IIEC Exhibit 2.0

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

AMEREN ILLINOIS COMPANY	**)**	
d/b/a Ameren Illinois	**)**	
	)	**Docket No. 13-0192**
Proposed General Increase in	**)**	
Gas Rates	**)**	

Direct Testimony and Exhibits of

Brian C. Collins

On behalf of

Illinois Industrial Energy Consumers

June 11, 2013

BRUBAKER & ASSOCIATES, INC.

Project 9735

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IIEC Exhibit 2.1 and IIEC Exhibit 2.2

Direct Testimony of Brian C. Collins

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Brian C. Collins. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility regulation and an Associate with Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A This information is included in Appendix A to my testimony.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A I am testifying on behalf of the Illinois Industrial Energy Consumers ("IIEC"). IIEC members are substantial users of natural gas within the service territory of Ameren Illinois Company ("AIC" or "Company").

Q PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.

A My findings and recommendations are summarized as follows:

1. The cost of service studies proposed by the Company are significantly flawed because they allocate fixed cost transmission and distribution ("T&D") mains in part using a volumetric allocation factor. Specifically, the Company uses the peak and average demand method of cost allocation for T&D mains. This is inconsistent with general industry practices and should not be adopted by the Illinois Commerce Commission ("Commission"). I recommend that the costs associated with T&D mains be allocated using a design day demand allocator.

2. The Company's cost of service studies over-allocate costs to large customers because they do not properly classify a portion of low pressure T&D mains on a customer component and then allocate those costs on both customer and demand components. I recommend that a portion of the low pressure distribution main costs be allocated on a customer component.

3. I recommend that the Company maintain rate zone specific rates for the GDS-4 class. Separate cost of service studies for each rate zone should continue to be performed by the Company and each zone's rate for the GDS-4 class should continue to be developed based on those cost of service studies.

4. I recommend that the existing rate design for the Rate Zone II GDS-4 class be maintained and that the current delivery and demand charges be increased by the average increase for the GDS-4 class. This will prevent intra-class rate shock within Rate Zone II's GDS-4 class.

Allocation of T&D Main Costs

Q HOW HAS THE COMPANY ALLOCATED THE COSTS OF T&D MAINS TO RATE CLASSES IN ITS COST OF SERVICE STUDIES?

A The Company has allocated T&D plant in its cost of service studies using the peak and average demand allocator. This allocates costs on both the peak or design day demand for each class as well as the average demand for each class. The average demand for each class is calculated by taking the total class annual volume of gas (annual throughput) divided by 365 days.

To calculate the peak demand component of the peak and average demand allocator for a particular class, the Company calculates that class's percent of total Company peak or design day demand multiplied by (1 – the system load factor). To calculate the average demand component of the peak and average demand allocator, the Company calculates the class's percent of total Company average demand. These two calculated percentages are then added together to establish a peak and average demand allocator for the class.

Q IS THE COMPANY'S ALLOCATION OF T&D COSTS USING THE PEAK AND AVERAGE DEMAND ALLOCATOR APPROPRIATE?

A No, it is not. A major problem with the peak and average demand allocator is the fact that it double counts the "average" component of demand. Thus, total usage, which is not a valid allocation of demand costs at all, is counted twice in the allocation of demand costs, once in the peak allocation and again in the average demand allocation. The impact of using the peak and average demand method to allocate T&D costs is the over-allocation of costs to high load factor customers such as industrial customers.

Q DOES THE COMPANY DESIGN AND SIZE ITS T&D MAINS BASED ON TOTAL VOLUMES OF GAS USED BY ITS CUSTOMERS?

A No, it does not. In the direct testimony of Company witness Karen Althoff (Ameren Ex. 9.0), she lists the parameters that AIC uses to design T&D facilities for its customers, which include the Maximum Daily Quantity ("MDQ") or expected peak customer demand, peak hourly demand and operating pressure. According to Ms. Althoff at page 12 of her testimony:

> The MDQ and peak hourly demand are the primary factors that drive the facilities required to serve customers. Annual throughput; on the other hand, is a poor indicator of cost causation.

Q ARE MS. ALTHOFF'S STATEMENTS THAT AIC DESIGNS AND BUILDS ITS T&D SYSTEM IN ORDER TO SERVE THE MDQ AND PEAK HOURLY DEMANDS OF ITS CUSTOMERS REASONABLE?

