Ameren Exhibit 48.0

ILLINOIS COMMERCE COMMISSION

DOCKET Nos. 11-0279, 11-0282 (Cons.)

SURREBUTTAL TESTIMONY

OF

LEONARD M. JONES

SUBMITTED ON BEHALF

OF

AMEREN ILLINOIS COMPANY

d/b/a Ameren Illinois

September 1, 2011

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Leonard M. Jones. My business address is 1901 Chouteau Ave, P.O. Box 66149, St. Louis, MO 63103.

Q. Are you the same Leonard M. Jones who provided direct testimony and rebuttal testimony in this proceeding?

A. Yes, I am.

II. PURPOSE OF TESTIMONY

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

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of Illinois Commerce Commission (Commission) Staff witnesses, Mr. Peter Lazare and Mr. Torsten Clausen; Illinois Industrial Energy Consumer (IIEC) witness Mr. Robert Stephens; The People of the State of Illinois and the Citizens Utility Board (jointly AG/CUB) witness Mr. Scott Rubin; The Kroger Company (Kroger) witness, Mr. Kevin Higgins; The Commercial Group (CG) witness, Mr. Steve Chriss; and Grain and Feed Association of Illinois (GFA) witness, Mr. Jeffrey Adkisson.

Q. Are you sponsoring any exhibits with your surrebuttal testimony?

A. Yes. I am sponsoring the following exhibits:

- Ameren Exhibit 48.1: Proposed Changes to Rider PER – Purchased Electricity Recovery
- Ameren Exhibit 48.2: Distribution Tax Prices by Class and Rate Zone, Present and Proposed Price Levels

III. <u>RESPONSE TO STAFF WITNESS, MR. LAZARE</u>

Q. Regarding cost allocations, Mr. Lazare considers the Rate Zone embedded cost of service studies submitted on rebuttal by Ameren Illinois Company to be a "significant improvement upon the initial filing and the response to the ALJs' deficiency letter." He claims, however, that the revised studies remain problematic because of "the length of time it took for Ameren to provide a viable cost of service foundation for ratemaking in this case." (lines 91-92; 100-101) Were the embedded cost of service studies presented on rebuttal radically changed and untimely?

A. No. The only difference between the Rate Zone embedded cost of service studies (ECOSS) provided in rebuttal and those provided in response to the deficiency letter is the additional granularity of functional level costs, as discussed by Company witnesses, Mr. Ronald D. Stafford and Mr. Ryan K. Schonhoff in their rebuttal testimonies, and as requested by Mr. Lazare in his direct testimony. The cost allocation differences between the deficiency filing ECOSS and the rebuttal filing ECOSS are minor and relatively few and should take little time to examine. Notably, in his direct testimony, Mr. Lazare found the Rate Zone ECOSS appropriate for allocating Ameren Illinois Company d/b/a Ameren Illinois' (AIC or Company) revenue requirement among the three Rate Zones, stating “I find Ameren’s choice of allocators to be acceptable for ratemaking in this case. Since all the ECOSSs filed by Ameren in this proceeding have employed the same allocation approach, my conclusion would apply to all the Ameren ECOSSs filed in this case.” (ICC Staff Ex. 14.0, lines 198-201.)

The incremental review during Staff's rebuttal period required examining the changes discussed by Mr. Stafford and Mr. Schonhoff. This review apparently has been completed since Mr. Lazare has declared the ECOSSs to be a “significant improvement” from what was initially submitted. Mr. Lazare does not identify specific issues he believes require additional review time to resolve. Any class cost or revenue allocation issues - beyond the functional level corrections - could have been identified by Staff on direct. Moreover, there are no specific issues. The ECOSS thus provide the Commission with a sound basis by which to set rates.

Q. Mr. Lazare takes issue with AIC not providing any testimony to accompany the Rate Zone ECOSSs submitted in response to the ALJs’ deficiency letter. Was Staff inhibited in its review of AIC’s initial cost allocation, revenue allocation or rate design without such testimony?

A. No. First, at the outset, the deficiency Rate Zone ECOSSs were filed on March 24th, more than 5 months ago and 3 months before Staff filed its direct case. Staff had ample time to review these studies - and did review them. No testimony was necessary to review and understand their results. Second, at this juncture, Staff has responded to AIC’s initial cost allocation, revenue allocation and rate design. AIC also has responded to all data requests seeking information and further clarification. The Rate Zone ECOSSs have been thoroughly examined and refined during this proceeding. Third, changes to customer class revenue allocation methodologies are common in the course of rate cases. AIC's revenue allocation changes on rebuttal were in response to the direct testimony submitted by Staff and other parties. Parties often propose different cost and revenue allocation recommendations in direct and rebuttal testimonies. Yes, the Final Order in Docket No. 10-0517 - issued after the direct case filing - triggered the need for three Rate Zone ECOSSs so historical cost differences of the legacy utilities could be considered during ratemaking, and the Company promptly submitted those studies. The Final Order did not mandate, however, any method of revenue allocation among the Rate Zones. The deficiency Rate Zone class equalized rates of return were directionally consistent with the Company's rate proposals in direct. Changes to Rate Zone or customer class revenue allocation were addressed during the proceeding on rebuttal after reviewing of other parties' testimony. Fourth, AIC's delivery services <u>rate design</u> (i.e., pricing) proposal has been consistent throughout the proceeding. In other words, the rate design process introduced in my direct testimony at pages 25-26 (lines 507-531) has not changed.

