Ameren Exhibit 3.0RH

ILLINOIS COMMERCE COMMISSION

DOCKET No. 13-0476

REBUTTAL TESTIMONY ON REHEARING

OF

CRAIG D. NELSON

Submitted on Behalf

Of

AMEREN ILLINOIS COMPANY
d/b/a Ameren Illinois

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I. INTRODUCTION

A. Witness Identification

Q. Please state your name and business address.

A. My name is Craig D. Nelson and my business address is 300 Liberty Street, Peoria, Illinois 61602.

Q. Are you the same Craig D. Nelson who sponsored direct testimony on rehearing in this proceeding?

A. Yes, I am.

B. Purpose, Scope and Identification of Exhibits

Q. What is the purpose of your rebuttal testimony on rehearing?

A. The purpose of my rebuttal testimony on rehearing is to explain why, from a public policy perspective, the Commission should not adopt the DS-1 residential rate design proposals set forth in the direct testimonies on rehearing of Staff of the Illinois Commerce Commission (Commission) witness Ms. Cheri Harden and Illinois Office of the Attorney General (AG) witness Mr. Scott Rubin.

Q. What is your recommendation on rebuttal?

A. My recommendation on rebuttal is the same as my recommendation on direct—the Commission should uphold its March 19, 2014 Order and maintain the existing percentage of DS-1 residential revenues recovered through the fixed delivery charges, until such time as the issue is revisited in a future Section 16-108.5(e) proceeding to design AIC's electric rates.

Q. Are you sponsoring any exhibits with your rebuttal testimony on rehearing?

A. No.

II. RESPONSE TO AG WITNESS, MR. RUBIN

Q. Have you reviewed the direct testimony on rehearing of Mr. Rubin?

A. Yes. I have reviewed Mr. Rubin's direct testimony on rehearing, AG Exhibit 3.0. I'm generally familiar with his recommendations, but am not necessarily aware of all of the details of his proposed rate design or all of the specific delivery bill impacts that his proposed rate design would cause. AIC witness Mr. Leonard M. Jones is much more familiar with the details and specific delivery bill impacts associated with Mr. Rubin's proposed rate design. I am aware, however, of the policy and customer implications of his proposed rate design.

Q. What does Mr. Rubin recommend in his direct testimony on rehearing?

A. Mr. Rubin does not make an explicit recommendation, but he appears to endorse the same rate design proposal that he proposed in the initial phase of this case, namely that the Commission should eliminate immediately and entirely the use of Straight Fixed Variable (SFV) pricing when designing AIC's DS-1 rates. The end result of Mr. Rubin's proposal is that the Customer Charge would be dramatically lowered, as the percentage of DS-1 revenues collected

through fixed charges on the DS-1 delivery bill would substantially decrease from the current level of 44.8% approved by the Commission in its March 19, 2014 Order.

Q. Do you continue to have concerns about Mr. Rubin's proposed rate design?

A. Yes. I continue to have concerns about the Commission abruptly reversing course on the use of SFV pricing for AIC's DS-1 class. As Mr. Jones recounted in his direct testimony on rehearing, the Commission encouraged and ultimately approved incorporation of SFV pricing in the design of AIC's DS-1 rates in Docket Nos. 07-0585 (cons.) and 09-0306 (cons.). There now has been a consistent use of SFV pricing in AIC's DS-1 rates for the past four years, since the Commission issued its decision in Docket Nos. 09-0306 (cons.) on April 29, 2010. The Commission's March 19, 2014 decision in this case maintains the current percentage of DS-1 revenues collected through the fixed charges on the delivery bill for rates effective in 2015.

The AG's proposal, if adopted, would disrupt that continuity and rate stability. A customer's usage of electricity suddenly would become a bigger driver for the delivery service bill. And greater DS-1 revenue responsibility would be instantaneously shifted to the higher usage residential customers during the colder and hotter months of the year, when such customers rely on electricity to heat or cool their homes. This change in price signals for the Company's residential electric customers, the increased volatility of the Distribution Delivery Charge, the shift in revenue responsibility within the DS-1 class, the delivery bill impacts on higher usage residential customers - - all of these aspects of the AG's proposed design still concern me.

Q. Mr. Rubin testifies that the distribution bill impacts under his proposed rate design would be "a far cry" from the bill impacts that residential customers experienced in 2007? (AG Ex. 3.0, l. 209.) Do you disagree?