A Yes. Gas distribution companies design and size their T&D systems based on design day demand or peak demand requirements of its customers, location of the

customers, and generally the number of customers on the system. Therefore, I recommend allocating the costs of the T&D system based on design day demand. Design day demand along with the number of current and future customers is consistent with how the system, in reality, is engineered and designed.

Q IS THE COMPANY'S PROPOSAL TO USE THE PEAK AND AVERAGE DEMAND METHOD IN ALLOCATING T&D MAINS REASONABLE?

A No. The Company's proposal is inconsistent with current industry accepted practice of allocating the costs of T&D mains, and fails to meet the cost of service principle of cost causation.

Q DO YOU HAVE ANY EXAMPLES OF CURRENT INDUSTRY COST OF SERVICE PRACTICES?

A Yes. In its 1989 manual, the National Association of Regulatory Utility Commissioners ("NARUC") recognizes that demand or capacity costs can be allocated to classes based on two factors: (1) peak day demands, and (2) the number of customers. The NARUC *Gas Distribution Rate Design Manual* states the following:

> Demand or capacity costs vary with the size of plant and equipment. They are related to maximum system requirements which the system is designed to serve during short intervals and do not directly vary with the number of customers **or their annual usage.** Included in these costs are: the capital costs associated with production, transmission and storage plant and their related expenses; the demand cost of gas; and most of the capital costs and expenses associated **with that part of the distribution plant not allocated to customer costs**, such as the **costs associated with distribution mains in excess of the minimum size** (pages 23-24, emphasis added).

NARUC recognizes that T&D costs are not related to or caused by annual usage or volume. Rather, T&D systems are designed to meet peak day demands and serve customers across the system.

Q WHAT IS THE CURRENT FEDERAL ENERGY REGULATORY COMMISSION ("FERC") APPROVED METHODOLOGY FOR ALLOCATING FIXED PIPELINE COST?

A FERC Order 636, dated April 8, 1992, endorsed the straight fixed cost-variable ("SFV") cost methodology which allocates fixed pipeline cost on a demand basis. In that regard, FERC states:

> The Commission believes that requiring SFV comports with and promotes Congress' goal of a national gas market as discussed above and goes hand-in-hand with the equality principle.
>
> * * *
>
> Moreover, the Commission's adoption of SFV should maximize pipeline throughput over time by allowing gas to compete with alternative fuels on a timely basis as the prices of alternate fuels change. The Commission believes it is beyond doubt that it is in the national interest to promote the use of clean and abundant natural gas over alternate fuels such as foreign oil. SFV is the best method for doing that. (FERC Order 636, pp. 125-127 (footnote omitted)).

The FERC SFV allocation method appropriately treats fixed pipeline costs as demand-related costs. Similarly, T&D main costs not classified as customer-related on the AIC system, should be treated as demand-related costs to achieve the goals and benefits outlined by FERC and as endorsed by NARUC.

Q DOES THE T&D SYSTEM ALLOW CUSTOMERS TO RECEIVE VOLUMES OF GAS?

A I do not dispute that after the system is designed, customers use the T&D system to have volumes of gas delivered. However, if customers expect supply sufficient to

meet their peak firm demand, then they need and should pay for adequate T&D capacity to allow gas to be delivered every day to meet their expected demands, including days with above average demands. Otherwise, they will not be allocated adequate capacity to deliver gas on days with above average usage, which would be most cold days, and their service would be interrupted on all of those days.

It is the peak day demand which drives the cost incurred in order to design, implement and maintain a T&D system that is adequate to provide firm service throughout the year including the peak day to all customers that want firm service. Since cost causation is driven by peak demand, costs should be allocated based on peak demand.

Q DOES ALLOCATING T&D MAIN COSTS IN WHOLE OR IN PART ON ANNUAL VOLUME OR ANNUAL THROUGHPUT ENCOURAGE THE EFFICIENT UTILIZATION OF THE GAS T&D SYSTEM?

