

ILLINOIS COMMERCE COMMISSION

DOCKET No. 13-_____

DIRECT TESTIMONY

OF

LEONARD M. JONES

Submitted on Behalf Of

AMEREN ILLINOIS COMPANY

d/b/a Ameren Illinois

July 22, 2013

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7 **I. INTRODUCTION**

8 **A. Witness Identification**

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

10 **A. My name is Leonard M. Jones and my business address is One Ameren Plaza, 1901**
11 **Chouteau Avenue, St. Louis, Missouri 63103.**

12 **Q. By whom are you employed and in what capacity?**

13 **A. I am employed by Ameren Illinois Company d/b/a Ameren Illinois ("Ameren Illinois",**
14 **"AIC", or the "Company") as the Director of Rates and Analysis. I am responsible for**
15 **supervising the administration and maintenance of AIC's tariffs, regulated pricing, the**
16 **development of AIC's cost of service studies, and coordinating activity on other regulatory**
17 **initiatives.**

18 **Q. Please describe your educational background and relevant work experience.**

19 **A. Please see my Statement of Qualifications attached as an Appendix to this direct**
20 **testimony.**

21 **Q. Are other witnesses testifying on behalf of Ameren Illinois in this proceeding?**

22 A. Yes. Mr. Ryan Schonhoff presents testimony concerning modifications to the Company's
23 embedded cost of service study ("ECOSS") methodology, introduces a new temperature sensitive
24 rate, and provides pricing methodology for various rate components (meter, customer, meter
25 reassignment charge (Rate Zone ("RZ") I only), distribution delivery, transformation, reactive
26 demand, and the rate limiter). Mr. Steven Martin presents testimony concerning the "revenue
27 neutrality" of the Company's proposal and presents certain modifications to financial allocators
28 required to separate Ameren Illinois costs into costs attributed to each Rate Zone.

29 **B. Purpose, Scope and Identification of Exhibits**

30 **Q. What is the purpose of this filing?**

31 A. The purpose of this filing is to initiate a rate redesign proceeding as prescribed by the
32 "Energy Infrastructure and Modernization Act" ("EIMA"), codified at Section 16-108.5(e) of the
33 Public Utilities Act ("the Act").

34 **Q. Does this filing propose to change the total amount of revenue requirement**
35 **recovered by AIC?**

36 A. No. Based on the advice of counsel, I understand Section 16-108.5(e) to call for revenue-
37 neutral reviews to a utility's rate design associated with its electric formula rates. Accordingly,
38 the AIC proposals presented in this proceeding are revenue-neutral, meaning AIC's proposals
39 seek to adjust the methodology used to determine allocations of class cost of service, revenue
40 allocation among customer classes, and rate design of various price components, but do not
41 change the total revenue requirement AIC is authorized to recover. Instead, the changes address
42 how the revenue requirement is to be recovered from various customer classes and among the
43 various RZs.

44 **Q. What is the purpose of your direct testimony?**

45 A. The purpose of my testimony is to discuss various elements of AIC's recommended
46 electric rate design and to provide the supporting analysis. Specifically, I will testify concerning:
47 (1) AIC's overall pricing objectives and the various considerations in developing the pricing
48 methodology included in this filing; (2) AIC's proposed revenue allocation among the various
49 customer classes; (3) AIC's proposed rate design methodology for adjusting Distribution Tax
50 Charges; and, (4) AIC's proposed tariff changes necessary to effectuate the changes presented in
51 the proceeding.

52 **Q. What pricing basis does your rate design proposal use?**

53 A. The redesign proposal is modeled using the baseline prices proposed in supplemental
54 direct testimony¹ filed by the Company in its pending formula rate update proceeding, Docket
55 No. 13-0301. These prices are to be effective January 2014. Use of the proposed prices from
56 Docket No. 13-0301 provides a current and realistic starting point for modeling any subsequent
57 rate design modifications. The focus of this proceeding is on methodology rather than on
58 determining a specific final price value. The current cost of service, revenue allocation and rate
59 mitigation, and component pricing process uses the methodology approved in Docket Nos. 09-
60 0306 (cons.). Thus, all cost of service, revenue allocation and rate mitigation, and component
61 prices have been updated in the initial formula rate proceedings, Docket No. 12-0001 and Docket
62 No. 12-0293, but the methodology is consistent with that approved in Docket Nos. 09-0306
63 (cons.). The rate redesign proposals presented herein seek to modify some of cost of service,

¹ Supplemental direct testimony of Mr. Ronald Stafford submitted June 5, 2013 and Supplemental direct testimony of Mr. Ryan Schonhoff submitted June 17, 2013, both reflecting changes required due to the passage of P.A. 98-0015.

64 revenue allocation and rate mitigation, and component pricing methodologies presently used in
65 formula rate proceedings.

66 **Q. Please summarize how the rate design proposals in this case were developed.**

67 **A. Mr. Martin provides the basis for allocating AIC's revenue requirement among Rate**
68 **Zones, and highlighting changing from static allocation factors to variables that can be refreshed**
69 **annually. Mr. Schonhoff receives the Rate Zone level revenue requirements from Mr. Martin**
70 **and performs a class cost of service study, the process by which each rate class is assigned costs.**
71 **I receive class cost of service inputs from Mr. Schonhoff and compare the results against present**
72 **rate levels. Rates that recover cost of service are desired, but such movement is tempered if**
73 **movement to cost of service presents too great of a change at one time. I present a revenue**
74 **allocation and rate mitigation methodology to evaluate movement to cost of service, and limit**
75 **such movement if necessary. I also provide a process to determine if pricing for a class of**
76 **customers similar among Rate Zones should be consolidated into single tariff pricing. The**
77 **process evaluates similarity of costs and prices among Rate Zones. Once class revenue**
78 **allocation targets are developed, individual component prices are determined. Mr. Schonhoff**
79 **and I both provide recommendations concerning various price components, and use cost of**
80 **service as the guidepost to establish pricing.**

81 **Q. When will the changes in the methodology proposed herein be used to establish**
82 **rates?**

83 **A. Pursuant to Section 16-108.5(e) of the Act, the Commission must reach a decision within**
84 **240 days of the filing of this proceeding. The Company's Modernization Action Plan – Pricing**
85 **("MAP-P") tariff, Rate MAP-P, requires the revenue neutral rate changes to become effective**

86 during the next annual billing period, which begins in January, provided the changes are
87 approved no sooner than 30 days prior. Assuming all or most of the 240 day schedule is used,
88 the final order in this proceeding would be due in approximately mid-March 2014 and the
89 changes approved in this proceeding would affect prices starting with the January 2015 billing
90 period.

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

92 **A. I conclude that:**

- 93 - AIC's rate classes should be retained but expanded to include a "temperature sensitive"
94 class described by Mr. Schonhoff;
- 95 - Prices across Rate Zones should remain uniform where such uniformity is already
96 present;
- 97 - Additional class specific uniformity among the three Rate Zones may be achieved when
98 costs and prices are similar;
- 99 - Movement to rates that recover each class's revenue requirement at equal rates of return
100 should be constrained to moderate bill impacts. AIC is proposing a methodology better
101 to balance the need to moderate bill impacts and continue movement toward cost-based
102 rates;
- 103 - Electric Distribution Tax (EDT) prices in the Tax Additions tariff should:
 - 104 o Continue to be adjusted to recover expected expense levels;
 - 105 o Continue to be adjusted for all non-DS-4 classes to be uniform within each Rate
106 Zone; and,
 - 107 o Be adjusted to reduce subsidization of the DS-4 class by following the
108 recommended revenue allocation and pricing methodologies;

- 109 - Pricing methodology for uniform DS-3 +100 kV supply voltage charges among Rate
110 Zones should be approved;
- 111 - Pricing methodology for DS-4 +100 kV supply voltage Distribution Delivery Charges
112 should be approved;
- 113 - The Transformation Charge for DS-4 +100 kV supply voltage, in RZ II only, should be
114 adjusted as discussed for customers taking such service as of 12/31/12;
- 115 - Pricing methodology for the Lighting Service class, DS-5, should be approved;
- 116 - Certain tariff changes effectuating the above recommendations are required, including:
- 117 o Modification to Rate MAP-P to remove references to Docket Nos. 09-0306
118 (cons.) as the basis for setting prices;
- 119 o The addition of a proposed DS-6 – Temperature Sensitive Delivery Service;
- 120 o If DS-6 is approved, modification to several tariff pages within the Electric tariff
121 schedule to accommodate the addition of the new service to tariffs such as
122 Customer Terms and Conditions, Standards and Qualifications, Supplier Terms
123 and Conditions, Rider EDR – Energy Efficiency and Demand Response Cost
124 Recovery, Rider HSS – Hourly Supply Service, Rider TS – Transmission Service,
125 the Tax Additions tariff, Supplemental Customer Charges tariff will be needed
126 and filed following this proceeding; and,
- 127 o Tariff changes to end the applicability of the DS-3 and DS-4 “rate limiter”
128 provision once DS-6 becomes available will also be needed and filed following
129 this proceeding.

