REBUTTAL TESTIMONY

of

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Ameren Illinois Company d/b/a Ameren Illinois

Proposed General Increase
in Electric and Gas Rates

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

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Q. Please state your name and business address.

A. My name is Philip Rukosuev. My business address is 527 East Capitol Avenue, Springfield, Illinois 62701.

Q. Are you the same Philip Rukosuev who submitted direct testimony in this proceeding?

A. Yes, I am.

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

A. I respond to the rebuttal testimony of witnesses Ms. Althoff and Mr. Stafford for the Ameren Illinois Company ("AIC", "Ameren" or "the Company"). I also respond to the direct testimony of witness Mr. Adkinsson for the Grain and Feed Association of Illinois ("GFA").

Q. Please summarize your recommendations.

A. The following recommendations are contained in my testimony:

1. I recommend that the Commission accept the proposed rate design that I recommended in my direct testimony regarding moving half the distance from equal percentage, across-the-board increases to full cost-based revenue allocations for AIC's Rate Zones.
2. I recommend that the Commission accept the Company's proposed modification to my rate design, specifically, the Company's proposal to move individual rate classes toward cost based rates subject to a constraint that no

class exceeds an increase of 1.50 times the overall average increase allocated to the respective rate zone.

3. I recommend that the Commission accept the Company's proposal to conform the GDS-2 Customer Charge rate structure for Rate Zone III to that of Rate Zones I and II.
4. I recommend that the Commission accept the Company's proposal to move Rate Zones I, II, and III GDS-4 toward price uniformity. Specifically, I recommend that the Commission accept the Company's approach to the development of rate design for GDS-4 to achieve rate structure uniformity along with pricing uniformity over time.
5. I recommend that the Commission accept, subject to various modifications as discussed by Staff witness Mr. Sackett, Rider TBS - Transportation Bank Service.
6. I recommend that the Commission reject GFA's proposal to add an additional tier to GDS-5 across all rate zones.

RESPONSE TO AMEREN WITNESSES ALTHOFF ON COST OF SERVICE ISSUES

Q. Which of the Ameren witnesses addresses the embedded cost of service ("ECOSS) issues?

A. Ms. Althoff responds to my direct testimony regarding ECOSS issues, in which I argued that:

a. The initial single ECOSS ("Initial gas ECOSS") in Ameren's initial filing is problematic because the Commission in Docket No. 10-0517 stated that costs should be presented at the rate zone level.

b. The Company's gas Rate Zone ECOSS ("gas Rate Zone ECOSSs") in response to the ALJs' deficiency letter failed to produce any accurate measurement of the costs of serving the various customer classes.

Q. What position does she take on these issues?

A. Ms. Althoff appears to agree with my position based on her statement that "[u]pon review of his concerns, AIC has determined that the Gas Rate Zone ECOSS can be revised so that Mr. Rukosuev's concerns are addressed and the Rate Zone ECOSS can be used to set rates. As such, AIC has developed revised ECOSSs by Rate Zone in rebuttal (Corrected ECOSS) …" (Ameren Ex. 33.0, p. 3)

Q. Which of your arguments does Ms. Althoff address in her rebuttal testimony?

A. She addresses my criticisms of the gas Rate Zone ECOSSs that were provided in response to the ALJs' deficiency letter. She begins by identifying two sets of concerns I raised about the study regarding: (1) how general categories of plant costs are broken down into individual FERC accounts (*Id.*, pp. 5-6) and (2) subfunctional balances within FERC accounts that do not correspond between the three gas Rate Zone ECOSSs and the Initial ECOSS in the initial rate case filing. (*Id.*, p. 29)

Q. Does Ms. Althoff indicate that the Company revised its gas Rate Zone ECOSSs to address those concerns?

A. Yes. Ms. Althoff states that the Company revised its FERC account balances to address my criticisms of the previous figures. She states that the revised figures were developed by Ameren witness Mr. Stafford. Ms. Althoff then applies the Company's set of allocation factors to these revised figures to derive ECOSS results for the three rate zones. (*Id.*, pp. 5-6)

Q. What exhibits did you review for the corrected ECOSS Studies?

A. I reviewed all of the exhibits submitted with Ms. Althoff's Rebuttal Testimony, which included Ameren Exhibits 33.1 through 33.11.