A No, it does not. The efficient utilization of the T&D system is best accomplished by minimizing the peak day demand in relationship to annual volume. This enhances the customer load factor and reduces the per unit of gas delivery cost. That is, a customer with a higher load factor moves more volume throughout the system relative to the customer's peak day demand. A lower load factor customer on the other hand moves less gas volume through the distribution system in relationship to their peak day demand.

If customers are given accurate price signals, which are designed based on accurate allocation of costs between customer classes, customers can change consumption behavior in order to manage their costs. The Company can then adjust

prices to customers if their changed load profile allows the Company to reduce its cost of service.

Q WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE ALLOCATION OF T&D MAIN COSTS IN THE COMPANY'S COST OF SERVICE STUDIES?

A Based on industry practice, it would be more appropriate to use the design day peak demand allocator to allocate the T&D main costs of the Company. Since T&D gas systems are designed based on peak day demands and the number of customers, the best cost-causation allocation factors, for the allocation of T&D costs between customers, are peak day demands and number of customers. Therefore, I recommend that the design peak day demand and not the peak and average demand allocator be used to allocate the costs of the non-customer components of T&D mains.

Q HAVE YOU ADJUSTED THE COMPANY'S COST OF SERVICE STUDIES TO REFLECT YOUR RECOMMENDATION FOR THE ALLOCATION OF T&D MAIN COSTS?

A Yes. My adjustment to the Company's cost of service studies will be discussed later in my testimony.

Customer Component – Low Pressure Distribution Mains

Q HAS THE COMPANY ALLOCATED A PORTION OF ITS LOW PRESSURE DISTRIBUTION MAINS ON A CUSTOMER BASIS IN ITS COST OF SERVICE STUDIES?

A No. As a result, the Company's cost of service studies contain another flaw in addition to the flaw of using the peak and average demand allocator to allocate costs associated with T&D mains.

Q IS A CUSTOMER COMPONENT WITH RESPECT TO THE CLASSIFICATION AND ALLOCATION OF DISTRIBUTION MAINS RECOGNIZED BY NARUC?

A Yes. Earlier in my testimony, I referenced the NARUC manual and that manual's recognition that demand or capacity costs vary with the size of plant and equipment, that they are related to maximum system requirements which the system is designed to serve, and do not directly vary with the number of customers or their annual usage. The NARUC manual recognizes that costs associated with the minimum sized distribution main are customer related.

Q WHY IS IT APPROPRIATE TO ALLOCATE THE COSTS OF DISTRIBUTION MAINS ON A CUSTOMER COMPONENT?

A While it is true that a gas distribution system has to be sized to accommodate the design for critical peak day demands, it must <u>also</u> be designed to physically connect each customer's service with the city gate gas receipt points. Consequently, while peak requirements will influence the *diameter* of mains, the *linear feet* of mains (and total actual cost) will depend upon the number of customers served. As an illustration, more investment is needed to serve 10,000 customers at various different

geographical locations with a peak demand of 1 Mcf than one customer with a peak demand of 10,000 Mcf at a single location.

Q WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE COMPANY'S PROPOSED COST OF SERVICE STUDIES FOR THE TREATMENT OF LOW PRESSURE DISTRIBUTION MAIN COSTS?

A I recommend that the Company's cost of service studies allocate a portion of the cost of low pressure distribution mains on a customer component.

Q HOW MUCH OF THE LOW PRESSURE DISTRIBUTION MAIN COSTS SHOULD BE ALLOCATED ON A CUSTOMER COMPONENT?

A The data necessary to estimate the amount of the Company's distribution main costs that are customer related has been requested in a data request, but not yet provided by the Company. Based on my experience, approximately 40% of the cost of distribution mains is a reasonable amount of distribution main costs that should be allocated on a customer component. As a result, I have classified 40% of the costs associated with low pressure distribution mains as customer related.

Q IS YOUR PROPOSAL TO ALLOCATE A PORTION OF DISTRIBUTION MAIN COSTS ON A CUSTOMER COMPONENT IN THE COMPANY'S CLASS COST OF SERVICE STUDIES APPROPRIATE?

A Yes. The Company allocated all T&D costs on the basis of peak day demand and volume. A significant portion of the Company's T&D system is designed to move gas to the location of all of its customers on the system. Hence, a portion of the low

pressure distribution main costs is driven by the number of customers on the system, and not the customers' peak day demands.