130 **Q. Are you sponsoring any exhibits with your direct testimony?**

131 **A. Yes. I am sponsoring the following exhibits:**

- 132 • Ameren Exhibit 1.1: Process of Determining Delivery Service Charges
- 133 • Ameren Exhibit 1.2: Revenue Allocation Methodology
- 134 • Ameren Exhibit 1.3: Revenue Proof showing Revenue Neutral Change to Rates
- 135 • Ameren Exhibit 1.4: Redline Tariff Changes to Rate MAP-P

136 **II. RATE OBJECTIVES AND RATE CLASSES**

137 **Q. What is the current methodology used to establish prices in formula rate**
138 **proceedings filed under Section 16-108.5?**

139 A. AIC uses the methodology approved in Docket Nos. 09-0306 (cons.), its last delivery
140 service, non-formula rate case. The methodology in that proceeding provided the foundation for
141 the revenue allocation and price setting process used in Docket Nos. 12-0001, 12-0293, and 13-
142 0301.

143 **Q. Now that the former AIC legacy utilities have been reorganized and merged into**
144 **one utility, how are AIC's tariffs structured?**

145 A. AIC now operates under a single tariff schedule, although certain prices differ by Rate
146 Zone.

147 **Q. How has the fact that AIC operates as one electric utility and one gas utility with**
148 **one service area impacted the proposed rate design?**

149 A. It is an indication that AIC should be moving toward adoption of a single set of customer
150 rates and charges for both its gas and electric utilities because AIC is operating under one cost
151 structure; however, such movement must be consistent with an underlying cost basis, and should
152 not cause undue customer impacts.

153 The Commission fully endorses the movement to rate uniformity and cost based rates. In
154 the Company's last general (non-formula) Delivery Services electric rate case, the Commission
155 held that "continued movement toward cost-based rates and the elimination of inter- and intra-
156 class subsidies should be considered a priority in AIU's next rate filing." (Order, Docket Nos.
157 09-0306 (cons.), p. 260.). In Docket No. 10-0517 the Commission supported "AIC's goal of
158 single-tariff pricing, but any movement toward this goal must also consider the Commission's
159 efforts to foster cost-based rates" (Order, p. 20). The Commission also stated "The Commission
160 does not mean to suggest that AIC must wait until such costs are equal among all three rate zones
161 before the consolidation...The Commission can envision a point in the future where the costs of
162 serving customers of two of the legacy utilities...may be considered 'close enough,' all things
163 considered, and ready for consolidation." (Id. at 20-21).

164 **Q. Has AIC proposed a methodology that could result in additional uniform prices**
165 **across Rate Zones for its customer classes as part of this proceeding?**

166 A. Yes. I will discuss the methodology in more detail later in my testimony. In summary,
167 the charges that are presently uniform remain uniform. Additional uniform pricing among the
168 same classes of customers in differing RZs will be allowed when individually calculated cost of
169 service results for a class in a RZ is within 10% of the combined average of one or two
170 additional RZs. I expect that DS-1 for Rate Zones I and II may be eligible for uniformity in the
171 next proceeding, as will DS-2 for RZs II and III. In addition, I propose that DS-3 +100 kV
172 Distribution Delivery Charges become uniform across RZs, and similarly, DS-4 +100 kV
173 Distribution Delivery Charges also be uniform among RZs.

174 **Q. What are the proposed customer classes in this case?**

175 A. AIC is proposing to retain its five delivery service rate classifications and add a non-
176 residential delivery service rate classification, DS-6. The existing and proposed classes are:

177	<u>Service Class</u>	<u>Delivery Service</u>	<u>Availability</u>
178	Residential	DS-1	All residential
179	Small General	DS-2	Non-residential up to 150 kW
180	General	DS-3	Non-residential, 150 kW up to 1,000 kW
181	Large General	DS-4	Non-residential 1,000 kW and greater
182	Lighting	DS-5	All photo-eye controlled lighting
183	Temperature Sensitive	DS-6	Non-residential, 150 kW and > (optional)

184
185 To permit a more seamless experience for DS-6 customers, other applicable tariffs other than the
186 EDT Cost Recovery portion of the Tax Additions tariff will be administered based on the
187 availability criteria for DS-3 and DS-4. In other words, if the DS-6 customer would otherwise be
188 served under DS-3, the provisions that apply to DS-3 would also apply to that DS-6 customer,
189 and this would include being eligible for service under the same tariffs as other DS-3 customers
190 Rider EDR, Rider HSS, Rider EEA, Rider TS, and other applicable provisions. Similarly if the
191 DS-6 customer would otherwise be served under DS-4, the provisions that apply to DS-4 would
192 also apply to that DS-6 customer, and this, too, would include service eligibility under Rider
193 EDR, Rider HSS, Rider EEA, Rider TS, and other applicable provisions.

194 **Q. What are AIC's goals and objectives in developing and designing electric delivery**
195 **service rates for this proceeding?**

196 A. The principal pricing objective used to guide the development of tariffs is considering
197 and designing rates that are cost-based. In other words, as a general principle, the "cost causers"
198 should be the "cost payers". AIC also realizes, however, that it is important to take into
199 consideration bill impact to customer classes. AIC is also mindful of rate continuity and
200 stabilization, and customer understandability. Lastly, now that the legacy utilities have merged,
201 further pursuit of price uniformity is desired when doing so is supported by cost and impact

202 considerations. AIC considers all of these objectives and goals when designing rates that will
203 provide AIC with a reasonable opportunity to earn its authorized rate of return.

204 **Q. In terms of rate design, what considerations, if any, were given to the fact AIC is in**
205 **the early stages of the formula rate process?**

206 A. The AIC-proposed revenue allocation and rate design attempts to balance the desire to
207 move toward cost-based rates while mitigating undue customer impacts. Under the formula rate
208 structure, however, we must be mindful that every year rates will change. In the 2013
209 reconciliation docket, Docket No. 13-0301, rates are being reduced. In the near term rates may
210 increase. The amount by which rates will change will fluctuate. Thus, it is prudent to take into
211 account the unique nature of formula rates when contemplating rate mitigation measures that
212 may need to apply.

213 **Q. What is shown in Ameren Exhibit 1.1?**

214 A. Ameren Exhibit 1.1 shows a summary overview of the proposed process for determining
215 delivery service charges. The exhibit is separated into sections concerning cost of service,
216 revenue allocation, and adjustment to charges. The section on adjustment to charges addresses
217 the proposed methodology to change individual price components contained in AIC's delivery
218 service rates. I discuss revenue allocation, and adjustments to the EDT Cost Recovery (a.k.a.
219 Distribution Tax) and pricing for DS-5 Lighting Service. Mr. Schonhoff discusses cost of
220 service and all of the other adjustments to charges in his testimony.

221 **III. REVENUE ALLOCATION**

222 **Q. Did you incorporate results from a class cost of service study in preparing your**
223 **recommended rate design?**

224 A. Yes. In the formulation of my recommended revenue allocation and rate design, I relied
225 upon the Electric ECOSS prepared by AIC witness Mr. Schonhoff and discussed in the direct
226 testimony labeled as Ameren Exhibit 2.0. The revenue allocation methodology begins with class
227 cost of service as the starting point for determining how much test-year revenue each individual
228 rate class should pay. The cost of service guidelines are tempered to mitigate potential undue
229 customer bill impacts. That is, movement to cost of service in one step may produce too much of
230 a change for customers to absorb at one time. The revenue allocation methodology outlines the
231 process for tempering full movement toward cost of service, with the end goal of eventually
232 moving each class to full cost of service pricing.

