**Ameren Exhibit 24.0**

# ILLINOIS COMMERCE COMMISSION

## DOCKET No. 13-0192

# REBUTTAL TESTIMONY

## OF

## KAREN R. ALTHOFF

**Submitted on Behalf**

**Of**

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

**July 10, 2013**

# TABLE OF CONTENTS

Page No.

I. INTRODUCTION ..... 1

A. Witness Identification ..... 1

B. Purpose, Scope and Identification of Exhibits ..... 1

II. RESPONSE TO INTERVENORS ..... 3

A. Response to Mr. David J. Effron ..... 3

1. Improper Revenue Comparison ..... 9

2. Improper Use of Customer Segments ..... 11

3. Impact of Rider TBS ..... 12

4. Improper Calculation of Average Industrial Rate ..... 14

5. Failure to Consider Additional Data ..... 14

B. Response to Mr. Brian C. Collins ..... 16

1. T&D Main Allocation Factors ..... 17

2. Concerns Regarding GDS-4. ..... 22

C. Response to Mr. Scott J. Rubin ..... 24

1. GDS-5 Rate Availability ..... 25

2. Rate Zone III, GDS-4 Impact Mitigation ..... 28

III. CONCLUSION ..... 29

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## I. INTRODUCTION

### A. Witness Identification

**Q. Please state your name and business address.**

A. My name is Karen R. Althoff. My business address is 370 S. Main Street, Decatur, Illinois 62523.

**Q. Are you the same Karen R. Althoff who previously sponsored direct testimony in this proceeding?**

A. Yes, I am.

### B. Purpose, Scope and Identification of Exhibits

**Q. What is the purpose of your rebuttal testimony?**

A. The purpose of my testimony is to respond to portions of direct testimony filed by certain intervenors in this proceeding. Specifically, I respond to the direct testimony of Illinois Industrial Energy Consumers (IIEC) witness, Mr. Brian C. Collins and the direct testimonies of Mr. Scott J. Rubin and Mr. David J. Effron, witnesses for the People of the State of Illinois (AG) and the Citizens Utility Board (CUB) (collectively AG/CUB).

**Q Are you sponsoring any exhibits in support of your testimony?**

A. Yes. I am sponsoring Ameren Exhibits 24.1 through 24.9. These exhibits are summarized as follows:

- Ameren Exhibit 24.1: Reconciliation of Twelve Months Ended April 2013 Actual Revenues to Schedule E-5 Revenues
- Ameren Exhibit 24.2: Data Request AG 11.03R
- Ameren Exhibit 24.3: Data Request AG 2.17
- Ameren Exhibit 24.4: Data Request AG 2.23
- Ameren Exhibit 24.5: Data Request AIC-IIEC 3.18
- Ameren Exhibit 24.6: Data Request AIC-IIEC 3.19
- Ameren Exhibit 24.7: Data Request AIC-IIEC 3.20
- Ameren Exhibit 24.8: Data Request AIC-IIEC 3.39
- Ameren Exhibit 24.9: Data Request AIC-AG/CUB 3.25

**Q Would you like to make any general comments before responding to those witnesses referenced above?**

A. Yes. First, I would note that Staff witness Mr. Christopher Boggs has evaluated the Company's Cost of Service Studies (COSS) and is in agreement that the COSS appropriately assign costs of service to the various functions and rate classes. It is his opinion, as it is mine, that these COSS are appropriate for use in determining rates in this proceeding. Second, Mr. Boggs also recommends approval of the Company's proposal to limit the rate increase for each rate class to 1.5 times the system-average increase. Lastly, Mr. Boggs agrees that the expanded, experimental tariff provision relating to the availability of the additional Gas Delivery Service (GDS) GDS-3 Customer Charge tier for GDS-5-qualifying customers should be eliminated.

## II. RESPONSE TO INTERVENORS

### A. Response to Mr. David J. Effron

**Q Have you reviewed the direct testimony of Mr. Effron?**

A. Yes, I have.

**Q. Can you please summarize the recommendations to which you will respond?**

A. Mr. Effron recommends an adjustment to the 2014 test year Industrial and Transportation revenues forecasted by the Company. Specifically, he recommends that the test year level of these revenues be set at the actual level of revenues for the twelve-month period ended April 2013. Mr. Effron mistakenly believes that the Company will collect more revenues from Industrial and Transportation customers during the future test year than presented in the Company forecast, and proposes an adjustment to account for the difference. Thus, Mr. Effron's proposal would erroneously adjust the Company's test year level of base rate revenues under present rates and, if accepted, would result in a dollar-for-dollar reduction to the Company's proposed revenue requirement increase, all else being equal.

My concerns with Mr. Effron's analysis are primarily with his use of: (i) improper revenue comparisons and (ii) improper customer segments. Specifically, Mr. Effron's analysis does not capture <u>total</u> non-residential <u>base</u> rate revenues, and thus results in a distorted picture of AIC's revenue levels. In addition, Mr. Effron assumes that price levels were consistent throughout the twelve-month period ended April 2013, when that is not the case. Finally, Mr. Effron's analysis fails to take into account certain customer and economic data provided by AIC in response to data requests. These improprieties distort Mr. Effron's conclusions and I will discuss each of these concerns in detail below.