Cost of Service Studies – Adjustments to T&D Main Costs

Q HAVE YOU PERFORMED ALTERNATIVE COST OF SERVICE STUDIES FOR THE COMPANY'S RATE ZONES BASED ON YOUR RECOMMENDATIONS ON THE ALLOCATION OF T&D MAIN COSTS?

A Yes. I have taken the Company's studies and removed the peak and average demand allocation of T&D main costs. In place of the peak and average allocation, I have allocated T&D costs on the basis of the design day peak demand. I have also allocated a portion (40%) of the costs associated with low pressure distribution mains on a customer component. The results of my studies are shown in IIEC Exhibit 2.1. My exhibit also contains my proposed revenue allocation to the classes.

Q HAS THE COMPANY LIMITED THE PROPOSED INCREASES TO CLASSES IN ITS REVENUE ALLOCATION?

A Yes. The Company has limited the revenue allocation to any one class at 1.5 times the system average increase. Under my proposed cost of service studies, the increases for all classes remain below 1.5 times the system average increase.

Q WHAT IS YOUR RECOMMENDATION TO THE COMMISSION?

A I recommend that my adjusted cost of service studies be used to determine the Company's class cost of service and revenue allocation. It should be noted that my cost of service studies are based on the Company's proposed revenue requirement.

Therefore, the class increases would need to be updated based on the Company's Commission approved revenue requirement.

Rate GDS-4 Should Continue to be Zone Specific

Q DOES THE COMPANY PREPARE SEPARATE COST OF SERVICE STUDIES FOR ITS RATE ZONES?

A Yes. The Company prepares separate cost of service studies for its three rate zones (CIPS, CILCO, and IP legacy companies).

Q HAS THE COMPANY MOVED FOR RATE UNIFORMITY ACROSS ZONES FOR CERTAIN CLASSES?

A Yes. According to the testimony of Ms. Althoff, the Company is conforming some rate class pricing among the rate zones.

Q IS RATE UNIFORMITY FOR THE GDS-4 CLASS APPROPRIATE?

A No, rate uniformity for the GDS-4 class is not appropriate. I recommend that the rates for the GDS-4 class remain zone specific.

Q PLEASE DESCRIBE THE GDS-4 CLASS.

A The GDS-4 class consists of large non-residential delivery service customers with average gas usage of at least 1,000 therms per day.

Q WHAT IS THE BASIS FOR YOUR RECOMMENDATION FOR THE GDS-4 CLASS RATES TO REMAIN ZONE SPECIFIC?

A The three legacy systems (CIPS, CILCO, and IP) were designed and constructed independently. As a result, the three systems have separate cost structures. Therefore, it is appropriate that each system continue to have its own individual cost of service study and its rates developed from its individual cost of service study. This is particularly true for the GDS-4 class. The customers taking service under the GDS-4 rate have large design day peak demands. Since T&D systems are designed to meet the design day or peak demands of its customers, the peak demands of GDS-4 customers significantly affect the design and construction of the T&D system.

Rate Design For Rate Zone II GDS-4

Q WHAT IS THE COMPANY'S PROPOSAL FOR THE RATE DESIGN OF GDS-4 IN RATE ZONE II?

A According to the testimony of Ms. Althoff, the demand charges for Rate Zone II GDS-4 are being adjusted to eliminate the rate provision regarding separate demand charges for usage over two million therms.

Q WHAT IS THE BASIS FOR THE COMPANY'S PROPOSAL?

A According to Ms. Althoff's testimony at page 29, she states that customer demand provides a superior price signal versus customer delivery volumes for GDS-4 customers, as demand matches the criteria used to plan and design facilities serving customers. As such, AIC proposes to gradually eliminate the over two million therm demand charge, transitioned over time to avoid undue customer bill impacts.

Q HOW DO YOU RESPOND?

A I do not disagree with Ms. Althoff's comments concerning the superiority of demand for price signals. However, I am concerned that the Company's proposed rate design does not prevent undue customer bill impacts or rate shock, and may not appropriately reflect the cost structure of the Rate Zone II system.

Q HAS THE COMPANY LIMITED THE INCREASE TO THE GDS-4 CLASS?