233 **Q. What is the present methodology used to allocate revenue among rate classes within**
234 **each Rate Zone?**

235 A. Revenue allocation targets are established based on the results of a Rate Zone-specific
236 ECOSS, but movement to full cost of service may be constrained if the movement is more than +
237 +/-50% of the system average rate change for a Rate Zone. For example, if the system average
238 increase was 10%, no class would be allocated more than a 15% overall increase ($10\% \times 1.5 =$
239 15%). If the overall system average change in rates was a 10% decrease, no class would receive
240 an upper limit change greater than a 5% decrease ($-10\% \times 0.5 = -5\%$). The current process
241 applies by class and voltage “subclass” (for DS-3 and DS-4). The process was developed in
242 Docket No. 09-0306 (cons.), the Company's last electric delivery services rate case prior to
243 implementing formula rates.

244 **Q. Do you have concerns about the existing revenue allocation methodology?**

245 A. Yes. The existing revenue allocation methodology is inadequate to address situations
246 where:

247 1) Some rate classes pay such a nominal amount of Delivery Service and
248 Distribution Tax charges that even a relatively small ¢/kWh movement could result in
249 levels that exceed the percentage thresholds - thwarting movement toward cost based
250 rates - even though greater movement would result in relatively immaterial bill impacts;

251 2) In the event of an overall system rate decrease, all rate classes still receive a
252 decrease even though modest rate increases to some classes would permit movement
253 toward cost based rates with tolerable bill impacts; and,

254 3) In the event of material Rate Zone average increases, the constraint multiplier of
255 1.5 times system average may result in an increase to a class that is too great, resulting in
256 undue bill impacts.

257 **Q. Please illustrate situations where a relatively nominal ¢/kWh movement could result**
258 **in levels that exceed the percentage thresholds.**

259 A. Each rate class, or in the case of DS-3 and DS-4, voltage subclasses, may pay a vastly
260 different amount in total Delivery Services. For example, residential rate class DS-1 customers
261 pay, on average, 3.96 ¢/kWh, while DS-4 customers served from +100 kV supply voltage pay,
262 on average, 0.044 ¢/kWh (ranges from 0.021 ¢/kWh in RZ I to 0.119 ¢/kWh in RZ II). A 10%
263 delivery services revenue requirement increase to the residential class translates to 0.396 ¢/kWh
264 increase, while an increase of the same magnitude to the +100 kV supply voltage DS-4 class
265 yields an increase of only 0.004 ¢/kWh.

266 When coupled with the cost of power supply and transmission service of, say 4 ¢/kWh,
267 the hypothetical 10% DS rate change for a residential customer translates to an overall bill

268 increase of 5% (0.396 ¢/kWh / 7.962 ¢/kWh). For a +100 kV supply voltage DS-4 customer the
 269 hypothetical 10% DS increase translates to an overall bill increase of only 0.11% (0.004 ¢/kWh /
 270 4.048 ¢/kWh). The overall impact to the DS-4 customer is relatively low and could be further
 271 adjusted, provided the adjustment is consistent with cost of service results. If an additional 0.05
 272 ¢/kWh limit were instead applied, the +100 kV DS-4 customer's DS bill would increase from
 273 0.044 to 0.094 ¢/kWh, a 114% increase, yet the total bill impact would only be about 1.25%
 274 (0.05 ¢/kWh / 4.094 ¢/kWh). These effects are shown in greater detail in the table below.

**Limitation of "Percentage of Delivery Service" Revenue Allocation Constraint
 Example Contrasting DS-1 to DS-4 +100 kV at AIC Average Realizations
 (AIC Average Realizations)**

		<u>Present</u>	<u>10% DS Adj</u>	<u>Est Tot Bill Chg</u>	
				<u>Cents</u>	<u>Percent</u>
DS-1 (Resid)	Delivery Service	3.962	4.358	0.396	10.00%
	Supply (Including Trans.)	<u>4.000</u>	<u>4.000</u>	<u>0.000</u>	<u>0.00%</u>
	Total	7.962	8.358	0.396	4.98%
<hr/>					
		<u>Present</u>	<u>10% DS Adj</u>	<u>Est Tot Bill Chg</u>	
				<u>Cents</u>	<u>Percent</u>
DS-4 +100 kV	Delivery Service	0.044	0.048	0.004	10.00%
	Supply (Including Trans.)	<u>4.000</u>	<u>4.000</u>	<u>0.000</u>	<u>0.00%</u>
	Total	4.044	4.048	0.004	0.11%

Using ¢/kWh Constraint Rather Than Percent of DS

		<u>Present</u>	<u>0.050 ¢/kWh DS Adj</u>	<u>Est Tot Bill Chg</u>	
				<u>Cents</u>	<u>Percent</u>
DS-4 +100 kV	Delivery Service	0.044	0.094	0.050	114.11%
	Supply (Including Trans.)	<u>4.000</u>	<u>4.000</u>	<u>0.000</u>	<u>0.00%</u>
	Total	4.044	4.094	0.050	1.24%

275

276 **Q. Can the existing method be improved?**

277 **A.** Yes. I propose to implement a new revenue allocation methodology to do so.

278 **Q. What is your proposed new revenue allocation methodology?**

279 A. I propose additional parameters to address each of the three needed improvements to the
280 current methodology I identified above, so that the impact mitigation constraint would be
281 changed to be the greater of:

282 (1) 0.05 ¢/kWh;

283 (2) 10%; or

284 (3) a constraint multiple of the system average increase based on a sliding scale starting
285 at 1.5 times system increase for overall increases less than 10%, and reduced by 0.0125
286 for each percentage point of average system increase greater than 10%, but not less than a
287 factor of 1.0.

288 If the constraint factor reaches 1.0, an across-the-board percentage change to all rate classes
289 (with the exception of any ¢/kWh movement allowed under the first constraint) would be
290 employed. Moreover, the revenue allocation procedure applied to the DS-3 and DS-4 supply
291 voltage "subclass" will be applied to each subclass independently. The present process applies
292 an allocation percentage calculated for the entire class to each subclass instead of each subclass
293 receiving their independently calculated allocation amount. For example, if a 10% increase is
294 determined for DS-4 under the present method, each supply voltage subclass would be allocated
295 a 10% increase. Under the proposed method, each DS-4 and DS-3 supply voltage subclass is
296 allowed to have different increase percentage targets.

297 **Q. What is shown in Ameren Exhibit 1.2?**

298 A. The proposed revenue allocation methodology is shown in Ameren Exhibit 1.2. The
299 "present" revenues reflected in the exhibit are those proposed by the Company in Docket No. 13-
300 0301. The cost of service results shown on the exhibit incorporate the proposed changes to the
301 ECOSS presented in Mr. Schonhoff's testimony. The changes to class revenue allocation targets

302 reflect the results applicable under a scenario where the total amount of “present” revenue
303 requirement equals the “proposed” revenue requirement (i.e., shows revenue neutral change).

304 **Q. Please further explain how the constraint multiplier sliding scale can be adjusted**
305 **based on the overall level of the system average increase.**

306 A. For system average increases greater than 10%, the constraint multiplier decreases
307 gradually for each percentage point increase above 10% until the factor reaches 1.0 at a system
308 average increase of 50%. The chart below illustrates the interaction between the 10% minimum
309 and the multiple of the system average increase. For rate changes of about 6.667% or below, the
310 10% minimum constraint applies ($10\% / 1.5 = 6.667\%$). For rate changes above that level
311 (between 6.667-10%), the constraint multiplier of 1.5 times the system average increase
312 produces a value greater than 10%, thus that value would be used. After the system average
313 increase exceeds 10%, the constraint multiplier begins to decline from 1.5 in decrements of
314 0.0125 for each percentage point greater than 10%. For example, a system average increase of
315 25% would reduce the constraint multiplier by 0.1875 ($0.0125 \times (25\% - 10\%)$) to 1.3125. The
316 constraint multiplier of 1.3125 x system average increase of 25% produces a class increase limit
317 of 32.8125%. Thus, as system average increases, the class specific increases deviate less and
318 less and less from the system increase. This ensures that if there is a large system increase, there
319 are not unduly higher increases to specific classes. System average increases of 50% or greater
320 would employ and across-the-board rate change for all classes, meaning that the revenue
321 allocation target for each class or subclass would equal the system average rate change.