Q. Does Ms. Althoff present revised FERC account balances in her rebuttal testimony?

A. Yes. She presents a series of tables in her testimony to document the effect of how general categories of plant costs are broken down into individual FERC accounts. Table 1 shows a comparison of rates of return by GDS class. (Ameren Ex. 33.0, p. 4) Table 2 shows the actual plant balances for the period ending September 30, 2010, and Table 3 shows the results of the revised rebuttal allocation method for the test year which reflects financial information as of December 31, 2012. (*Id.*, p. 6) Ms. Althoff concludes that "[t]he results of the

ECOSSs individual FERC allocation are now in alignment with the previous rate case.” (*Id.*, p.10)

Q. Regarding Table 2 and Table 3 presented by Ms. Althoff in her rebuttal testimony, why are the “% of Total” columns for RZ I, RZ II, and RZ III in Table 2 different from the “% of Total” columns for RZ I, RZ II, and RZ III in Table 3?

A. According to the Company’s response to Staff data request (“DR”) PR 9.01, “[[t]hese minor percentage differences relate to the inclusion of the legacy companies’ forecasted fourth quarter 2010 activity (versus strictly September 30, 2010) and the development of the December 31, 2012 test year data.” I agree with the Company that the differences are relatively immaterial.

Q. How does Mr. Stafford address this issue in his rebuttal testimony?

A. He begins by noting Staff’s criticisms of the FERC account balances in the gas Rate Zone ECOSSs provided in response to the ALJs’ deficiency letter. Mr. Stafford then describes how the Company modified its FERC account balances. Mr. Stafford states that the Company began with FERC account balances by rate zone for September 30, 2010. (Ameren Ex. 22.0, pp. 31-33) Mr. Stafford concludes by stating:

> As discussed further in the rebuttal testimony of AIC witnesses, Messrs. Leonard Jones and Ryan Schonhoff (and Ms. Karen Althoff with respect to related recommendations by Staff witness, Mr. Rukosuev), the corrections described above to reflect and incorporate more granular account specific data by legacy utility at September 30 2010 should

adequately address Mr. Lazare's concerns with using AIC's Rate Zone ECOSSs for ratemaking at the customer level. (*Id*., pp. 33)

Q. What is your response to these revised proposals by the Company?

A. In her rebuttal testimony, Ms. Althoff essentially acknowledged that rates should be based on three Rate Zone ECOSSs rather than on one ECOSS, and presented a revised set of costs on an individual rate zone basis. I consider these ECOSS to be an improvement over the ECOSS provided in the Company's initial filing and the gas Rate Zone ECOSSs provided in response to the ALJs' deficiency letter. The changes delineated in the testimony of Mr. Stafford and Ms. Althoff address the concerns presented in my direct testimony. The Company appears to have employed consistent data from September 30, 2010 to derive rate zone balances not only at the functional level, but at the FERC account level as well. Furthermore, the studies seek to address discrepancies at the subfunctional level within individual FERC accounts by developing revised figures to address those shortcomings.

Q. Do the revised studies, nevertheless, remain problematic?

A. Yes. The problem lies with the length of time it took for Ameren to provide a viable cost of service foundation for ratemaking in this case. The Commission Order, entered March 15, 2011 in Docket No. 10-0517, required that separate ECOSSs be prepared for the three rate zones. Nine days later, on March 24, Ameren filed Rate Zone ECOSSs in response to the ALJs' deficiency letter. However, the Company provided no testimony to accompany those ECOSSs. Nor did Ameren present any changes to its ratemaking proposals in that response. However, in his rebuttal testimony more than five months after the initial filing, Ms. Althoff essentially acknowledged that ratemaking should be based on three ECOSSs rather than one; and presented a revised set of cost and ratemaking proposals based upon the costs for individual rate zones.

Q. Where does this sequence of events leave Staff and Intervenors?

A. It leaves the parties with only rebuttal testimony, hearings and briefs in which to discuss and debate Ameren's ratemaking proposals. This truncated schedule inhibits a complete and thorough discussion of these issues.

Q. What do you therefore conclude about the Rate Zone ECOSSs presented in the Company's rebuttal testimony?

A. From a cost causation standpoint, I believe the corrected gas Rate Zone ECOSSs are an improvement from the ECOSS provided in the Company's initial filing and to the gas Rate Zone ECOSSs it provided in response to the ALJs' deficiency letter. The corrected gas Rate Zone ECOSSs are based upon the same allocation methodology that the Commission approved in AIC's last delivery service proceeding (Docket Nos. 09-0306 et al. (Cons.)). However, the significant delay in producing reasonable studies makes it difficult to determine whether these studies do, in fact, provide a reasonable foundation for ratemaking in this case. Due to the delay, these complex studies must be reviewed and analyzed within a severely truncated timeframe. The ECOSS contains hundreds of cost accounts that are allocated by a variety of allocators based on data developed for each rate zone. A thorough review of the accuracy of each study requires considerably more time than provided in the rebuttal stage of a rate case which is all the time allowed by Ameren's untimely provision of its revised Rate Zone ECOSS. Therefore, I cannot conclude that these studies provide a reasonable foundation for ratemaking in this case.