A. No, I don't disagree. And I admitted in my direct testimony on rehearing (Ameren Ex. 1.0RH (Rev.), ll. 53-64) that the supply and delivery bill impacts experienced by high-use, electric space-heating customers in 2007 were much more severe than the delivery bill impacts that customers likely would experience in 2015 under the AG's proposed design. Again, Mr. Jones would be more familiar with the details of the actual 2007 and potential 2015 impacts.

But that doesn't mean that differences in the potential bill impacts of the AG and AIC rate designs are insignificant. For example, looking at Mr. Jones's exhibits, an electric-space heat customer in Rate Zone III with an annual usage of 26,066 kWh would see a January 2015 delivery bill that is 16% higher - and an annual 2015 bill that is 13.5% higher - under the AG design. (Ameren Ex. 4.1RH) A general use customer in Rate Zone III with an annual usage of 15,000 kWh would see an August 2015 delivery bill that is 17% higher - and an annual 2015 bill that is 7% higher - under the AG's rate design. (Ameren Ex. 4.1RH) And as Mr. Jones pointed out in his direct testimony on rehearing, these are potential bill impacts under normal weather conditions; the differences in potential bill impacts will increase, as more severe weather causes a customer's usage to increase.

The fact also remains that the AG position is a reproach to the Commission's prior decisions, which encouraged and approved the use of SFV pricing as a means to producing a reasonable and fair allocation of revenues across the DS-1 class. At what economic cost does the Commission further increase the volatility of a customer's total bill to limit the bill impacts for low-use customers or encourage more energy conservation? In approving the use of SFV

pricing, the Commission recognized that monthly variations in usage of two adjacent single family homes would not materially impact the cost of delivery service. In my opinion, a period of rising delivery service costs is not "an ideal time," (AG Ex. 3.0, l. 256), for the Commission to suddenly reject that premise and force higher-usage residential customers to shoulder a larger share of any incremental delivery rate increases.

Q. Mr. Rubin states that AIC customer profiles with monthly usage in excess of 5,000 kWh are "extremes" that have "no practical value when trying to develop a reasonable rate design policy" for AIC's residential customers. (AG Ex. 3.0, ll. 82-84.) What is your response?

A. We value all our customers, not just those customers who use electricity below a certain usage level. Yes, AIC customers using 60,000 kWh or more of electricity in a year (5,000 kWh per month) certainly are on the higher end of the residential usage spectrum. And yes, they are relatively few in number. But we know that they still exist. (See Ameren Ex. 2.8RH.) As Mr. Jones testifies, we know that there are Low Income Home Energy Assistance (LIHEAP) customers that use electricity at that level. And we know that these customers were among the electric space-heating customers who were vocal in 2007. The potential bill impacts for these customers should not be ignored, when deciding how to allocate the recovery of revenues within the DS-1 residential class. Again, looking at Mr. Jones's exhibits, for electric space-heating customers who use 60,000 kWh or more of electricity in a year, the percentage difference in the potential delivery bill impact, on an annual basis, across the different Rate Zones, ranges from 20.9% to 24.4% more under the AG's design. (Ameren Ex. 4.1RH.) This customer profile highlights the "extreme" bill impacts that would be seen under the AG's design.

But even when you look at lower usage profiles, the difference in potential bill impacts for electric space-heating customers under the AIC and AG rate design is still significant. Mr. Jones's exhibits show that at 36,978 kWh a year, an all-electric customer would pay 12.9% to 16.1% more a year under the AG's proposal. (Ameren Ex. 4.1RH.) At 26,066 kWh a year, the increase for an all-electric customer under the AG's proposal would be 11.8% to 13.8%. At 18,000 kWh a year, the difference is still 6.3% to 8.1%. For families in Southern and Central Illinois, living in all-electric residences, and living on fixed incomes, a difference of 6.3% is likely still meaningful. And a difference of 13% to 16%, depending on the customer's disposable income, could constitute a financial hardship. In my opinion, the Commission should not overlook these differences in potential bill impacts.

Q. Do you continue to recommend that the Commission continue to reject the AG's proposed rate design?

A. Yes. My recommendations - and the policy reasons for them - have not changed. In a rising-rate environment, the Commission should not abruptly and radically change the price signals for AIC's residential electric customers. The principle of cost causation does not mandate such a sizable shift in revenue responsibility within the DS-1 class. The goal of energy efficiency does not require the elimination of SFV pricing to encourage conservation. And the principles of rate gradualism and avoidance of undue bill impacts caution against a rate redesign for the DS-1 class that will increase monthly bill impacts for higher usage customers. For these reasons, the Commission should not adopt the AG's proposed rate design.