322

323

System Average Change	Constraint Multiplier	Applied Percent Constraint
-5%	1.5000	10.0%
0%	1.5000	10.0%
5%	1.5000	10.0%
10%	1.5000	15.0%
15%	1.4375	21.6%
20%	1.3750	27.5%
25%	1.3125	32.8%
30%	1.2500	37.5%
35%	1.1875	41.6%
40%	1.1250	45.0%
45%	1.0625	47.8%
50%	1.0000	50.0%

324

325 The proposed revenue allocation methodology allows greater movement toward cost of service,
326 while recognizing bill impacts resulting from too great of a change at one time. In instances of
327 overall average decreases for a Rate Zone, movement toward cost would occur, subject to the
328 0.05 ¢/kWh or 10% of delivery service limitation.

329 **Q. Why did you also use a minimum ¢/kWh limit of 0.05 in your revenue allocation**
330 **methodology?**

331 A. A 0.05 ¢/kWh limit translates to an approximate 1.25% total bill impact for a +100kV
332 DS-4 customer. In my judgment, a total bill impact of 1.25% is a relatively modest change
333 balancing the desire to move toward cost of service without undue impact.

334 **Q. Will the results of the revenue allocation methodology be used for all classes and**
335 **DS-3 and DS-4 supply voltage subclasses?**

336 A. No, there is one exception. The DS-3 +100 kV supply voltage subclass contains few
337 customers, and occasionally no customers, to the point that the category does not qualify as a

338 viable class or subclass. Instead, it is a pricing category that must be planned for because
339 customers are occasionally served in the category. I describe a process for determining prices for
340 this category of service in the Rate Design section of my testimony. The revenue allocation
341 targets for this category of service generated by the revenue allocation methodology will not be
342 used to further adjust prices. Instead, the pricing process will result in a different amount of
343 revenue generated by the category. This difference, either a revenue surplus or deficiency, will
344 be credited or allocated to all other rate classes (or subclasses) based on the proportion of present
345 revenue requirement for the DS-3 +100 kV category to total revenue requirement excluding the
346 DS-3 + 100 kV subclass.

347 **Q. How will the proposed new tariff, Rate DS-6, be incorporated into the revenue**
348 **allocation methodology?**

349 A. Mr. Schonhoff has compiled a list of customers likely to take service under DS-6. The
350 "present" prices for new DS-6 will correspond to the customer's otherwise applicable DS rate,
351 either DS-3 or DS-4. The cost of service for the class will be determined as described by Mr.
352 Schonhoff. The future revenue requirement target for the class may be derived from similarly
353 gathered data applicable to the updated test-year.

354 **IV. DISTRIBUTION TAX**

355 **Q. What is AIC's concern with the Electric Distribution Tax?**

356 A. The DS-4 class is recovering revenue levels below their stated cost of service today. Mr.
357 Schonhoff shows in Ameren Exhibit 2.3 that DS-4 in each Rate Zone and supply voltage
358 category requires increases to recover cost of service. One significant reason for the current
359 under-recovery of costs relative to the DS-4 class is that Distribution Tax prices for DS-4

360 customers are well below the average cost-based price, and as a result other customer classes
361 subsidize DS-4. The Distribution Tax prices should be a uniform \$/kWh price across all
362 customers and customer classes, but is not. The non-uniform Distribution Tax rate structure
363 exists as a result of applying the rate mitigation procedure approved in Docket Nos. 09-0306
364 (cons.). Subsequent operation of the revenue allocation methodology in Docket Nos. 12-0001
365 and 12-0293 (and again in Docket No.13-0301), which stem from Docket Nos. 09-0306 (cons.)
366 have not resulted in a meaningful movement of the DS-4 class toward paying the average cost-
367 based Distribution Tax price. In fact, the Distribution Tax prices have decreased for all of the
368 DS-4 class and supply voltage subclasses in RZ III since compliance rates were filed in
369 November 2010 in Docket Nos. 09-0306 (cons.).

370 **Q. What is the Distribution Tax?**

371 A. The Distribution Tax is a term used to describe the Public Utilities Revenue Tax Act
372 ("PURA") tax provided for in 35 ILCS 620. The tax is assessed on utilities based on kWh
373 distributed to customers in a year, based on a schedule of differing tax rates for seven kWh usage
374 blocks. The "legislative intent" section of the law states as follows:

375 The General Assembly previously imposed a tax on the invested
376 capital of electric utilities to replace in part the personal property
377 tax that was abolished by the Illinois Constitution of 1970.
378 Subsequent to the enactment and imposition of the invested capital
379 tax on electric utilities, State and federal laws regulating the
380 provision of electricity have been enacted which provide for the
381 restructuring of the electric power industry into a competitive
382 industry. In response to this restructuring, this amendatory Act of
383 1997 is intended to provide for a replacement for the invested
384 capital tax on electric utilities, other than electric cooperatives, and
385 replace it with a new tax based on the quantity of electricity that is
386 delivered in this State. The General Assembly finds and declares
387 that this new tax is a fairer and more equitable means to replace
388 that portion of the personal property tax that was abolished by the
389 Illinois Constitution of 1970 and previously replaced by the

390 invested capital tax on electric utilities, while maintaining a
391 comparable allocation among electric utilities in this State for
392 payment of taxes imposed to replace the personal property tax.

393
394 35 ILCS 620/1a.

395 The Distribution Tax is also known as the EDT Cost Recovery charge, and is referred to as such
396 in AIC's Tax Additions tariff.

397 **Q. Do the differing tax rates for seven usage blocks in the PURA differentiate prices or**
398 **amounts owed by the utility's rate classes?**

399 A. No. The usage blocks are applied to the utility's total delivered kWh in a particular year.
400 A kWh consumed by (and delivered to) a residential customer is taxed the same as a kWh
401 delivered to a +100 kV DS-4 customer. There is no rate class distinction in the amount owed to
402 the state.

403 **Q. Are there different Distribution Tax charges among AIC's various rate classes?**

404 A. Yes. The table below shows the Distribution Tax rates calculated and proposed in
405 Docket No. 13-0301.

406

Distribution Tax Rates by Rate Class and RZ			
	Rate Zone I	Rate Zone II	Rate Zone III
DS-1 (Residential)	\$0.0017933	\$0.0017883	\$0.0017158
DS-2 (Small Gen Svc)	\$0.0017933	\$0.0017883	\$0.0017158
DS-3 (General Service)	\$0.0017933	\$0.0017883	\$0.0017158
DS-5 (Lighting)	\$0.0017933	\$0.0017883	\$0.0017158
DS-4 (Large Gen Svc)			
Primary	\$0.0005054	\$0.0003648	\$0.0004256
High Voltage	\$0.0003865	\$0.0002154	\$0.0003981
+100 kV	\$0.0001004	\$0.0001108	\$0.0000837

407

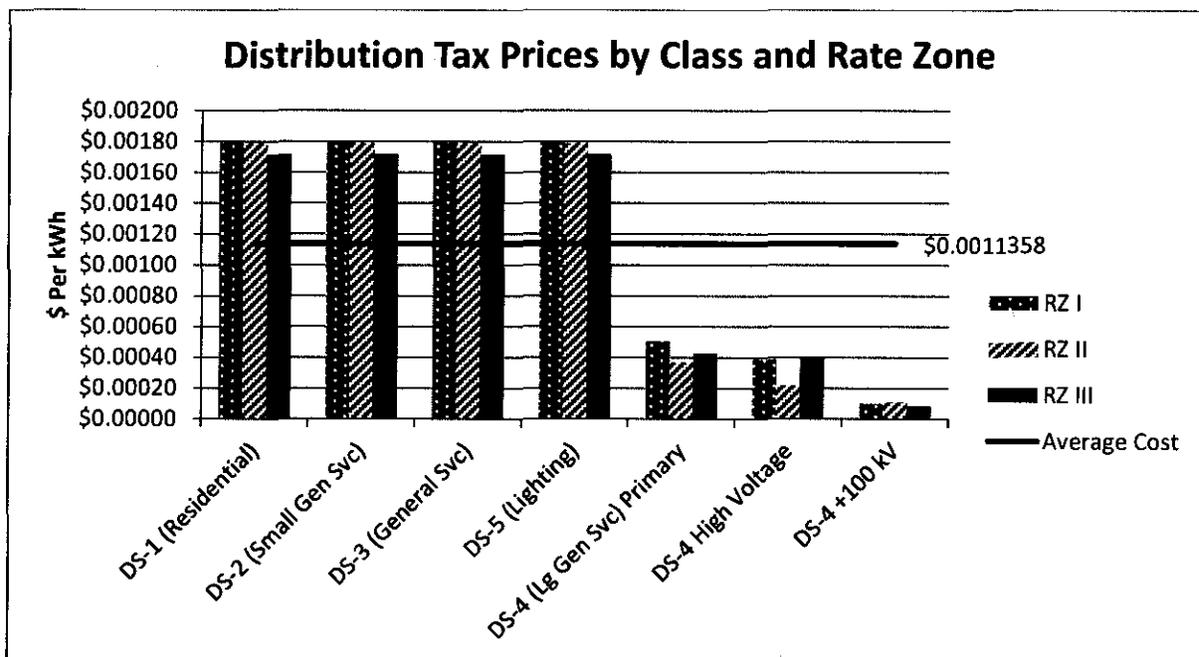
408 **Q. Why are the Distribution Tax prices different by Rate Zone?**