RESPONSE TO AMEREN WITNESS ALTHOFF ON REVENUE ALLOCATIONS AND RATE DESIGN

Class Revenue Allocations

Q. Does Ms. Althoff present a revised set of class revenue allocations in her rebuttal testimony?

A. Yes. Ms. Althoff states that Ameren revised its gas Rate Zone ECOSSs and class revenue allocations to address issues raised in my direct testimony. (Ameren Ex. 33.0, p. 3) These revised proposals reflect a change from the class revenue allocations Ameren presented in its direct testimony. (*Id.*, pp. 11-12)

Q. What is the change?

A. Ameren has revised the cost foundation for its class revenue allocations, replacing the single, Illinois-wide ECOSS and subsequent flawed gas Rate Zone ECOSSs with the three corrected gas Rate Zone ECOSSs. (*Id.*, pp. 2, 4)

Q. What is Ms. Althoff's response to your class revenue allocation approach of moving half the distance from equal percentage, across-the-board

increases to fully cost-based revenue allocations for the three Rate Zones in the Company's three gas ECOSS?

A. She states that "<u>AIC accepts, with modification</u>, the proposed rate design that Mr. Rukosuev has recommended in his direct testimony regarding moving half the distance from equal percentage, across-the-board increases to full cost-based revenue allocations for AIC's Rate Zones. AIC proposed to modify Mr. Rukosuev's across the board application of the increase to rate classes." (*Id.*, p.11, emphasis added)

Q. What issues does Ms. Althoff have with respect to your proposal?

A. Ms. Althoff presents a number of arguments against a part of my methodology presented in direct testimony. First, she contends a cost-based approach should be used because Ameren's corrected gas Rate Zone ECOSSs correct the shortcomings I identified in my direct testimony. Second, Ms. Althoff maintains that my approach is not consistent with a move towards uniform prices. (*Id.*, p. 12)

Q. How do you assess Ms. Althoff's arguments?

A. First, I agree with Ms. Althoff that movement toward cost-based rates should be based on corrected gas Rate Zone ECOSSs. Second, with respect to pricing uniformity, I do not oppose movement toward uniform rates, where it is deemed under the circumstance necessary and appropriate. Since in the direct testimony phase of this proceeding the Company failed to provide viable gas Rate Zone

ECOSSs in its response to the ALJs' deficiency letter, I appropriately concluded that there was no cost basis for moving towards uniform charges. (Staff Ex. 15.0, p. 16)

Q. How does does Ms. Althoff propose to spread the revenue requirement between each rate class?

A. She proposes a two-step approach. In the first step, she accepts my proposed allocation to the rate zones that moves "half the distance from equal percentage across-the-board increases to fully cost-based revenue allocations". For the second step, however, for customer classes within the rate zones, Ms. Althoff continues to advocate cost-based class revenue allocations constrained to a maximum of 1.50 times the rate zone increase.

The Company is using the results of the individual Rate Zone cost of service studies rather than a single AIC cost of service study to allocate revenue to Rate Zones and individual classes within Rate Zones. (Company response to PR DR 9.03)

Q. How do you assess the Company's proposed class revenue allocations?

A. Ms. Althoff and I offer slightly different rate mitigation approaches, neither of which is perfect. As discussed above, Ms. Althoff accepted part of my revenue allocation proposal, but offers a certain modification.

It is a generally held ratemaking policy that rates should be designed to reflect cost causation, maintain gradualism, and avoid rate shock. I understand that the Company wishes to mitigate the impact of any rate increase stemming from this proceeding. I also agree that taking steps toward implementing cost-based rates while attempting to minimize rate shock is appropriate.

Ameren proposes to limit the amount of the proposed rate increase for each rate class to a specified percentage over present rates so as not to create adverse bill impacts. This methodology mitigates the concern of adopting the full cost of service results and the prospect of unfavorable rate impacts that could otherwise result for some rate classes. The amount of revenue requirement which is unrecovered, because the rate increase would exceed the cap, would be allocated to the other rate classes, i.e., recovered from the rate classes that have not reached the cap.

The 150% constraint represents a reasoned judgment of how much progress can be made towards cost-based revenue allocations while addressing bill impact concerns. In the last Ameren rate case, the Commission approved a rate cap mechanism that limited increases to AmerenIP customer classes to 20% and 30% for AmerenCILCO and AmerenCIPS customer classes. The Commission also noted a desire to eliminate rates that differ from cost of service, and stated “Continued movement toward cost-based rates and the elimination of inter- and intra-class subsidies should be considered a priority in AIU’s next rate filing.” (Order, Docket Nos. 09-0306 et al (Cons.) (Company response to Staff

DR PR 3.11)

Increases will be scaled back further to the extent that the revenue requirements approved by the Commission fall below the Company proposed levels.

