

**ILLINOIS COMMERCE COMMISSION**

**DOCKET No. 15-\_\_\_\_\_**

**DIRECT TESTIMONY**

**OF**

**KAREN R. ALTHOFF**

**Submitted on Behalf**

**Of**

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

**January 2015**

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7 **I. INTRODUCTION**

8 **A. A. Witness Identification**

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

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

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

13 A. I am a Supervisor, Rates & Analysis, providing regulatory services for Ameren Illinois  
14 Company d/b/a Ameren Illinois (AIC or the Company).

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

16 A. See my Statement of Qualifications, attached as an Appendix to this testimony.

17 **Q. What are your current responsibilities as Supervisor, Rates & Analysis?**

18 A. My duties and responsibilities relating to the gas and electric rates of AIC include  
19 developing rate analyses and rate design and cost of service studies, developing and interpreting  
20 gas and electric tariffs, testifying in regulatory proceedings, and performing other rate-related  
21 projects as assigned.

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

23 **Q. What is the purpose of your direct testimony in this proceeding?**

24 A. The purpose of my testimony is to (1) develop AIC's proposed rate zone natural gas rate  
25 design, (2) sponsor gas billing units, (3) sponsor certain rate-related revisions to AIC's tariffs, (4)  
26 provide an update to both base rate and Purchase Gas Adjustment (PGA) uncollectible factors,  
27 and (5) present AIC's review of residential space heating characteristics as directed by the  
28 Commission in Docket 13-0192.

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

30 A. Yes. I am sponsoring the following exhibits:

- 31 • Ameren Exhibit 10.1 – Existing Gas Rate Structure
- 32 • Ameren Exhibit 10.2 – Development of Proposed Return Targets
- 33 • Ameren Exhibit 10.3 – Development of Proposed Rates – Gas Delivery Services
- 34 • Ameren Exhibit 10.4 – Summary of Present and Proposed Revenue Increases on  
35 Base and Total Revenues by Rate Class
- 36 • Ameren Exhibit 10.5 – Present and Proposed Gas Unit Price Summary
- 37 • Ameren Exhibit 10.6 – Residential Bill Impact Comparison at Various Usage  
38 Levels
- 39 • Ameren Exhibit 10.7 – GDS-1 Gas Space Heating and Non-Space Heating  
40 Analysis
- 41 • Ameren Exhibit 10.8 – Revised Tariffs Sheets for Updated Prices

42 **Q. Are you sponsoring any of the Commission's Part 285 Standard Information**  
43 **Requirements in this filing?**

44 A. Yes, I am sponsoring Schedule E-1 – Copy of Proposed Tariff Sheets, Schedule E-2 –  
45 Revised Copies of Existing Tariff Sheets, Schedule E-3 – Narrative Rationale for Tariff Changes

46 (the substance of which is provided in this testimony), Schedule E-4 – Billing Units and  
47 Schedule E-5 – Jurisdictional Operating Revenue. I also discuss Schedule E-8 – Bill Frequency  
48 Data and E-9 – Bill Comparisons<sup>1</sup>, which have been provided in conjunction with this filing.

49 **Q. Describe AIC's current delivery service rate structure and rates.**

50 A. AIC has three rate zones, each tied to an individual legacy company: Rate Zone I (Central  
51 Illinois Public Service Company), Rate Zone II (Central Illinois Light Company) and Rate Zone  
52 III (Illinois Power Company). Each rate zone has nearly identical rate class definitions and rate  
53 structures, although most prices differ among similar rate classes within each rate zone  
54 (exceptions will be noted later). The natural gas service tariffs for each rate zone contain the  
55 following customer classes: GDS-1 (Residential), GDS-2 (Small General), GDS-3 (Intermediate  
56 General), GDS-4 (Large General), GDS-5 (Seasonal), and GDS-7 (Special Contract). GDS-1 is  
57 available for any residential customer using natural gas predominantly for residential purposes.  
58 GDS-2 is available to non-residential customers whose highest Average Daily Usage<sup>2</sup> is less  
59 than 200 therms. GDS-3 is available to non-residential customers whose highest Average Daily  
60 Usage is greater than 200 therms, but less than 1,000 therms. GDS-4 is available to non-  
61 residential customers whose highest Average Daily Usage is equal to or greater than 1,000  
62 therms. GDS-5 is an optional rate available to non-residential customers whose operations allow  
63 usage to be curtailed on cold days. GDS-7 enables the Company to develop special contracts to  
64 prevent customers located near interstate natural gas pipelines from detaching from or

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<sup>1</sup> Since proposed base rates were designed without any gas supply cost, it was necessary to include gas supply cost estimates in order to make more meaningful bill comparison and customer impact determinations, consistent with Schedule E-9 presentations filed in prior gas rate cases.

<sup>2</sup> Average Daily Usage means all Therms delivered to Customer during the Billing Period divided by the number of days in the Billing Period, and further subject to the tariff reassignment provisions specified within the Delivery Service tariff.

65 “bypassing” the Company’s natural gas distribution system. While AIC collects revenue from its  
66 retail customers under various supply options, the revenue requirements developed and the rate  
67 increases requested in this proceeding pertain only to natural gas delivery services.<sup>3</sup> Ameren  
68 Exhibit 10.1 reflects AIC's current existing rate structure and rates.

69 **Q. How has AIC developed cost of service studies and delivery service rates in this**  
70 **proceeding?**

71 A. As described in further detail by Ameren witness Mr. Ryan K. Schonhoff in Ameren  
72 Exhibit 9.0, AIC has prepared a separate embedded cost of service study (ECOSS) for each rate  
73 zone and will continue to do so until such time as uniform rate zone pricing exists or until the  
74 Commission indicates a preference for AIC to file a single class cost of service study. The  
75 individual rate zone ECOSS formed the starting point for revenue allocation and pricing  
76 recommendations. Specific ratemaking recommendations are discussed in more detail later in  
77 my testimony.