Q. Mr. Lazare also takes issue with the fact that AIC did not present any changes to its ratemaking proposals in the deficiency response. Did the Company's ratemaking proposals change based on the initial Rate Zone ECOSS?

A. No. Mr. Lazare's statement does not draw a distinction between the revenue allocation process and individual component pricing. As noted above, the AIC pricing methodology has been consistent through the entire rate case proceeding. The only change in AIC's position has been to move from a method where revenue allocation was based on a single AIC ECOSS to one that uses three Rate Zone ECOSSs. Mr. Lazare raised concerns about the viability of the Rate

Zone ECOSSs. AIC responded to those concerns. The only difference between the AIC and Staff revenue allocation methodology is that AIC proposes to allocate costs to individual rate classes based on the results of the ECOSSs, subject to certain constraints. Staff, however, is not evaluating available evidence. Instead Staff insists on an across-the-board application of rate changes allocated to customer classes within each Rate Zone, as if the Company had never addressed Mr. Lazare's concerns and modified the Rate Zone ECOSSs. While an across-the board application is easy to implement, it ignores the available ECOSS evidence and the Commission's desire to maintain and set cost-based rates.

Q. Mr. Lazare claims that AIC presented a revised set of cost and ratemaking proposals on rebuttal. (lines 108-109) Is that an accurate characterization of the Company's rebuttal filing?

A. The term "ratemaking proposals" is broad and could be taken out of context. AIC did provide a revised set of Rate Zone ECOSSs on rebuttal, in response to Mr. Lazare's concerns expressed in his direct testimony. AIC also revised its methodology for revenue allocation among Rate Zones and classes within each Rate Zone. Again, this was in response to Staff and other parties' direct testimony. However, AIC's pricing methodology remains unchanged from the foundation laid in my direct testimony.

The revised prices presented in rebuttal were produced under the same pricing methodology as used in my revised direct testimony. The purpose of showing the revised prices was two fold. First, it was illustrative, showing prices at AIC's full revenue requirement (which would tend to show an upper bound to potential bill impacts). Second, it demonstrated that the pricing methodology can be readily used to conform prices to the final authorized class revenue requirement.

Q. Even though he acknowledges that the rebuttal ECOSSs represent an improvement, Mr. Lazare claims Staff and Intervenors are left with a truncated schedule to review the cost allocations that inhibits a complete and thorough discussion of these issues. What is your response to Mr. Lazare's timing concerns?

A. Adjustments to ECOSS can and do happen during the course of rate cases. Fine tuning the product to a better, more accurate model should lend support to using it, not the other way around. Moreover, it is unclear what issues Mr. Lazare wishes to address that having additional time would cure. Mr. Lazare has already examined the ECOSS models provided on March 24th, 2011 in response to deficiency letter. They were deemed accurate for purposes of allocating costs among the three Rate Zones.

Mr. Lazare expressed concerns in his direct testimony about the granularity of functional level costs, and expressed reservations about using the results to allocate costs to individual rate classes. AIC responded to Mr. Lazare's criticisms in its rebuttal, and Mr. Lazare finds the results to be a "significant improvement". AIC's rebuttal ECOSSs provide the most reasonable foundation to establish class revenue allocation targets.

Q. Have any other parties raised similar concerns with the corrections and timing of the Rate Zone ECOSSs?

A. No. In fact, several parties are recommending that the Rate Zone ECOSSs be used to establish class revenue requirement targets (i.e., Kroger, CG, IIEC, and AG/CUB). No other party in the case is recommending that the class cost of service results be abandoned in favor of an across-the-board increase.

Q. Regarding revenue allocations, Mr. Lazare states that AIC revised its class revenue allocations on rebuttal. What was the extent of the Company's revisions?

A. AIC's direct testimony outlined a revenue allocation approach using a single AIC cost of service study. In rebuttal, AIC set aside the single AIC cost study and instead used the results of the individual Rate Zone ECOSSs. AIC adopted Mr. Lazare's first step of his revenue allocation methodology, where he proposed to move half the distance from equal percentage across-the-board increases to fully cost-based revenue allocations for the three Rate Zones. Next, rather than allocating the same percentage amount to each rate class (as done by Mr. Lazare), I proposed that the target revenue requirement for each Rate Zone be allocated according to the class cost of service study. Specifically, the relative percentage relationship between class cost of service (COS) to total COS within each Rate Zone, multiplied by the total Rate Zone revenue target, was proposed to be set as the revenue target for each class. Finally, increases to individual rate classes should not exceed 1.5 times the overall percentage increase allocated to any Rate Zone, or 10%, whichever is greater.

Q. Mr. Lazare says that AIC's phased-in proposal for distribution taxes "appears to be sending conflicting messages concerning the need to implement class revenue allocation constraints." (lines 176-177) Do you agree?

A. No. The AIC proposal is the most balanced, and in keeping with the spirit of the Order in Dockets 09-0306 (Cons.). The distribution tax phase-in plan constrains movement in this case under the revenue allocation methodology because that was the preferred approach by the

Commission in the last order (Docket No. 09-0306 cons.). The plan also allows customers time to adjust their budgets for changes planned for February 2013 and 2014.

Mr. Lazare criticizes my approach as "inconsistent on bill increases," but his revenue allocation approach completely disregards the effect of the Distribution Tax. We both agree that the Distribution Tax rates for DS-4 customers are too low, and are being subsidized by other rate classes. The question to answer is how to best accomplish removing the subsidy. My proposed three step phase-in to an average distribution tax rate is a hybrid approach between a straight-cut to an average rate, and an uncertain and perhaps chronic continuation of the subsidy for decades. It is a more balanced approach than Mr. Lazare's.