**Q. What is your response to Mr. Effron's analysis and proposed adjustment to revenues?**

A. After reviewing his testimony and analysis, including an attachment to his testimony labeled as AG/CUB Exhibit 2.1 - Schedule DJE-2, I have determined that the analysis underlying Mr. Effron's adjustment is flawed and his recommendation to increase AIC's test year revenues at present rates by $13.8 million must be rejected. As my rebuttal testimony will demonstrate, Mr. Effron's comparison of actual to forecasted present rate revenues contains various errors, which render the comparison misleading and meaningless. AIC's Schedule E-5 test year billing determinants and resulting base rate delivery service revenues are accurate, and I performed a comparison of total non-residential present rate revenues for the twelve-month period ended April 2013 to test year non-residential present rate revenues, which shows only a modest decline. My comparison confirms the accuracy of the forecast and demonstrates that AIC is not under-forecasting present non-residential rate revenues as Mr. Effron suggests. Specifically, when I compare base non-residential rate revenues generated during the twelve-month period ended April 2013 to the forecasted revenues presented in Schedule E-5, I derive a difference of less than $200,000. This difference represents a mere 0.2% of forecasted non-residential revenues of over $90 million. See Ameren Exhibit 24.1.

**Q. Please describe in further detail your analysis of actual period non-residential base rate revenues as compared to test year present non-residential base rate revenues for the non-residential rate classes at issue in this proceeding?**

A. As indicated above, I have compared non-residential revenues generated during the twelve-month period ended April 2013 to the forecasted non-residential revenues

presented in Schedule E-5. Ameren Exhibit 24.1 shows the results of this comparison. The analysis separates non-residential revenue into base rate and non-base rate revenue for each GDS rate class.

By way of background, base rate revenue includes revenue from components contained in GDS rates such as Customer, Distribution Delivery, and MDCQ Demand charges. Non-base rate revenue items include revenue generated from sources comprising state and municipal taxes and cost recovery riders such as Rider GER (Gas Energy Efficiency Cost Recovery) and Rider GEA (Gas Environmental Activities). Actual period base rate revenues are further separated into financial reporting categories (Commercial, Industrial, Public Authority, and Transportation).

My analysis was based on a query of AIC's general ledger revenue accounts by major-minor accounting descriptions for the twelve-month period ended April 2013, which breaks down revenues by GDS rate class and further indicates whether such revenues are Commercial-, Industrial-, Public Authority- or Transportation-related. I then took into account the specific "activity" associated with these revenues, which shows whether the revenues were generated through the Customer Charge, Delivery Charge, Demand Charge, etc. (i.e., Base Rate Revenues), or whether the revenues were derived from non-base rate revenue sources. This view of the accounting better captures which revenues are tied to Industrial, Commercial, Public Authority or Transportation customers and/or activities.

**Q. Before you proceed further, why is it more appropriate to compare total non-residential revenues to Transportation and Industrial Revenues on a standalone basis?**

A. Rates are being set based on the revenue requirement associated with the various rate classes, not with categories of customers tied to financial reporting categories. But more importantly, relying on the manner by which customers may be categorized or described as Mr. Effron does, fails to properly account for the fact that customers within the non-residential rate classes do not always fall into these categories. For example, there may be a GDS-4 customer that's not a "Transportation" customer, or a GDS-3 customer that's not an "Industrial" customer. Regardless, the total revenues generated by these customers are relevant in examining revenue levels and trends.

**Q. How does your analysis differ from Mr. Effron's in respect to the use of financial reporting categories?**

A. While both Mr. Effron and I make use of financial reporting categories, Mr. Effron's analysis is incomplete and fails to consider the "big picture" in respect to the GDS rate classes associated with the related financial reporting categories and the services offered to customers in the categories he has overlooked –the Commercial and Public Authority classes. In specific, while Mr. Effron examines the revenues booked under the Industrial and Transportation financial reporting categories, he ignores revenues booked under the Commercial and Public Authority financial reporting categories. This is important because Commercial and Public Authority classified customers are also non-residential customers and contribute a significant amount of base rate revenue; thus excluding the Commercial and Public Authority classifications miss

significant portion of the big picture. As such, Mr. Effron's analysis only contains some classifications; thus, it is only a partial analysis.

Transportation services are provided to customers served under GDS-2, GDS-3, GDS-4 and GDS-5, whereby Mr. Effron's testimony and exhibit provided an incomplete comparison of Industrial and Transportation categories by ignoring the fact that these categories also include GDS-2 and GDS-3 customers, which can take transportation services. For the twelve months ended April 2013, GDS-2 and GDS-3 includes both Commercial and Industrial system sales *and transportation sales*. Transportation revenues for GDS-2 and GDS-3 comprise 1/3 of AIC's total transportation revenues. See Ameren Exhibit. 24.1. By ignoring the effect the additional, non-transportation revenues generated by the Commercial GDS-2 and GDS-3 customers, Mr. Effron's analysis distorts AIC's total non-residential base rate revenues and fails to present a holistic picture of revenue levels and trends.

**Q. What are the results of your analysis?**

A. For the twelve months ended April 2013, non-residential base rate revenues were $90.77 million. Schedule E-5 for the 2014 test year reflects non-residential revenues of $90.95 million. This actual to forecast revenue difference is less than $200,000, or 0.2%, of the total E-5 non-residential rate base revenues. This demonstrates that the Company has reasonably and accurately reflected the correct test year non-residential present base rate revenues in this proceeding.

**Q. Based on your review of actual period revenues to test year present revenues by rate class, what conclusions do you draw?**

A. I conclude that AIC's test year 2014 revenues, on a present rate basis, are in fact reasonable. This can be seen on Ameren Exhibit 24.1, which reconciles revenues generated during the twelve-month period ended April 2013 to forecasted 2014 non-residential base rate revenues.