Q. Please explain how the proposed constraint of 1.50 times the system average increase will affect the goal of achieving rate uniformity?

A. The 1.50 times the system average increase will help mitigate potential undue bill impacts to customers compared to moving to full cost of service immediately. At the same time, application of the constraint may result in slower progress towards achieving eventual rate uniformity. For example, according to Ameren Exhibit 33.4, page 1 reflects the revenue allocation for Rate Zone I. The overall increase for Rate Zone I is 16.48% with GDS-1 through GDS-3 reflecting increases ranging from 17.31% to 18.58%, GDS-4 reflecting a decrease of 6.09%, and GDS-5 reflecting an increase of 102.16%. However, after application of the 1.50 times constraint, the percentage changes by rate class will be the lower of the calculated percentages stated above or 24.72% (16.48% times 1.50). For GDS-5, the percentage increase is then lowered to 24.72%. The application of the 24.72% increase versus the 102.16% provides a level of rate mitigation while still allowing prices to increase by an amount greater than average and gradually toward rate uniformity among the Rate Zones. (Company response to PR DR 9.04)

Q. Do you recommend approval of the revenue constraint that Ameren proposes?

A. Yes. Ameren has taken into consideration the bill impacts. Ameren's proposed second step revenue constraint will slow the implementation of full cost of service rates for some classes; however, it will lessen the impact of the rate increase for many Ameren customers.

Rate Design

Q. Does Ms. Althoff address your rate design arguments in her rebuttal testimony?

A. Yes. She addresses my criticism of the Ameren proposals, as well as the alternative rate design I presented in direct testimony.

Q. What aspects of AIC's proposed rate design did you take issue with in direct testimony?

A. In my direct testimony, I opposed the Company's proposed changes to the GDS-2 and GDS-4 classes, because I demonstrated that both AIC's Initial gas ECOSS and its gas Rate Zone ECOSSs methodologies were profoundly flawed and failed to produce any accurate measurement of the costs of serving the various customer classes, which must underlie the development of cost of service-based rates.

RATE GDS-2 – SMALL GENERAL GAS DELIVERY SERVICE

Q. With respect to your direct testimony arguments against the Company's proposed changes to Rate GDS-2 Small General Delivery Service, how does Ms. Althoff respond in her rebuttal testimony?

A. Ms. Althoff disagreed with my arguments against implementing certain changes to the GDS-2 class. She states that "the Commission would like AIC to provide uniform prices throughout the Rate Zones. As such, adding the additional tier to the Customer Charge for Rate Zone III will align it with Rate Zones I and II. Additionally, this tier would also aid in mitigating bill impacts experienced by customers in this GDS class." (Ameren Exhibit 33.0, p. 13)

Q. What does Ameren propose for GDS-2 Small General Delivery Service?

A. The Company proposes to conform the rate structure of Rate Zone III to the rate structure of Rate Zones I and II. Currently, Rate Zones I and II have two Customer Charges – one for Customers that use less than or equal to 600 therms per year and a second for Customers who use more than 600 therms per year. Conversely, Rate Zone III has one Customer Charge, regardless of annual use. Ameren proposes that Rate GDS-2 in Rate Zone III would also have two Customer Charges based on annual use. (Ameren Ex. 13.0G, p. 15) The Company's proposed changes can be found on 2nd Revised Sheet No.12, 2nd Revised Sheet No.12.001, and 2nd Revised Sheet No.12.002.

Q. In rebuttal testimony, did the Company provide sufficient cost support for its proposal to conform the GDS-2 Customer Charge rate structure for Rate Zone III to that of Rate Zones I and II?

A. No. The Company provided percentages and comparisons of the individual FERC accounts by Rate Zone per its Corrected gas Rate Zone ECOSS. Based on my review of Ameren Exhibit 33.11, the results of the corrected gas Rate Zone ECOSSs individual FERC account allocation are now in alignment with the previous rate case.

However, the Company provided deficient Rate Zone ECOSSs in the direct stage of this case. By presenting its corrected Rate Zone ECOSSs in rebuttal, the Company does not leave sufficient time for all parties to fully review the Rate Zone ECOSSs to assess their accuracy and determine whether Ameren's proposed rates are reasonable from a cost standpoint. Nevertheless, I have to decide what rate design proposals are best from the standpoint of Ameren customers even without the benefit of an ECOSS foundation that is determined to be reasonable.

