-summer	-6.71%	2.92%	1.88%	4.05%	-2.54%	6.35%
1200summer/1000non-summer	-4.35%	-2.14%	-2.47%	-1.41%	-0.63%	1.26%
800summer/3000non-summer	-8.96%	6.19%	5.07%	7.49%	-4.36%	10.63%
800summer/2000non-summer	-7.99%	2.32%	1.06%	3.53%	-3.57%	5.96%
800summer/1000non-summer	-6.06%	-3.64%	-4.07%	-2.88%	-2.01%	0.04%

As these two tables show, the net impact of changes to the summer rate, the first non-summer block and the non-summer tail block rate varies greatly from one customer profile to the next.

Q. What led you to select the nine customer usage profiles and how does it compare to AIC's "typical customer?"

[9] These profiles assume consumption of 1,200kWh during the months of October and May for the 3000 non-summer profiles and 800kWh during the months of October and May for the 2000 and 1000 non-summer profiles.

A. My goal is to show the net impact of the supply rate changes for a wide spectrum of AIC's electricity customers, with an emphasis on high non-summer use customers. As the non-summer tail block rates for the Rate Zone I Metro East and Rate Zone III space heat customers increase the most because those rates are so far below cost levels, I believe it is important to show the impact on customers with non-summer usage well above 800kWh per month. In direct testimony, AIC witness Jones explains that a "typical general use customer" (a non-space heating customer) consumes about 10,000kWh per year and the "average space heat customer" consumes about 18,000kWh per year.[10] As the tables above show, most of the nine customer usage profiles are representing above-average use customers. In fact, between 88% and 94% of all the customers in the three Ameren Illinois rate zones use less electricity than the high-summer/high-non-summer profile (2000 summer/3000 non-summer) I included in my example.[11]

Q. Given the Commission's commitment to eliminating subsidies "at the earliest opportunity" and "continued movement toward cost-based rates"[12], do you recommend that the Commission use this proceeding to develop a more comprehensive approach to bringing the electric supply rates closer to cost?

A. Yes, I do. Given that two of the non-summer tail block rates will still be 50% below cost levels even if the Commission adopts the rate changes I propose here, a consistent path towards cost-based rates in the future seems appropriate.

[10] Ameren Ex. 13.0E, p. 34.
[11] See Part 285 Schedule E-8(a)(1)(A).
[12] Final Order in Docket No. 09-0306 – 09-0311 (Cons.), April 29, 2010, p. 260.

While I do not recommend that those rates reach cost levels in a matter of two or three years, I do recommend that the Commission order Ameren to move those rates closer to cost every year from this point forward. However, in order to cap the bill impact resulting from these yearly changes in any given year, I recommend that the Commission use the customer usage profiles I outlined above as yardsticks for such rate impacts.

Q. What is your specific recommendation with respect to further moving the supply rates closer to cost in the future?

A. My recommendation is to take the approach recommended by AIC (and myself) in this case and apply it to supply rates in future years. Specifically, (1) the summer rate should continue to be fully cost-based following every annual procurement event, (2) the non-summer tail block rates for Rate Zone I space heat customers, Rate Zone I Metro East customers, Rate Zone II customers, and Rate Zone III space heat customers should be increased to move closer to cost-based levels, and (3) the non-summer rates for the first 800kWh should continue to be set above cost until the non-summer tail block rates are at cost-based levels. In addition, all rate changes from year to year should be designed to ensure revenue neutrality within the BGS-1 class and any increases to the BGS-1 rates should be capped such that none of the nine customer profiles in any of the three rate zones sees more than a ten percent overall increase in supply rates from one year to the next. At the same time, the four non-summer tail block rates that are currently below cost should be increased such that at least one of the customer profiles for Rate Zone I space heat customers, Rate Zone I Metro

East customers, Rate Zone II customers, and Rate Zone III space heat customers sees a cumulative increase in supply rates of close to (but not exceeding) ten percent. The ten percent benchmark serves as a ceiling as well as a floor, ensuring that in years of overall supply price increases, the average annual price increase does not exceed ten percent (thereby slowing the path towards cost-basis for the non-summer tail block rates). At the same time, the ten percent benchmark ensures that in years of declining power prices, the movement towards cost-based non-summer tail block rates continues at a meaningful pace. Adopting this ten percent benchmark will bring the non-summer tail block rates for Rate Zone I Metro East and Rate Zone III space heat customers to cost-based rates in about five years if there are no increases in the overall cost of supply in the next five years. Even small increases in the wholesale electricity market will cause this period to be longer than five years and several decreases in power prices might shorten the “catch-up” period somewhat.

Q. What additional recommendations do you have with respect to future changes to supply rates?

A. Given that the timing of the instant case will result in new rates becoming effective in January 2012, one logical approach would be to update the supply rates again in January 2013 and then every January going forward. However, I recommend that the Commission use the June 1 date as the date to make adjustments to the BGS rates. Both ComEd and Ameren update their supply rates for the upcoming year following the most recent spring procurement events

by filing new rates that become effective June 1 of each year. I recommend that the movement toward cost-based rates take place at the same time Ameren calculates its new supply rates following each spring procurement. In addition, since the rates arising out of this rate case will be effective January 2012, I recommend that there not be any additional movement toward cost-based rates for the June 1, 2012 supply rate filing. Therefore, I recommend that the next movement toward cost-based rates occur on June 1, 2013, with each adjustment every June thereafter.

Q. What does Ameren propose with respect to BGS-2 charges?

A. Ameren proposes to eliminate the non-summer tail block rate for Rate Zones I and III. Ameren notes that the tail block was eliminated for Rate Zone II in the Company's previous rate case (Docket Nos. 09-0306 et al.). Further, Ameren proposes to set uniform prices of 7.059 cents/kWh for the summer and 5.639 cents/kWh for the non-summer period.[13]

Q. How does Ameren justify these proposals?

A. Ameren contends that the elimination of the declining blocks will align Rate Zones I and III with Rate Zone II. The Company justifies a uniform price by arguing that there are no differences in the underlying supply cost since electricity is purchased without regard to rate zone.

Q. How do you assess this BGS-2 supply proposal?

A. I recommend that the Commission accept it. The fact that the declining block has already been eliminated for Rate Zone II demonstrates that it is a realistic goal

[13] Ameren Ex. 13.0E, p. 36. These values still reflect the 2010/2011 BGS levels that have been updated as of June 1, 2011.

for the class. Further, the significant difference between summer and non-summer supply prices should limit adverse impacts for individual customers from implementation of this proposal. In addition, Ameren's argument about the uniformity of the underlying costs provides a compelling basis for moving towards a uniform supply charge.

Q. Does this question end your prepared direct testimony?

A. Yes.