I have also attached AIC's response to AG 11.03 Revised (base rate revenue for the twelve–month period ended April 2013), attached as Ameren Exhibit 24.2. The actual values in Ameren Exhibit 24.2 show total base rate revenue of $320.2 million, which compares favorably to Schedule E-5, the Company's proposed billing determinants in this proceeding, which shows total base rate revenue of $320.1 million. Non-residential base rate revenue totals in Ameren Exhibit 24.1 match the detail totals provided in Ameren Exhibit 24.2. Again, non-residential base rate revenues for the period ended April 2013 are within 0.2% of those contained in Schedule E-5. (AG 11.03 was provided to AG/CUB as part of discovery on May 24, 2013 and subsequently slightly revised to fully account for special contract revenue.)

**Q. Please summarize the concerns raised in your review of Mr. Effron's analysis.**

A. As indicated above, my concerns are primarily with use of: (i) improper revenue comparisons and (ii) improper customer segments. These improprieties distort Mr. Effron's conclusions. As discussed previously, Mr. Effron's analysis does not capture total non-residential base rate revenue. In addition, Mr. Effron's analysis assumes that price levels were consistent throughout the twelve-month period ended April 2013, when that is not the case. Further, Mr. Effron's Schedule DJE-2 improperly includes non-base

rate revenues, and thus results in an overstated estimate of Industrial and Transportation revenues. Finally, Mr. Effron's analysis fails to take into account certain customer and economic data provided by AIC in response to data requests. I will discuss each of these concerns in detail below.

### 1. Improper Revenue Comparison

**Q. Please summarize Mr. Effron's improper revenue comparisons.**

A. Mr. Effron compares Industrial and Transportation revenues for the twelve-month period ended April 2013 to the Company's 2014 test year non-residential base rate revenues. However, in doing so, Mr. Effron's underlying data sources for his analysis of actual period revenue include both base rate revenues *and non-base rate revenues, including special contract revenues.* Of course, only base rate revenues are presented in the test year Schedule E-5 and only base rate revenues are the subject of this proceeding. Any comparison of actual period revenues that includes non-base rate revenues (and GDS-7 special contract revenues) to the test year base rate revenue at issue in the rate case results in inaccurate and "apples-to-oranges" conclusions and overstate the relevant, base rate revenues collected during the actual period.

**Q. Please provide further details of the non-base rate revenues included by Mr. Effron in his actual period revenues.**

A. As I stated above, the revenues included in Mr. Effron’s analysis include non-base rate revenues such as environmental remediation, gas energy efficiency, tax additions, uncollectibles, renewable energy and energy assistance. Specifically, manufactured gas plant environmental remediation costs (Rider GEA and Rider TAR), Rider GER and uncollectible adjustments (Rider GUA) are separate charges appearing on customer bills

and are not included in delivery service base rates. Each of these riders is subject to separate reconciliation proceedings before the Commission. Add-on taxes such as the Illinois gross revenue tax and municipal tax additions along with renewable energy and energy assistance revenues collected by AIC on behalf of the taxing authorities and remitted to the applicable governmental entity. In addition, Mr. Effron includes special contract revenues in his analysis of Transportation revenues. While special contract revenue is technically base rate revenue, it is not subject to modification in this proceeding and thus appropriately excluded from an analysis used to explore modifications to test-year revenue.

**Q. What were the sources of the information Mr. Effron used in his analysis?**

A. Mr. Effron's sources for his Schedule DJE-2 were AIC's Schedule C-3 along with AIC's responses to data request AG 2.14, AG 2.15, AG 8.05, AG 8.06, AG 8.07 and AG 11.01. Mr. Effron requested updates to Schedule C-3 via these data requests, which shows total revenues by <u>general</u> customer classifications (i.e. the Commercial, Public Authority, Industrial and Transportation categories that correspond to the financial reporting categories discussed above) and <u>not by rate classes</u>. He compared that twelve-month period ended April 2013 information to the Company's 2014 test year financial reporting categories instead of comparing to Schedule E-5. Consequently, his reliance on data from Schedule C-3 as the starting point of his analysis for base rates grossly over-stated the actual period revenues in his analysis.

**Q. Please continue.**

A. Schedule C-3 revenue and usage are not developed with the same precision as test year billing determinants. I believe Mr. Effron's reliance on Schedule C-3 contributed to

his incorrect conclusion. Mr. Effron used Schedule C-3 to develop his testimony and this is problematic because Schedule C-3 assumes for forecasting purposes that GDS-4 is solely transportation related; not system and transportation related as properly reflected on Schedule E-5. Schedule C-3 information should not be used as a source of any comparative analysis; instead, comparisons should be made to Schedule E-5.

### 2. Improper Use of Customer Segments

**Q. Please summarize Mr. Effron's improper use of customer segments.**

A. As indicated above, Mr. Effron uses broad customer segments (i.e. Industrial and Transportation) from Schedule C-3 for his analysis. These broad customer segments do not contain the level of granularity presented in the test year billing data for specific tariff classifications on Schedule E-5. For example, the broad customer segments include revenue from GDS-7, a special contract service, which is not subject to rate adjustments in this proceeding. A more accurate analysis of the non-residential sales and transport revenues for the actual period would have included each of the GDS rate classifications in which Industrial and Transportation customers reside and would have excluded the GDS-7 class. These considerations are properly reflected in my analysis.