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

79 A. The results of the gas ECOSSs, which allocate test year costs to customer classes, provide  
80 the starting points for evaluating rate design and provide support for AIC's proposed changes to

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<sup>3</sup> AIC also provides several natural gas commodity supply options for its retail customers in addition to the natural gas delivery services described above: Rider S (System Gas Service), Rider T (Gas Transportation Service), Rider G (Group Balancing Transportation Service), Rider TBS (Transportation Banking Service), and Rider PGA (Purchased Gas Adjustment). All residential customers and those non-residential customers who elect to purchase gas supply from AIC rather than purchase their own natural gas take the Rider S supply option. Rider PGA sets the base charge for natural gas supplied by the Company to customers under Rider S supply option. Non-residential customers who elect to purchase their own natural gas supply and arrange for delivery of such commodity to the Company’s distribution system may do so through Rider T. Rider G provides information pertaining to requirements and responsibilities of brokers who want to aggregate deliveries of customer-owned gas for multiple customers and Rider TBS permits Rider T customers to take a subscribable banking service.

81 its gas rate schedules. Based on the results of the gas ECOSSs and the rate adjustment mitigation  
82 model (discussed below), I conclude the following:

- 83 • The Commission should approve uniform rates among rate zones for the GDS-1,  
84 GDS-2 and GDS-3 classes;
- 85 • The Commission should approve uniform GDS-4 Customer Charges for the three  
86 rate zones. The Commission should eliminate all Rider S and Rider T Delivery  
87 Charges (per therm usage charges). Demand Charges within each rate zone  
88 should recover the remaining applicable GDS-4 revenue requirement target.  
89 Demand Charge pricing within each rate zone should move toward more uniform  
90 price differentials between low ( $\leq 60$  psig) and high pressure ( $>60$  psig) service,  
91 and between customers taking service under Rider S and Rider T supply tariff  
92 options. In addition, Demand Charges for Rate Zone II Rider T customers should  
93 continue movement toward eventual elimination of price differences between  
94 customers using 2 million therms per year or less and those using over 2 million  
95 therms per year. Specifically, Demand Charges for Rider T customers directly  
96 connected to distribution mains with pressure over 60 psig should be the same,  
97 while Demand Charges for customers directly connected to distribution mains  
98 with pressures equal to or less than 60 psig should move closer together to, but  
99 stop short of, erasing price differentials;
- 100 • The Commission should approve uniform Customer Charges for GDS-5  
101 customers in all rate zones and uniform Delivery Charges for GDS-5 customers in  
102 Rate Zones II and III; and
- 103 • The Commission should accept the GDS-1 Gas Space Heating and Non-Space  
104 Heating Analysis attached to this testimony as Ameren Exhibit 10.7 and find such  
105 analysis to be in compliance with the directives presented in Docket 13-0192.

## 106 **II. RATE DESIGN**

### 107 **A. Overview**

#### 108 **Q. Has AIC prepared unbundled cost of service studies?**

109 A. Yes. The results of these studies provide unbundled revenue requirements by cost  
110 function (capacity, commodity and customer components). These studies are being presented by  
111 Mr. Schonhoff and the results thereof serve as the starting point for my rate design. Ameren  
112 Exhibit 9.1 presents a summary of the unbundled costs to serve AIC's customer classes.

113 **Q. What were AIC's primary goals and objectives in developing and designing gas**  
114 **delivery services rates?**

115 A. AIC strives to derive prices that provide the Company a reasonable opportunity to  
116 recover its authorized revenue requirement, and to design customer rates that are both cost-based  
117 and uniformity-focused. AIC recognizes, however, that it needs to be mindful of bill impacts in  
118 achieving these goals.

119 **Q. Does AIC have uniform rates among rate zones for a rate class?**

120 A. Yes, although price uniformity is presently incomplete. For example, GDS-1 pricing is  
121 uniform for Rate Zones I and III and GDS-2 pricing is uniform for Rate Zones I and II. For  
122 GDS-3, only the Customer Charge is uniform among Rate Zones I and II. For GDS-4, the  
123 Customer Charge for customers with an MDCQ  $\leq 10,000$  is uniform among all rate zones, as is  
124 the Rider S Delivery Charge. The Customer Charge for customers with an MDCQ  $> 10,000$  is  
125 uniform among Rate Zones II and III. For GDS-5, only the Customer Charge for customers with  
126 an MDCQ  $\geq 3,250$  is uniform among Rate Zones I and II.

127 **Q. Is AIC proposing additional price uniformity among rate zones for common rate**  
128 **classes in this proceeding?**

129 A. Yes. The table below shows existing uniform pricing discussed above and proposed  
130 uniform pricing for each rate class and rate zone.