III. RESPONSE TO STAFF WITNESS, MR. HARDEN

Q. Have you reviewed the direct testimony on rehearing of Staff witness Ms. Harden?

A. Yes. I have reviewed the direct testimony on rehearing of Staff witness Ms. Harden, ICC Staff Ex. 1.0R. As with the testimony of Mr. Rubin, I'm generally familiar with Ms. Harden's recommendations, but Mr. Jones is more familiar with the specific bill impacts that Ms. Harden's recommendations would cause residential customers to experience.

Q. What does Ms. Harden recommend in her direct testimony on rehearing?

A. Ms. Harden makes what amounts to a conditional recommendation. She believes that "all of the rate designs are reasonable." (ICC Staff Ex. 1.0R, l. 325.) But she offers an alternative rate design, if the Commission "is inclined to move away from an SFV rate design…." (ICC Staff Ex. 1.0, l. 40.) Her alternative rate design would target the recovery of 36% of DS-1 revenues through the fixed components of the delivery service bill, as opposed to 44.8%, which is the existing percentage approved by the Commission in its March 19, 2014 Order. Ms. Harden characterizes her alternative rate design as "a middle ground" approach, because it produces delivery bill impacts that "fall between" the impacts produced by the AG and AIC proposals. (ICC Staff Ex. 1.0, ll. 43, 285.)

Q. Is this recommendation different from what Staff proposed in the initial phase of this proceeding?

A. Yes. As Mr. Jones points out in his rebuttal on rehearing, Staff supported AIC's proposal to gradually move the percentage of DS-1 revenues collected through fixed charges towards 50%. *Ameren Illinois Co.*, Docket 13-0476, Order, p. 89 (Mar. 19, 2014); (ICC Staff Ex. 2.0, ll. 296-304.) In addition, as Mr. Jones also points out in his rebuttal on rehearing, Staff supported AIC's proposal in Dockets Nos. 09-0306 (cons.) to incorporate SFV pricing for DS-1 rates. (ICC

Staff Ex. 7.0, ll. 551-556.) Staff's responses to AIC's data requests AIC-Staff 10.01 and 10.03, however, confirmed that Staff has not abandoned its earlier recommendation in support of AIC's original position in this case to increase gradually the SFV percentage towards 50%.

Q. Do you have concerns about Staff's conditional, alternative rate design?

A. Yes. In my opinion, the Commission should not "split the baby" between the AG and AIC proposals. AIC proposes that the Commission stay the course and maintain the existing DS-1 rate design that recovers 44.8% of DS-1 revenues through fixed charges. The AG proposes that the Commission eliminate entirely the use of SFV pricing in the design of DS-1 rates. In principle, there really isn't a "middle ground" policy between these two positions. Either the Commission believes in the merits of SFV pricing as a reasonable and fair way to allocate revenues within AIC's residential class, or it doesn't. The Commission should ask itself what has changed since its decision in Docket Nos. 09-0306 (cons.) to now justify an about face on SFV pricing.

Q. Aren't the potential bill impacts from Staff's conditional, alternative rate design less severe than the potential bill impacts from the AG rate design?

A. Yes. The potential bill impacts from Staff's alternative design are less severe than the potential bill impacts from the AG rate design. But there are still marked differences. The highest usage electric space-heating customers (60,000 kWh a year) would still see a double digit (10.4% to 12.2%) incremental increase in 2015 under Staff's design compare to AIC's design. (Ameren Ex. 4.2RH) An electric space-heating customer taking service at 36,978 kWh a year would see an incremental increase of 6.5% to 8%. (Ameren Ex. 4.2RH) Yes, the differences in potential bill impacts shrink under the Staff's design, as opposed to the AG's design. But, as I

state above, any decrease in the amount of DS-1 revenues collected through fixed charges is still a step in the wrong direction.

Q. Do you recommend that the Commission reject Staff's conditional, alternative rate design?

A. Yes. I don't believe that the Commission should reverse itself on the use of SFV pricing in the design of DS-1 rates. The Staff conditional, alternative proposal, although it lessens the severity of the bill impacts from the AG rate design, still increases the variable portion of the customer's delivery bill and moves away from the progress that the Commission has made in incorporating SFV pricing. In my opinion, there hasn't been sufficient evidence placed into the record to justify the unwinding of SFV design, even if at slower pace.

IV. CONCLUSION

Q. Does this conclude your rebuttal testimony on rehearing?

A. Yes, it does.