**Q. Please discuss the consequences of Mr. Effron's use of broad customer segments rather than the actual GDS customer rate classifications presented in Schedule E-5.**

A. Mr. Effron’s limitation to Industrial and Transportation reporting classifications for his proposed revenue adjustment assumed there was a direct correlation between these two categories. As shown on Ameren Exhibit 24.1 and discussed above, this is not true. Customers in the GDS-2, GDS-3 and GDS-5 tariff classes also transport gas and have

system sales classified as Industrial along with Commercial and Public Authority of which Mr. Effron excludes from his analysis.

**Q. How does this assumption affect his analysis?**

A. Transportation services are provided via Rider T and are not limited to a particular GDS tariff. Thus, Transportation revenues are reflected in Schedule E-5 under each of the applicable GDS classes, and not as a separate Rider T class. Schedule E-5 shows that transportation service exists under GDS-2, GDS-3, GDS-4 and GDS-5. These tariffs serve customers classified as Commercial, Public Authority and Industrial. As such, Mr. Effron's analysis of only Transportation and Industrial is flawed as transportation service also includes Commercial customers.

### 3. Impact of Rider TBS

**Q. Please summarize the impact of Rider TBS on Mr. Effron's analysis.**

A. Mr. Effron's analysis assumes price levels were consistent throughout the historical twelve-month period ended April 2013. This is not the case. AIC implemented the provisions of Rider TBS – Transportation Banking Service (TBS) on May 1, 2012, and Rider TBS became effective on June 2012 bills. Thus, Rider TBS was not in effect for the entire year analyzed by Mr. Effron and, therefore, his results are meaningless

**Q. Please briefly describe Rider TBS, and explain its impact on revenues.**

A. Rider TBS has two components; subscribed capacity taken by transportation customers and unsubscribed capacity ("UBCC"), which flows back to the system or PGA customers as I discuss in my direct testimony beginning at line 478.

As is also discussed in my direct testimony (lines 465 - 477), Rider TBS implementation involved reducing various delivery service prices to Rider T customers, implementing a Rider TBS subscription enrollment, and any remaining TBS allotment not used by Rider T customers was assigned to PGA customers through UBCC. As I will demonstrate later, a properly conducted comparison of actual period revenues with test year revenues must take into account shifts in cost responsibility for the costs associated with the UBCC between the actual period and the test year.

**Q Please explain why Rider TBS should have been factored into Mr. Effron's analysis?**

A. Implementation of Rider TBS in May 2012 resulted in a significant price differential for Transportation customers, one that is normalized in the test-year Schedule E-5. Any comparisons of historical prices should recognize the effect of Rider TBS implementation on AIC's base rate revenues. Mr. Effron's analysis does not recognize this effect in his historical comparisons.

Comparisons of actual 2012 non-residential revenues to Schedule E-5 are not appropriate given the effects are to a partial year in 2012 and full year in the year test. Changes required to implement Rider TBS has caused a decline in the overall revenue contributed by non-residential customers in system and Transportation customers specifically. Again, Mr. Effron’s analysis ignores critical underlying data in his adjustments.

Absent a full year of actual period data for Rider TBS’s UBCC in his analysis, and a comparison to AIC’s Schedule E-5 (a full year of Rider TBS), I calculated a $575,000 difference between Schedule E-5 and actual twelve-month period ended April

2013 Rider TBS revenues which Mr. Effron did not consider in his analysis. This amount is derived by comparing Schedule E-5 which reflects Rider TBS and UBCC revenues of $6.5 million and Rider TBS and UBCC revenue for the twelve month ended April 2013 of $5.9 million, as shown on Ameren Exhibit 24.1.

### 4. Improper Calculation of Average Industrial Rate

**Q. Please comment on Mr. Effron's inaccurate estimation of an average industrial rate used in his analysis of "industrial" revenues.**

A. Mr. Effron's methodology set forth in AG/CUB Exhibit 2.1 - Schedule DJE-2 to estimate the average rate paid in his Industrial rate class analysis, included non-base rate revenue items, thus overstating his Industrial revenues estimate. In determining his Industrial revenue adjustment, Mr. Effron developed an average rate per therm. Using AIC's Schedule C-3 and discovery responses, Mr. Effron determined a number of therms he considered to be Industrial-related. Mr. Effron then applied his assumed average rate per therm to his estimated number of Industrial therms. Again, this estimate is flawed because of Mr. Effron's apparent assumption that all Industrial therms occur within a single GDS rate class. This assumption is incorrect because Industrial customers take service under several GDS rate classes. Therefore, it makes no sense to apply an average rate over a category as broad as the Industrial category.

### 5. Failure to Consider Additional Data

**Q. Please summarize the data request responses that Mr. Effron did not account for in his analysis.**

A. Mr. Effron fails to take into account certain customer and economic data provided in response to data requests AG 2.17 and AG 2.23 attached as Ameren Exhibits 24.3 and

24.4 that would have further explained variances between the actual period revenue levels and test year revenues. These data request responses provide support why AIC's non-residential therms have declined by over 50 million therms from year end December 2011 and the 2014 test year. This information was ignored or overlooked by Mr. Effron. Had he considered this information, he would have known his analysis was suspect.