	Present Rates			Proposed Rates		
	RZ I	RZ II	RZ III	RZ I	RZ II	RZ III
<b>GDS-1</b>						
Customer Charge	\$ 22.31		\$ 22.31	\$ 24.82	\$ 24.82	\$ 24.82
Delivery Charge	\$0.09320		\$ 0.09320	\$ 0.10197	\$ 0.10197	\$ 0.10197
<b>GDS-2</b>						
Customer Charge - Rider S and Rider T						
Customers <= 600 therms per year	\$ 39.77	\$ 39.77		\$ 48.96	\$ 48.96	\$ 48.96
Customers > 600 therms per year	\$ 69.17	\$ 69.17		\$ 82.00	\$ 82.00	\$ 82.00
Delivery Charge- Rider S	\$0.07269	\$ 0.07269		\$ 0.08614	\$ 0.08614	\$ 0.08614
Delivery Charge-Rider T	\$0.03975	\$ 0.03975		\$ 0.04525	\$ 0.04525	\$ 0.04525
<b>GDS-3</b>						
Customer Charge - Rider S and Rider T	\$ 190.00	\$ 190.00		\$ 275.00	\$ 275.00	\$ 275.00
Delivery Charge- Rider S				\$ 0.17413	\$ 0.17413	\$ 0.17413
Delivery Charge-Rider T				\$ 0.11191	\$ 0.11191	\$ 0.11191
<b>GDS-4</b>						
Customer Charge - Rider S and Rider T						
MDCQ ≤ 10,000	\$ 600.00	\$ 600.00	\$ 600.00	\$ 600.00	\$ 600.00	\$ 600.00
MDCQ > 10,000		\$ 1,200.00	\$ 1,200.00	\$ 1,200.00	\$ 1,200.00	\$ 1,200.00
Delivery Charge - Rider S	\$0.01822	\$ 0.01822	\$ 0.01822	\$0.00000	\$0.00000	\$0.00000
Delivery Charge - Rider T				\$0.00000	\$0.00000	\$0.00000
<b>GDS-5</b>						
Customer Charge - Rider S and Rider T						
MDCQ < 3,250 therms				\$ 350.00	\$ 350.00	\$ 350.00
MDCQ ≥ 3,250 therms	\$ 600.00	\$ 600.00		\$ 750.00	\$ 750.00	\$ 750.00
Delivery Charge - Rider S				\$ 0.07588	\$ 0.07588	\$ 0.07588
Delivery Charge - Rider T				\$ 0.01882	\$ 0.01882	\$ 0.01882

131

132 **Q. Are you proposing any revision to AIC's basic rate structure for natural gas**  
133 **delivery service pricing?**

134 A. With one exception, AIC's delivery service availability criteria and rate design structure  
135 remain consistent with that approved in the last natural gas general rate proceeding (Docket 13-  
136 0192). Rate GDS-4 presently contains both a Demand Charge and a per therm Delivery Charge.  
137 AIC's proposal now will phase-out GDS-4 per therm delivery charges in favor of demand charge  
138 pricing. AIC is proposing the elimination of both the Rider S and Rider T Delivery Charges in  
139 all three rate zones. A per therm Delivery Charge would be appropriate if the ECOSs showed  
140 the need to recover "commodity components" from the class, but there are no "commodity

141 components" costs allocated to GDS-4 (or any class for that matter). GDS-4 customers are  
142 served with metering capable of measuring demands; thus, is it most appropriate to endeavor to  
143 recover demand-related costs through demand charges. Over the past few rate proceedings, and  
144 with the Commission's approval, Ameren Illinois has been transitioning away from per therm  
145 rate recovery and toward increased demand charge recovery for GDS-4 customers, tempered by  
146 bill impact analysis.

147 The pricing structure within GDS-1, GDS-2, GDS-3, and GDS-5 is also consistent among  
148 the three rate zones, and I propose no change to this arrangement. GDS-4 rate structure is the  
149 same by rate zone, although only Rate Zone II contains different Demand Charge pricing for  
150 Rider T customers using more than 2 million therms annually. I recommend pricing that will  
151 progress toward GDS-4 rate uniformity, as discussed later in my testimony.

152 **B. Rate Uniformity**

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

154 A. Taking direction from the Commission decision in Docket 10-0517, uniform pricing is  
155 appropriate when costs among the various rate zones are similar. Specifically, the Commission  
156 stated in Docket 10-0517 that "the Commission supports AIC's goal of single-tariff pricing, but  
157 any movement toward this goal must also consider the Commission's efforts to foster cost-based  
158 rates." (Order, p. 20). The Commission also stated "[t]he Commission does not mean to suggest  
159 that AIC must wait until such costs are equal among all three rate zones before the  
160 consolidation...The Commission can envision a point in the future where the costs of serving  
161 customers of two of the legacy utilities...may be considered 'close enough,' all things  
162 considered, and ready for consolidation." (Id. at 20-21).

163           The costs between some of the rate classes in each rate zone are indeed close. In my  
164 view, if the rate zone level costs for a rate class are within 10% of the total combined class  
165 average cost, the costs are "close enough" to justify application of a uniform design. This is the  
166 same proposal presented by Ameren witness Mr. Leonard M. Jones and adopted by Staff in  
167 Docket 13-0476, the recent electric rate redesign case. (*See e.g.*, Dir. Jones, p. 8; Dir. Harden, p.  
168 5 (uniform charges would be implemented for a customer class in two or more rate zones if each  
169 rate zone's individually calculated cost of service for that class is within 10% of the combined  
170 average cost of service for the class)).

171 **Q.     Is cost of service the only criteria to consider when contemplating uniform pricing?**

172 A.     No. Not all prices for each rate class within each rate zone are currently similar, and  
173 movement toward uniformity may be too abrupt in one step; as such, customer bill impacts are  
174 also considered. For situations where the cost to serve a particular rate class are similar across  
175 rate zones but present prices vary by rate zone, I am limiting progress toward uniform pricing.  
176 Instead, in these situations I support movement to uniform Customer Charges, but retention of  
177 separate and distinct pricing for other rate components. A good example of this is the GDS-5  
178 class. Cost of service between the zones is somewhat similar but is more than 10% apart from  
179 the average AIC rate per customer. Although, when only Rate Zones II and III are examined,  
180 both costs and existing rates are within 10% of the combined average of the two, signifying that  
181 the costs are close enough to justify further uniformity. Thus, I am proposing uniform prices for  
182 GDS-5 for Rate Zones II and III.

