

**DIRECT TESTIMONY**

of

**PHILIP RUKOSUEV**

Rates Department

Financial Analysis Division

Illinois Commerce Commission

Ameren Illinois Company d/b/a Ameren Illinois  
Revenue-Neutral Tariff Changes Related to Rate Design

Docket No. 13-0476

October 17, 2013

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

2 A. My name is Philip Rukosuev and my business address is 527 E. Capitol Avenue,  
3 Springfield, Illinois 62701.

4

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

6 A. I am currently employed by the Illinois Commerce Commission (“ICC” or  
7 “Commission”) as a Rates Analyst in the Rates Department of the Financial  
8 Analysis Division. My responsibilities include rate design and cost of service  
9 analyses for electric, gas, water and sewer utilities and the preparation of  
10 testimony on rates and rate related matters.

11

12 **Q. How long have you been employed by the Commission?**

13 A. I have been employed by the Commission since September of 2008.

14

15 **Q. Please discuss your educational and professional background.**

16 A. I received a B.A. in Economics and Business Administration (Magna Cum Laude)  
17 and a M.A. in Accounting (with Honors) from the University of Illinois at  
18 Springfield. I was previously employed by the Illinois Manufacturing Association  
19 as a Management Intern and by the Department of Healthcare and Family  
20 Services in the Low Income Home Energy Assistance Program (LIHEAP) and the  
21 Illinois Home Weatherization Assistance Program (IHWAP)<sup>1</sup> as a Fiscal Intern.

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<sup>1</sup> At present, those programs are part of the Illinois Department of Commerce and Economic Opportunity.

23 My regulatory experience began with my employment as a rates analyst with the  
24 Financial Analysis Division of the Commission. My experience in the regulatory  
25 field includes three years of employment at the Commission, where I have  
26 provided testimony and performed related ratemaking tasks. My testimony has  
27 addressed cost-of-service, rate design, revenue requirement and other issues  
28 that concern gas, electric, water and sewer utilities. While employed as a  
29 member of the Staff of the ICC ("Staff"), I have attended classes and conferences  
30 relevant to utility operations.

31

32 **Q. Have you previously testified before the Commission or any other**  
33 **regulatory bodies?**

34 A. Yes, I have testified on several occasions before the Commission on rate design  
35 and other tariff-related matters.

36

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

38 A. The purpose of my testimony is to address embedded cost of service studies  
39 ("ECOSS") issues in the filing by Ameren Illinois Company ("Ameren," "AIC" or  
40 the "Company") for revenue-neutral tariff changes related to rate design. My  
41 testimony provides the Commission with recommendations with respect to the  
42 cost of service issues in this proceeding.

43

44 **Q. Are you sponsoring any schedules or attachments with your testimony?**

45 A. Yes. I am sponsoring Attachment A (AIC response to Staff Data Request 1.10)  
46 and Attachment B (AIC in response to Staff Data Request 1.10).

47

48 **Q. How is your testimony organized?**

49 A. My testimony is organized into six parts:

50 I. An introductory discussion of Ameren's ECOSs.

51 II. My recommendation regarding the Functionalization of Overhead  
52 Distribution Lines.

53 III. My recommendation regarding the Supply and Service Voltage Allocation.

54 IV. My recommendation regarding AMI Plan Investments.

55 V. My recommendation regarding the Electric Distribution Tax and the  
56 movement of the DS-4 class closer to cost.

57 VI. My recommendation regarding The Primary Distribution Line Allocator -  
58 Coincident Peak vs. Non-Coincident Peak allocation matters.

59

60 **Q. Please summarize your recommendations.**

61 A. Based upon my review of the information provided by Ameren in this proceeding,  
62 I make the following recommendations:

63 I) With respect to AIC's proposed Functionalization of Overhead Distribution  
64 Lines, I am not convinced that AIC's modifications are warranted at this  
65 time without further and more complete explanation of the new  
66 methodology. Accordingly, I urge that AIC address the insufficiency of its

67 arguments in its rebuttal testimony and provide a more complete cost  
68 justification for the new method.

69 II) I recommend that the Commission approve AIC's cost allocation approach  
70 using Supply and Service Voltage designations as used in AIC's ECOSs.

71 III) I recommend that AMI-related General and Intangible ("G&I") plant  
72 investments be allocated using a customer-related allocator instead of the  
73 current labor-related allocator; and that these plant investments should be  
74 allocated to the delivery service rate classes using the same allocation  
75 factor approved for FERC Account 370 - Meters.

76 IV) With respect to the Electric Distribution Tax ("EDT") and the movement of  
77 the DS-4 class closer to cost, my recommendations are as follows:

78 1. I recommend that the Commission approve AIC's proposal to  
79 move the DS-4 class closer to cost by using its proposed rate  
80 mitigation approach.

81 2. Since, the reconciliation true-up appears to include a true-up of  
82 differences in the EDT, then it is appropriate to continue  
83 allocating a portion of the reconciliation to the EDT (the current  
84 method). Therefore, I recommend the Commission maintain  
85 AIC's current methodology, which is allocating a portion of the  
86 reconciliation amount to the EDT.

87 V) I believe that the evidence here provides clear and compelling reasons for  
88 the Commission to reaffirm the use of the coincident peak ("CP")  
89 methodology for allocating primary distribution lines costs in AIC's

90           ECOSSs, and I recommend the Commission reject AIC's proposal to use  
91           the non coincident peak ("NCP") method for allocating of primary  
92           distribution lines costs.

93

94 **I. INTRODUCTORY DISCUSSION OF AMEREN'S ECOSS**

95

96 **Q.    What documents and information have you reviewed for your analysis of**  
97 **issues related to Ameren's electric ECOSSs?**

98 A.    I have analyzed the testimony and exhibits presented by Ameren's witnesses Mr.  
99       Schonhoff (Ameren Ex. 2.0) and Mr. Jones (Ameren Ex. 1.0). I have also  
100      reviewed data request responses from Ameren related to the issues I discuss in  
101      this proceeding.

102

103 **Q.    Please describe the role of an ECOSS in the design of electric rates.**

104 A.    A cost of service study plays a central role in the design of cost-based rates,  
105      which has been a long-standing ratemaking principle for the Commission. Basing  
106      rates on costs is both efficient and equitable. It is efficient because the price that  
107      consumers pay reflects the cost of providing electricity and, thus, what  
108      ratepayers pay is aligned with the cost to society of providing that service. It is  
109      equitable because ratepayers are charged only for those costs they cause the  
110      utility to incur.

111

112      An ECOSS is relied upon to allocate costs among customer classes. This is an  
113      essential role in the process of designing cost-based rates. An ECOSS is

114 performed to allocate costs among all customer classes to determine each  
115 customer class's respective responsibility for the costs imposed on the utility. The  
116 results are summarized in rates of return for customer classes, which document  
117 each customer class's relative performance in recovering costs. Classes  
118 generating above average returns are considered to pay more than their fair  
119 share of the Company's revenue requirement, while classes with below average  
120 returns are viewed as paying too little. One standard of reasonable rates can  
121 fairly be said to outrank all others in the importance attached to it by experts and  
122 public opinion alike – the standard of costs of service.<sup>2</sup>

123

124 **Q. How does AIC's ECOSS categorize utility costs?**

125 A. There are three steps in preparing an ECOSS: functionalization, classification,  
126 and allocation. The first step, functionalization, is the assignment of rate base  
127 items and operating expenses to major functions such as production,  
128 transmission, distribution, and customer service.<sup>3</sup> Classification is the assignment  
129 of the functionalized costs to categories of cost causation. For example, costs  
130 may be classified as demand-related, energy-related, or customer-related. This  
131 step guides the process of determining how those costs should be recovered -  
132 through customers (costs that are directly related to the number of customers

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<sup>2</sup> Bonbright, James C., Albert L. Danielsen, and David R. Kamerschen. "Cost of Service as a Basic Standard of Reasonableness." *Principles of Public Utility Rates*. 2nd ed. Arlington, VA: Public Utilities Reports, 1988. p. 109.