409 A. The Rate Zone price differences are the result of targeting a Distribution Tax total
410 expense level to recover from each legacy utility. Prior to the merger each entity was responsible
411 for its own Distribution Tax as determined by applying the seven tiered tax rates to each utility's
412 usage. This resulted in a different average Distribution Tax rate for each utility. Now the EDT
413 cost basis is uniform and each RZ still is allocated its proportional share (based on relative kWh
414 sales). However, the subsidy provided to the DS-4 class within each RZ is kept in that RZ,
415 resulting in slightly differing average prices among RZs for those non-DS-4 classes.

416 **Q. How does AIC recover the expense for the Distribution Tax under the present rate**
417 **structure?**

418 A. The Distribution Tax is recovered as a separate line item on customers' bills as a per kWh
419 charge. The Distribution Tax is not considered a part of the delivery service test year revenue
420 requirements. Yet the Distribution Tax is part of the revenue allocation methodology and
421 integrated within the overall process followed to adjust charges. As was done in Docket Nos.
422 09-0306 (cons.), Docket No. 12-0001, Docket No. 12-0293, and proposed in Docket No. 13-
423 0301, the Distribution Tax charges are adjusted to recover to test year expense levels. The Tax
424 Additions tariff contains the present rates assessed to the various classes, including a voltage
425 differentiated prices for Rate DS-4 – Large General Delivery Service. The Distribution Tax
426 prices are shown graphically below:

427



428

429

430 **Q. Why are there different Distribution Tax rates among customer classes within each**
431 **of the Rate Zones?**

432 A. The order in Docket Nos. 09-0306 (cons.) limited the increases to any one class and in
433 the case of DS-3 and DS-4, the supply voltage subclasses (i.e., customers served from lines
434 operating at Primary, High Voltage, and +100 kV supply voltages), to no more than 1.5 times the
435 overall average increase. Due to the rate mitigation constraint, the implementation of the
436 Distribution Tax to DS-4 customers required limiting the amount assessed. As shown in the table
437 and chart above, the Distribution Tax charges are lowest for +100 kV Supply Voltage customers,
438 somewhat greater for High Voltage, and higher yet for Primary Supply Voltage customers, (but
439 all are still below the average Distribution Tax cost).

440 **Q. Are different Distribution Tax rates by customer class cost-based?**

441 A. No. There is no distinguishing factor that differentiates a kWh provided to a DS-1
442 customer from a kWh provided to a DS-4 customer for purposes of calculating the amount of tax
443 owed. Neither is there a cost-based reason for different Distribution Tax rates among the DS-4
444 supply voltage subclasses. Each customer class, and subclass, should pay the same average
445 Distribution Tax price.

446 **Q. What revenue is generated under Distribution Tax prices proposed in Docket No.**
447 **13-0301 at test year kWh sales levels for each class and Rate Zone?**

448 A. The following table shows the Distribution Tax revenue at test year sales for each class
449 and Rate Zone.

	Revenue At EDT Cost Recovery Charges²			
	<u>Rate Zone I</u>	<u>Rate Zone II</u>	<u>Rate Zone III</u>	<u>Ameren Illinois</u>
DS-1 (Residential)	\$6,712,787	\$3,711,022	\$9,590,021	\$20,013,830
DS-2 (Small Gen Svc)	\$3,275,382	\$1,555,765	\$4,440,498	\$9,271,646
DS-3 (General Service)	\$2,773,061	\$1,403,600	\$3,738,025	\$7,914,686
DS-5 (Lighting)	\$185,715	\$57,955	\$308,055	\$551,725
Subtotal DS1, 2, 3, 5	<u>\$12,946,945</u>	<u>\$6,728,342</u>	<u>\$18,076,599</u>	<u>\$37,751,886</u>
DS-4 (Large Gen Svc)				
Primary	\$622,725	\$207,914	\$338,862	\$1,169,501
High Voltage	\$570,707	\$157,700	\$1,674,935	\$2,403,342
+100 kV	\$245,796	\$144,263	\$220,957	\$611,016
Subtotal DS-4	<u>\$1,439,229</u>	<u>\$509,876</u>	<u>\$2,234,754</u>	<u>\$4,183,859</u>
Total	<u>\$14,386,174</u>	<u>\$7,238,218</u>	<u>\$20,311,353</u>	<u>\$41,935,745</u>

450

451 **Q. How much Distribution Tax recovery comes from the DS-1, DS-2, DS-3 and DS-5**
452 **classes compared to the DS-4 class?**

453 A. The smaller customer classes (those excluding DS-4) presently contribute 90%, or \$37.8
454 million, of total Distribution Tax revenue. Thus, the DS-4 class provides 10%, or \$4.2 million, of
455 Distribution Tax revenue. In contrast, the kWh sales from DS-4 represent 41.7% of total sales.

² Values proposed in Docket No. 13-0301 in the AIC's supplemental direct testimony.

456 At the average rate proposed in Docket No. 13-0301 of \$0.0011358 per kWh, the DS-4 class
 457 should pay 41.7%, or \$17.5 million, of the total Distribution Tax of \$41.9 million. The disparity
 458 is even wider when one views the relative contributions within the DS-4 class. DS-4 customers
 459 served from a Primary, High Voltage, and +100 kV Supply Voltages represent 7.0%, 17.4%, and
 460 17.3% of total sales, respectively, yet contribute only 2.8%, 5.7%, and 1.5% of Distribution Tax
 461 revenue. At proposed Distribution Tax rates, this produces shortfalls from present Distribution
 462 Tax rates of \$1.8 million, \$4.9 million, and \$6.6 million for DS-4 customers served from
 463 Primary, High Voltage, and +100 kV Supply Voltages, respectively.

464 The following table shows these differences by rate class and Rate Zone.

	Difference Between EDT Cost Recovery Revenue and EDT Average Cost			
	Rate Zone I	Rate Zone II	Rate Zone III	Ameren Illinois
DS-1 (Residential)	-\$2,461,197	-\$1,354,049	-\$3,241,766	-\$7,057,012
DS-2 (Small Gen Svc)	-\$1,200,896	-\$567,656	-\$1,501,046	-\$3,269,597
DS-3 (General Service), DS-6A	-\$1,016,724	-\$512,135	-\$1,263,585	-\$2,792,443
DS-5 (Lighting)	-\$68,091	-\$21,146	-\$104,134	-\$193,371
Subtotal DS1, 2, 3, 5	-\$4,746,908	-\$2,454,985	-\$6,110,530	-\$13,312,424
DS-4 (Large Gen Svc), DS-6B				
Primary	\$776,742	\$439,422	\$565,459	\$1,781,623
High Voltage	\$1,106,418	\$673,848	\$3,103,737	\$4,884,002
+100 kV	\$2,534,833	\$1,334,559	\$2,777,406	\$6,646,798
Subtotal DS-4	\$4,417,993	\$2,447,829	\$6,446,602	\$13,312,424

465
466
467
468
469

(Note: The DS-6A designation in the table above refers to DS-6 customers that would otherwise be served under the provisions of DS-3 and the DS-6B designation refers to DS-6 customers that would otherwise be served under the provisions of DS-4.)