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

184 A.     AIC is proposing uniform charges for all rate zones for GDS-1. Prices for Rate Zones I  
185 and III are already uniform. Costs for these customers are within 10% of the combined average

186 for the three rate zones and present prices are similar. AIC is also proposing uniform GDS-2  
187 charges for all rate zones. Prices for Rate Zones I and II are already uniform. Costs for these  
188 customers are within 10% of the combined average for the three rate zones and present prices are  
189 relatively close. In addition, AIC is proposing uniform GDS-3 charges for all rate zones.  
190 Customer Charges for Rate Zones I and II are already uniform, and Delivery Charges differ in all  
191 three rate zones. Costs for these customers are within 10% of the combined average for the three  
192 rate zones and present prices are likewise similar. Finally, AIC is proposing uniform GDS-5  
193 charges for Rate Zones II and III. Costs for these customers are within 10% of the combined  
194 average for the two rate zones, as are present average prices. Full price uniformity for GDS-4 is  
195 not sought at this time since both costs and present average prices are dissimilar, although AIC  
196 proposes to set Customer Charges uniformly among rate zones.

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

199 A, Yes. And Staff endorsed a similar approach in the recent electric rate redesign case,  
200 Docket 13-0476. (*See Dir. Harden, p. 5*). Until all rate classes have uniform pricing among each  
201 of the rate zones, the Company would still calculate individual rate zone class cost of service  
202 studies. For any rate zone classes combined in a previous proceeding (i.e., GDS-1 for Rate  
203 Zones I and III), the class cost of service results would be added together for determining overall  
204 class revenue requirement targets and prices, similar to the approach used in this proceeding.

205 **C. Revenue Allocation and Mitigation**

206 **Q. How does AIC propose to recover the gas revenue requirement from each customer**  
207 **class?**

208 A. AIC is proposing to move toward rates that recover each customer class' revenue  
209 requirement, assuming an equalized rate of return as determined by the gas ECOSSs. The  
210 Commission has previously supported this ratemaking objective. Movement toward equalized  
211 rate of return may mitigated to limit bill impacts, as I describe further below.

212 **Q. How did you establish class revenue targets?**

213 A. The revenue allocation approach constrains movement to full class cost of service for any  
214 one class to 1.5 times the overall average rate increase for the applicable rate zone. The  
215 application of rate increase constraints serve to limit customer bill impacts. Ameren Exhibit 10.2  
216 reflects the increases by customer class for each rate zone using the revenue constraints  
217 discussed above. In cases where class pricing is already uniform among rate zones, or is  
218 proposed to be uniform among rate zones, the constrained revenue target for the individual rate  
219 zones for the respective class are added together to arrive at the final revenue target.

220 **Q. Do you believe the 1.5 time mitigation constraint addresses the Commission**  
221 **statement in Docket 09-0306 indicating that Ameren Illinois should propose rates that**  
222 **reflect a "continued movement toward cost-based rates and the elimination of inter- and**  
223 **intra-class subsidies"?**

224 A. Yes. AIC is proposing the same revenue allocation and rate design as was proposed in  
225 the Company's prior gas rate proceeding, Docket 13-0192. Movement toward cost-based rates  
226 should be considered in conjunction with mitigating undue customer bill impacts. The AIC

227 revenue allocation methodology permits movement toward class cost of service, but tempers  
228 such movement in the interest of mitigating undue customer impacts.

229 **Q. Please summarize AIC's present and proposed GDS revenues for each GDS service**  
230 **class after the rate mitigation constraints have been applied to the gas ECOSS results.**

231 A. Ameren Exhibit 10.4 provides a summary of present and proposed revenues by rate zone.  
232 This exhibit includes comparisons of both base delivery and gas costs by rate class. As shown  
233 on this exhibit, the overall increase in base delivery revenues for Rate Zone I, Rate Zone II and  
234 Rate Zone III are 13.5%, 23.0%, and 11.6%, respectively.

235 **D. Rate Design for Proposed Rates**

236 **Q. How did you approach the price design of individual rates?**

237 A. Once the constrained revenue targets by rate zone and GDS class were established, I  
238 adjusted tariff prices in order to achieve total proposed revenue that aligned to the constrained  
239 revenue targets. In situations where rate zone pricing is proposed to be combined with another,  
240 revenue targets reflect the combined total of the two or three zones. My rate design calculations  
241 are provided in Ameren Exhibit 10.3.

242 **Q. Please summarize the proposed price changes to GDS-1 rates and charges.**

243 A. Mr. Jones addresses the GDS-1 (and GDS-2) Customer Charge, which has been set to  
244 recover 80% of the class revenue requirement. The Distribution Delivery Charge recovers the  
245 remaining allocated revenue requirement presented in Ameren Exhibit 10.3. In developing the  
246 uniform Customer and Delivery Charges, Customer or Delivery Charge revenue targets were  
247 summed across rate zones and then divided by the aggregate number of bills or annual therm  
248 sales, as applicable.

249 Ameren Exhibit 10.5 provides the comparison of present and proposed prices.  
250 Additionally, as reflected on Ameren Exhibit 10.6, residential bill impacts are provided by rate  
251 zone at various usage levels. The average residential customer using about 745 therms per year  
252 would receive total bill increases ranging from 4.9%, or \$3.06 per month, for Rate Zones I and  
253 III to 10.9%, or \$6.41 per month, for Rate Zone II.