A Yes. The Company has limited the increase for the Rate Zone II GDS-4 class to prevent rate shock to customers. The Company's cost of service study for Rate Zone II shows that the GDS-4 class should receive an approximate 37% increase. However, to limit rate shock, this class's average increase has been limited to 1.5 times the system average, or approximately 33%.

Q DOES THE COMPANY'S PROPOSED RATE DESIGN FOR GDS-4 MEET ITS GOAL OF PREVENTING RATE SHOCK ON AN INTRA-CLASS BASIS?

A No, it does not. Though the Company has limited the increase to the GDS-4 class to 1.5 times the system average increase, there could be customers inside the class that will experience rate shock with increases greater than 1.5 times the system average.

Q PLEASE EXPLAIN.

A I have prepared an example that illustrates the rate shock that results from the Company's proposed rate design for Rate Zone II GDS-4. According to the Company's data for this class, the average load factor for the Rate Zone II GDS-4 class is approximately 61%.

I have applied the Company's proposed rates resulting from its rate design to a hypothetical customer transportation customer with annual throughput of 20 million therms that takes service at pressure greater than 60 psi with a load factor equal to the class average of 61%. This analysis is developed in my IIEC Exhibit 2.2. The Company's proposed rate design results in an increase of over 41% for this hypothetical customer, or approximately 1.9 times the system average.

Q WHAT IS YOUR PROPOSAL?

A I propose to maintain the existing rate structure for GDS-4 in Rate Zone II and increase the delivery and demand charges by the class average percent (limited to 1.5 times the system average, if necessary) resulting from the cost of service studies . This will help accomplish the Company's goal of preventing rate shock for more customers on both an inter-class and intra-class basis.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes, it does.

Qualifications of Brian C. Collins

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Brian C. Collins. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?

A I am an Associate in the field of public utility regulation with the firm of Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A I graduated from Southern Illinois University Carbondale with a Bachelor of Science degree in Electrical Engineering. I also graduated from the University of Illinois at Springfield with a Master of Business Administration degree. Prior to joining BAI, I was employed by the Illinois Commerce Commission and City Water Light & Power ("CWLP") in Springfield, Illinois.

My responsibilities at the Illinois Commerce Commission included the review of the prudence of utilities' fuel costs in fuel adjustment reconciliation cases before the Commission as well as the review of utilities' requests for certificates of public convenience and necessity for new electric transmission lines. My responsibilities at CWLP included generation and transmission system planning. While at CWLP, I completed several thermal and voltage studies in support of CWLP's operating and planning decisions. I also performed duties for CWLP's Operations Department, including calculating CWLP's monthly cost of production. I also determined CWLP's

allocation of wholesale purchased power costs to retail and wholesale customers for use in the monthly fuel adjustment.

In June 2001, I joined BAI as a Consultant. Since that time, I have participated in the analysis of various utility rate and other matters in several states and before FERC. I have filed or presented testimony before the Florida Public Service Commission, the Idaho Public Utilities Commission, the Illinois Commerce Commission, the Indiana Utility Regulatory Commission, the Minnesota Public Utilities Commission, the Missouri Public Service Commission, the Public Utilities Commission of Ohio, the Rhode Island Public Utilities Commission, and the Public Service Commission of Wisconsin. I have also assisted in the analysis of transmission line routes proposed in certificate of convenience and necessity proceedings before the Public Utility Commission of Texas.

In 2009, I completed the University of Wisconsin – Madison High Voltage Direct Current ("HVDC") Transmission Course for Planners that was sponsored by the Midwest Independent Transmission System Operator, Inc. ("MISO").

BAI was formed in April 1995. BAI and its predecessor firm have participated in more than 700 regulatory proceeding in forty states and Canada.

BAI provides consulting services in the economic, technical, accounting, and financial aspects of public utility rates and in the acquisition of utility and energy services through RFPs and negotiations, in both regulated and unregulated markets. Our clients include large industrial and institutional customers, some utilities and, on occasion, state regulatory agencies. We also prepare special studies and reports, forecasts, surveys and siting studies, and present seminars on utility-related issues.

In general, we are engaged in energy and regulatory consulting, economic analysis and contract negotiation. In addition to our main office in St. Louis, the firm also has branch offices in Phoenix, Arizona and Corpus Christi, Texas.

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