<sup>3</sup> Costs may be fixed, or may be affected by demand and/or the number of customers. The costs of transmission are generally considered fixed costs that do not vary with the quantity of energy/gas transmitted. The costs of gas distribution systems are affected primarily by demand and by the number of customers. Customer costs include costs that are related to the number of customers (The Electric Utility Cost Allocation Manual, January 1992, p. 21, NARUC.)

133 served), demand (costs that vary with the demand), or usage charges. Allocation  
134 is the process of assigning the classified costs to the various classes of service,  
135 where such costs are allocated among customer classes based on cost-  
136 causation principles to determine their share of responsibility for overall system  
137 costs.

138

139 **II. FUNCTIONALIZATION OF OVERHEAD DISTRIBUTION**  
140 **LINES**  
141

142 **Q. What issue does AIC raise with respect to Functionalization of Overhead**  
143 **Distribution Lines?**

144 A. AIC currently functionalizes FERC Accounts 364-365 (overhead distribution  
145 lines) to the following voltage levels: Secondary (<600), Primary (600V-30kV),  
146 Distribution Voltage (30kV-100kV), and +100kV Distribution. Functionalization of  
147 costs associated with these FERC Accounts involves two stages, which are  
148 discussed in detail in Ameren Ex. 2.0, 14:279-15:308. AIC proposes a  
149 modification that will involve only one stage. (*Id.* at 14-15.) According to AIC,  
150 because the proposed method relies on actual data for all Rate Zones and is  
151 more internally consistent, it results in a better functionalization of costs. (*Id.* at  
152 15.)

153

154 **Q. How do you assess the proposed method?**

155 A. Despite AIC's efforts to provide a better method for functionalizing Overhead  
156 Distribution lines, I am not confident that implementation of its proposal is as

157 straightforward as AIC suggests. Specifically, I am concerned that AIC has not  
158 provided any rate design, cost allocation, or bill impact analysis in support of its  
159 position.

160

161 I agree conceptually with using a more accurate method to functionalize these  
162 costs and the limited general statements provided in the Company's testimony on  
163 this issue seem to indicate that AIC's proposed method presents a more  
164 reasonable approach than the old method. However, more evidence is needed in  
165 order to substantiate the reasonableness of this change and establish that it  
166 would better reflect cost causation.

167

168 The only justification from the Company for the proposed changes is a statement  
169 by AIC witness Schonhoff that the proposed methodology relies on actual data  
170 for all Rate Zones and is also more internally consistent. CITE to this statement  
171 While this is helpful, the explanation alone is inadequate. Cost allocation should  
172 be based upon the principle of cost causation, and a better and more complete  
173 explanation should be provided for the change in methodology. The Company  
174 did not provide any compelling reason why the current approach, which has been  
175 approved by the Commission, is deficient and should be revised. AIC identifies  
176 nothing specific or unique that would distinguish the situation in this proceeding  
177 from that of past proceedings.

178

179 Further, AIC did not explain its rationale for not proposing a different cost  
180 allocation method to go along with the re-functionalized distribution line cost. The  
181 only explanation given was that “[e]ach rate class will continue to be allocated  
182 their share of those costs based on the currently approved allocation factor.”  
183 (Ameren Ex. 2.0, 15:307-308.)

184

185 **Q. What is your recommendation?**

186 A. While I understand AIC’s decision to propose a method that provides for a better  
187 functionalization of costs, I am not convinced that AIC’s modifications are  
188 warranted at this time and without a more complete explanation of the new  
189 methodology. The record lacks evidence indicating that the new method will  
190 benefit either AIC or its customers down the line.

191

192 Accordingly, I recommend that AIC address the following points in its rebuttal  
193 testimony and provide a more complete cost justification for the new method:

194 (1) Explain, in detail, the ways in which the new method is more accurate  
195 than the old method. Specifically, discuss cost justifications for the  
196 proposed method.

197 (2) Explain, in detail, whether the study of Rate Zone III cost data that  
198 was used to determine the percentage used as a proxy for all Rate Zones  
199 is utilized in the new methodology as well.

200 (3) Explain, in detail, the role the Replacement Cost New Study (“RCN”)  
201 plays in the new method vs. the current method.

202 (4) Specifically, explain how the proposed method, which includes the  
203 +100kV distribution lines in the analysis, provides a better functionalization  
204 of costs than the current method.

205 (5) Explain, in detail, why a different cost allocation method, to go along  
206 with the re-functionalized method, is not required.

207

### 208 **III. SUPPLY AND SERVICE VOLTAGE ALLOCATIONS**

209

210 **Q. What does AIC propose regarding supply and service voltage allocations?**

211 A. AIC proposes to use both supply and service voltage to allocate distribution plant  
212 rather than supply voltage only. AIC witness Schonhoff explains that using both  
213 supply and service voltage will better determine the collective demand of all  
214 customers within each rate class and each rate class's relative contribution to  
215 total system demand at each voltage level of the distribution system. (Ameren  
216 Ex. 2.0, 7:134-143.)

217

218 **Q. Please discuss the procedural history of this issue.**

219 A. In Docket Nos. 09-0306 through 09-0311 (Cons.), AIC was ordered to allocate  
220 distribution plant using supply voltage only (the service voltage allocator was  
221 disallowed), unless AIC could provide more persuasive evidence in a future  
222 proceeding. (Ameren Illinois Company, Final Order at 232, Docket No. 09-0306  
223 (cons.), (April 29, 2010).) In the following proceeding, Docket No. 11-0279<sup>4</sup>, AIC

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<sup>4</sup> On April 8, 2011, the Administrative Law Judges granted a motion consolidating Docket No. 11-0279 with Docket No. 11-0282, a docket initiated by the Commission to investigate revised gas delivery

224 provided such evidence, where subsequently, a Proposed Order (“PO”) was  
225 issued by the Administrative Law Judge stating that “[t]he Commission accepts  
226 AIC’s cost allocation approach using supply and service voltage designations as  
227 used in AIC’s COSS.” (Ameren Illinois Company, Proposed Order at 147, Docket  
228 No. 11-0279, (Nov. 15, 2011).) The PO accepted AIC’s implementation of the  
229 cost allocation approach AIC is again proposing. No party in that case proposed  
230 a different allocator or recommended that AIC continue to allocate assets based  
231 solely on supply voltage.

232

233 **Q. What happened after the PO accepted AIC’s recommendation with respect**  
234 **this issue?**

235 A. As a result of the newly enacted Energy Infrastructure Modernization Act  
236 (“EIMA”), Docket No. 11-0279 was dismissed before the Commission issued a  
237 final order.<sup>5</sup>

238

239 **Q. What is AIC seeking in this proceeding with respect to this issue?**

240 A. AIC is asking the Commission to reinstate the results of what it believes was a  
241 resolved issue in Docket No. 11-0279, and is recommending that the  
242 Commission recognize both the supply voltage and service voltage when  
243 allocating demand-related distribution plant. Ameren Exhibit 2.2 presents

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services tariff sheets filed contemporaneously by AIC with the electric delivery services tariff sheets being reviewed in Docket No. 11-0279.