254 **Q. Please briefly describe your proposed prices to GDS-2 rates and charges.**

255 A. As discussed previously, AIC also is proposing uniform charges for GDS-2 for all three  
256 rate zones. Individual rate zone costs and present revenues are within 10% of the combined  
257 average of all three rate zones. As with GDS-1 price development, Customer or Delivery Charge  
258 revenue targets were summed and then divided by the aggregate number of bills or annual therm  
259 sales for Riders S or T, as applicable. The Customer Charge component continues to be set to  
260 recover 80% of the class revenue requirement as explained by Mr. Jones.

261 **Q. Please elaborate more on the proposed pricing change for GDS-3.**

262 A. As discussed previously, AIC is proposing uniform pricing among all rates zones for  
263 GDS-3. The Customer Charge has been set to recover revenues closer to its underlying customer  
264 cost components cost of service. Delivery Charges were set to recover the remaining revenue  
265 requirement allocated to the class. The weighted average of the present Delivery Charges for  
266 each of Rider S – System Gas Service (Rider S) and Rider T – Transportation Service (Rider T)  
267 were increased by an equal percentage to arrive at the combined proposed revenue target for all  
268 three rate zones. Ameren Exhibit 10.4 shows class average delivery increases of 17.5%, 29.2%  
269 and 11.5% for Rate Zones I through III, respectively. Corresponding estimated average class  
270 average total bill increases for Rate Zone I, II, and III, are approximately 7%, 7% and 4%,  
271 respectively.

272 **Q. Before discussing proposed pricing changes, please explain how the GDS-4 rate**  
273 **design differs across the rate zones.**

274 A. The basic rate structure is uniform among rate zones. GDS-4 contains Customer  
275 Charges, differentiated between customers using up to 10,000 therms/day and those using more  
276 than 10,000 therms/day. It also contains Demand Charges, differentiated between customers  
277 served directly from mains with Maximum Allowable Operating Pressure (MAOP) of 60 psig or  
278 less (sometimes referred to as "low pressure") and those served directly from mains with MAOP  
279 greater than 60 psig (sometimes referred to as "high pressure"). The Demand Charge is also  
280 differentiated between customers taking Rider S and Rider T. Rate Zone II Demand Charges for  
281 Rider T customers are also distinguished between customers using 2 million therms per year or  
282 less and those using more than 2 million therms per year.

283 **Q. What are the proposed price changes to GDS-4 rates and charges?**

284 A. AIC is proposing the following changes to GDS-4 rates and charges:

- 285 • Customer Charges: I propose the Customer Charges for all three rate zones for  
286 customers with MDCQ of less than or equal to 10,000 therms remain at \$600.  
287 AIC is proposing that the Rate Zone I Customer Charge for over 10,000 MDCQ  
288 be set at \$1,200 (from \$700) to align with Rate Zones II and III's Customer  
289 Charge, which will remain at \$1,200. The proposed Customer Charges better  
290 align to the ECOSS Customer Cost as reflected in Ameren Exhibit 10.3.
- 291 • Delivery Charges: The Rider S and Rider T Delivery Charges for all rate zones is  
292 being eliminated (offset by increasing Demand Charges as discussed below).  
293 Rate Zone III does not presently have a Rider T Delivery Charge.
- 294 • Demand Charges:
- 295 Low and High Pressure Cost Difference. A cost differential exists between  
296 serving customers at less than or equal to 60 psig and over 60 psig as reflected  
297 in Ameren Exhibit 10.3 in the GDS-4 proposed rate development which I used  
298 to develop a price difference between the pressures. My analysis indicates that  
299 serving customers from distribution mains with a MAOP less than or equal to  
300 60 psig costs about \$0.55 per MDCQ more than customers utilizing only  
301 distribution mains with MAOP greater than 60 psig. Costs of serving high

302 pressure customers are less because those customers are not connected to the  
303 low pressure system and should not bear low pressure system costs. AIC's  
304 proposed pricing attempts to reflect this cost differential in proposed Demand  
305 Charges.

306 Rate Zones I. AIC is proposing an increase of about 32% in the Rider S  
307 Demand Charge for pressure less than or equal to 60 psig. The proposed  
308 Demand Charge for pressure over 60 psig was lowered by the pressure cost  
309 difference discussed above. The Rider T Demand Charge for pressure less  
310 than or equal to 60 psig was also increased but at a higher percentage than  
311 Rider S, which will promote movement to cost based charges. The Rider T  
312 Demand Charge for pressure over 60 psig Demand was lowered from the Rider  
313 T Demand Charge for pressure less than or equal to 60 psig based on the  
314 pressure cost difference.

315 Rate Zone II. AIC is proposing to increase by 13% the Rider S Demand  
316 Charge for pressure less than or equal to 60 psig. The proposed Rider S  
317 Demand Charge for pressure over 60 psig was lowered by the pressure cost  
318 difference. The two million therms or less Rider T Demand Charge, for  
319 pressure less than or equal to 60 psig, was increased by approximately 28% to  
320 \$0.94278/MDCQ from its present rate of \$0.73448/MDCQ. The Rider T  
321 Demand Charge, for pressure over 60 psig, was then set at a level reflecting the  
322 pressure cost difference of approximately \$0.55/MDCQ, or at  
323 \$0.39273/MDCQ. The present pricing difference for the Rider T demand tiers  
324 (less than or equal to 2 million therms and over 2 million therms) for pressure  
325 less than or equal to 60 psig has a difference of \$0.37017/MDCQ (\$0.73448  
326 less \$0.36431). AIC is proposing that this pricing difference not be fully  
327 closed in this proceeding, but instead only reduced by 1/3 in this case in the  
328 interest of mitigating bill impacts. As such, the Rider T Demand Charge for  
329 the over two million therm customers for pressure less than or equal to 60 psig  
330 was lowered from the less than or equal to 2 million therms (at the same  
331 pressure level) by \$0.24678 (derived by reducing \$0.37017 by 1/3), resulting in  
332 a price of \$0.69600 (\$0.94278 less \$0.24678). Rider T Demand Charge for  
333 over two million therms, for pressure over 60 psig, is proposed at the same  
334 level as the Rider T Demand Charge at the same pressure at the under 2 million  
335 therm tier. The existing prices are extremely close today, only  
336 \$0.00504/MDCQ apart, making a transition step unnecessary. The increases to  
337 Demand Charges are partially offset by AIC's proposal to eliminate both the  
338 Riders S and T Delivery Charges.