470 As shown, the smaller customers in DS-1, DS-2, DS-3, and DS-5 subsidize customers in DS-4.
 471 The amount likewise vary within DS-4, and is greatest within the DS-4 +100 kV supply voltage
 472 group due to their significant kWh sales and deepest discount from the full cost-based average
 473 rate.

474 **Q. Are you proposing that all customer classes pay the average Distribution Tax rate?**

475 A. Not immediately. Instead, AIC proposes to limit movement toward the average cost
 476 subject to the overall revenue allocation constraint. However, the revenue allocation constraint

477 provision allowing for a class to experience a minimum of a 0.05¢/kWh increase could result in
478 elimination of the Distribution Tax subsidy within the next three or fewer formula rate update
479 proceedings. As discussed in the Revenue Allocation section, the 0.05 ¢/kWh increase constraint
480 would limit the bill impact to approximately 1.25% for a DS-4 +100 kV supply voltage
481 customer.

482 **Q. Why is a constrained approach to equalizing to the average Distribution Tax**
483 **needed?**

484 A. In the Order from Docket Nos. 09-0306 (cons.) the Commission expressed concern about
485 immediately assessing DS-4 customers the full average Distribution Tax rate, and instead chose
486 to limit the increase to the class, and supply voltage subclass, to no more than 1.5 times the
487 overall average system increase, including the effect of the Distribution Tax. The percentage
488 level of delivery service increase required for DS-4 customers, especially those served from
489 +100 kV Supply Voltage category, to achieve equalized Distribution Tax pricing is greater than
490 what would be allowed under a 1.5 times average, or even a 10% minimum increase. Looking at
491 the AIC average of DS-4 +100 kV customers, it would take 13 iterations of 10% increases to the
492 EDT to achieve uniform EDT values assuming all of the rate change were applied to increasing
493 the EDT price. The limitation provision in the revenue allocation methodology of 0.05 ¢/kWh
494 addresses general bill impact concerns expressed in Docket Nos. 09-0306 (cons.) while allowing
495 movement toward cost based rates.

496 The Commission also expressed that eliminating inter- and intra- class subsidies in the
497 next rate case should be a priority in the next rate filing. Order, Docket Nos. 09-0306 (cons.), p.
498 260. Thus, the AIC proposal takes a proactive approach to eliminating the inter- and intra-class

499 subsidies for the Distribution Tax, at a quicker pace than applying a simple constraint multiple
500 (e.g., 1.5 times the system average increase).

501 **Q. What process do you propose to follow when submitting future compliance rates to**
502 **adjust Distribution Tax Charges?**

503 A. The process is outlined in Ameren Exhibit 1.1. In summary, the charges for DS-4 are
504 established first, subject to the revenue allocation constraint. Meter, Customer, Transformation,
505 and Reactive Demand Charges are established pursuant to the methodology outlined. Meter and
506 Customer Charges are expected to result in modest changes from one year to the next. Next,
507 Distribution Tax and Distribution Delivery Charges are established and adjusted to achieve the
508 remaining revenue requirement target. If the DS-4 Distribution Tax for the particular subclass is
509 already uniform with those for all other DS classes then AIC retains such uniformity and adjusts
510 the Distribution Delivery Charge to achieve the remaining revenue requirement target. If the
511 remaining revenue requirement target is an increase, then the Distribution Tax Charge is raised
512 to the average cost level established in the cost of service study. Any remaining revenue
513 requirement needed will be recovered through increases to the Distribution Delivery Charge.

514 **Q. Is the total EDT Cost Recovery level proposed in Docket No. 13-0301 the same as**
515 **that proposed in this proceeding?**

516 A. No. The values in this proceeding are slightly greater than those proposed in Docket No.
517 13-0301, and other (non-EDT) charges have been adjusted downward to compensate. In Docket
518 No. 13-0301 the EDT Cost Recovery expense level was allocated a portion of the reconciliation
519 true-up. The reconciliation true-up in that proceeding is a revenue credit (negative amount),
520 which serves to reduce the expense level. The reconciliation true-up is not expected to be a

521 credit every year. Since the EDT Cost Recovery has a unique underlying cost support (the
522 amount of Distribution Tax paid to the state), it makes sense to link the amount of EDT Cost
523 Recovery to the actual amount of Distribution Tax paid to the state. Doing so should also result
524 in more stable EDT Cost Recovery values from one year to the next.

525 **Q. Have you modeled what the Distribution Tax Charges would be under a revenue**
526 **neutral rate design?**

527 A. Yes. Following the process outlined in Ameren Exhibit 1.1, the Distribution Tax values
528 would be as follows:

Redesigned EDT Cost Recovery Charges

	RZ I	RZ II	RZ III
DS-1 – DS-3, DS-5, DS-6	\$0.0014181	\$0.0013129	\$0.0013874
DS-4 Primary	\$0.0012061	\$0.0012061	\$0.0012061
DS-4 High Voltage	\$0.0011246	\$0.0008415	\$0.0010918
DS-4 +100 kV	\$0.0006294	\$0.0011013	\$0.0006642

529

530 **Q. What is the effect under the revenue neutral scenario on the amount of Distribution**
531 **Tax subsidy provided to DS-4?**

532 A. The subsidy amount is reduced from \$13.3 million shown in the table above to \$3.8
533 million. While actual results will be different when applied in the next formula rate update case,
534 the subsidy will be reduced substantially, and possibly eliminated, in the next few formula rate
535 update cases.

536 **V. RATE DESIGN**

537 **Q. What elements of rate design do you discuss?**

538 A. In addition to the Distribution Tax discussed above, I also discuss the process for
539 establishing further progress toward uniform pricing among Rate Zones, establishing prices for

540 the DS-3 and DS-4 +100 kV category of service, Transformation Charges for RZ II DS-4 +100
541 kV service, DS-5 Lighting Service pricing, and updates to the “included in rates” uncollectible
542 values.

543 **A. Uniformity Among Rate Zones**

544 **Q. What has been the status of uniform pricing across AIC’s three Rate Zones?**

545 A. For delivery services, the legacy utilities (and now each of the three Rate Zones) have
546 common monthly Meter and Customer Charges within each rate class among the Rate Zones.
547 For DS-3 and DS-4, the Transformation Capacity and Reactive Demand Charges are also
548 uniform among Rate Zones. The Delivery Charges are still unique among Rate Zones.
549 The Company’s power supply rates are either uniform or moving toward uniformity per the
550 annual adjustment formula within the tariff. Customers in each of the Rate Zones either pay or
551 will soon pay the same monthly BGS charges for Company-supplied power and energy (note that
552 the Uncollectible Factor related to supply is presently differentiated by Rate Zone, a price
553 element that will be proposed to be consolidated into single factors for AIC in a separate
554 proceeding).

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

556 A. As discussed earlier, taking direction from the Commission decision in Docket No. 10-
557 0517, uniform pricing is appropriate when costs among the various Rate Zones are similar.
558 The cost between some of the rate classes in the Rate Zones is indeed close. Costs are within
559 10% of the combined average cost for DS-1 RZ I and RZ II, DS-2 RZ I and RZ III, DS-3
560 Primary for all RZ I and RZ II, DS-4 Primary for RZ I and RZ III. Costs are also similar among
561 DS-5 RZ II and RZ III after miscellaneous revenues unique to the lighting class are deducted.

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

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

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

567 A. AIC is proposing to implement a methodology that allows completion of price uniformity
568 among Rate Zones for a DS class when (a) average costs excluding the Distribution Tax for the
569 class in the individual Rate Zone are within 10% of the combined average costs of either two or
570 three Rate Zones, as applicable, (measured on a cost per kWh basis for DS-1 and DS-2, a cost
571 per kW of Billing Demand for DS-3 and DS-4, cost per fixture for DS-5) and (b) for DS-1, DS-2,
572 DS-3 and DS-4 Primary supply voltage, DS-3 and DS-4 High Voltage supply voltage classes,
573 average prices for delivery service for the class or applicable voltage subclass excluding the
574 Distribution Tax in the individual Rate Zone are likewise within 10% of the combined average
575 price of either two or three Rate Zones. Also, if during determination of final compliance prices
576 in a formula rate update the differing prices among the Rate Zones would otherwise "cross-over"
577 one another, such Rate Zone pricing is also proposed to be set uniformly. For example, if in
578 compliance the DS-3 Distribution Delivery price in Rate Zone II is set to move from \$3.769/kW
579 to \$4.50/kW and the comparable price in Rate Zone III is set to move from \$4.53/kW to
580 \$4.45/kW, the two would be combined to establish a uniform price for the two Rate Zones
581 because the prices would otherwise "cross-over" each other. Prices for proposed DS-6 are to be
582 set uniformly among Rate Zones. Costs among Rate Zones are slightly outside of the 10%
583 bandwidth compared to the AIC average (within +/- 13%). However, customers in this class are
584 expected to see a rate decrease from their otherwise applicable DS rate. In a sense, the prices

585 cross-over each other as customers experience a net rate decrease under the uniform DS-6 rate
586 from their applicable RZ DS-3 or DS-4 service.

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

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

595 **Q. Based on the uniform pricing criterion for DS-1, DS-2, DS-3 and DS-4 Primary**
596 **supply voltage, DS-3 and DS-4 High Voltage, the cost of service results presented by Mr.**
597 **Schonhoff, and proposed prices in Docket No. 13-0301, would you expect additional prices**
598 **uniformity among Rate Zones to occur?**

599 A. Yes. The cost of service for DS-1 Rate Zones I and II are within 10% of the combined
600 average for the two Rate Zones. Also, proposed prices in Docket No. 13-0301 are likewise
601 within 10% of the combined average total for the rate class. I would expect that future
602 application of the rate design methodology would indicate that the Distribution Delivery Charges
603 for DS-1 RZ I and II become uniform.

604 DS-2 shows that costs for RZ I and RZ III are within 10% of the combined average total
605 for the two Rate Zones. The proposed pricing is very close among all of the Rate Zones. I

606 would expect that future application of the rate design methodology would indicate that the
607 Distribution Delivery Charges for DS-2 at least among RZ I and RZ III become uniform.

608 DS-3 Primary supply voltage shows that costs among RZ I and RZ II are within 10% of
609 the combined average total for the RZs. Also, proposed prices in Docket No. 13-0301 are
610 likewise within 10% of the combined average total for the rate class for RZ I and II. I would
611 expect that future application of the rate design methodology would indicate that the Distribution
612 Delivery Charges for DS-3 Primary supply voltage for RZ I and II become uniform.

613 DS-3 High Voltage does not have similar cost among RZs. Prices also show greater than
614 10% difference. Thus the expectation is that this voltage subclass may continue to have
615 independent RZ pricing for the time being.

616 DS-4 Primary supply voltage show average costs between RZ I and RZ III are within
617 10%; however, average prices are not within the 10% criteria. I would expect this voltage
618 subclass may continue to have independent RZ pricing for the time being.

619 DS-4 High Voltage does not show cost uniformity within 10%. Thus the expectation is
620 that these voltage subclasses may continue to have independent RZ pricing for the time being.

621 **B. Pricing for DS-3 and DS-4 +100 kV Supply Service**

622 **Q. What is your proposal regarding DS-3 +100 kV supply voltage customers?**

623 A. For DS-3 +100 kV supply voltage service, the prices are proposed to become uniform at
624 the next available opportunity. The Distribution Delivery Charge in RZ I is \$1.696/kW and
625 proposed to be \$1.523/kW Docket No. 13-0301. In contrast, the RZ II and RZ III comparable
626 charges are \$0.045/kW in each RZ under both current rates and in Docket No. 13-0301 proposed
627 rates. The high level of RZ I charge was an outcome of applying the revenue allocation
628 methodology approved in Docket Nos. 09-0306 (cons.). The resulting +100 kV price is greater

629 than that for DS-3 High Voltage service (only \$0.965/kW under present rates and \$0.90/kW
630 under proposed Docket No. 13-0301 prices). The High Voltage subclass uses more delivery
631 service assets than the +100 kV subclass, thus should bear greater costs and prices. However, the
632 opposite result is occurring. This subclass was issued 17 bills in the test-year among all three
633 RZs. RZ I experienced five monthly bills while RZ III experienced six bills for two separate
634 customers (12 bills total). RZ II did not show any customers in the test-year. The paucity of
635 data has made setting rates for the category challenging.

636 To address the dearth of information for this subclass, AIC proposes to rely upon the
637 average cost data for both DS-3 and DS-4 +100 kV customers to establish DS-3 +100 kV prices.
638 Specifically, the sum of DS-3 and DS-4 +100 kV demand-related revenue requirement net of
639 Transformation Charge revenue divided by the sum of DS-3 and DS-4 +100 kV billing demands
640 for all RZ will be used to establish the DS-3 + 100 kV Distribution Delivery Charge. The DS-4
641 +100 kV supply voltage subclass contains several customers, and billing demands exceeding
642 1,000,000 kW/month. Including the DS-4 subclass will produce more stable and reasonable
643 results. The DS-3 +100 kV customers often have been DS-4+100 kV customers at one time or
644 another in the past several years and so including them in this context is not without precedent.
645 The proposed methodology improves rate continuity. Based on the results presented in Docket
646 No. 13-0301, the DS-3 +100 kV price would be \$0.314/kW (the cost basis for DS-3 and DS-4
647 +100 kV described above).

648 I address the treatment of any revenue deficiency or surplus resulting from the DS-3 +100
649 kV pricing methodology within the "revenue allocation" discussion.

650 **Q. What is your proposal regarding DS-4 +100 kV supply voltage customers?**

651 A. The DS-4 +100 kV supply voltage Distribution Delivery Charges are all very small,
652 ranging from \$0.016/kW for RZ I to \$0.030 for RZ II. This compares to High Voltage prices
653 which range from about \$0.50/kW to about \$1.00/kW depending on Rate Zone. AIC proposes
654 to set the DS-4 +100 kV charges to be uniform among Rate Zones, equal to the weighted average
655 price established in Docket No. 13-0301. As discussed above, the cost basis for this charge
656 would support about \$0.314/kW (on an AIC average basis). The Rate Zone weighted average
657 price is \$0.0236/kW under proposed Docket No. 13-0301 prices (\$0.0237/kW under current
658 prices). By holding pricing to the average current price rather than moving toward the uniform
659 cost-based price, further progress can be made toward establishing a uniform Distribution Tax
660 value.

661 Holding all other variables constant, moving DS-4 +100 kV Distribution Delivery
662 Charges to a uniform average price would increase RZ I revenue by 6.1% (an average of
663 \$0.000013/kWh), and decrease RZ II and RZ III by 1.3% (average -\$0.000016/kWh) and 1.6%
664 (average -\$0.000004/kWh), respectively, based on proposed Docket No. 13-0301 prices.

665 **C. Transformation Capacity Charge for RZ II DS-4 +100 kV Supply Service**

666 **Q. Are you departing from uniform Transformation Capacity Charges for RZ II DS-4**
667 **+100 kV supply voltage service customers?**

668 A. Yes, but only for customers taking that category of service as of December 31, 2012.
669 The Company has specifically identified assets used by +100 kV customers for transformation
670 service, and the cost of service results warrant a lower rate for RZ II.

671 The Rate Zone II DS-4 +100 kV customer group is different from their counterpart
672 customers in RZ I and III. RZ II +100 kV customers make extensive use of Transformation
673 service offered by the Company. Of the 2.036 million kW of Transformation kW used by AIC's

674 DS-4 +100 kV customers, 1.9 million kW is associated with RZ II. Much of the transformation
675 equipment installed for RZ II customers was installed late 1970's and early 1980's, resulting in a
676 well depreciated plant balance. A lower cost basis therefore warrants a lower price. A
677 Transformation Capacity Charge of \$0.15/kW has been established for RZ II +100 kV DS-4
678 customers taking Transformation service from AIC as of December 31, 2012. All other
679 customers, including new customers, those reclassifying from DS-3 +100 kV, or those that re-
680 conductor from a lower voltage up to +100 kV would pay the uniform Transformation Capacity
681 Charge of \$0.59/kW for transformation service. The lower price is not warranted for those other
682 customers because it is not linked to their costs. The replacement costs for these facilities are
683 greater than \$0.15/kW, and the cost to serve new customers would likewise likely be greater.
684 The \$0.15/kW charge may be revisited if changes in transformation equipment investment
685 serving RZ II +100 kV customers as of 12/31/12 warrant an adjustment.

686 **D. Pricing for DS-5 Lighting Service**

687 **Q. What is your pricing proposal for DS-5?**

688 A. The DS-5 Fixture Charges among Rate Zone II and III are within 10% of the combined
689 total of the Rate Zones, although when combined with the Distribution Delivery Charge the
690 combined total falls just outside of 10% of the combined total of the RZs. The cost, reduced to
691 deduct miscellaneous revenue unique to the lighting class for each RZ, is within 10%. Viewing
692 the cost after the miscellaneous revenue deduction is appropriate because Fixture Charges and
693 Distribution Delivery Charges are established based on recovering the allocated class revenue
694 requirement net of such miscellaneous revenue. At first review, combined pricing for the two
695 RZs would not occur because existing prices are not similar enough. However, the allocated
696 revenue requirement changes to the RZ II and RZ III DS-5 classes result in new prices "crossing

697 over” each other. Accordingly, I would expect that DS-5 pricing for Rate Zones II and III may
698 be uniform when the methodology is applied in the next MAP-P update proceeding. The “Pole
699 Charge” for Rate Zone III is still proposed to remain fixed at \$6.94. The Fixture Charges for
700 Rate Zone I are still well below those for Rate Zone II and III, thus uniformity is unlikely in the
701 next rate proceeding. Any rate increase (or decrease) for Rate Zone I DS-5 should be to the
702 Fixture Charges first, up to the level of the Fixture Charges of other Rate Zones. Once the
703 Fixture Charges are uniform among all Rate Zones, the Rate Zone I Distribution Delivery
704 Charge may be raised to achieve any remaining revenue requirement responsibility (up to the
705 level of the other Rate Zones). The Rate Zone I Distribution Delivery Charge is presently
706 \$0.0/kWh (no charge). This contrasts to Distribution Delivery Charges in Rate Zone II near
707 \$0.015/kWh and Rate Zone III of about \$0.01/kWh.

708 **E. “Included In Rates” Uncollectible Values**

709 **Q. What are the “Uncollectible Recovered in Base Rates” values shown in the Rate**
710 **MAP-P Informational Sheet?**

711 A. The values are shown in each delivery service rate for informational purposes, considered
712 a subset of the Customer Charge, and used by AIC to track the amount of uncollectible expense
713 “included in rates” for administration of Rider EUA – Electric Uncollectible Adjustment (Rider
714 EUA).

715 **Q. What is your proposal for determining the amount of Uncollectible Recovered in**
716 **Base Rates amounts?**

717 A. The process will begin as it does presently, where values are updated to correspond with
718 the level of uncollectible expense determined in the test-year. A recent change to Rider EUA

719 will assess EUA Adjustment charges or credits to two customer groups, Residential and Non-
720 residential, starting with the 2012 Reporting Year. Previous to this tariff change, the EUA
721 Adjustment applied to DS-1, DS-2, DS-3, and DS-4 separately. Because non-residential average
722 class level data will suffice for administering Rider EUA, the “included in rates” value is
723 proposed to be condensed into a single non-residential “Uncollectible Recovered in Base Rates”
724 value.

725 **Q. When is it appropriate to set uniform “Uncollectible Recovered in Base Rates”**
726 **values among Rate Zones?**

727 A. It is appropriate to make the change in this proceeding, which would impact the 2015
728 “reporting year” and reflected in charges or credits to customers beginning in June 2016. The
729 present methodology for allocating uncollectible expense (and net write-off expense as of 2012)
730 relies upon the relative weighting of Account 904 expense for each Rate Zone to the total
731 Account 904 expense for AIC for the period January through September 2010. As discussed by
732 Mr. Martin, AIC is proposing to allocate uncollectible expense among RZ based on the relative
733 weighting of customers. A customer weighted value will produce values that are similar among
734 RZ. Because the underlying cost data is substantially uniform, it makes sense to move the
735 “Uncollectible Recovered in Base Rates” toward uniformity for residential and non-residential
736 customers, respectively, among RZs.

737 **F. Summary of Prices and Revenues**

738 **Q. Does AIC have a summary comparing prices between those proposed in Docket No.**
739 **13-0301 and those that would result if the revenue neutral changes are accepted?**

740 A. Mr. Schonhoff sponsors Ameren Exhibit 2.7 showing this comparison. The price
741 changes shift revenue responsibility and recovery among RZ and classes within RZ. In
742 aggregate, the hypothetical prices generate the same amount of revenue as those proposed in
743 Docket No. 13-0301. Ameren Exhibit 1.3 shows a revenue proof substantially similar in format
744 to Part 285 Schedule E-5. Test-year billing units from Docket No. 13-0301 (2012 base)
745 multiplied by charges proposed in Docket No. 13-0301 and the hypothetical revenue neutral
746 prices that would result from applying the methodology in this proceeding is modeled.

747 **VI. TARIFF CHANGES**

748 **Q. What tariff changes are necessary to Rate MAP-P to implement the proposals in**
749 **this proceeding?**

750 A. Rate MAP-P will require minor “housekeeping” modifications to replace references to
751 Docket Nos. 09-0306 (cons.) with the docket number for this proceeding on Sheet 16.008 in the
752 section pertaining to pricing and revenue allocation procedures. Additionally, DS-6 needs to be
753 incorporated within Rate MAP-P, also on Sheet No. 16.008, to add the following paragraph at
754 the end of the “Determination of Billing Determinants” section:

755 **“DS-6 Temperature Sensitive Delivery Service**

756 The temperature sensitive service class encourages shifting of use away from warm temperature
757 days. Therefore, there is no regression model developed for weather normalization and its
758 billing determinants are not weather normalized.”

759

760 These changes are shown in Ameren Exhibit 1.4.

761 **Q. Are changes to other tariff sheets needed to implement rate redesign proposals?**

762 A. Yes. Rate DS-6 is requested for approval, as shown in Ameren Exhibit 2.9 to Mr.
763 Schonhoff’s testimony. Approval of Rate DS-6 will require changes to several other tariffs to
764 incorporate references to DS-6.

765 AIC requests that Rate DS-6 become effective for service beginning no sooner than
766 January 2015. AIC will also file minor modifications to its Electric Service Schedule (i.e., tariff
767 book) in several areas to accommodate the addition of DS-6. For example, Table of Contents,
768 Customer Terms and Conditions, Standards and Qualifications, Supplier Terms and Conditions,
769 Riders HSS – Hourly Supply Service, Rider NM – Net Metering, Supplemental Customer
770 Charges, Rider EDR – Energy Efficiency and Demand-Response Cost Recovery, Rider EEA –
771 Electric Environmental Adjustment, and Rider TS – Transmission Service, to name a few, will
772 need to be modified to include new Rate DS-6. Also, as explained by Mr. Schonhoff, DS-6 is
773 intended to replace the “rate limiter” provision contained in Rates DS-3 and DS-4. Changes to
774 DS-3 and DS-4 to remove applicability of the rate limiter provision starting with January 2015
775 bills would also be needed. These other housekeeping changes to incorporate DS-6 will be
776 complete prior to January 2015.

777 **Q. If the “Uncollectible Recovered in Base Rates” values are changed to become**
778 **uniform, and the expense allocation proposed by Mr. Martin are accepted, are changes to**
779 **Rider EUA necessary?**

780 A. Yes. Changes would be needed to condense administration of the tariff from individual
781 Rate Zones to one without Rate Zone distinction for the period starting with the 2015 “reporting
782 year”. The Company will work with Staff to determine appropriate changes to Rider EUA, and
783 submit those changes shortly after this proceeding concludes.

784 **VII. CONCLUSION**

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

786 A. Yes, it does.

APPENDIX

**STATEMENT OF QUALIFICATIONS OF
LEONARD M. JONES**

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; 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 11-0354 – 11-0356 (cons.) regarding reconciliation of power procurement costs with expenses; 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; Docket 12-0244 regarding approval of AIC's AMI plan; Docket 12-0293 regarding Rate MAP-P annual update filing; Docket 13-0105 regarding approval of Rider PTR - Peak Time Rebate; and Docket 13-0192 regarding gas rate design matters.