<sup>5</sup> Due to newly enacted EIMA, AIC continued its operations under the rate design methodologies approved in the previous case, docketed as Docket Nos. 09-0306 through 09-0911 (Cons.).

244 relevant pages from Ameren witness Schonhoff's direct testimony in Docket No.  
245 11-0279 further explaining the issue.

246

247 **Q. How does Ameren define service voltage and supply voltage?**

248 A. In Ameren Ex. 2.2, pp.3-4, AIC defines these terms in the following manner:

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Some customers within AIC service territory own the transformer which delivers the customer with electricity at the desired voltage level. Service Voltage is the final voltage at the point at which a customer utilizes Ameren Illinois assets and connects to their assets. Stated in another way, the demarcation is defined as whether assets are part of Ameren Illinois's rate base. If a customer owns the final transformer, then the customer would take service (Service Voltage) at the same voltage level as supplied (Supply Voltage) and Ameren Illinois would not have this asset in its rate base. The "High Rise" Customer from Ameren Exhibit 14.2E provides an illustration of a customer who takes service at the same voltage level as supply voltage because the customer owns the final transformation. Throughout this testimony, the statements customer "takes service" or "service voltage" will be synonymous.

269 **Q. Do you agree that the Commission should recognize both the supply**  
270 **voltage and service voltage when allocating demand-related distribution**  
271 **plant?**

272 A. Yes. I agree with AIC that a failure to recognize both supply voltage and service  
273 voltage results in illogical and inappropriate allocations of costs. In Docket Nos.  
274 09-0306 through 09-0311 (Cons.), the Commission directed AIC to use supply  
275 voltage as the allocator of distribution assets to DS-4 customers in future electric  
276 rate filings unless more persuasive evidence was provided. (AmerenCILCO, et

277 al., Order at 231, ICC Docket Nos. 09-0306 through 09-0311 (Cons.) (April 29,  
278 2010).) In that proceeding, the Commission's Order stated that “the Commission  
279 must try to ensure that costs are allocated to those who cause the cost.” (*Id.*) To  
280 that end, in Docket No. 11-0279, new supporting evidence was provided, where  
281 AIC proposed a new cost allocation approach using supply voltage and service  
282 voltage designations. This approach further refined AIC’s electric ECOSSE and led  
283 to a more transparent and accurate allocation of costs at the subclass level. (See  
284 Ameren Ex. 32.0 Rev. at 22-23, ICC Docket No. 11-0279.) In that case, no party  
285 proposed a different allocator or recommended that AIC continue to allocate  
286 assets based solely on supply voltage. AIC has once again provided that  
287 information in this case. Therefore, I agree that the Commission should approve  
288 AIC’s cost allocation approach using supply and service voltage designations as  
289 used in AIC's cost of service studies.

290

291 **Q. What is your recommendation?**

292 A. I recommend that the Commission approve AIC’s cost allocation approach using  
293 supply and service voltage designations as used in AIC's cost of service studies.

294

295 **IV. FUNCTIONALIZATION OF GENERAL AND INTANGIBLE**  
296 **(“G&I”) PLANT RELATED TO ADVANCED METER**  
297 **INFRASTRUCTURE (“AMI”) PLAN INVESTMENTS AS**  
298 **METER-RELATED**

299

300 **Q. What is AIC’s proposal related to AMI-related G&I Plant investments?**

301 A. AIC proposes a modification to its ECOSs for the allocation of AMI-related G&I  
302 plant investments. Due to the Company's current deployment of AMI within its  
303 service area, AIC asserts a change is needed to more accurately spread the  
304 allocation of associated costs among customer classes.

305  
306 AIC's position is that its G&I Plant investments related to the Company's AMI  
307 Plan should be allocated differently than the remaining G&I Plant within the  
308 ECOSs. (Ameren Ex. 2.0, 15:310-318.) Specifically, AIC proposes to allocate  
309 these AMI Plan investments using a customer-related allocator instead of the  
310 current labor-related allocator. (*Id.*) AIC requests that these AMI-related G&I  
311 plant investments should be allocated to the delivery service rate classes using  
312 the same allocation factor approved for FERC Account 370 - Meters. (*Id.*)  
313 According to AIC, this modification captures the effects of the AMI Plan's costs  
314 and benefits; namely, that the AMI Plan will require substantial investment in  
315 meters and meter-related communication network and software, while providing  
316 the benefit of decreased meter reading expenses. (*Id.*)

317

318 **Q. Please describe "General Plant" and "Intangible Plant."**

319 A. "General Plant" consists of assets such as land and land rights, buildings and  
320 structures, office furniture and equipment, transportation equipment, stores  
321 equipment, tools, shop and garage equipment, laboratory equipment, power  
322 operated equipment and communication equipment, miscellaneous equipment  
323 and other tangible property. "Intangible Plant" consists primarily of organization

324 (for example, fees paid to deferral or state governments for the privilege of  
325 incorporation and expenditures incident to organizing the corporation), franchises  
326 and consents, and miscellaneous intangible plant, for example, software or  
327 systems that are purchased or developed for use by the Company.<sup>6</sup>

328

329 **Q. Why does the Company believe AMI-related G&I plant should be allocated**  
330 **differently than other G&I plant?**

331 A. AIC witness Mr. Schonhoff explains the reason for this approach as follows:

332

333 Investments in meters are allocated to the delivery service  
334 rate classes using a customer-related allocation factor.  
335 Given the fact that this allocation factor is currently approved  
336 for cost allocations of meter investments and that these new  
337 AMI Plan investments support the metering function, the  
338 same allocation factor is appropriate and should be used to  
339 allocate the incremental G&I Plant investment related to the  
340 AMI Plan.

341

342 (Ameren Ex. 2.0, p. 16.)

343 **Q. Has the Company estimated the impact of these changes on its cost**  
344 **allocation?**

345 A. According to AIC, there is no immediate impact on the cost allocations in the  
346 current proceeding because the test year incorporated into this proceeding does  
347 not currently include AMI Plan investments. (*Id.* at 16:327-330.)

348

349 **Q. What is your assessment of the Company's proposal for allocation AMI-**  
350 **related G&I Plant?**

---

<sup>6</sup> (Working Copy of the Uniform System of Accounts for Electric Utilities Operating in Illinois at 96-97 (Aug. 1, 2007).)

351 A. The objective for cost allocation should be to assign costs based on cost  
352 causation principles. The Company has sufficiently demonstrated that the  
353 proposed approach is justified from a cost standpoint. As discussed in the  
354 NARUC Electric Utility Cost Allocation Manual (“NARUC Manual”),<sup>7</sup> meters are  
355 generally classified on a customer basis. However, they may also be classified  
356 using a demand component to show that larger-usage customers require more  
357 expensive metering equipment. AMI-related G&I plant investments support the  
358 metering function;<sup>8</sup> therefore, the same allocation factor<sup>9</sup> is appropriate and  
359 should be used to allocate the incremental G&I Plant investment related to the  
360 AMI Plan.