**Q. Please explain?**

A. Mr. Effron requested historical GDS rate classification base rate revenue level information for the two twelve month periods ended December 2012 and April 2013. However, Mr. Effron did not use information from these data request responses in preparing his revenue adjustments. If he had used this information for the twelve-month period ended April 2013, his results would have been closer to Schedule E-5 test year revenues. As such, the revenues presented in Mr. Effron's Schedule DJE-2 erroneously contain non-base rate revenues. The table below provides a comparison between the Company's response to AG11.03 for twelve-month period ended April 2013 and Schedule E-5 for the test year. The base rate differences for each GDS rate class are shown in the far right column.

| | | AG 11.03 | | AG 11.03 |
|---|---|---|---|---|
| Gas Rate Base Revenues (000s) | E-5 | Original | Revised | vs. E-5 |
| GDS-1 Residential Gas Delivery Service | $ 228,040 | $ 229,035 | $ 229,035 | $ (994) |
| GDS-2 Small General Gas Service | $ 58,037 | $ 56,784 | $ 56,784 | $ 1,253 |
| GDS-3 Intermediate General Gas Service | $ 13,745 | $ 13,534 | $ 13,534 | $ 211 |
| GDS-4 Large General Gas Service | $ 17,758 | $ 18,449 | $ 18,460 | $ (701) |
| GDS-5 Seasonal Gas Service | $ 1,986 | $ 1,994 | $ 1,994 | $ (8) |
| GDS-7 Contract Service | $ 535 | $ 47 | $ 435 | $ 100 |
| Gas Base Rate Revenues | $ 320,101 | $ 319,842 | $ 320,241 | $ (140) |

Please note that actual revenues do not include weather normalization, which primarily affects GDS-1 and GDS-2 customers.

**Q. Please summarize why AIC's analysis as shown on Ameren Exhibit 24.1 should be adopted over Mr. Effron's adjustments, resulting in no adjustment to test year present revenues.**

A. AIC's analysis is superior in following respects:

- AIC's analysis includes all non-residential revenues on a GDS class basis for the actual period and test year period; not simply revenues generated under two broad financial reporting categories (Industrial and Transportation).
- Only base rate revenues have been included in comparing actual period revenues with 2014 test year revenues; i.e., revenues relating to various riders, special contract revenues and pass through revenues have been excluded.
- AIC's analysis includes an adjustment to align the revenue level of Rider TBS for the actual twelve month period ended April 2013 and Schedule E-5 test year revenues.
- AIC's analysis compares actual revenues by GDS class and does not apply a simplified average rate assumed for the Industrial class.

**B. Response to Mr. Brian C. Collins**

**Q Have you reviewed the direct testimony of Mr. Collins?**

A. Yes. Mr. Collins recommends allocating the costs of the transmission and distribution (T&D) main system based on design day demand, instead of the peak and average demand allocator proposed by AIC. Mr. Collins also recommends that approximately 40% of the low pressure distribution main costs should be assigned as a customer component, meaning that there would be a shift in 40% of low pressure distribution main costs classified as Demand to Customer related. Finally, Mr. Collins

recommends maintaining the existing rate structure for the GDS-4 class in Rate Zone II and increasing the delivery and demand charges for that class by the class-average percent. He also proposes that GDS-4 not move toward rate uniformity.

### 1. T&D Main Allocation Factors

**Q. How do you respond to Mr. Collins' allegations that "[t]he 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"?**

A. There are many reasons and factors that need to be taken into account when deciding upon a particular cost of service method. Most assuredly, no single method suits the purposes of all. Importantly though, AIC's use of such method in this case is consistent with Commission decision in prior gas rate cases. This method was recently approved by the Commission in the North Shore Gas Company and Peoples Gas Light and Coke Company rate cases, Docket Nos. 12-0511 and 12-0512 (cons.), in which the Commission concluded "that the Utilities' ECOSSs are complete, they systematically functionalize, classify and allocate costs, and they comport with the cost causation principles for preparing such studies that the Commission has approved in many other rate cases." Docket Nos. 12-0511 – 12-0512 (cons.), Final Order (June 18, 2013), p. 210.

Indeed, Ameren Illinois and its legacy companies have been allocating T&D mains using the peak and average allocation method for the last several rate cases. And, to the best of my knowledge, such entities used the "average and excess" – not a design day methodology – prior to that time. In response to data requests issued by AIC, Mr. Collins admits that he is unaware of the any Illinois utility allocating T&D mains using

the methodology he proposes and is similarly unaware of the Commission ever having adopted such a proposal. See Ameren Exhibits 24.6 and 24.7. In summary, the Company's proposal to allocate T&D mains using the peak and average method is an established practice and is appropriate for ratemaking use in this proceeding.

**Q. Does the Company's proposal double-count the "average" component of demand, as alleged by Mr. Collins?**

A. Mr. Collins' argument on this point has been made in prior cases before the Commission without success. In AIC's 2007 gas rate case (Docket Nos. 07-0585 (cons.)), IIEC advanced a similar argument, which was dismissed by the Commission in favor of the same peak and average allocation method presented in the current proceeding.

Further, the document cited by Mr. Collins as evidence of best practices, the National Association of Regulatory Utility Commissioners ("NARUC") Gas Distribution Rate Design Manual issued in 1989[1] ("NARUC Design Manual"), recognizes incorporation of average use within a demand allocator as an acceptable approach. As recognized in the NARUC Design Manual:

> demand costs are multiplied by the system's load factor to arrive at the capacity costs attributed to average use and are apportioned to the various customer classes on an annual volumetric basis. The remaining costs are considered to have been incurred to meet the individual peak demands of the various classes of service and are allocated on the basis of the coincident peak of each class. This method allocates cost to all classes of customers and tempers the apportionment of costs between the high and low load factor customers.
>
> (NARUC Design Manual, pp. 27-28)

[1] The NARUC Design Manual is available at http://www.naruc.org/international/Documents/NARUC%20Gas%20Distribution%20Rate%20Design%20Manual%201989.pdf.