339 Rate Zones III. AIC is proposing an increase of approximately 10% in the  
340 Rider S Demand Charge for pressure less than or equal to 60. The proposed  
341 Demand Charge for pressure over 60 psig was lowered by the pressure cost  
342 difference discussed above. The Rider T Demand Charge for pressure less  
343 than or equal to 60 psig was increased approximately 37% from its present  
344 charge. The Rider T Demand Charge for pressure over 60 psig demand was

345 lowered from the Rider T Demand Charge for pressure than or equal to 60 psig  
346 based on the pressure cost difference.

347 MDCQ Overrun Charges. The MDCQ Overrun Charges were priced at twice  
348 the corresponding Demand Charge, consistent with the approach approved for  
349 setting this price in Dockets 09-0306, 11-0282, and 13-0192. A MDCQ  
350 Overrun Charge provision helps ensure customers properly set their MDCQ  
351 level.

352 **Q. What were the impacts of the proposed rates to GDS-4 customers across rate zones**  
353 **given the proposed changes to the Demand and Delivery Charge?**

354 A. For Rate Zones I, II and III, the class average delivery increases , as shown on Ameren  
355 Exhibit 10.4, are 24.6%, 11.8%, and 20.5%, respectively. From a total bill basis (Delivery  
356 Service plus purchase gas adjustment (PGA) for both Rider S and as a substitute for Rider T gas  
357 costs), the class average increase is estimated to be 6%, 2%, and 4%, respectively.

358 **Q. Please elaborate on the proposed pricing change for GDS-5.**

359 A. The combination of the three rate zones did not pass the 10% cost limitation test  
360 discussed above, as Rate Zone I's embedded cost per customer is 16% lower than the combined  
361 AIC average cost. Rate Zones II and III fall within 6% and 4%, respectively. On a combined  
362 Rate Zone II and III basis, the rate zones fall with +/- 1% of their combined cost. From a present  
363 revenues per customer basis, Rate Zone II and III, revenues per customer were also within 1% of  
364 each other. In the interest of facilitating future price uniformity among the rate zones, AIC is  
365 proposing the Customer Charges be set uniformly among all three rate zones. Proposed  
366 Customer Charge revenues will move closer to recovering customer cost components of the  
367 ECOSS. Delivery Charges for Rate Zones II and III are only proposed at uniform prices as those  
368 two rate zones costs met the 10% cost limitation test and present revenue test.

369 **Q. Please explain AIC's approach in developing the separate rate zone Delivery**  
370 **Charges for GDS-5?**

371 A. Once proposed Customer Charges revenues were developed, they were deducted from  
372 each rate zone's revenue target to derive the residual Delivery Charge target revenue. The  
373 percentage increases of constrained revenue target to present revenues were then used to increase  
374 the present Riders S Delivery Charges. Rate Zones II and III's Rider S delivery revenues (based  
375 on the percentage increases) were then combined and divided by their combined Rider S therms.  
376 The proposed Rider S delivery revenues was then deducted from the targeted Delivery Charge  
377 revenues to derive the Rider T delivery revenues which was divided by combined Rate Zones II  
378 and III Rider T therms. For Rate Zone I, the current Rider S Delivery Charge was increased by  
379 12.5%. The Rider T Delivery Per Unit Therm Charge was then set at about 25% of the Rider S  
380 Delivery Per Unit Therm Charge which aligns the two charges for Rate Zone I in the same  
381 relationship of Rate Zones II and III. The GDS-5 Demand Charges are set equal to the  
382 comparable Demand Charge for GDS-4 service. This is because most GDS-5 customers would  
383 otherwise be served on GDS-4, and the Demand Charge is only applicable if the GDS-5  
384 customer uses gas on a day when the average temperature is 25 degrees or below.

385 **Q. Please discuss the impact of new rates for GDS-5 under the proposed rates.**

386 A. AIC's evaluation of the proposed rates for all rate zone customers served under GDS-5, as  
387 shown on Ameren Exhibit 10.4, disclosed the following percentage increases for class average  
388 delivery revenues: Rate Zone I - 20.9%; Rate Zone II – 18.3%, and Rate Zone III – 18.6%. On a  
389 total bill basis (Delivery Service plus PGA for both Rider S and as a substitute for Rider T gas  
390 costs); the average increase for Rider S customers was 2%, 15% and 7%, for Rate Zone I, Rate

391 Zone II and Rate Zone III, respectively. The total bill average increase for Rider T customers  
392 was 5% for all rate zones.

393 **E. Proposed Rate Validation and Revenue Increases**

394 **Q. How did you verify that the proposed rates generate the delivery service**  
395 **requirements you established?**

396 A. Once rates and prices were established by customer class, they were multiplied by the  
397 respective billing determinants; i.e., number of bills, therms, and demands to derive proposed  
398 revenues by customer class. Those proposed revenues by customer class were then compared  
399 back to the customer class revenue constraints reflected in Ameren Exhibit 10.2. I discuss  
400 billing determinants in further detail below.