Q. Do you still oppose his class revenue allocations proposed in his direct testimony?

A. Yes. Mr. Lazare advocated an across-the-board revenue allocation approach in his direct testimony, and continued to advocate this approach in his rebuttal. Viable cost of service studies have been provided and the results should be used.

Q. Regarding rate design, Mr. Lazare takes issue with your reliance on a single AIC study as an adequate cost foundation to maintain uniform meter, customer, transformation and reactive demand charges. He states that he concluded on direct there was no cost basis for moving towards uniform charges. But aren't these charges already uniform?

A. Yes, the meter, customer, transformation, and reactive demand charges are uniform today. Mr. Lazare believes that because he found fault with the Rate Zone ECOSSs provided in response to the ALJs' deficiency letter, he has concluded there was no cost basis for moving toward uniform charges. (lines 216-218) Mr. Lazare ignores the fact for Rates DS-1 through DS-4, only the Distribution Delivery Charges differ among Rate Zones. The Distribution

Delivery Charges are the only charges for which further movement toward price uniformity is necessary.

For DS-1 through DS-4, it is the Distribution Delivery Charges that the Commission would appear to be addressing in its Final Order in Docket No. 10-0517. In Docket No. 10-0517, the Commission reaffirmed its support of the goal of single-tariff pricing. (page 20) To unwind price uniformity where it exists today runs counter to the uniform single-tariff pricing goal. AIC has been in the process of moving toward uniform rates for some period, as endorsed and approved by the Commission. In Docket Nos. 06-0070 (cons.) and again in Docket Nos. 09-0306 (cons.), the process used to develop uniform charges examined the summed results of the three legacy company cost of service studies to develop uniform charges. Mr. Lazare appears to be arguing that the advent of the Accounting Petition Order sets a different, more stringent standard for pricing than when the Rate Zones were separate legal entities.

Q. Mr. Lazare states that the rebuttal Rate Zone ECOSSs provide a more reasonable foundation for ratemaking (line 247). However, he then states that their appearance on rebuttal affords insufficient time to establish that they provide a reasonable cost foundation (line 250). Hasn't then the Company already met its burden in proving that the rebuttal ECOSSs are a reasonable foundation for cost allocation and ratemaking?

A. Yes. AIC has responded to the deficiency letter, and Mr. Lazare's criticisms of the studies provided in response to the deficiency letter. It is unclear to me what element of the ratemaking process Mr. Lazare needs more time to consider: revenue allocation, pricing, or something else. Mr. Lazare accepted the Rate Zone level cost studies in his direct testimony. His expressed concern was the process by which functional level costs were allocated to individual Federal Energy Regulatory Commission (FERC) accounts, an issue addressed by Mr. Stafford and Mr. Schonhoff. The cost study modification from the deficiency letter to AIC's rebuttal was not that dramatic as to cause one to start the rate analysis from scratch.

Q. Mr. Lazare states that "movement away from uniformity at this time is necessary to signal to the Company that it must provide reasonable cost data in a timely fashion to achieve its uniformity objectives." He argues that "if the Company incurs no meaningful consequences for this shortcoming, it will lack the incentive to meet the Commission's cost of service standards in its next rate case." Does AIC need a signal or incentive to submit Rate Zone ECOSSs in future rate filings?

A. No. The Accounting Petition Order has provided the guidance AIC was seeking. It is clear that Rate Zone ECOSSs will be required to establish distribution delivery service rates in rate cases until uniformity is achieved. Moreover, AIC has acknowledged the same in this proceeding, and that future filings will be accompanied with Rate Zone ECOSSs until we achieve the goal of single-tariff pricing.

Q. Who is truly bearing the consequence of Mr. Lazare's rate design proposals?

A. Customers ultimately are harmed under Mr. Lazare's proposal. Any benefits of eventual single tariff pricing will ultimately be returned to customers through operating efficiencies. The longer we delay, the longer those benefits will take to achieve. Also, as I stated in my rebuttal testimony, "AIC serves many non-residential customers with locations in more than one Rate Zone. Uniformity may be important to those customers who manage facilities in multiple Rate Zones. Uniformity may also be important to suppliers of power and energy who may find it easier to communicate with customers when fewer pricing difference exist among Rate Zones.

Uniformity may also be important to potential meter service providers, who may offer services across AIC Rate Zones." (Ameren Ex. 31.0, lines 263-267)

IV. <u>RESPONSE TO STAFF WITNESS, MR. CLAUSEN</u>

Q. On rebuttal, you proposed three modifications to Mr. Clausen's proposal to further eliminate subsidies to certain non-summer electric supply (BGS-1) rates. What were those modifications?

A. First, I had proposed the addition of three high non-summer use profiles to the nine profiles initially proposed by Mr. Clausen. Second, I proposed to also examine the combination of delivery service and BGS rates together as an additional level of scrutiny to the BGS rate adjustment methodology. Third, I also recommended tariff revisions that invite a Commission review period for adjustments to non-summer prices after each annual Illinois Power Agency (IPA) or procurement event.

Q. Regarding your first modification, does Mr. Clausen oppose your recommendation to add three additional "high use" customer profiles?

A. No. Mr. Clausen points out that the customer target for the three additional profiles is small, but acknowledges that they were the center of attention during the rate redesign efforts in the summer of 2007. Ultimately he appears to agree with their addition to the BGS rate adjustment methodology.

Q. Regarding your second modification, does Mr. Clausen have any comments about your recommendation to setting a bill impact cap that takes into account delivery service price changes in addition to the BGS-1 rate changes?

A. Yes. In his direct testimony, Mr. Clausen had proposed BGS adjustments be capped to a 10% increase to the profiles for any Rate Zone. I had also proposed to add a second level of scrutiny to the BGS rate adjustment methodology to also examine the combination of delivery service and BGS rates together. Mr. Clausen's rebuttal testimony simplifies this review process by focusing solely on the combined BGS and DS rates together. I find this proposal acceptable.

Q. Do you agree with his proposed cap of the total bill impact for any of the 12 customer profiles at 10 percent at the conclusion of this proceeding?

A. Yes. Choosing an increase level requires reasoned judgment, balancing the need to limit undue bill impacts against the need to reduce intra-class subsidization. The proposed rate change will go into effect in mid-January 2012. Customers may have an expectation of upcoming rate changes at the conclusion of rate cases, and values of 10% and below likely will not exceed the point of creating an undue bill impact. Also, a 10% initial threshold will allow slightly more progress toward levelizing non-summer BGS prices (compared to a 7.5% initial limit), which in turn provides otherwise lower bills to low-use and non-space heat non-summer use customers. (Note that most customers will experience total bill rate changes less than 10%.) Finally, customers will experience a period of relative price stability since no further BGS rate redesign of non-summer prices will occur until after the annual IPA procurement event in the Spring of 2013.

Q. Given his revised bill impact recommendation, Mr. Clausen revises his proposal to cap BGS-1 rate increase such that none of the customer profiles in any of the three rate zones exceed a 7.5 percent overall increases in delivery services and supply charges from

one year to the next for subsequent adjustments (those made after this rate proceeding). Do you agree with his 7.5 percent benchmark?

A. Yes. The next adjustment would be made when rates are established in 2013 (non-summer rates effective in October 2013), and the threshold limit would be set at 7.5%, consistent with a value I suggested in my rebuttal testimony. I believe this is reasonable. Keep in mind that the BGS changes are revenue neutral, in that increases to non-summer tail block rates lead to decreases to initial block non-summer rates, which are applicable to all customers.

Q. Regarding your third modification, does Mr. Clausen oppose an annual review period for adjustments to BGS-1 pricing?

A. No.

Q. Is the issue of adjustments to BGS-1 prices now settled?

A. Yes. Ameren Exhibit 48.1 provides a revised redline/strikeout of Rider PER - Purchased Electricity Recovery (Rider PER) that I believe are necessary to accommodate provisions agreed to by Staff and AIC.

V. <u>RESPONSE TO IIEC WITNESS, MR. STEPHENS</u>

Q. Mr. Stephens in his rebuttal testimony claims that AIC's proposed delivery service and Distribution Tax rates "greatly exceed any reasonable conception of rate moderation, especially for the above 100 kV supply voltage subclasses." He further claims that the "increases in the range of 500%" are "exorbitant and require further adjustment for any meaningful moderation." Do you agree?

A. No. There is a need to move more aggressively to make meaningful progress toward eliminating the Distribution Tax subsidy provided to DS-4 customers, especially +100 kV supply voltage customers as explained further below Applying Mr. Stephens' adjustment could take decades to remove the subsidy. It is not fair to other customers who are paying the subsidy to DS-4 to ask to indefinitely subsidize rates.

Moreover, Mr. Stephens' percentages lack context. As I show in my direct testimony, the DS-4 +100 kV supply voltage customers in Rate Zones I and III pay \$0.00010/kWh, or 7.7% of the average proposed Distribution Tax rate of \$0.0012936/kWh, and those in Rate Zone II only pay \$0.00003/kWh, or 2.3% of the average. To bring scale to the numbers, imagine the average Distribution Tax rate is equivalent to nearly a 13 foot tall ceiling. The \$0.00010/kWh value paid by Rate Zones I and III would be equivalent to 1 foot. The \$0.00003/kWh value paid by Rate Zone II would be equivalent to 3.6 inches. These customers pay relatively little in Delivery Service charges as well. The present average Delivery Service rate paid by DS-4 +100 kV supply voltage customers is \$0.00024/kWh, \$0.00117/kWh, and \$0.00031/kWh for Rate Zones I, II, and III, respectively. Thus, even relatively minor ¢/kWh increases to the Distribution Tax result in high percentage changes. Ameren Exhibit 48.2 provides a chart showing present and proposed Distribution Tax price levels by class and Rate Zone. The chart also helps bring perspective to the issue.

If one were to include the cost of power and energy, and transmission service, in examining impacts on these customers, components that these customers paid the legacy AIC companies in 1997 and before, percentage impacts would be significantly diminished.

Q. Mr. Stephens believes that adoption of Mr. Lazare's first step, where he proposes to move half the distance from equal percentage across-the-board increases to fully cost-based

revenue allocations for the three rate zones, is unnecessary given that AIC provided corrected ECOSSs on rebuttal. Do you agree?

A. Not necessarily. AIC adopted Staff's approach to move ½ the distance between an across-the-board increase and the allocated cost provided by the separate Rate Zone ECOSS results. At lines 75-77 in my rebuttal testimony, I explain that adding this step helps mitigate bill impacts to Rate Zone II. Absent the step, increases to Rate Zone II were 18%, and 1.5 times that is 27%. Including the step reduced the allocated average to 13.5%, for a class maximum increase of about 20%. I note that AIC's rebuttal revenue requirement allocated to RZ II was 14.7%, for a class maximum increase of 22%. Staff has proposed an increase to RZ II of 10.8%, or a maximum increase to a class of 16.2%. The overall increases for Rate Zone II are in the range of the "adjusted" increase. The step still would smooth impacts across rate zones, although at the present increase levels, further progress toward cost based rates may take precedent.

As explained previously, the revenue allocation (rate moderation) proposal need not be performed at the DS-3 and DS-4 supply voltage subclass level.

Q. Mr. Stephens finds your 10% floor concept to have merit and be reasonable, but it should be applied at the subclass level to ensure that more customers are adequately protected. Do you agree?

A. No. As explained in my revised direct, and in rebuttal, constraining rate changes to customer supply voltage categories does not permit enough flexibility to increase DS-4 Distribution Tax prices, especially those for High Voltage and +100 kV supply voltage categories.

The AIC proposed pricing methodology also ensures relative price stability within each rate class. For DS-4, the combination of Customer and Meter Charges, when added together, are roughly equivalent to total prices paid today. Transformation and Reactive Demand Charges are proposed to remain at present levels. The only substantial price changes are to the Distribution Delivery Charges and the Distribution Tax rates. The DS-4 Distribution Tax was proposed to increase by $0.000465/kWh, $0.000333/kWh, and $0.000170/kWh for Primary, High Voltage, and +100 kV supply voltage customers, respectively, for each Rate Zone. At the initial revenue requirement proposed in February, the overall DS-4 rate changes were 13.53%, 20.26%, and 10% for Rate Zones I, II, and III, respectively. After changes to the Distribution Tax, the Distribution Delivery Charges were uniformly increased (at each voltage level) by 9.5%, 26.2%, and 7.45%, for Rate Zones I, II, and III, respectively, to achieve the overall class revenue requirement target. Setting aside the effect of the Distribution Tax (which is discussed above), component price changes are relatively comparable to the average allocated to each class, and voltage subclass.

Q. Mr. Stephens recommends that Mr. Jones's call for "meaningful progress" should not take precedence over "the fundamental rate design concept of rate moderation and avoidance of rate shock." Is he in essence advocating that the Commission approve "unmeaningful" progress in proposing subclass moderation?

A. Yes. As stated in my rebuttal testimony, constraining rate changes to customer supply voltage categories does not permit enough flexibility to meaningfully increase DS-4 Distribution Tax prices, especially those for High Voltage and +100 kV supply voltage categories. For example, DS-4 for Rate Zone I is proposed to increase by 13.5%. Limiting the +100 kV DS-4 group to a 13.5% increase would only permit the +100 kV Distribution Tax rate to increase from \$0.00010/kWh to \$0.0001413/kWh. The price would increase from 7.7% of the full average Distribution Tax rate of \$0.0012936/kWh to only 10.9%. At that pace, it would take nearly *28 more iterations* to reach the average rate of \$0.0012936/kWh ([\$0.0012936 - \$0.0001413]/\$0.0000413 = 27.9). (Ameren Ex. 31.0, l. 601-608; 646-648)

AIC's proposal increases the Distribution Tax rate to 20.9% of the average rate, or to \$0.000270/kWh in this proceeding, and 60% of the full rate in February 2013 increasing to 100% in February 2014. (Ameren Ex. 31.0, lines 608-610)

Q. Mr. Stephens continues to advocate that the Commission allocate Public Utilities Revene Act Tax expense based on current distribution plant in service levels rather kWh sales. He claims that current plant in service levels are a "better proxy" for 1997 plant in service levels. Is Mr. Stephens correct?

A. No. Mr. Stephens uses a strained argument that because generation, transmission, and distribution plant were allocated on demand prior to 1998, the Invested Capital Tax (the predecessor to the Distribution Tax) would have followed those plant allocations, and thus use of a kWh-based allocation does not represent a sound proxy for cost causation for the Distribution Tax today. Instead, because generation and transmission plant costs were allocated based on demand, and distribution plant costs are still allocated based on demand, the distribution tax should (at least in part) also be allocated based on demand. Mr. Stephens' argument falls flat on at least two fronts. First, Mr. Stephens' demand allocation uses only distribution plant. In 1997 and before, customers took bundled service from the legacy utilities, which included generation and transmission plant. An allocated portion of the invested capital tax would have followed those assets. Examining only distribution plant as the basis for an allocation today overlooks two major expense components that shaped the amount of Public Utilities Revenue Act (PURA) Tax allocated to customers. Second, the current legislative wording appears to me to have made the prior method obsolete ("(t)he General Assembly finds and declares that this new tax is a fairer and more equitable means to replace that portion of the property tax…" (35 ILCS 620)).

Q. Mr. Stephens also asserts that the current method of allocating PURA Tax expense by kWh sales is "not friendly to industrial economic development." (lines 712-713) Is that a reason for the Commission to move away from allocating PURA Tax expense to those customers whose usage is causing the expense to be incurred?

A. No. There is little disagreement among the parties in this proceeding that price levels should be set according to those who cause the costs. The Distribution Tax expense is no different. Mr. Stephens' testimony was responding to my observation that at current Distribution Tax rates to AIC and price levels charged customers, the marginal revenue from a new DS-4 +100 kV supply voltage customer would fall below marginal cost incurred to serve the customer. This sort of price structure places the burden of such development on AIC's shareholders in the near term and ultimately on other customers after subsequent rate cases.