**Q. Do you agree with Mr. Collins' statement that "[t]he 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"?**

A. No. And as indicated above, Mr. Collins cannot cite to any utility under the jurisdiction of the Commission utilizing the method he proposes. See Ameren Exhibit 24.5.

**Q. Do you have concerns with Mr. Collins' proposal to use a design day method to allocate T&D main costs?**

A. Yes. Mr. Collins' approach would reverse years of established cost of service precedent in Illinois. His approach would also result in greater allocation of costs to residential customers and, conversely, fewer costs being allocated to larger customers with consistent usage throughout the year. Continuation of longstanding cost allocation practices, as AIC has proposed, promotes rate continuity and stability.

**Q. Do you agree with Mr. Collins that "[t]he 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"?**

A. I understand Mr. Collins' criticism, but I do not agree with his position. Although Mr. Collins' recommendations on this point are rather vague, I believe he is advocating implementation of what is referred to as a "minimum distribution system" ("MDS") approach. The MDS approach assumes that a minimum-size distribution system can be built to serve the minimum loading requirement of the customer. Once this minimum cost is determined for each primary plant account, the minimum size distribution system

is then classified as customer-related costs and typically included in the Customer Charge in order to recover those costs. The demand-related costs for each FERC account are equal to the difference between the total investment in the account and customer-related costs.

The MDS approach has been rejected by the Commission on multiple occasions. In its Final Order in Docket Nos.06-0070 et al. (cons.), the Commission stated the following: "The Commission declines to adopt IIEC's suggestion that Ameren be required to present a COSS in its next rate case incorporating the MDS approach. In the Commission's view, it would be unreasonable to require Ameren to perform a COSS that incorporates a method repeatedly rejected by the Commission." Docket Nos. 06-0070 et al. (cons.), Final Order (Nov. 21, 2006), p 161. The Commission reaffirmed this position in Docket Nos. 07-0585 et al. (cons.) stating, "[t]he Commission is not prepared to conclude here that it will implement MDS in AIU's next rate cases. Therefore, the Commission will not require ratepayers to pay the cost of preparing a COSS incorporating the MDS concept…." Docket Nos. 07-0585 et al. (cons.), Final Order (Sept. 24, 2008), p. 280. Although I am not an attorney, I understand that the Commission does not consider the MDS approach as a proper method for allocating the cost of T&D mains.

**Q. Mr. Collins seems to focus solely on plant as the basis for his proposal with respect to T&D mains. Since this proceeding is also about expenses, what requirements do large pipes versus smaller pipes have on AIC's operation and maintenance expenses?**

A. Higher pressure mains necessitate more operation and maintenance expenses than smaller mains since they require:

- More frequent patrols and leak surveys;
- More cathodic protection;
- Higher material and construction costs;
- Higher percentages of construction work performed by outside contractors;
- Higher leak management costs; and,
- Compliance with prescriptive pipeline integrity programs.

As such, one cannot just consider plant as the sole basis by which rates should be based. Operation and maintenance expense also needs to be considered.

**Q. What is the effect of Mr. Collins' T&D main allocation proposal?**

A. Mr. Collins' approach results in greater allocation of costs to Residential customers while allocating fewer costs to larger customers with consistent usage throughout the year. This is why the Commission has approved usage of the peak and average allocator since it apportions costs between the low and high load factor customer. This shifting of costs is shown on the following table:

| | | | | | |
|---|---|---|---|---|---|
| Proposed Revenue Requirement | | | | | |
| Increase/(Decrease) | | | | | |
| | GDS-1 | GDS-2 | GDS-3 | GDS-4 | GDS-5 |
| Rate Zone I | | | | | |
| AIC | $ 5,691 | $ 2,438 | $ 714 | $ 883 | $ 143 |
| IIEC | $ 7,996 | $ 919 | $ (7) | $ 134 | $ 50 |
| | | | | | |
| Rate Zone II | | | | | |
| AIC | $ 10,147 | $ 3,445 | $ 1,134 | $ 2,416 | $ 313 |
| IIEC | $ 13,968 | $ 2,440 | $ 470 | $ (612) | $ 158 |
| | | | | | |
| Rate Zone II | | | | | |
| AIC | $ 14,743 | $ 4,569 | $ 1,439 | $ 1,687 | $ 316 |
| IIEC | $ 20,552 | $ 2,041 | $ (129) | $ (1,622) | $ 71 |
| | | | | | |
| Total | | | | | |
| AIC | $ 30,581 | $ 10,452 | $ 3,286 | $ 4,986 | $ 772 |
| IIEC | $ 42,516 | $ 5,400 | $ 334 | $ (2,100) | $ 279 |
| IIEC Increase/(Decrease) over AIC | $ 11,935 | $ (5,052) | $ (2,952) | $ (7,086) | $ (493) |
| | | | | | |
| so: AIC Schedule E-5 and IIEC Exhibit 2.1 | | | | | |

### 2. Concerns Regarding GDS-4.

**Q. How do you respond to Mr. Collins' recommendation that the Company should maintain zone-specific rates for GDS-4 customers?**

A. A. AIC is not proposing to conform pricing for the GDS-4 class across rate zones in this proceeding. However, AIC is moving toward rate uniformity across rate zones in other classes. Mr. Collins appears to argue that rates in the GDS-4 rate zones should remain zone-specific in perpetuity. In my opinion, this sentiment is not progressive and ignores Commission directives to move towards uniformity. Regardless, as applied to the Company's GDS-4 class, this discussion is best left for another day.