361

362 **Q. How will AIC’s AMI-related G&I plant allocation plan work?**

363 A. AIC will assign the supporting G&I plant for AMI to the proper Rate Zone based  
364 on Total Electric Customers by Rate Zone. The AMI-related G&I plant will then  
365 be allocated to delivery service rate classes using the same allocation factor as  
366 approved for FERC Account 370- Meters. (Ameren Ex. 2.0, 15:309-318.)

367

368 **Q. Do you agree with AIC’s allocation method of these costs?**

369 A. Yes. By definition, customer-related costs are related to the number of  
370 customers. The allocation of the customer-related portion of the various plant  
371 accounts is based on the number of customers by classes of service, with

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<sup>7</sup> (See NARUC Manual at 87, Table 6-1, Classification of Distribution Plant.)

<sup>8</sup> (See Ameren Ex. 2.0 at 16.)

<sup>9</sup> AMI-related G&I plant investments should be allocated to the delivery service rate classes using the same allocation factor approved for FERC Account 370 - Meters.

372 appropriate weightings and adjustments. AIC's method to allocate these costs is  
373 reasonable.

374

375 **Q. AIC indicates that, even though there is no impact on the current**  
376 **allocations of G&I plant because the revenue requirement used in this**  
377 **proceeding does yet include AMI Plan investment, its proposed allocations**  
378 **for AMI-related G&I plant should be approved in this proceeding. (Ameren**  
379 **Ex. 2.0, 16:327-338.) Do you agree?**

380 A. Yes. I agree with the Company. The AMI Plan investments will be made over an  
381 extended period, beginning in 2014. Under AIC's MAP-P tariff and formula rate  
382 process, AIC can only propose modifications to the cost allocation and rate  
383 design in separate rate re-design proceedings. Since AIC cannot propose an  
384 alternative method in the 2013 update filing, in which AMI Plan investments are  
385 expected to be included, it is important that this modification to the ECOSS  
386 model be authorized in this proceeding.

387

388 **Q. What is your recommendation?**

389 A. I recommend that AMI-related G&I plant investments be allocated using a  
390 customer-related allocator instead of the current labor-related allocator, and that  
391 these plant investments should be allocated to the delivery service rate classes  
392 using the same allocation factor approved for FERC Account 370 - Meters.

393  
394  
395  
396

**V. ELECTRIC DISTRIBUTION TAX AND ISSUES RELATED TO MOVING THE DS-4 CLASS CLOSER TO COST**

397 **Q. What is an Electric Distribution Tax?**

398 A. The Public Utilities Revenue Act ("PURA"), 35 ILCS 620/1 *et seq.*, levies a tax on  
399 electric utilities based on the total amount of energy delivered in a year at  
400 different rates for up to seven different kilowatt-hour ("kWh") sales blocks. This  
401 Electric Distribution Tax ("EDT") also reflects credits or refunds from previous  
402 years that result from a statutory cap on the total tax collected from all electric  
403 utilities.

404

405 **Q. What is the first issue AIC raises concerning with the EDT in this case?**

406 A. AIC argues that the DS-4 class is recovering revenue levels below their stated  
407 cost of service. Mr. Schonhoff shows, in Ameren Exhibit 2.3, that the DS-4 class  
408 in each Rate Zone and supply voltage category requires increases to recover its  
409 cost of service. (Ameren Exhibit 2.3.) According to AIC witness Jones, a  
410 "significant reason for the current under-recovery of costs relative to the DS-4  
411 class is that [EDT] prices for DS-4 customers are well below the average cost-  
412 based price, and as a result other customer classes subsidize the DS-4 class."  
413 (Ameren Ex. 1.0, 17:355-18:361.)

414

415 **Q. Is the EDT uniform?**

416 A. The EDT should be a uniform \$/kWh price across all customers and customer  
417 classes, but they are not. The tax is assessed on the Company based on the  
418 quantity of electricity delivered without distinction for the type or class of  
419 customers to whom the electricity is delivered. Therefore, there is no cost basis  
420 for each customer class to pay a different charge in order for the Company to  
421 recover the cost of the EDT tax.

422

423 **Q. Why are EDT not uniform?**

424 A. According to AIC, “[t]he non-uniform EDT structure exists as a result of applying  
425 the rate mitigation procedure approved in Docket Nos. 09-0306 (cons.).  
426 Subsequent operation of the revenue allocation methodology approved in Docket  
427 Nos. 12-0001 and 12-0293 (and again in Docket No.13-0301), which stem from  
428 Docket Nos. 09-0306 (cons.) have not resulted in a meaningful movement of the  
429 DS-4 class toward paying the average cost- based [EDT] price.” (*Id.* at 18:362-  
430 369.) AIC claims that “the [EDT] prices have decreased for all of the DS-4 class  
431 and supply voltage subclasses in RZ III since compliance rates were filed in  
432 November 2010 in Docket Nos. 09-0306 (cons.).” (*Id.*)

433

434 **Q. What is AIC's recommendation concerning the DS-4 class in context of the**  
435 **EDT issue?**

436 A. AIC modeled new EDT charges under a revenue neutral rate design following a  
437 process outlined in Ameren Ex. 1.1. According to AIC, using the revenue  
438 requirement proposed in Docket No. 13-0301, the effect of its revenue allocation

439 proposal on the amount of EDT subsidy provided to DS-4 is that the subsidy  
440 amount is reduced from \$13.3 million to \$3.8 million. Furthermore, while actual  
441 results will be different when applied in the next formula rate update case,  
442 Ameren claims the subsidy will be reduced substantially, and possibly eliminated,  
443 in the next few formula rate update cases. (Ameren Ex. 1.0, 26:532-535.)

444

445 **Q. What is your response with respect to moving the DS-4 class closer to**  
446 **cost?**

447 A. I recognize that AIC is in a difficult situation in which it is working toward uniform  
448 EDT rates among the three rate zones, as encouraged by the Commission, while  
449 at the same time trying to keep in mind the cost of service, rate gradualism and  
450 rate mitigation principles. It is a widely held ratemaking policy that rates should  
451 be designed to reflect cost causation, maintain gradualism, and avoid rate shock.  
452 As the record reflects, the DS-4 class has not made significant movement  
453 towards cost-based rates in the last two cases. AIC complied with the  
454 Commission's directive in the last rate proceeding (Docket Nos. 09-0306 through  
455 09-0311 (Cons.)) with respect to the DS-4 class; however, no sizable movement  
456 towards cost was made, partially due to the conservative rate mitigation  
457 mechanism that was put in place. In the Final Order from Docket Nos. 09-0306  
458 through 09-0311 (Cons.), the Commission expressed concern about immediately  
459 assessing DS-4 customers the full average EDT rate, and instead chose to limit  
460 the increase to the class, and to the supply voltage subclass, to no more than 1.5

461 times the overall average system increase, including the effect of the EDT.

462 However, as correctly pointed out by AIC witness Jones in this proceeding:

463 The percentage level of delivery service increase required  
464 for DS-4 customers, especially those served from +100 kV  
465 Supply Voltage category, to achieve equalized Distribution  
466 Tax pricing is greater than what would be allowed under a  
467 1.5 times average, or even a 10% minimum increase.  
468 Looking at the AIC average of DS-4 +100 kV customers, **it**  
469 **would take 13 iterations of 10% increases to the EDT to**  
470 **achieve uniform EDT values** assuming all of the rate  
471 change were applied to increasing the EDT price. The  
472 limitation provision in the revenue allocation methodology of  
473 0.05 ¢/kWh addresses general bill impact concerns  
474 expressed in Docket Nos. 09-0306 (cons.) while allowing  
475 movement toward cost based rates.