The Company's proposal to revise the customer charge tier structure for GDS-2 is supported by Ms. Althoff as a means to mitigate undue customer impacts for smaller use GDS-2 customers in Rate Zone III. She also states that the proposed change to the rate structure for Rate Zone III was driven by bill impact considerations given the diverse usage of this rate class. (Company Response to

Staff DR PR 3.14) Further, the Company claims that the proposed rate structure will generate revenues from customers which more closely align with the cost to provide service while maintaining the provision to recover 80% of GDS revenue requirement from the Customer Charge[1] approved in ICC Docket Nos. 07-0585 - 07-0590 (Cons.). The Company also states that it may experience additional customer complaints if the existing GDS-2 design is retained for Rate Zone III. Finally, the Company maintains that customers faced with cost based prices are more likely to make more efficient consumption decisions. (*Id.)*

Q. Do you recommend that the Commission approve the changes to GDS-2 to conform the GDS-2 Customer Charge rate structure for Rate Zone III to that of Rate Zones I and II?

A. Yes, I do. Ultimately, I believe that the Company's rate design proposal, which is to conform the GDS-2 Customer Charge rate structure for Rate Zone III to that of Rate Zones I and II, is in the best interest of its customers and therefore, I do not object to its implementation. It is a generally held ratemaking policy that rates should be designed to reflect cost causation, maintain gradualism, and avoid rate shock. I understand that the Company wishes to mitigate the impact of any rate increase stemming from this proceeding. I also agree that taking steps toward implementing cost-based rates while attempting to minimize rate shock is appropriate. Hence, despite the problems with the Company's Rate Zone ECOSSs, I find the customer impacts argument along with general cost principles provide a sufficient basis for adoption of this proposal.

[1] See (Ameren Ex. 13.0G, p. 18) for an explanation of how the Customer Charge was calculated.

RATE GDS-4 – LARGE GENERAL GAS DELIVERY SERVICE

Q. What issue did you take with Ameren's proposed changes to Rate GDS-4, Large General Gas Delivery Service in your direct testimony?

A. In direct testimony, I expressed a concern that the rate design presented in the Company's direct testimony was not based on individual Rate Zone ECOSSs along with the concern over the FERC account alignment.

Q. With respect to your direct testimony arguments against the Company's proposed changes to GDS-4 General Gas Delivery Service, how does Ms. Althoff respond in her rebuttal testimony?

A. Ms. Althoff disagrees with my arguments against implementing certain changes to the GDS-4 class. According to Ms. Althoff:

> . . . the rates of return by Rate Zone under the Rate Zone and under the Corrected ECOSSs are similar; thus, the FERC account level allocations by Rate Zone did not undermine the cost of service foundation as Mr. Rukosuev alleges. I do agree that the rates of return for GDS-4 by Rate Zone do vary; as such, the separate ECOSSs do provide better cost based support for this customer class. (Ameren Exhibit 33.0, p. 13)

Ms. Althoff goes on to state that "AIC's approach to rebuttal rate design for GDS-4 was to align prices which relatively matched the Demand and Customer components of the ECOSSs by Rate Zone. However, AIC balanced this with bill impacts. Our rebuttal approach should address Mr. Rukosuev's concerns given the separate ECOSSs." (*Id.*, p. 14)

Q. Please discuss the proposed rate design for GDS-4 Large General Gas Delivery Service.

A. According to the Company, "[t]he pricing structure of GDS-4 includes three components: Customer Charge, Delivery Charge and Demand Charges. Presently, Rate Zone I lacks Demand Charges; as such, the approach to the development of rate design for GDS-4 was done to achieve rate structure uniformity along with pricing uniformity over time." (*Id.*) Rate Zone II and III's present rate structure for GDS-4 Demand Charges will remain unchanged. Rate Zone I previously did not have demand meters installed. However, Rate Zone I now has the necessary metering equipment installed to record demands; as such, Demand Charges will now be based upon the same structure as Rate Zone III.

The Company proposes a number of changes to the GDS-4 rate class to make the rate zones more uniform. The Company proposes that Customer Charges for all rate zones be based on Maximum Daily Contract Quantity ("MDCQ"). (Ameren Ex. 13.0G, p. 19) According to Ameren, use of MDCQ provides a closer approximation of the design load that gas planning engineers estimate is required to serve a customer, which in turn provides a closer link to cost of service. (Company Response to Staff DR PR 3.15) Also, for Rate Zone I, delivery charges for both Rider S and Rider T customers will no longer be distinguished by pressure. Finally, demand charges for Rate Zone I have been added and will be distinguished by operating pressure for both Rider S and Rider

T customers. The approach to rate design for the GDS-4 customer class was developed as a step toward rate structure uniformity as provided in Ameren Ex. 13.7G. (Ameren Ex. 13.0G, p.19) The Company's proposed changes can be found on 2nd Revised Sheet Nos.14.000 through 14.007.