**Q. Finally, how do you respond to Mr. Collins' recommendation to maintain the existing rate design for the Rate Zone II GDS-4 customers and to increase the**

**current delivery and demand charges for such customers by the average increase for the GDS-4 class as a whole?**

A. Mr. Collins' proposal is based on a concern that some members of the GDS-4 class, such as his hypothetical customer, would be subject to higher-than-system average rate increases. In accordance with prior Commission directives, AIC has proposed a limitation on rate increases of 1.5 times the system-average increase. By definition, some customers will be above an average while others will be below. See Ameren Exhibit 24.8. It is virtually impossible to ensure that each and every customer experienced an identical percent change in rates. As such, use of an average constraint measure aids in applying Commission-approved mitigation constraints to avoid undue bill impacts.

Moreover, Mr. Collins' IIEC Exhibit 2.2, which shows present to proposed rates for a hypothetical customer using 20 million annual therms with a 61% load factor, is based upon delivery revenues only and does not incorporate the cost of gas, that is, Mr. Collins example does not take into account the customer's overall bill impact. Had his comparison included the cost of gas, the hypothetical customer would only see a 1% increase in their total bill:

| IIEC Exhibit 2.2 | | | | |
|---|---|---|---|---|
| Total Bill Comparison | | Revenues | | |
| | | Present | Proposed | % Increase |
| Delivery Revenues | | $ 307,397 | $ 434,329 | 41% |
| Therms | 20,000,000 | | | |
| Cost of Gas | 0.4553 | $ 9,106,000 | $ 9,106,000 | |
| MDQ | 1,080,757 | | | |
| | 0.6007 | $ 649,211 | $ 649,211 | |
| Total Revenues | | $ 10,062,608 | $ 10,189,540 | 1% |

Further, AIC calculated individual bill impacts for Rate Zone II using present versus proposed rates and found that on a total bill basis (delivery and cost of gas), customer bills increased slightly under 3.0% on average.

A. Mr. Collins argues that his proposal will prevent rate shock on "both an inter-class and intra-class basis." In his response to AIC's data request AIC-IIEC 3.32, Mr. Collins stated that "[r]ate shock on an intra-class basis would be increases for customers in a class that are greater than 1.5 times the system average increase." AIC and the Commission's previous support of a limitation on rate increases of 1.5 times system average increase and AIC has used this approach in its rate design development. This limitation properly balances concern regarding rate shock against the Commission's and AIC's goal of cost-based rates.

### C. Response to Mr. Scott J. Rubin

**Q Have you read and reviewed the direct testimony of Mr. Rubin?**

A. Yes. First, Mr. Rubin recommends terminating the experiment that allowed peaking customers to take service under the GDS-5 rate. Next, Mr. Rubin recommends that AIC's proposal to constrain rate increases for each customer class to 1.5 times the system-average increase should be applied, except where application of the constraint over a series of five cases would not result in rates for the customer class approximating its cost of service. Third, Mr. Rubin recommends increasing the rates for GDS-4 in Rate Zone III by an undetermined amount between 2.0 and 2.4 times the system-average increase. Additionally, Mr. Rubin recommends separating AIC's Residential class into heating and non-heating sub-classes. Finally, Mr. Rubin recommends consolidation of the GDS-1 Residential class across rate zones and recovery of the entire rate increase

allocable to those customers through increases in the per-therm distribution charge. The latter two issues (identification of heating customers and Residential rate design) will be addressed by AIC Mr. Leonard Jones.

### 1. GDS-5 Rate Availability

**Q. How do you respond to Mr. Rubin's recommendation to terminate the GDS-5 seasonal customer experiment?**

A. It is unclear to me if the GDS-5 experiment I refer to in my direct testimony and the experiment Mr. Rubin discusses are one in the same. Mr. Rubin states in his direct testimony on page 4, beginning on line 68 that the "Commission should terminate the experiment that allowed peaking customers to take service under a non-peaking seasonal rate".

A. To be clear, AIC is proposing to terminate the GDS-5 experiment ordered by the Commission in AIC's last gas rate case, ICC Docket No. 11-0282.[2] This experiment allowed select customers that would otherwise be eligible for GDS-3 classification to remain on the GDS-5 seasonal rate and pay the GDS-3 Customer Charge rather than the GDS-5 Customer Charges. The additional tier of Customer Charge from GDS-3 should be terminated as recommended in my direct testimony. GDS-5 should continue as a

[2] The Order in ICC Docket No. 11-0282 states on page 150 that the "Commission recognizes on this issue that AIC proposed retaining the GDS-5 temperature based customer class structure in its current form, and proposes no changes to the GDS tariff, while GFA proposes to add an additional tier of customer charges for GDS-3 customers". Then on page 151, the Order states because "the Commission is authorizing this tariff expansion on a limited, experimental basis, the Commission believes that to continue this process and in order to contemplate continuation of this tariff or further expansion, evident must be presented in AIC's next rate case that demonstrates that the expanded tariff: improves system costs savings and reliability by having more GDS-5 customers interrupt when the temperature is 25 degrees or less; minimizes revenue erosion; and properly assesses the costs associated with metering and other equipment for GDS-3 customers taking service under the GDS-5 rate."

separate and distinct optional service and, to the extent Mr. Rubin is recommending termination of this class, AIC disagrees for reasons presented below.