401 **Q. What are the calculated rate changes produced for each customer class under**  
402 **proposed rates?**

403 A. The proposed rate changes calculated by GDS rate class and rate zone are provided on  
404 Ameren Exhibit 10.4.

405 **F. Transportation Banking Service**

406 **Q. Please explain how costs associated with Transportation Banking Service are**  
407 **handled in the development of GDS-1 through GDS-5 rates since underground gas storage**  
408 **costs are contained in the ECOSS results.**

409 A. AIC has modeled Rider TBS – Transportation Banking Service (Rider TBS) in the same  
410 manner as described in Docket 13-0192. Specifically, AIC removed the amounts associated with  
411 Rider TBS and the Unsubscribed Bank Capacity Charge (described in Rider S and recovered  
412 through a cost adder to the PGA) in both its present and proposed revenues before beginning its

413 revenue allocation constraint determinations. Similarly, the total revenue requirement associated  
414 with Rider TBS was removed from the embedded cost of service cost results shown on Ameren  
415 Exhibit 10.5. The costs were removed from each class based on the proportion of class Rider S  
416 therms to total AIC Rider S therms given that system sales absorb the Rider TBS costs that are  
417 unsubscribed<sup>4</sup> through the Unsubscribed Bank Capacity Charge provision contained in Rider S.  
418 The amount of unsubscribed bank is recovered from Rider S customers on a per therm basis.

419 **Q. What were the amounts of Rider TBS, subscribed and unsubscribed, in present**  
420 **revenues?**

421 A. Part 285 Schedule E-5 shows a total of \$4.7 million of subscribed Rider TBS revenues,  
422 based on customer bank elections and present prices. The unsubscribed revenues total \$6.0  
423 million which, as I previously stated, should be credited through Rider S to system customers  
424 and not to the transportation customers' rates in the GDS tariffs.

425 **Q. Has AIC revised its Rider TBS rate in this proceeding?**

426 A. Yes. The Rider TBS rate is slightly increasing from a Capacity Charge of \$0.01685 per  
427 Therm of Bank Limit to \$0.01893 per Therm of Bank Limit. This increase is driven by higher  
428 costs for storage-related assets. The calculation for the updated Rider TBS Capacity Charge is  
429 shown in Ameren Exhibit 10.3. In addition, the total available Banking Service Limit has  
430 changed from 5.78 Bcf to 4.99 Bcf.

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<sup>4</sup> To the extent Rider T customers subscribe to less than the Rider TBS Banking Service Limit, all remaining revenue requirement allocated to Rider TBS service is recovered from Rider S – System Gas Service customers through an Unsubscribed Bank Capacity Charge provision, the costs of which are added to the PGA.

431 **III. SPACE HEAT/NON-SPACE HEAT STUDY**

432 **Q. Has AIC complied with the directive from the Order in Docket 13-0192 to perform a**  
433 **study regarding the potential bifurcation of GDS-1 customers into space heating and a non-**  
434 **space heating subclasses?**

435 A. Yes. Ameren Exhibit 10.7 provides the product of this directive.

436 **Q. Please summarize the requirements of this directive.**

437 A. AIC was to provide (1) a method for distinguishing between heating and non-heating  
438 customers, (2) an estimate of the costs that would be incurred by AIC in distinguishing between  
439 these types of customers, (3) an estimate of the timeframe necessary for AIC to program its  
440 billing system to accommodate the changes, and (4) estimates of costs to serve the two groups of  
441 customers.

442 **Q. Please summarize your conclusions.**

443 A. Based upon the study presented in Ameren Exhibit 10.7, I conclude that while AIC's  
444 billing system currently has a space heat indicator flag, it is not reliable and is not actively  
445 maintained. There are three options (or combinations of options) that could be employed in an  
446 attempt to update and ensure greater reliability of this information: (1) AIC could conduct a  
447 verbal or mail survey in an attempt to update its records (which would likely need to be  
448 supplemented by audits described in Option 2), (2) AIC could conduct a physical, in-home  
449 inspection of primary heating sources, or (3) AIC could develop a usage threshold, based on  
450 historical, customer-specific data, from which to assume end use heating type.

451           Regardless, I conclude that the costs to serve the typical residential space heating  
452 customers are essentially the same as the costs incurred to serve the typical non-space heating

453 customers. The costs of facilities used to provide service to either type of residential customer is  
454 generally the same.

455 **Q. What are the estimated costs of the options identified above?**

456 A. We estimate that a survey, or series of surveys, would cost approximately \$6.3 million.  
457 These costs may increase given certain additional in-home inspection activities that may be  
458 necessary to obtain a more reliable response rate. The cost of the stand-alone in-home inspection  
459 option would vary dramatically based on response rate, and would climb to approximately \$49.5  
460 million, for a 100% response rate. Programming costs associated with the “historical use” proxy  
461 option would be approximately \$60,000. All options would require additional, continuing  
462 maintenance costs.

463 **Q. The historical use option would appear to be the most cost-effective, do you agree?**

464 A. It is certainly the least expensive, but it is not without its drawbacks. This method  
465 assumes that certain equipment exists in the home of an end user, when that may or may not be  
466 the case. AIC suspects that it may receive inquiries from customers if they are assigned a space  
467 heat rate or designation and are not space heat users.

468 **Q. How would you establish the historical use threshold used in that option?**

469 A. We would deem space heat customers as those using 30 or more therms in January and  
470 February of each year. For the summer months of July and August, 94-97% of the GDS-1 class  
471 use 30 therms or less. Customers could be eligible for reclassification each year, in a manner  
472 similar to other non-residential reclassification practices.

473 **Q. Do the costs to serve residential space heating customers differ from the costs to**  
474 **serve non-space heating customers?**

475 A. No. Costs to serve these types of customers do not differ in a manner that would support  
476 bifurcation. The costs of facilities used to provide service to them is essentially the same. With  
477 the exception of commodity costs, which are passed through the PGA, virtually all of the costs to  
478 serve these customers are the same. Please see Ameren Exhibit 10.7 for further detail.

479 **Q. Based upon this information, do you believe that any GDS-1 class bifurcation is**  
480 **warranted?**

481 A. No, I do not.

482 **IV. BILLING UNITS**

483 **Q. Please provide an overview of the gas billing units filed under the Part 285 filing**  
484 **requirements.**

485 A. The gas billing units comprise the forecasted billed usage of AIC's customers as  
486 presented by rate class. The forecasted billing units assume normal weather. The development  
487 of forecasted billing units also include reductions in usage due to projections relating to energy  
488 efficiency programs, reclassification of expired special contracts to appropriate tariff rates and  
489 customer load reductions due to operational changes. These billing units were used to develop  
490 AIC's Schedules E-4 and E-5, which provide the present and proposed revenues. These billing  
491 units are also used in the development of rate design to establish the Customer, Delivery and  
492 Demand Charges.

493 V. **TARIFF CHANGES**

494 Q. **Were AIC's gas tariffs reviewed and proposed to be modified for this proceeding.**

495 A. GDS-1 through GDS-5 gas tariffs were reviewed to ensure the provisions thereof were  
496 updated to reflect any operational changes. AIC will not be proposing any updates to these  
497 tariffs in this proceeding other than price updates.

498 Q. **Please explain the proposed changes to the tariffs for GDS-1, GDS-2, GDS-3 and  
499 GDS-5.**

500 A. The only proposed changes to these tariffs are to reflect updated prices sufficient to  
501 recover the proposed revenue requirement. Ameren Exhibit 10.8 reflects the proposed charges  
502 and rates for these customer classes.

503 Q. **Please provide explanation of the proposed changes to the tariffs for GDS-4.**

504 A. As stated above, AIC is proposing price changes to GDS-4 at this time and the  
505 elimination of the Rider S and Rider T Delivery Charges. It is AIC's goal to make changes to  
506 GDS-4 in a future proceeding to eliminate the unique price differentiation within only Rate Zone  
507 II Rider T Demand Charges for customers using over two million therms at pressure less than or  
508 equal to 60 psig. Ameren Exhibit 10.8 reflects the proposed charges and rates for this customer  
509 class.

510 VI. **UNCOLLECTIBLE FACTORS**

511 Q. **Please describe the "Delivery Service (DS) Uncollectible Recovered in Base Rates".**

512 A. The values are shown in each delivery service rate for informational purposes, and are  
513 considered a subset of the Customer Charge, and used by AIC to track the amount of

514 uncollectible expense “included in rates” for administration of Rider GUA – Gas Uncollectible  
515 Adjustment (Rider GUA).

516 **Q. What are the proposed calculated Delivery Service values?**

517 A. The uncollectible values recovered in base rates are \$0.44 for residential customers and  
518 \$0.09 for non-residential customers.

519 **Q. What is your proposal for determining the amount of Delivery Service Uncollectible  
520 Recovered in Base Rates amounts?**

521 A. The process will begin as it does presently, where values are updated to correspond with  
522 the level of uncollectible expense determined in the test year. A change to Rider GUA (started  
523 with the 2012 Reporting Year) assesses GUA Adjustment charges or credits to two customer  
524 groups, Residential and Non-residential. Previous to this tariff change, the GUA Adjustment  
525 applied to GDS-1, GDS-2, GDS-3, GDS-4, and GDS-5 separately. Because non-residential  
526 average class level data will suffice for administering Rider GUA, the “included in rates” value  
527 is proposed to be condensed into a single non-Residential “Uncollectible Recovered in Base  
528 Rates” value.

529 **Q. When is it appropriate to set uniform “DS Uncollectible Recovered in Base Rates”  
530 values among rate zones?**

531 A. It is appropriate to make the change in this proceeding, which would impact the 2016  
532 “reporting year”. AIC allocates uncollectible expense among rate zones based on the relative  
533 weighting of customers. A customer weighted value will produce values that are similar among  
534 rate zone. Also, because the underlying cost data is substantially uniform, it makes sense to

535 move the “Uncollectible Recovered in Base Rates” toward uniformity for residential and non-  
536 residential customers, respectively, among rate zones.

537 **Q. How are “DS Uncollectible Recovered in Base Rates” values calculated in Rider**  
538 **EUA –Electric Uncollectible Adjustment?**

539 A. In Docket 13-0476, AIC proposed making the Uncollectible Recovered in Base Rates  
540 uniform for residential and non-residential customers among rate zones. This was an  
541 uncontested issue and Staff recommend that the Commission approve AIC’s proposal. The  
542 Commission indeed approved the proposal. (Order, p 6).

543 **Q. How are the Uncollectible Factors within Rider S calculated?**

544 A. In the last gas rate case, Docket 13-0192, the Uncollectible Factors were ordered to be no  
545 longer differentiated by rate zones, but instead consolidated into a single AIC value. However,  
546 the Uncollectible Factors were to continue to be differentiated by rate class.

547 **Q. Have you updated the Uncollectible Factors within Rider S that are applied to Rider**  
548 **PGA gas costs?**

549 A. