

ILLINOIS COMMERCE COMMISSION

DOCKET No. 13-_____

DIRECT TESTIMONY

OF

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Submitted on Behalf

Of

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

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23 A. The purpose of my direct testimony is to present and discuss AIC's proposal to collect
24 residential and small non-residential (GDS-1 and GDS-2) rates through a Straight-Fixed Variable
25 rate design (SFV)¹. I also address the movement toward uniform pricing among the Company's
26 three Rate Zones. In addition, I discuss, at a high level, gas transportation system enhancements
27 and the future need for related tariff changes, as well as the Company's load forecast.

28 **Q. Please summarize your conclusions.**

29 A. AIC should continue to utilize an SFV rate design, adjusted slightly to increase the
30 percentage of fixed revenue requirement recovered by the Company through the monthly
31 Customer Charge from 80% to 85%. By enhancing its current SFV design, the Company will
32 mitigate forward-looking revenue erosion due to continued degradation of usage caused in part
33 by customer installation and use of more efficient equipment and appliances and by customer
34 participation in Company-sponsored gas energy efficiency measures (generally referred to as
35 "EE") required by Section 8-104 of the Public Utilities Act (the Act). The increased percentage
36 of fixed cost recovery under the proposed SFV design will have a minimal impact on many
37 customers, employing the ratemaking concept of gradualism.

38 Concerning movement toward uniform pricing among the Rate Zones, I conclude that
39 residential (GDS-1) pricing for Rate Zones I and III, and small general service (GDS-2) pricing
40 among Rate Zones I and II should be uniform. The costs for the classes in these Rate Zone are
41 close to the average of the Rate Zones combined, and existing prices are also relatively similar. I
42 also note that while the GDS-3 (General Gas Delivery Service) class cost of service is also

¹ Recovery of the fixed revenue requirement through a fixed charge is known as a "straight fixed variable" or "SFV" rate design. A full or true SFV design requires recovery of 100% of fixed revenue requirement through such charge, with any similar design recovering a smaller percentage being referred to as a "modified SFV" design. Though both AIC's current rate design and the design proposed in this testimony/proceeding are in fact modified SFV designs, AIC simply refers to them as "SFV" designs for ease and sake of clarity.

43 similar across Rate Zones, the existing pricing is not. In the interest of mitigating bill impacts,
44 only the Rate Zones I and II Customer Charges for GDS-3 are proposed to be set uniformly.

45 Also, I conclude that due to system enhancements to the Company's gas transportation
46 systems, certain tariff changes will ultimately be required, which will be submitted for
47 consideration in a separate filing.

48 Finally, I address and present the results of the Company's 2014 load forecast, which was
49 used to develop the 2014 test-year billing determinants. On this topic, I conclude that the load
50 forecast and billing determinants are appropriate to establish test-year revenue and pricing.

51 **Q. Will you be sponsoring any exhibits in support of your direct testimony?**

52 A. No.

53 **II. SFV: HISTORY AND CONTEXT**

54 **Q. Can you briefly describe the history of AIC's SFV rate design?**

55 A. The SFV rate design was first approved for use by AIC in Docket No. 07-0585 and has
56 continued through Docket No. 09-0306 (cons.) and Docket No. 11-0282. Since the design was
57 originally approved for use by AIC, the Company has been authorized to collect 80 % of its fixed
58 revenue requirement from residential and small non-residential (GDS-1 and GDS-2) consumers
59 through a fixed monthly Customer Charge, with the remaining 20 % collected from these classes
60 through a volume-based Delivery Charge (i.e., based on therms consumed).

61 **Q. Are you proposing to change the amount of fixed revenue requirement recovered**
62 **from GDS-1 and GDS-2 customers from the current 80% amount?**

63 A. Yes. The Company proposes to increase the percentage of its revenue requirement
64 recovered through the Customer Charge from 80% to 85%.

65 **Q. Why do you propose to increase the percentage of fixed costs received through the**
66 **customer charge from 80 %to 85 %?**

67 A. The Company continues to experience a general decline in residential and small
68 commercial usage. The decline in sales is exacerbated by greatly increased gas energy efficiency
69 spending and accompanying therm savings goals brought on through implementation of Section
70 8-104 requirements. Recovering more of the fixed revenue requirement through the monthly
71 Customer Charge helps reduce the financial exposure to the Company caused by increasing
72 energy efficiency savings targets beyond the test-year. In addition, because nearly all of the
73 Company's costs are fixed in nature, it is appropriate to further align these costs with the
74 mechanism designed to recover them. An increase of five percentage points in SFV fixed cost
75 recovery will result in relatively small, manageable impacts to customers, will better align
76 charges to costs, and will further mute the negative revenue impact on the Company caused by
77 increasing energy efficiency goals.

78 **Q. What are the energy efficiency goals outlined in Section 8-104 and the associated**
79 **revenue erosion resulting from reduced usage?**

80 A. Although I am not an attorney, it is my understanding that **energy efficiency (EE)**
81 legislation contains incremental annual savings goals that started at 0.2% for the **12** months
82 ended May 31, 2012, increasing each year until 2019 when the value tops out at 1.5% per year.
83 The energy efficiency savings goal in 2014 starts at 0.6% and increases to 0.8% in June 2014.
84 Each 0.2% reduction to residential (Rate GDS-1) and small general service (Rate GDS-2) sales
85 results in a reduction of more than 1.4 million therms, and, at current rates, margin loss of about
86 \$109,000. The goals for 2014 will result in about a five million therm reduction in annual GDS-
87 1 and GDS-2 sales, and a margin loss of about \$392,000. In 2019, the 1.5% annual therm

88 reduction goal will result in a reduction of over 10 million therms, resulting in GDS-1 and GDS-
89 2 revenue erosion of more than \$820,000 per year. As a result, the need for a modification to the
90 SFV is stronger now than in 2008.

91 **Q. How is residential margin erosion resulting from energy efficiency gains impacted**
92 **by moving from an 80% SFV design to 85%?**

93 A. Margin erosion is approximately cut by one quarter, to about \$88,000 in calendar 2014
94 and to about \$635,000 in 2019, based on present rates. Again the margin erosion I am estimating
95 is only due the EE efforts in the near term. Margin erosion will continue because of customer
96 installation of energy efficiency measures, buildings codes that call for stricter insulation
97 measures, the economy, and the like.

98 **Q. What is the anticipated residential customer impact of the Company's proposal?**

99 A. Customers using average amounts within each Rate Zone (approximately 720 therms in
100 Rate Zones I and III, and about 775 therms in Rate Zone II) would not pay any more or less on
101 an annual basis under the Company's proposal. Increasing the SFV percentage to 85% on a
102 revenue neutral basis would increase bills to a small residential customer (using 530 therms per
103 year) by \$0.24 to \$0.35 average per month, depending on Rate Zone (about 0.9% to 1.6% of their
104 annual Gas Delivery Service (GDS) bill and 0.5% to 0.7% of their annual total bill, again
105 depending on Rate Zone). Conversely, a larger residential customer (using 1,191 therms per
106 year) would experience an average monthly rate decrease of \$0.57 to \$0.81 depending on Rate
107 Zone (about 2.3% to 2.7% decrease from their annual GDS bill and 0.7% to 0.9% decrease from
108 their annual total bill). These bill comparisons assume that changing GDS-1 prices from the
109 existing 80% recovery design to an 85% SFV design on a revenue neutral basis would increase
110 the monthly residential Customer Charge by \$1.02, \$1.07, and \$1.28 for Rate Zones I, II, and III,

111 respectively. Conversely, the per therm Delivery Charge prices would decrease by
112 approximately \$0.01756, \$0.01647, and \$0.02112 for Rate Zones I, II, and III, respectively.

113 To be clear, the SFV bill impact scenarios shown above do not attempt to quantify the
114 effect of any incremental rate change, but instead isolate the impact of changing from an 80%
115 SFV to an 85% SFV design. Of course, the Company is seeking to increase revenue requirement
116 in this proceeding. Company witness Ms. Karen Althoff shows proposed prices assuming 85%
117 revenue requirement recovery through the Customer Charge. Bill impacts shown in her direct
118 testimony reflect the change from present rates (with 80% SFV recovery) to proposed rates (with
119 85% SFV recovery plus incremental revenue requirement changes).

120 **Q. What is the revenue neutral impact on Rate GDS-2 of moving from an 80% SFV**
121 **design to an 85% SFV design?**

122 A. As with residential customers, GDS-2 customers using an average amounts would not
123 pay any more or less on an annual basis. Customer Charges would increase annually by about
124 4% (3.5%, 4.8%, and 4.1% for Rate Zones I, II, and III, respectively), and variable Delivery
125 Charges would decrease annually by about 19% (16.6%, 21.1% and 18.9% for Rate Zones I, II,
126 and III, respectively).

127 Increasing the SFV percentage to 85% on a revenue neutral basis would increase bills to
128 a small GDS-2 customer (using 500 therms per year) by an average of \$0.83 to \$1.28 per month,
129 depending on Rate Zone (about 1.9% to 2.8% of their Gas Delivery Service (GDS) bill and 1.2%
130 to 1.8% of their annual total bill, again depending on Rate Zone). Conversely, a larger GDS-2
131 customer (using 6,000 therms per year) would experience an average rate decrease of \$(2.73) to
132 \$(3.12) per month depending on Rate Zone (about 2.8% to 3.0% decrease from their annual GDS
133 bill and 0.7% to 0.8% decrease from their annual total bill).

134 **Q. Is an SFV rate design or other type of decoupling mechanism used by other Illinois**
135 **gas utilities with operations comparable in nature to those of the Company?**

136 A. Yes. NICOR's gas rates for their residential class are presently designed to recover 80%
137 of their fixed costs through the Customer Charge, similar to AIC's present rate structure. Also,
138 Peoples Gas and North Shore operate under a Volume Balancing Adjustment (VBA) decoupling
139 rider, a mechanism that essentially ensures consistent annual margin recovery from customers. I
140 also note that in the pending Peoples Gas and North Shore proceeding, the companies have
141 proposed to increase their percentage of fixed cost recovery through the fixed charge. If the
142 parties to the proceeding oppose the modest increase in the SFV rate design feature, AIC will
143 propose in its rebuttal filing a decoupling mechanism similar to Rider VBA authorized by the
144 ICC for use by Peoples Gas and North Shore in January 2012. The form of the AIC Rider VBA
145 would be much similar to the Peoples Gas and North Shore Gas rider. The same holds true for
146 the Commission: if the Commission prefers the use of a Rider VBA mechanism as opposed to
147 the modest expansion of a SFV rate design to recover fixed costs, AIC will make a compliance
148 filing utilizing the Peoples Gas and North Shore Rider VBA model.

149 **III. RATE ZONE PRICE UNIFORMITY**

150 **Q. What has been the status of uniform pricing across AIC's three rate zones?**

151 A. For delivery services, the legacy gas utilities (and now each of the three Rate Zones) have
152 unique monthly customer charges and per therm delivery charges established from legacy
153 company or Rate Zone level cost of service data. In the Company's last gas delivery services
154 rate case, the ICC authorized the implementation of a uniform single PGA for system gas supply.
155 Customers in each of the three Rate Zones now pay the same monthly PGA charges for
156 Company-supplied natural gas (note that the Uncollectible Factor is presently differentiated by

157 Rate Zone, a price element proposed by AIC witness, Ms. Karen R. Althoff to be consolidated
158 into single factors for AIC). Moreover, the ICC authorized a single Rider TBS, a Transportation
159 Balancing Service charge, for customers in each of the three Rate Zones in Docket No. 11-0282.

160 **Q. What is your view regarding uniformity of charges for delivery services?**

161 A. Taking direction from the Commission decision in Docket No. 10-0517, uniform pricing
162 is appropriate when costs among the various Rate Zones are similar. Specifically, the
163 Commission stated in Docket No. 10-0517 that “the Commission supports AIC’s goal of single-
164 tariff pricing, but any movement toward this goal must also consider the Commission’s efforts to
165 foster cost-based rates” (Order, p. 20). The Commission also stated “The Commission does not
166 mean to suggest that AIC must wait until such costs are equal among all three rate zones before
167 the consolidation...The Commission can envision a point in the future where the costs of serving
168 customers of two of the legacy utilities...may be considered ‘close enough,’ all things
169 considered, and ready for consolidation.” (Id. at 20-21).

170 The cost between some of the rate classes in the Rate Zones is indeed close. For GDS-2
171 and GDS-3, the cost per therm for each of the Rate Zones is within 10% of the weighted average
172 AIC cost per therm. For GDS-1, the cost for Rate Zones I and III are also within 10% of the
173 weighted average cost of Rate Zones I and III. In my view, individual Rate Zone level costs for
174 a rate class within 10% of the average weighted cost represents a level where costs are "close
175 enough" to justify application of a uniform design.

176 **Q. Is cost of service the only criteria to consider for considering single-tariff pricing?**

177 A. No. Not all prices for each rate class within each Rate Zone are currently similar. For
178 situations where costs are similar but present prices are not, rate design is proposed to progress
179 toward uniform pricing for one or more price components but stops short of full price uniformity.

180 **Q. What is the Company's proposal in this filing regarding uniformity of charges?**

181 A. AIC is proposing uniform charges for Rate Zones I and III Rate GDS-1. Costs for these
182 customers are within 10% of the combined average for the two zones and present prices are
183 similar. The Company is also proposing uniform GDS-2 charges in Rate Zones I and II. Costs
184 for these customers are within 10% of the average (compared to a weighted average across AIC
185 for GDS-2 as well as a weighted average of costs for Rate Zones I and II only). Also, similar to
186 GDS-1 customers in Rate Zones I and III, existing GDS-2 charges in Rate Zones I and II are
187 relatively close. In addition, AIC is proposing that the Customer Charges for Rate GDS-3 in
188 Rate Zones I and II be set uniformly, but the Delivery Charge be set independently (i.e. on a non-
189 uniform basis) to a level that achieves the remaining revenue requirement target for the class in
190 each respective Rate Zone. While GDS-3 costs in Rate Zones I and II are within 10% of the
191 weighted average of Rate Zones I and II, and Customer Charges are similar, existing Delivery
192 Charges are presently not. Thus, the Company is proposing only a uniform Customer Charge.

193 **Q. Once uniform prices are accepted for a given rate class in two or more Rate Zones,**
194 **is it your proposal that such uniformity be retained in future rate case filings?**

195 A. Yes. Until all rate classes have uniform pricing among each of the Rate Zones, the
196 Company would still calculate individual Rate Zone class cost of service studies. For any Rate
197 Zone classes combined in a previous proceeding, the class cost of service results would be added
198 together for determining overall class revenue requirement targets and prices, similar to the
199 approach used in this proceeding. Continued movement of pricing in other rate classes should be
200 made subject to an evaluation of cost of service and potential bill impacts.

201 **IV. GENERAL GAS TRANSPORTATION SERVICE ENHANCEMENTS**

202 **Q. Is the Company enhancing systems and processes to support existing gas**
203 **transportation services?**

204 A. Yes. The Company's Unbundled Services Management System (USMS) was developed
205 to support non-residential transportation service when gas supply choice first became available in
206 the 1980's. USMS has evolved over the years, but USMS and the labor intensive administration
207 requirements supporting gas transportation have recently struggled to keep up with increasing
208 demands from greater customer participation. The Company is presently collaborating with
209 suppliers and others about the upcoming enhancements to the general gas transportation
210 program. The enhancements entail replacing USMS with added functionality to the Company's
211 Customer Service System (CSS), its primary billing system. The enhancements also include
212 establishing electronic data interface (EDI) communication protocols, a web portal, and other
213 features that are similar to electric choice of supply interfaces. The enhancements will not
214 impact customer service choices, except that the existing manual process will be automated and
215 the systems will be integrated to the extent possible. The enhancements will no longer require
216 AIC to change customer account numbers for gas transportation participants, reducing potential
217 confusion. The automation will support increased enrollment and participation in general gas
218 transportation and offer greater flexibility for suppliers. The enhancements builds on proven
219 existing EDI framework used for electric choice and automates notifications of meter changes
220 and other account changes by AIC via EDI to suppliers. The timeline for implementing the new
221 systems and protocols is November, 2013. By initiating the stakeholder workshops in January,
222 suppliers will have detailed knowledge of the changes and plenty of lead time to make the
223 necessary changes to their own processes and/or systems, or make arrangements for third party

224 services to support the new AIC protocols and enhancements. The first stakeholder workshop on
225 gas transportation enhancements was held on January 16, 2013, with subsequent meetings
226 planned on a monthly basis, as needed.

227 **Q. Will the general gas transportation service enhancements require tariff changes?**

228 A. Yes. After the Company completes its stakeholder meetings, tariff changes will be
229 proposed that reflect the requirements under the enhanced systems. The Company will propose
230 these tariff changes in a separate 45-day tariff filing in order to meet the November target date to
231 implement the new systems and protocols.

232 **V. FORECAST PROCESS**

233 **Q. What process did the Company use to develop the sales forecast for the test-year?**

234 A. A statement of the forecast process and how it relates to the test-year billing determinants
235 may be found in the Company's Part 285, Schedule E-4. In general, the forecast was developed
236 using econometric modeling and a functional form of forecasting called Statistically Adjusted
237 End-Use (SAE) modeling. The models incorporate the influence of weather on monthly sales, in
238 addition to the influence of economic conditions. The SAE model incorporates economic
239 growth, price of natural gas, and energy efficiency and intensity. Further detail concerning the
240 forecast and forecasting process is contained in Schedule E-4. Test year billing determinants are
241 also shown in Schedule E-4. Ms. Althoff sponsors Schedule E-5, which multiplies present and
242 proposed prices, respectively, by the billing units contained in Schedule E-4.

243 **VI. CONCLUSION**

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

245 A. Yes, it does.

APPENDIX

STATEMENT OF QUALIFICATIONS
LEONARD M. JONES

My name is Leonard M. Jones. My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103. I am employed by Ameren Illinois Company as Director – Rates & Analysis.

I graduated from Western Illinois University with a Bachelor of Arts Degree in Economics in 1987. In 1988, I received a Master of Arts Degree in Economics, also from Western Illinois University. From 1988 through 2004 I was employed by Illinois Power Company (“Illinois Power”) as a Rate Analyst, Senior Rate Analyst, Rate Specialist, Team Leader - Costing and Economic Services, and Director – Business Planning and Forecasting. Shortly after completion of Ameren Corporation’s (“Ameren”) acquisition of Illinois Power, I became Managing Supervisor – Restructured Services, Regulatory Policy and Planning. In 2008, I was promoted to my current position.

I previously testified before the Illinois Commerce Commission in Docket No. 91-0335, regarding Illinois Power’s electric marginal cost of service study; Docket No. 93-0183, regarding Illinois Power’s gas marginal cost of service study; Docket No. 98-0348, regarding Illinois Power’s proposed Rider DA-RTP II; Docket No. 98-0680, regarding the investigation concerning certain tariff provisions under Section 16-108 of the Public Utilities Act and related issues; Docket No. 98-0769, regarding requirements governing the form and content of contract summaries for the 1999 Neutral Fact Finder; Docket Nos. 99-0120 & 99-0134 (Cons.) regarding approval of Illinois Power’s Delivery Service Implementation Plan and Tariffs; Docket Nos. 00-0259/00-0395/00-0461

(Cons.) regarding proposed Rider MVI and revisions to Rider TC; Docket 01-0432 regarding electric Delivery Service Tariff rate design and related matters; Docket 04-0476 regarding gas rate design; Docket Nos. 06-0070/06-0071/06-0072 (Cons.) regarding electric Delivery Service Tariff rate design and related matters; Docket Nos. 06-0691/06-0692/06-0693 (Cons.) regarding residential real-time pricing tariffs; Docket 06-0800 regarding an investigation into changes to auction process and the Ameren Illinois Utilities' market value tariffs (Rider MV); Docket 07-0165 regarding an investigation into the Ameren Illinois Utilities' rate design, Docket 07-0527 regarding tariff changes resulting from passage of the IPA Act; Docket 07-0585 – 07-0590 (cons.) regarding electric rate design; Docket 07-0539 regarding electric energy efficiency programs; Docket 08-0104 regarding gas energy efficiency programs; Docket 09-0306 – 09-0311 (cons.) regarding electric rate design; Docket 09-0535 regarding Rider EDR and GER reconciliation; Docket 10-0095 regarding tariff changes required for on-bill financing programs; and Docket 10-0517 regarding a petition for an accounting order; Docket Nos. 11-0279 and 11-0282 (Cons.) regarding electric Delivery Service Tariff rate design and related matters; Docket 11-0358 regarding purchase of uncollectible receivables tariff provisions; Docket 11-0383 regarding Rider TS-Transmission Service reconciliation; Docket 12-0001 regarding initiation of electric formula ratemaking through Rate MAP-P – Modernization Action Plan – Pricing; and Docket 12-0293 regarding Rate MAP-P annual update filing.