Q. Mr. Stephens states that you believe that the PURA Tax is properly a base rate charge. Is AIC taking a position in this case whether the expense is properly a base rate charge?

A. No. Ameren Illinois recognizes that in Dockets 09-0306 (Cons.), the Commission explicitly expressed its intent for the Distribution Tax to operate as a pass-through tax, and removed it from base delivery service rates. AIC also acknowledges that the Distribution Tax was considered part of ComEd's base delivery service rates in its recent case (Docket 10-0467). AIC defers to the Commission on how the Distribution Tax should be treated in this and future rate proceedings.

VI. <u>RESPONSE TO AG/CUB WITNESS, MR. RUBIN</u>

Q. Regarding PURA Tax expense, Mr. Rubin states that you and he "obviously disagree about the appropriate way to implement public policy in this case." He argues that any PURA Tax subsidies should be eliminated at the conclusion of this case. "To do otherwise would elevate a general regulatory policy or philosophy over a specific statute enacted by the legislature." Do you disagree with Mr. Rubin's position in theory?

A. Yes. The Distribution Tax is assessed on the utility based annual kWh sales applied to a seven tiered rate structure. I believe the General Assembly set the stage for establishing cost causation (kWh). It is up to the Commission to decide the best means for recovering the cost.

Q. Mr. Rubin claims to have a designed a phase-in proposal for PURA Tax expense for Rate Zone II that does not increase the rates to DS-1 and DS-2. Is his proposal workable?

A. No. Mr. Rubin's proposal is so close to no phase-in as to be of little practical use. Mr. Rubin's proposal would set the DS-4 Distribution Tax at $0.0012104/kWh, or 93.6% of the full average rate of $0.0012936/kWh. As shown on page 16 of my revised direct testimony, present Distribution Tax rates are $0.00034/kWh, $0.00018/kWh, and $0.00003/kWh for Primary, High Voltage, and +100 kV supply line service, respectively. Holding all other DS-4 charges constant, and changing only the Distribution Tax to Mr. Rubin's phase-in levels, would increase Rate Zone II DS-4 revenue by 33.5% (11.7% for Primary, 38.4% for High Voltage, and 101.2% for +100 kV supply line voltage, respectively). In contrast, repeating the exercise but with the full average Distribution Tax rate of $0.0012936/kWh would increase Rate Zone II DS-4 revenue by 36.2%, only 2.7 percentage points more than Mr. Rubin's phase-in. AIC's initial step phase-in approach would increase Rate Zone II DS-4 revenue by 9.1% (6.2% for Primary, 12.4% for High Voltage, and 14.6% for +100 kV supply line voltage, respectively), again holding all other charges constant and changing only the Distribution Tax.

Q. Mr. Rubin continues to argue that AIC's existing customer charge exceeds the cost of service and that there should not be any increase in the customer charge. Do you agree?

A. No. I disagree with the notion that the Customer Charge exceeds the costs of fixed delivery service costs. The delivery system is designed and sized to serve expected demand and use. Once delivery facilities are installed, AIC does not add or remove equipment based on monthly variations in use. These costs are sunk. Moreover, operation and maintenance expense related to equipment is substantially fixed. It is no more expensive to operate and maintain a well-loaded equipment than lightly-loaded equipment. The cost of lines and substations do not change with monthly kWh sales.

Q. He states that your rebuttal is actually a policy argument claiming it is reasonable for an electric utility to move toward a straight-fixed-variable type of rate design. Is that what AIC is advocating?

A. Movement toward straight-fixed-variable (SFV) rate design is a cost argument that may have policy implications. As I discuss above, distribution costs are insensitive to monthly kWh use. Current rate design relies heavily on kWh use to collect class revenue, in contrast to how most costs are incurred.

Also, as I stated in my rebuttal testimony, movement toward a SFV rate design was encouraged by the Commission in Dockets 07-0585 (Cons.) (Order, pp. 281-282) and approved for present rates in Dockets 09-0306 (Cons.) (Order, pp. 266-267, 287). The Commission encouraged movement toward an SFV rate design in its prior rate order, Dockets 09-0306 (Cons.) (Order, p. 252). AIC's proposed DS-1 and DS-2 prices continue gradual movement toward SFV rate design.

Q. He argues that in an environment of increasing residential electricity consumption, there is no justification to deviate from cost-of-service to help promote a utility's revenue stability. Do you agree that AIC's residential consumption has been increasing?

A. Yes, forecast test-year 2012 residential use is projected to be greater than it has been in recent previous rate cases. I do not believe increasing residential electricity consumption will continue indefinitely. Since 2008, AIC has been offering energy efficiency programs, mandated by Section 8-103 of the Public Utilities Act (PUA), 220 ILCS 5/8-103. Each year of the program contains an incremental energy efficiency savings goal. These programs, in addition to other mandated efficiency standards (such as the phasing out of less efficient incandescent light bulbs), are expected to reduce AIC residential energy delivered. The current AIC usage projection indicates that residential sales will be flat to declining over the next 5 years. Also, if residential kWh consumption does continue to increase, SFV would produce less of a bill impact to customers than it would under the present rate design.

Q. Do you agree that AIC is attempting to deviate from cost-of-service in its proposed rate design in this case to help promote revenue stability?

A. No. As I state above, a SFV design is a cost based design. Most of AIC's delivery service costs are fixed. Charging customers higher fixed costs aligns rates more closely with cost causation. A SFV design may provide more stable annual revenue because the number of connected customers tends to be more constant than annual kWh sales. The SFV design also benefits customers by keeping the delivery services portion of their bill more constant during extreme or mild weather periods. It is also true that the income stream under a SFV design provides a better match to annual costs incurred to serve customers.