476  
477 (Ameren Ex. 1.0 at 24 (emphasis added).)

478  
479 Further, in its Final Order in Docket Nos. 09-0306 through 09-0311 (Cons.), the  
480 Commission stated that “[c]ontinued movement toward cost-based rates and the  
481 elimination of inter- and intra-class subsidies should be considered a priority in  
482 AIU’s next rate filing.” (AmerenCILCO, et al., Order at 260, ICC Docket Nos. 09-  
483 0306 – 09-0311 (Cons.) (April 29, 2010).) The AIC proposal in this case takes a  
484 proactive approach to eliminating the inter- and intra-class subsidy.

485  
486 **Q. What is your recommendation with respect to moving the DS-4 class closer**  
487 **to cost?**

488 A. AIC appears to be trying to move the DS-4 class closer to cost while bearing cost  
489 of service and rate mitigation principles in mind. The detailed methodology with  
490 respect to achieving movement closer to cost is outlined in Ameren Exhibit 1.1. I  
491 have reviewed the concept underlying AIC's method and I find it reasonable.  
492 While not perfect in addressing all of the potential concerns that may stem from

493 its methodology to bring the DS-4 class closer to cost (for example, the IIEC may  
494 assert that AIC's current recommendation may have several adverse implications  
495 for larger customers), I believe AIC's proposal is reasonable given the slow  
496 movement towards cost-based rates for the DS-4 class to date as evident since  
497 Docket Nos. 09-0306 through 09-0311 (Cons.). Therefore, I recommend that the  
498 Commission approve AIC's proposal to move the DS-4 class closer to cost.

499

500 **Q. What is the second issue AIC raises concerning with the EDT?**

501 A. According to AIC, the total EDT cost recovery level proposed in Docket No. 13-  
502 0301<sup>10</sup> is not the same as that proposed in this proceeding. The values in this  
503 proceeding are slightly greater than those proposed by AIC in Docket No. 13-  
504 0301, and other (non-EDT) charges have been adjusted downward to  
505 compensate. According to AIC, in Docket No. 13-0301 the EDT cost recovery  
506 expense level was allocated a portion of the reconciliation true-up. The  
507 reconciliation true-up in that proceeding is a revenue credit (negative amount),  
508 which serves to reduce the expense level. The reconciliation true-up is not  
509 expected to be a credit every year. AIC argues that since the EDT cost recovery  
510 has a unique underlying cost support (the amount of Distribution Tax paid to the  
511 state), it makes sense to link the amount of EDT cost recovery to the actual  
512 amount of EDT paid to the state. Doing so should also result in more stable EDT  
513 cost recovery values from one year to the next. (Ameren Ex. 1.0, 25:516-26:524.)

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<sup>10</sup> Docket No. 13-0301 is to include a reconciliation of the revenue requirement that was in effect for the prior rate year (as set by the cost inputs for the prior rate year) with the actual revenue requirement for the prior rate year (as reflected in the applicable FERC Form 1 that reports the actual costs for the prior rate year).

514

515 **Q. How does AIC propose to address this issue?**

516 A. In Docket No. 13-0301, the unbundled energy-related cost component,  
517 comprised solely of the EDT, was allocated a portion of the reconciliation  
518 amount. Hence, according to AIC, consistent with Ameren witness Jones's  
519 proposal to recover the actual amount of Distribution Tax paid to the state, the  
520 portion of the reconciliation amount previously allocated to Electric Distribution  
521 Tax expense will no longer be allocated to this unbundled cost component;  
522 instead, the reconciliation amount will only be allocated to the customer-related  
523 and demand-related cost components. (Ameren Ex. 2.0, 18:366-372.)

524

525 **Q. What is your response with respect to AIC's proposal?**

526 A. I have been investigating the information from the formula rate cases (Docket No.  
527 12-0001, 12-0293, and 13-0301). The reconciliation true-up amount Ameren  
528 witness Jones refers to (Ameren Ex. 1.0 at 25.) appears to include differences  
529 attributable to the EDT. Based on this, I issued a number of Data Requests that  
530 are intended to confirm this assumption. Since, the reconciliation true-up appears  
531 to include a true-up of differences in the EDT, then it is appropriate to continue  
532 allocating a portion of the reconciliation to the EDT (the current method).  
533 Therefore, I recommend the Commission maintain AIC's current methodology,  
534 which is allocating a portion of the reconciliation amount to the EDT.

535

536 **VI. PRIMARY DISTRIBUTION LINE ALLOCATOR –**  
537 **COINCIDENT PEAK vs. NON-COINCIDENT PEAK**  
538

539 **Q. Please describe this issue in the context of the ECOSs proposed by the**  
540 **Company in this case.**

541 A. As described in Section I above, the ECOSs submitted by AIC follow the three  
542 steps of functionalizing, classifying and allocating costs. After the  
543 functionalization process, AIC classifies costs into three components: demand-  
544 sub-transmission, demand-distribution and customer-related. AIC's ECOSs  
545 further segregate costs by voltage level. The final step entails allocating costs to  
546 customer classes. Currently, AIC allocates gross distribution plant associated  
547 with primary distribution lines (FERC Accounts 364-367 with phase voltage  
548 greater than 600 Volts but less than 30,000 Volts) using a CP demand allocator.  
549 (Ameren Ex. 2.0, 9:189-193.) According to the Company, "the amount of primary  
550 distribution line plant cost allocated to each delivery service rate class is  
551 proportionate to the class's contribution, if any, at the time of the Company's  
552 annual single hour system peak demand." (*Id.*)

553  
554 In Docket Nos. 09-0306 through 09-0311 (Cons.), the Commission directed AIC  
555 to use CP, rather than NCP, as an allocator. However, in this proceeding, AIC  
556 recommends that the cost of gross plant associated with primary distribution lines  
557 be allocated to each class using NCP demand allocator. (*Id.* at 10.)

558  
559 **Q. What is the CP vs. NCP allocation issue in this case?**

560 A. The issue is whether the CP or NCP should be used to allocate primary lines<sup>11</sup>  
561 between customer classes. AIC opines that the Commission should allow it to  
562 switch from the previously approved CP allocator to the NCP allocator.

563

564 **Q. Please provide a brief history of how the CP vs. NCP issue has been**  
565 **recently addressed at the Commission.**

566 A. The question of whether to use the NCP or the CP methodology to allocate the  
567 costs of primary lines (and substations)<sup>12</sup> was the subject of great debate in  
568 Docket Nos. 09-0306 through 09-0311 (Cons.). Prior to Docket Nos. 09-0306  
569 through 09-0311 (Cons.), AIC used the NCP allocator approach. Staff, the Illinois  
570 Industrial Energy Consumers (“IIEC”), the Grain and Feed Association (“GFA”),  
571 and AIC voiced their opinions on the issue in the consolidated docket. Staff  
572 recommended that the Commission direct AIC to switch away from using the  
573 NCP demand allocator approach in favor of the CP methodology. In that  
574 consolidated docket, the Commission agreed with Staff on the issue and directed  
575 AIC to use a CP Demand to allocate the costs of substations and primary lines.

576

577 **Q. Please briefly describe the CP and NCP allocator approaches.**

578 A. CP demand is the demand of a consumer at the time the system reaches its  
579 peak load for the entire year. Generally speaking, it refers to demand among a  
580 group of customers that coincides with total demand on the system at that time.