Q. When did GDS-4 class customers in Rate Zones II and III have their demand metering first installed?

A. In response to Staff DR PR 9.05, the Company provided the following historical information:

> GDS-4 in Rate Zone II was approved in Docket Nos. 07-0585 (cons.), and consists of customers formerly served under Rate 650 – Intermediate General Gas Service. In Docket Nos. 09-0306 (cons.), GDS-6 was consolidated with GDS-4. GDS-6 was created in Docket Nos. 07-0585 and consisted of former Rate 700 – Large General Gas Service customers. Both Rate 650 and Rate 700 were demand metered rates. Such rates have been demand metered at least since Docket No. 90-0127.
>
> GDS-4 in Rate Zone III was approved in Docket Nos. 07-0585 (cons.), and consists of customers formerly served under SC 65 – Large Volume Firm Gas Service and SC 76 – Transportation of Customer Owned Gas Service. Both SC 65 and SC 76 were demand metered rates. Such rates have been demand metered at least since Docket 84-0265.
>
> Demand metering was installed for affected customers prior to the effective dates of the tariffs, or prior to the Customer initiating service.

Q. What benefit do the proposed changes to GDS-4 provide to customers as compared to retaining the existing rate structure?

A. The Company states that the proposed rate structure better matches costs to cost causers and that intra-class subsidies will be reduced under the proposed rate design, in keeping with the Commission's Order in Docket Nos. 09-0306 -

09-0311 (Cons.). (Company Response to Staff DR PR 3.15)

Q. Will the proposed changes to the GDS-4 customer class translate into uniform delivery services prices across rate zones by customer class?

A. No. As stated in Ms. Althoff's direct testimony, "AIC is not proposing uniform pricing in this proceeding; however, AIC has made appropriate movement toward pricing uniformity. For example, Customer Charges for Rate Zone I's GDS-4 customer class are much lower than the two other rate zones; as such, these prices were moved closer to those rate zones. It is one of AIC's goals to eventually eliminate pricing differences among Rate Zones, consistent with the Commission's directive that AIC have uniform customer class rates wherever possible." (Ameren Exhibit 13.0G, p. 13)

Q. How does the Company justify its proposed changes to the GDS-4 rate class to make the rate zones more uniform?

A. The proposal was made to move Rate Zones I, II and III GDS-4 delivery rates toward price uniformity, consistent with the Commission's directive that AIC have uniform customer class rates wherever possible. (Docket Nos. 09-0306 et al. (Cons.), Final Order, p. 264) In its previous rate case, the Company was ordered to evaluate whether special pricing provisions should be extended to customers with annual usage over 2 million therms in Rate Zones I and III. (Final Order, Docket Nos. 09-0306 et al. (Cons.) April 29, 2010, p. 264) The Company has evaluated the directive in the Commission order and proposes that customer demand provides a superior price signal versus customer delivery volumes for such GDS-4 customers as demand matches the criteria used to plan and design facilities serving customers; not throughput. As such, in the movement toward rate uniformity, the Company proposes to migrate toward one uniform demand charge versus two as currently in place for Rate Zone III. However, bill impacts prohibit this from occurring in this rate proceeding. (Ameren Ex. 13.0G, pp. 19-20)

Q. Do you recommend that the Commission approve the changes to GDS-4?

A. Yes, I do. Ultimately, I believe that the Company's rate design proposal for the GDS-4 customer class is in the best interest of its customers and therefore, I do not object to its implementation. Despite the problems with the Company's Rate Zone ECOSSs as discussed previously in my testimony, I find that based on the Commission's directive with respect to the GDS-4 customer class in Docket Nos. 09-0306 et al. (Cons.), Ameren's subsequent evaluation and findings with respect to the GDS-4 customer class, along with general cost principles, together they all provide a sufficient basis for adoption of this proposal.

RIDER TBS - TRANSPORTATION BANK SERVICE

Q. What considerations guide the implementation of Rider TBS?

A. There are a number of considerations:

1. There are policy considerations regarding the unbundled, subscribable banking service presented in Ameren Illinois' Rider TBS. Such policy considerations are addressed in Staff witness Sackett's direct testimony (ICC Staff Ex. 13.0, pp. 12-28) and rebuttal testimony (ICC Staff Ex. 29.0, pp. 9-33)

2. In AIC's previous rate case, Staff recommended that the Commission require Ameren to:

> …work with Staff and other interested parties (1) to develop an equitable allocation process for storage assets, (2) to allow customers to select the level of banking that best suits their needs, and (3) to develop an equitable allocation of the costs of providing those services. Staff proposes that workshops be held to examine these issues. Staff further recommends that AIU be required to propose in its next rate case tariffs consistent with these goals using language agreed upon in the workshops. (Final Order, Docket Nos. 09-0306 et al. (Cons.), April 29, 2010, pp. 276-277)

3. There is a cost of service consideration. In order to adhere to its policy of setting rates based on cost, the Commission must begin with a cost of service study that accurately measures cost of service.