Q. Mr. Rubin takes umbrage with your proposal that the consumption charge for distribution service should be kept lower (by increasing the customer charge) because the Company will be increasing its rates for Basic Generation Service. Is his concern about "cross-subsidies" valid?

A. No. Let me be clear. There are no cross subsidies between delivery service and power supply. Delivery service prices recover the delivery service revenue requirement. Basic Generation Service (BGS) prices recover power and energy supply costs, nothing more.

The interaction between delivery services and BGS prices I outline in my revised direct and rebuttal testimonies, and herein in response to Mr. Clausen, focuses on bill impacts. Residential BGS service contains deep discounts for Rate Zone I space-heat, Rate Zone I Metro-East, Rate Zone II, and Rate Zone III space-heat customers with non-summer use over 800 kWh. We are attempting to reduce those deep discounts through a BGS redesign process. To properly measure bill impacts, it is necessary to examine both changes in delivery service and BGS prices. Further progress toward reducing the +800 kWh non-summer use discount can be made if variable delivery service charges are lower rather than higher. Mr. Rubin's pricing methodology runs counter to that suggested by the Commission in Docket 07-0585 and implemented in Docket 09-0306. It would also results in retaining BGS subsidies longer than if AIC's pricing proposal is adopted.

Q. He claims your "short-term pricing philosophy," namely that the majority of AIC's costs to serve customers are fixed, violates the principle of setting rates to mirror causation. He argues that prices charged to customers should reflect the fact that increased demand for electricity causes increases in distribution costs. Is Mr. Rubin misreading your testimony?

A. Yes. I do not claim that electric demand has no place in establishing distribution facilities required to serve customers. Indeed, demands of customers are taken into consideration when the initial design and construction of facilities occur. Facilities are sized to meet the current and future expected demands of customers. Once installed, the cost of these facilities will not change from month to month, or year to year. It is appropriate for delivery service prices to reflect the fixed costs of serving customers.

Q. Mr. Rubin claims that the customer charge no longer reflects the cost of service if demand-related costs are recovered through the customer charge. Is AIC proposing to recover demand-related costs through the customer charge?

A. Yes, in part. Revenue from proposed residential fixed charges exceed costs allocated based on the number of customers, meaning that a portion of costs allocated based on demand are recovered through the proposed fixed charges. Residential DS-1 tariffs contain monthly fixed Customer and Meter Charges, and variable $/kWh Distribution Delivery Charges. At this time, due to meter limitations, it is impractical to bill residential customers a demand charge.

Instead, it is practical to charge customers a larger fixed charge to reflect a portion of the cost of serving the expected demand of customers.

VII. RESPONSE TO KROGER WITNESS, MR. HIGGINS

Q. What is Mr. Higgins' response to the differing revenue allocation proposals presented by AIC and Staff?

A. Mr. Higgins agrees with AIC that the results of the rebuttal Rate Zone ECOSSs should be used to establish class revenue allocations, subject to a constraint of the greater of 1.5 times the Rate Zone average or 10%. He believes that it is reasonable to rely on the rebuttal Rate Zone ECOSSs, given the adjustments made in direct responding to Mr. Lazare's critique. He does not favor weighting the Rate Zone revenue allocation by using the ½ an AIC average, and ½ the individual Rate Zone ECOSS.

Mr. Higgins opposes Staff's proposal that all rate classes receive an across-the-board increase equal percentage base rate increase within each rate zone. He believes that Mr. Lazare's proposal "would be unfair to customers in classes that are experiencing relative rates of return above unity." (lines 85-86) He objects to the fact that, under Staff's proposal, customer classes with higher distribution rates will pay even higher rates to mitigate the effect of the rate increase on customer classes in lower-cost rate zones.

Q. What is Mr. Higgins's response to the various proposals by the parties concerning the revenue allocation of PURA Tax expense?

A. Mr. Higgins now agrees with AIC that the revenue allocation should be performed at a delivery service class level, and not extend to the supply voltage "subclass".

VIII. RESPONSE TO CG WITNESS, MR. CHRISS

Q. What is Mr. Chriss's response to the differing revenue allocations proposed by Staff and AIC?

A. Mr. Chriss agrees with AIC that the results of the rebuttal Rate Zone ECOSSs should be used to establish class revenue allocations. Mr. Chriss finds that this produces equitable rates that reflect cost causation, send proper signals and minimize price distortions. He believes that using Mr. Lazare's across-the-board approach would harm customers in the DS-3 class. The Rate Zone cost of service studies all indicate below average rate changes should be made to the class in each of the Rate Zones.

IX. RESPONSE TO GFA WITNESS, MR. ADKISSON

Q. Mr. Adkisson claims that you admit that the Company never addressed or studied "seasonal cost of service" or "seasonal cost responsibilities" for distribution line and substation costs." Has GFA accurately characterized your testimony?

A. No. It appears that Mr. Adkisson desires a rate segmentation study, where seasonal customers are separated from other customers, essentially investigating whether a new class or subclass of customer should be developed. Such a study was considered beyond the scope of the circuit study. A rate segmentation study would require considerable effort. As noted in the previous Order (Docket 09-0306 (Cons.)), aggregating circuit level details, in addition to substation level details that Mr. Adkisson desires, is a highly manual process.