---

<sup>11</sup> In this proceeding, AIC propose using NCP for primary lines only and leaving the substations with the CP allocator. In contrast, in Docket Nos. 09-0306 through 09-0311 (Cons.), both primary lines and substations were at issue.

<sup>12</sup> AIC is only focused on issues related to primary lines with respect to this issue in this proceeding.

581 In other words, the CP allocator represents the sum of individual class demands  
582 that occur at the time that the system as a whole reaches its peak level of  
583 demand. The individual class shares represent the contribution of each to this  
584 overall peak demand on the system. In sum, the CP method allocates costs  
585 based on the demands of individual classes at the time of the overall system  
586 peak.

587

588 For ratepayers who have time recording meters, the CP is easy to measure –  
589 one simply pulls out the level of energy use at the time of the system peak. For  
590 residential and small business ratepayers, who do not have meters that record  
591 hourly loads, AIC presumably must measure the coincident peaks using load  
592 research. Load research involves taking selected samples of various small  
593 consumers with time recording meters. Sampling may generate errors in  
594 measuring the true load that occurs at the peak hour for all ratepayers. However,  
595 because the total system-wide peak load is known and because the metered  
596 load of large consumers with meters that record individual load is known, the  
597 remaining CP can be measured more accurately than the NCP which is  
598 discussed below.

599

600 The NCP method allocates costs based on the demands of individual customers  
601 at the time of peak for the class. Under the NCP method, classes may  
602 experience their respective peak at different times of the day, which may or may  
603 not occur at the same time as the overall system peak.

604

605 The CP allocator is the one that most accurately represents the combined  
606 demands of multiple rate classes and is, therefore, most appropriate for  
607 distribution lines that collectively serve customers from different classes.

608

609 **Q. Do you believe that AIC's proposed cost allocation method with respect to**  
610 **primary lines is reasonable?**

611 A. No, I do not. I am concerned with the proposed allocation of costs associated  
612 with primary lines. The problem with using the NCP allocator for these costs is  
613 that it does not accurately reflect how the costs of primary distribution lines are  
614 caused. The NCP allocator is driven by the maximum demands of individual  
615 classes. The ratio of (a) the individual maximum demand for a class whenever it  
616 occurs to (b) the sum of individual maximum demands, whenever each of them  
617 occur, determines class allocations under the NCP approach. Thus, the demands  
618 of individual customer classes drive allocations under the NCP approach.

619

620 Distribution lines (and substations) are generally constructed to serve the  
621 demands, not just of any individual rate class, but rather the demands of multiple  
622 rate classes that collectively use those facilities. If these facilities were to serve  
623 customers from a single rate class, then clearly, the peak demands of individual  
624 rate classes would determine their size and ultimate cost. However, individual  
625 facilities serve customers from numerous rate classes. Therefore, the design

626 would have to take into account the combined CP demands of customers from all  
627 classes served.

628  
629 Furthermore, neither a CP allocator nor a NCP allocator measures “local”  
630 demands. Each seeks to represent demands on a utility-wide basis. The key  
631 difference is that the CP reflects the collective demands of multiple rate classes  
632 while the NCP is based on the peak demands of individual rate classes. The  
633 issue for primary lines concerns which of the two allocators reflects the collective  
634 peak demands of multiple classes at a local level. Since CP focuses on multiple  
635 rate classes and the NCP focuses on individual rate classes, the CP is the more  
636 cost-based approach.

637

638 **Q. Do you believe that the Commission should “reverse course” with respect**  
639 **to its preference for the CP allocation methodology?**

640 A. No, especially not in the instant proceeding. First and foremost, this issue was  
641 reviewed at length in Docket Nos. 09-0306 through 09-0311 (Cons.).<sup>13</sup> As  
642 discussed previously, in that rate case proceeding, AIC’s electric ECOSS used  
643 the NCP allocator to allocate costs associated with primary distribution lines and  
644 substations among the rate classes. Staff, however, recommended that  
645 substation and primary line costs be allocated on a basis of CP rather than NCP.  
646 (ICC Staff Ex. 7.0 at 6, ICC Docket Nos. 09-0306 – 09-0311 (Cons.)) IIEC  
647 supported AIC's use of the NCP allocator and accordingly opposed Staff's

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<sup>13</sup> Central Illinois Light Company d/b/a AmerenCILCO, Central Illinois Public Service Company d/b/a AmerenCIPS and Illinois Power Company d/b/a AmerenIP, Proposed general increase in rates and revisions to other terms and conditions of service (tariffs filed June 5, 2009).

648 recommendation that the CP allocator be used to allocate costs of primary  
649 distribution lines and substations. (IIEC Ex. 8.0 at 6, ICC Docket Nos. 09-0306 –  
650 09-0311 (Cons.).)

651  
652 The Commission had to determine which allocation method, NCP or CP, best  
653 allocates the costs of primary distribution lines and substations. Ultimately, the  
654 Commission ruled in favor of the CP methodology and stated as follows:

655           Because the demands of multiple classes on primary  
656           lines and substations more closely correspond to CP  
657           rather than NCP demands, the Commission agrees  
658           with Staff that the most reasonable, cost-based  
659           approach is to allocate the cost of this equipment  
660           according to the collective peak demands of all rate  
661           classes.

662  
663 (AmerenCILCO, et al., Final Order at 237, ICC Docket Nos. 09-0306 through 09-  
664 0311 (Cons.) (April 29, 2010).)

665  
666 Second, this issue was the topic of debate in ComEd Docket Nos. 08-0532  
667 (Commission’s Rate Design Investigation case) and 10-0467. Docket No. 08-  
668 0532 was initiated on September 10, 2008. The Commission’s Final Order was  
669 issued on April 22, 2010. Thus, the Commission spent 18 months investigating  
670 several aspects of ComEd’s rate design, including the NCP v. CP issue. ComEd,  
671 IIEC, and the Commercial Group argued in favor of the NCP methodology.  
672 (Commonwealth Edison Company, Final Order at 45, ICC Docket No. 08-0532  
673 (April 21, 2010).) Staff and the City of Chicago were on the other side of the  
674 spectrum, arguing that the Commission should adopt the CP method. (*Id.* at 44-

675 46, 49-51.) The Commission accepted Staff's and the City's arguments and  
676 adopted the CP methodology. (*Id.* at 55.) Thereafter, in Docket No. 10-0467, the  
677 Commission once again sided with Staff and the City of Chicago on the use of  
678 the CP allocation method. (Commonwealth Edison Company, Final Order at 202-  
679 203, ICC Docket No. 10-0467 (May 24, 2011).)

680  
681 Yet, despite the Commission's three recent pronouncements on this issue  
682 dealing with the two largest electric Utilities in Illinois, AIC persists and asks that  
683 the Commission reverse course and decide to use the NCP method to allocate  
684 primary lines.<sup>14</sup> AIC presents no compelling arguments that warrant the  
685 Commission reversing, directly and indirectly, its three recent decisions. In fact,  
686 for the most part, AIC rehashes arguments made in the prior case with respect to  
687 this issue. The Commission rejected those arguments in Docket Nos. 09-0306  
688 through 09-0311 (Cons.). (AmerenCILCO, et al., Final Order at 237, ICC Docket  
689 Nos. 09-0306 through 09-0311 (Cons.) (April 29, 2010).) In the instant  
690 proceeding, AIC has presented hardly any new evidence<sup>15</sup> or compelling  
691 arguments that warrant reaching a different conclusion here. AIC merely makes a  
692 series of conclusory statements that it asserts support use of the NCP method.  
693 In other words, the foundation for AIC's argument is mostly rehashed testimony

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<sup>14</sup> Apparently, AIC leaves the issue regarding substations, which are also allocated using the CP method, to another day.