Q. How are these considerations related to each other?

A. For Rider TBS to be approved, I believe it should not only make sense from a policy perspective, but the Company must demonstrate that the rates charged under the rider are reasonable and cost based. If the proposed rider satisfies the policy criteria but does not meet the cost standard, then it should not be approved.

In my direct testimony, I argued that neither the Company's Initial gas ECOSS nor the gas Rate Zone ECOSSs provided an accurate measure of cost of service. Therefore, I argued that the proposed rider does not meet the cost standard, and I recommended that implementation of Rider TBS should be delayed until the Company filed a valid supportable cost of service study, which would presumably occur in Ameren's next rate case.

Q. Have you changed your position with respect to Rider TBS and if so, why?

A. Yes, I have. Rider TBS should be approved for the following reasons:

a. My primary concerns with the gas Rate Zone ECOSSs have been addressed as discussed above. (Pages 4-8)

b. The allocation of costs to the customer classes are based upon various allocation methodologies, which I accept. (Page 7)

c. Rider TBS should be approved given the Company's customers' desire for alternative banking services as discussed by ICC Staff witness Mr. David Sackett. (Staff Ex. 29.0, pp. 9-33)

RESPONSE TO GFA WITNESS ADKISSON

Q. What arguments by GFA witness Adkisson do you address?

A. I respond to his discussion of seasonal, temperature-based pricing for a broader range of customers taking service under the GDS-5 rate.

Q. What argument does Mr. Adkisson make concerning temperature-based pricing for a broader range of customers taking service under the GDS-5 rate?

A. Mr. Adkisson argues that the benefits of the GDS-5 rate should be available to large, intermediate and small customers that are willing to curtail usage on days when the average temperature is equal to or below 25 degrees Fahrenheit. (GFA Exhibit 1.0G, p. 3) According to Mr. Adkisson, the Company fails to recognize that the GDS-5 tariff does not send appropriate price signals to small GDS-2 and GDS-3 customers who are technically eligible to avail themselves of the GDS-5 rate. He states that a typical small to intermediate grain dryer would never be expected to utilize the GDS-5 tariff because of the proposed high monthly fixed charges. (*Id*.)

Specifically, he believes that a GDS-2 and GDS-3 customer would not be inclined to pay more for their current delivery charges to avail themselves of the off-peak provisions of the GDS-5 rate. In contrast, GDS-4 Large General Service customers are more likely to switch since their current customer charges are "in the same range" as the GDS-5 customer charges.

Q. What does Mr. Adkisson propose in this case?

A. Mr. Adkisson proposes adding a new tier with a lower fixed charge within its GDS-5 rate for smaller off-peak customers to encourage greater utilization of its distribution system. Specifically, he proposes tiers of fixed monthly charges: $142.74, $124.40, and $273.24 for Rate Zone I, II, and III, respectively. (GFA Exhibit 1.0G, p. 4) These tiers are comparable to the Company proposed GDS-3 rates.

Q. Did Mr. Adkisson prepare a GDS-5 tariff exhibit which has customer charges equal to the customer charges in the GDS-2 and GDS-3 rates?

A. In his direct testimony, Mr. Adkisson prepared a redline version of AIC's proposed GDS-5 tariff (Ameren Exhibit 1.01G) which only has an additional tier for intermediate size GDS-3 customers. This, in turn, broadens the range of customer charges that are equal to the AIC proposed customer charges for GDS-3 rates in the respective rate zones. Mr. Adkisson states, however, that he did not propose an additional tier for small GDS-2 size customers to allow for operational experience and an assessment of acceptance of the GDS-5 seasonal rate by GDS-3 intermediate size customers before considering whether to expand GDS-5 to GDS-2 small customers. (GFA Exhibit 1.0G, p. 4)

Q. How do you respond to Mr. Adkissons' argument?

A. I have concerns about GFA's proposal. First, GFA's proposal has the potential to set back the attainment of cost-based rates. In addition, although I appreciate GFA's concerns for its members, implementation of this proposal would not be as straightforward as GFA suggests.

Q. Please describe the GDS-5 tariff.

A. The GDS-5 tariff is the tariff most applicable to GFA's members since it reflects the different impacts seasonal-use customers have on costs associated with gas delivery. The purpose of the GDS-5 tariff is to promote system reliability by discouraging gas use by individual customers whose operation on days when space heating demands increase would cause reliability issues. The GDS-5 rates are based costs; they reflect the different impacts that seasonal customers have on fixed and variable costs.