Mr. Adkisson is correct that the circuit study examines relative revenue data related to a sample of both non-seasonal and seasonal customers. The circuit study provided information indicating that local circuit peaks are likely to be driven by seasonal (i.e., grain dryers) customers. The principle of cost causation would indicate that local circuit costs are driven by the need to serve the local circuit demand. Thus, grain dryers would tend to be responsible for circuit costs. Because grain dryers typically set relatively high demands in two months of the year, and low demands in the rest of the year, and $/kW Distribution Delivery Charges are based on monthly maximum on-peak demands, a "cost based" unit price required to recover the revenue requirement for the group would tend to be greater than their current charge, not less.

Q. Mr. Adkisson also claims that GFA provided a list of various possible allocation methods to consider a seasonal cost of service study. Has GFA adequately defined a seasonal cost of service study?

A. No. Mr. Adkisson refers to his response to AIC-GFAI 2.02 (attached to his testimony as GFA Ex. 2.01E). Mr. Adkisson refers to four possible methods. The first was "to assign a seasonal differential to DS-3 and DS-4 rates which approximate the seasonal differential in effect for DS-1 and DS-2 customers which are served from the same distribution system." The seasonally differentiated rates for DS-1 and DS-2 were established during the rate redesign case, Docket 07-0165. The Distribution Delivery charges for DS-1 and DS-2 were seasonally differentiated to address bill impact concerns, not because of a cost of service rationale. Following the DS-1 and DS-2 seasonal differential does not produce a cost-based differential for DS-3 and DS-4. In that same proceeding, the Rate Limiter provision was inserted within DS-3 and DS-4, again to address bill impact concerns.

Q. What was the second possible method listed?

A. Mr. Adkisson states "(a)nother method is to develop electricity delivery service rates for DS-3 and DS-4 customers which are pattered after the AIC GDS-5 seasonal gas delivery service rate. Similar to the GDS-5 winter demand that is based on maximum usage for any day when the Average Temperature is below 25 degrees Fahrenheit, the DS-3 and DS-4 demand could be based on the maximum fifteen minute demand when the daily Average Temperature is above a certain level; say 90 degrees Fahrenheit." Here Mr. Adkisson has defined a possible rate design he would like to explore, but this method does not tell us how to apportion costs. Mr. Adkisson appears to be advocating a rate segmentation study, since GDS-5 is a separate gas rate class. Moreover, the circuit study indicates that the peak loadings of circuits serving grain drying load are not necessarily driven by demands of customers sensitive to average daily temperatures, but by grain drying loads.

Q. Please discuss the third method listed.

A. Mr. Adkisson states "Yet another method is to allocate distribution system substation and circuit costs to respective summer and non-summer periods and divide those respective seasonal costs by the summer and non-summer monthly billing demands for the respective DS-3 and DS-4 classes." Again, this method does not state how one would determine the distribution substation and circuit costs. For example, the method does not tell us how a situation where local circuit peaks are established by grain dryers would be incorporated into a cost study.

Q. What was the fourth possible method listed?

A. Mr. Adkisson states "one seasonal cost allocation method within a rate class could be to develop a historic five-year average of the respective rate class contribution to system monthly coincident peaks." This method appears to rely on aggregate system coincident peaks. Demand at the time of total system peak has little to do with the capacity required to serve local circuits serving larger grain drying customers. Local peaks drive the need for local investment. The circuit study shows that the fall peaks of grain drying customers often set the highest peak demand requirement for the circuit.

Q. He claims that your study intentionally did not look at system wide loading of distribution circuits and substations in an attempt to discern cost responsibility on a seasonal basis. Is that true?

A. Yes. Mr. Adkisson appears to be advocating for a rate segmentation study, where seasonal customers are separated from other customers into a separate class or subclass of customers. Such a study was considered beyond the scope of the circuit study that examined a sample of customers.

Q. Mr. Adkisson does not believe that you have provided sufficient evidence to support your conclusions. How do you respond?

A. In my direct testimony I state "the study shows that circuits serving customers with constant demands through the year contribute more revenue through the year relative to the costs of serving customers. On the other hand, customers with large peaks in the fall can and do set the circuit peak, making that demand point appropriate for setting the cost of the system. Due to the seasonal usage patterns of the customers, they contribute far less revenue through the year than a customer with a comparable annual peak demand and a constant demand though the year." (Ameren Exhibit 13.0E, line 761-767) Mr. Adkisson is critical that the circuit study did not examine substations. A table of monthly substation peaks was provided in the Company's response to GFA data request 2.08, showing that for the substations serving the sampled circuits, many peak in the summer, while some peak in the winter and fall. I believe my conclusion from my revised direct testimony is correct when examining primary line costs. If one were to establish a seasonal rate, the issue of substation costs would also need to be addressed.

Q. He testifies that it is imprudent to design circuits without considering seasonable thermal limits of the facilities when selecting conductor and equipment sizes. Do you agree?

A. No. Mr. Adkisson's mischaracterizes my testimony. What I stated in my rebuttal was "From a practical standpoint, AIC does not design circuits differently if they peak in the summer or fall/winter. The initial equipment selection will generally be based on long term load projections for that area. In this sense, the magnitude of the peak is much more important than the time of peak." (lines 1041-1044)

Q. What does Mr. Adkisson conclude?

A. Mr. Adkisson recommends that the Commission make no decision regarding seasonal DS-3 and DS-4 rates at this time. I am not aware of any specific seasonal rate DS-3 or DS-4 proposals in this proceeding, and agree if one is brought before the Commission it should be judged based on the facts in that proceeding.

X. <u>CONCLUSION</u>

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.