**Q. What was Staff witness Boggs's position regarding the GDS-5 "experimental tariff expansion program" continuation?**

A. Mr. Boggs' viewpoint of the requirements of the Final Order in Docket No. 11-0282 were that 1) the GDS-5 tariff is beneficial to system operations because these customers are not inflicting large demands during the heating season; 2) the GDS-3 Customer Charge level allowed for lower usage GDS-5 customers is causing revenue erosion; and, 3) that the cost of service of the meters serving grain drying customers are higher than the typical customers being served under GDS-3. As such, Mr. Boggs is concerned with expansion or extension of the "experimental tariff expansion program" since is meets only one of the three criteria of the Commission Order.

**Q Please explain why a proposal to terminate the GDS-5 tariff would be ill-advised.**

A. Terminating the GDS-5 tariff is not in the best interest of AIC's entire customer base. As I explained in Ameren Exhibit 9.12, AIC's primary heating season is the months of December, January, and February. Grain drying season is typically in September, October, and November. Depending on the growing season, grain drying usage can occur in December, which then would overlap with the heating season. If this was to occur, customers with grain drying load could incur demand charges if they operate when temperatures fall below 25 degrees. If this tariff was terminated, and with the demand charge "penalty" eliminated, AIC could see grain drying customers putting

larger demands on the system when temperatures fall below 25 degrees, thus potentially affecting reliability during the winter season if grain drying occurs during these months..

**Q. Mr. Rubin is critical that the present rates for GDS-5 customers recover only about 1/3 of the class's respective cost of service. Please respond.**

A. First, GDS-5 is a relatively new rate for Rate Zones I and II. In Docket No. 11-0282, Rate Zone I, II and III had an average of 20, 51 and 75 GDS-5 customers, respectively; however, in this proceeding the average number of GDS-5 customers has increased to 42, 72, and 94 in Rate Zones I, II and III, respectively. As such, customer costs; i.e., Meters, Services, and Billing, have increased compared to the last case. Additionally, while the number of customers has increased, the usage level from the 2011 case has changed by Rate Zone as shown below:

| | Rate Zone I | Rate Zone II | Rate Zone III |
|---|---|---|---|
| 2011 Case | 1,976,859 | 8,576,545 | 13,461,309 |
| 2013 Case | 4,162,265 | 6,751,658 | 9,161,615 |

This change is due to the dynamics of the growing season from year to year and exemplifies the difficulty in forecasting usage for the class. The harvest of 2012 required less grain drying because of the lack of rainfall. However, the cost of service studies have assigned more underground gas storage costs to GDS-5 since the class demand studies show higher demands in the current case as compared to the prior case but less transmission and distribution costs are being allocated to GDS-5 given the decline in therms consumed.

**Q. Please explain why the 1.5-times constraint is appropriate for GDS-5.**

A. The Commission has expressed concern over bill impacts in the past. AIC is mindful of this concern. The 1.5 times constraint helps temper bill impacts of customers, yet allows rates to be adjusted toward cost of service.

### 2. Rate Zone III, GDS-4 Impact Mitigation

**Q. How do you respond to Mr. Rubin's recommendation to increase Rate Zone III GDS-4 rates by between 2.0 and 2.4 times the system-average increase?**

A. Mr. Rubin does not provide an analysis in support of his recommendation to increase Rate Zone III, GDS-4 rates by 2.0 and 2.4 times the system-average increase. In his response to AIC-AG/CUB 3.25 Mr. Rubin states that "the Commission has substantial discretion when it comes to rate design decisions" and he "believed it was appropriate to present the Commission with a range of what he viewed to be acceptable options, rather than a single number". See Ameren Exhibit 24. 9. If the Commission were to apply the upper end of this range to the overall system average by Rate Zone, the increases would be 33.1%, 51.6% and 25.75%, for Rate Zones I, II and III, respectfully, versus the 20.68%, 32.27% and 16.09%, increases proposed by AIC. The 1.5 times impact mitigation constraint proposed by AIC aids in tempering bill impacts to both customer classes and to individual customers. This mitigation constraint has been approved by the Commission in recent cases, including AIC's most recent natural gas case, and should continue to be applied in this proceeding.

## III. CONCLUSION

**Q Please summarize the conclusions of your testimony.**

A. First, Mr. Effron's proposed adjustments to Industrial and Transportation revenues should be rejected given his adjustment included revenues that are not part of this proceeding. Given the evidence provided, the Commission should accept AIC's billing determinants.

Second, Mr. Collins' proposal to allocate T&D mains should be rejected and the Commission should continue its support of the peak and average allocator which provides a fair balance to both low and high load factor customers. Mr. Collins' proposal regarding Minimum Distribution System and his assumed 40% costs of T&D mains being allocated on a customer component should be rejected. Both of these proposals shift costs away from Industrial customers and primarily toward Residential customers. Mr. Collins' proposal regarding DS-4 should also be rejected as it moves AIC further away from uniformity, conflicting with previously-stated Commission goals.

Last, Mr. Rubin's proposed suggestions regarding GDS-5 should be rejected. Continued availability GDS-5 rate supports system reliability as Staff agrees. However, the GDS-5 tariff expansion regarding Customer Charges should be terminated as it causes revenue erosion.

**Q Does this conclude your rebuttal testimony?**

A. Yes, it does.