Q. What analysis has GFA presented regarding the effect its proposal would have on customers?

A. The GFA fails to address the impact that its proposal may have on customers; it fails to provide any substantive analysis of the rate or bill impacts of its proposal on the Company, on its membership, or on any other customers. Despite proposing entirely new GDS-5 tier provisions for all three Rate Zones, Mr. Adkisson provides no analysis of the effects (i.e., rate design, cost allocation, bill impact analysis, customer rate migration, revenue instability, or cost analysis) of his proposed recommendation.

Q. In your opinion, what effect would the GFA's proposal have?

A. The GFA's proposed modification is likely to lead to an inequitable assignment of costs among customer classes, because the Company already incorporates the different impacts that seasonal customers have on fixed and variable costs, and reflects those impacts in the billing components and associated charges of GDS-5. Without thorough analysis, it is unknown the extent to which this change in rate design affects the Company's cost recovery. To avoid the possibility of revenue erosion, a complete analysis of the affected service classifications to determine realignment of class billing determinants would be necessary. Such analysis would require assumptions for expected customer migration.

In the absence of a thorough analysis, GFA's proposal would add ambiguity for rate administration, which would result in financial uncertainty for the recovery of a utility's approved revenue requirement. In fact, Mr. Adkisson acknowledges this in his statement: "[a]lso, when customers have rate options with price signals to shift usage to off-peak periods, there could be some revenue erosion to AIC if a significant number of GDS-2 and GDS-3 customers were to switch to an optional GDS-5 seasonal rate." (*Id.*)

Although Mr. Adkisson made a limited analysis of the potential revenue erosion to AIC if all twelve GDS-3 grain dryer customers were to switch to an expanded GDS-5 seasonal rate, stating that "[i]f all twelve eligible GDS-3 grain dryers accounts switched to an expanded GDS-5 seasonal rate and the Commission approved 100% of the increase in rates requested by AIC, the potential revenue erosion would be approximately $20,052 annually. (GFA Exhibit 1.0G, p. 5) In response to Mr. Adkisson's very limited analysis, Company witness Althoff correctly stated that:

> AIC would very well exceed this potential revenue erosion number given that AIC's has over 80 more grain drying customers currently served under GDS-3 that could switch to GDS-5. At that point, revenue erosion and cost subsidization would be even greater given 12 versus over 80 customers. For this reason and more importantly, the cost differential of a GDS-3 meter versus a demand meter necessary to provide service under GDS-5, Mr. Adkisson's proposal should be rejected. (Ameren Ex. 33.0, pp. 28-29)

In effect, there would have to be adjustments to other rates in order for the Company to make up any revenue shortfall created by GFA's proposal.

Q. Are Ameren's proposed GDS-5 tariff charges unreasonable?

A. No. Although under the Company's current GDS-5 tariff provisions small and intermediate GDS-2 and GDS-3 customers might not financially benefit from switching to the optional GDS-5 tariff (because of the proposed high monthly fixed charges), this fact alone does not necessarily render the GDS-5 tariff unreasonable. The current GDS-5 rates are based on cost and no showing has been made that an additional tier would better capture the cost impacts of seasonal customers.

The GFA's proposal would add ambiguity for rate administration, which would result in financial uncertainty for the recovery of Ameren's approved revenue requirement. In fact, Mr. Adkisson acknowledges this, stating: "[a]lso, when customers have rate options with price signals to shift usage to off-peak periods, there could be some revenue erosion to AIC if a significant number of GDS-2 and GDS-3 customers were to switch to an optional GDS-5 seasonal rate." (GFA Exhibit 1.0G, p.4) In effect, the Commission would have to allow adjustments to other rates in order for the Company to make up any revenue shortfall created by GFA's proposal.

Moreover, tariff applicability provisions that allow a customer to select between standard GDS rate classes without any meaningful change in usage patterns can also be detrimental to other customers over the long run, as rates are established in future rate cases. In other words, although Mr. Adkisson states that, “GFA favors movement toward uniformity of tariffs among the three Rate Zones” (GFA Exhibit 1.0G, p. 2), In sum, Mr. Adkinsson’s simplistic proposal seems to have no place in a case where the Commission is expecting of all the parties to work through complex cost-of-service determinations.

Q. What do you recommend?

A For all the reasons identified above, I recommend that the Commission reject the GFA‘s proposal to add an additional tier to GDS-5 across all rate zones.

Q. Does this complete your prepared rebuttal testimony?

A. Yes, it does.