<sup>15</sup> The only argument advanced by AIC that Staff considers to be new is the proposed Rate DS-6 class which may provide some support to AIC's contentions; however, this class is rather new, and basing such an important issue on a cost consideration based on theoretical results from one class of customers is premature, let alone inappropriate, given the breadth of the issue.

694 from the case in which the Commission rejected using NCP to allocate primary  
695 lines and substations.

696

697 **Q. What justification does AIC provide in this docket in favor of the NCP**  
698 **demand allocation method?**

699 A. First, AIC witness Mr. Schonhoff advocates AIC's primary lines allocation  
700 methodology on the basis of what appears to be precedent (predating Docket  
701 Nos. 09-0306 through 09-0311 (Cons.)). As indicated above, the most recent  
702 Commission decisions in AmerenCILCO, et al. and Commonwealth Edison hold  
703 otherwise.

704

705 Second, Mr. Schonhoff runs through some of Staff's concerns that were voiced in  
706 opposition to use of an NCP Demand allocator for allocating the cost of primary  
707 distribution lines in Docket Nos. 09-0306 through 09-0311 (Cons.). In response to  
708 Staff's argument in that proceeding that primary lines and substations are  
709 constructed to meet the demands of multiple classes, while agreeing that "this is  
710 correct in some cases," Mr. Schonhoff argues that it is also incorrect in other  
711 cases. (Ameren Ex. 2.0, 11:218-235.) For example, to support this position, he  
712 provides a summary table that shows the number of rate classes served by AIC's  
713 primary lines. The following table is reproduced from Mr. Schonhoff's testimony  
714 with minor formatting changes:

715

716

AIC Table 2			Analysis <sup>16</sup>
Ameren Ex. 2.0, p. 12			
# of Classes Served	# of feeders	Percentage	
1	304	12%	(Class 1) 12%
2	619	24%	(Class 1+2) 36%
3	1,010	40%	(Class 1+2+3) 76%
4	537	21%	(Class 2+3+4) 85%
5	63	2%	(Class 3+4+5) 63%
<b>Total</b>	2,533	100%	

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Mr. Schonhoff notes “that 304 out of 2,533, or 12% of the feeders, serve a single class of customers, while only 63 out of 2,533 or 2% of the feeders, serve all rate classes.” (Ameren Ex. 2.0, p. 11:236-238.) However, this argument is one-sided. It can be equally argued that 85% of the feeders serve 2 to 4 classes, and 63% of the feeders serve 3 to 5 classes, both of which falls under the category of multiple classes. Mr. Schonhoff instead chooses to focus on the extremes, a single class vs. all five classes. This is rather a weak argument because these extremes do not represent the majority of the feeders and reflect how they are used.

Third, Mr. Schonhoff argues that the notion that DS-5 customers (lighting class) should not bear any costs for substations or primary lines, since they peak during off-peak, evening hours, continues to be highly problematic. He states that lighting customers use primary lines and substations and should be allocated at least some costs for the use of these assets. He argues that allocating zero

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<sup>16</sup> Column added by Staff.

733 substation and primary line costs to the DS-5 class is incorrect and unfair. (*Id.*  
734 at12-13.)

735

736 Fourth, Mr. Schonhoff believes that his position with respect to utilizing the NCP  
737 method is strengthened because the grain drying customers now constitute a  
738 separate rate class in the ECOSS (AIC is proposing a separate rate class, DS-6  
739 Temperature Sensitive Delivery Service, which is expected to be comprised of  
740 mostly grain drying customers). (*Id.* at 13:266-271.) As stated by AIC in response  
741 to Staff Data Request 1.10:

742 The proposed DS-6 class would typically set its peak  
743 demand on the distribution system during the fall  
744 harvest period, which does not normally coincide with  
745 the Company's peak demand (CP Demand).  
746 Therefore, the class would receive very little allocation  
747 of primary distribution line costs (or substation costs)  
748 under a CP demand method. Customers in the DS-6  
749 class often drive local system peak demands on the  
750 primary distribution system. Therefore, the use of a  
751 CP demand for primary distribution lines, in addition  
752 to the use of a CP demand for substations, would  
753 result in a very low allocation of these costs.

754  
755 (ICC Staff Ex. 1.0, Attachment A.) Given the new DS-6 class, AIC appears to  
756 believe that the basis for Staff's previous argument with respect to using the CP  
757 for these customers is no longer valid. In Docket Nos. 09-0306 through 09-0311  
758 (Cons.), Staff stated the following:

759 [I]t is not clear to Staff why AIU is focusing on cost  
760 allocations to grain dryers since these customers do  
761 not constitute a separate class for allocating the cost  
762 of service. Instead, they constitute subclasses of the  
763 DS-3 and DS-4 classes and receive cost allocations  
764 in conjunction with all other customers within their  
765 class.

766  
767  
768  
769

(AmerenCILCO, et al., Final Order at 237, ICC Docket Nos. 09-0306 through 09-0311 (Cons.) (April 29, 2010).)

770 **Q. What are the shortcomings in Mr. Schonhoff's arguments?**

771 A. First, they present a distorted view of the differences between the CP and the  
772 NCP allocator. Mr. Schonhoff criticizes the CP allocator, but provides hardly any  
773 reason why system-wide NCP demands correspond more closely with  
774 essentially localized demands that drive investments in primary lines and  
775 substations than the CP approach. Since CP and NCP demands are both  
776 calculated across the utility system, rather than on a localized basis, the relevant  
777 issue is whether the collective demands of many rate classes (CP) or the  
778 individual demands of rate classes (NCP) correspond most closely to the  
779 incurrence of distribution system costs. Since primary lines serve customers in  
780 multiple rate classes, I maintain that these costs more closely relate to CP  
781 demands.

782

783 Second, Mr. Schonhoff's criticism that the CP allocator would allocate essentially  
784 zero costs of primary lines to the lighting customers has been previously offered  
785 to, and rejected by, the Commission in a prior rate case. Mr. Schonhoff simply  
786 repeats the testimony of AIC witness Althoff from Docket Nos. 09-0306 through  
787 09-0311 (Cons.), and offers no new arguments that provide any foundation for  
788 his recommendation to use NCP rather than CP in allocating primary lines.

789

790 Third, the NCP clearly penalizes the lighting class, which uses most of its  
791 electricity during off-peak, evening hours. Peak demands for the lighting class  
792 generally occur during off-peak periods, when the demands of other rate classes  
793 and the system as a whole are lower. Thus, peak lighting loads should play a  
794 lesser role in determining the size of primary distribution lines than the maximum  
795 demands of other classes that occur during on-peak periods. Furthermore,  
796 distribution facilities that serve multiple rate classes derive a benefit from lighting  
797 customers who use less electricity when capacity is tight and more when spare  
798 capacity is available. This benefit is not recognized in AIC's proposed NCP  
799 approach, which uses the peak demands for each class regardless of when it  
800 occurs. So the lighting class receives no credit in the ECOSS for its off-peak  
801 demands despite the resulting benefit to the system.

802

803 Fourth, AIC ignores the fact that the cause of cost incurrence depends on the  
804 time of the day and the time of the year when the facilities are used. Because  
805 AIC agrees that customers should pay cost-based rates (AIC Response to Staff  
806 Data Request 1.15, attached as Attachment B.), and the CP approach comports  
807 most closely with the way these costs are determined, that is the methodology  
808 that should be used. This method would continue to correctly recognize that the  
809 size of these facilities is more clearly driven by system peak demands than by  
810 the demands of individual rate classes.

811

812 Furthermore, to the extent that demands by certain customer groups (DS-5, for  
813 example) are shifted to non-peak periods, that will reduce the size of facilities  
814 necessary to serve customer loads and lower system costs accordingly.  
815 Customers that use more electricity during non-peak periods should be  
816 rewarded, not punished, for these usage patterns. However, the Company's  
817 proposed NCP allocator would not recognize the benefits to the system of using  
818 more during off-peak periods. Thus, when it comes to recognizing the  
819 contribution of ratepayer demands to system costs, the CP allocator for primary  
820 lines is clearly the more appropriate approach. Therefore, I recommend that NCP  
821 should not be used in the allocation of the costs of primary lines.

822

823 Fifth, with respect to the newly created DS-6 class, I am also not persuaded by  
824 AIC's example using grain drying customers as support for the NCP approach.  
825 Specifically, AIC argues that a single CP allocator would fail to recognize that  
826 grain drying customers do in fact peak during the fall grain drying season. This  
827 argument is problematic. For one, AIC does not identify the circuits or provide a  
828 number to accompany the claim how many circuits serving grain drying  
829 customers do in fact peak during the fall grain drying season. Also, there is an  
830 even more acute, yet straightforward, problem with respect to relying on this  
831 newly created class to justify moving back to the NCP approach: namely, this  
832 class is new. The issues related to this class in context of CP vs. NCP should be  
833 reviewed in the next revenue-neutral tariff case, when more information is  
834 available with respect to how this new class behaves in the context of the entire

835 system. Basing sweeping changes in such sensitive allocation matters on  
836 arguments relating to a newly created class is premature at best.

837

838 **Q. Please summarize the problems you have identified with using NCP to**  
839 **allocate primary lines and substation costs.**

840 A. The manner in which AIC applies NCP has nothing to do with cost causation as it  
841 inequitably lowers the cost of service for large customer classes, creates illogical  
842 results whereby the classification of a customer class changes cost of service,  
843 and is inconsistent with the recent conclusion reached by the Commission on this  
844 issue in Docket Nos. 09-0306 through 09-0311 (Cons.).

845

846 There is no indication from the evidence presented here that NCP would fairly  
847 allocate the costs among the customer classes. Again, recall that the difference  
848 between the two methods is that, essentially, the CP method focuses on the load  
849 constitution of each class during a particular hour of the year, whereas the NCP  
850 method uses peak demands for all rate classes without regard to how those  
851 peaks coincide with the peak demand for the system as a whole. Because it  
852 accumulated each class's peak regardless of when it occurs, NCP reflects a  
853 theoretical "worst case" estimate of the potential load distribution.<sup>17</sup> Common  
854 sense dictates that what is involved in a "worst case scenario" for an industrial  
855 area will be far different from that which is involved in a "worst case scenario" for  
856 a residential area.

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<sup>17</sup> The term "worst case" was coined by IIEC in Docket No. 10-0467, IIEC Ex. 3.0-C, p. 23.

857

858 It therefore appears that imposition of NCP costs on this basis could raise the  
859 cost of electricity to smaller customers (e.g., residential class) even though these  
860 customers did not cause much of the NCP-related costs on an overall basis, or to  
861 bigger customers (e.g., industrial class). In other words, NCP shifts costs away  
862 from classes whose class peak is close to the CP to those classes whose class  
863 peak is farther away from the CP. This is simply inapposite to the notion of  
864 attributing cost-causation to those who impose the costs in questions.

865

866 **Q. Please summarize your position and recommendation with respect to this**  
867 **allocation issue.**

868 A. The evidence here provides clear and compelling reasons for the Commission to  
869 reaffirm the continued use of the CP methodology for allocating distribution  
870 primary lines and substation costs<sup>18</sup> in AIC ECOSs. The Company has  
871 provided no adequate justification why the Commission should now reject the  
872 approach it has previously approved.

873

874 **Q. Does this complete your prepared direct testimony?**

875 A. Yes, it does.

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<sup>18</sup> While it remains AIC's position that the NCP allocation method is the more appropriate method for allocating these costs, it is not making that proposal in this proceeding.

**Ameren Illinois Company's  
Response to ICC Staff Data Requests  
Docket No. 13-0476**

**Data Request Response Date: 10/3/2013**

PR 1.10

Please provide an example which illustrates a serious shortcoming of a CP allocator for primary distribution lines and substations. Also, please provide an example which illustrates a benefit of an NCP allocator for primary distribution lines and substations.

**RESPONSE**

**Prepared By: Ryan Schonhoff  
Title: Regulatory Consultant  
Phone Number: 314 554 4190**

AIC is not proposing to use the NCP demand allocator for substations. See Ameren Exhibit 2.0, page 10, lines 209-211.

An example of a shortcoming of using the CP allocator for primary distribution lines can be found in Ameren Exhibit 2.0 (lines 255-265), relating to the DS-5 class. Another shortcoming of using the CP demand allocator for the primary distribution lines is the proposed Rate DS-6 class. The proposed DS-6 class would typically set its peak demand on the distribution system during the fall harvest period, which does not normally coincide with the Company's peak demand (CP Demand). Therefore, the class would receive very little allocation of primary distribution line costs (or substation costs) under a CP demand method. Customers in the DS-6 class often drive local system peak demands on the primary distribution system. Therefore, the use of a CP demand for primary distribution lines, in addition to the use of a CP demand for substations, would result in a very low allocation of these costs. AIC's approach on the other hand provides a balanced allocation of all costs for both DS-5 and DS-6 classes.

The benefit of AIC's proposed approach is that it balances two extreme situations: 1) utilizing a CP demand for both substations and primary lines, or 2) utilizing a NCP demand for both substations and primary distribution lines. Each of these alternative situations would result in a combined allocation of substation and primary line costs at levels much higher or much lower than the level proposed by AIC. Continuing with the Rate DS-6 example, allocating primary line costs based on the collective demands of all customers within proposed Rate DS-6 (i.e., NCP demand), results in a class allocation of primary line costs more closely aligned with the demand distribution planners assume is needed to serve customers.

Further, any costs that are not allocated to the DS-6 and DS-5 classes are by default reallocated amongst the remaining DS-1, DS-2, DS-3, and DS-4 classes, which could have additional negative impacts on those rate classes.

**Ameren Illinois Company's  
Response to ICC Staff Data Requests  
Docket No. 13-0476**

**Data Request Response Date: 10/3/2013**

PR 1.15

Please explain, in detail, whether AIC agrees that customers who use more electricity during non-peak periods and less electricity during on-peak periods should be rewarded for these usage patterns. If AIC generally agrees with this statement, please explain how AIC's proposed NCP allocator would recognize the benefits to the system of using more electricity during off-peak periods.

**RESPONSE**

**Prepared By: Ryan Schonhoff  
Title: Regulatory Consultant  
Phone Number: 314 554 4190**

Objection. Vague and ambiguous as to the term "rewarded." Subject to and without waiving this objection, AIC responds as follows:

AIC agrees that customers should pay cost-based rates. See response to PR 1.10 for additional discussion on this topic.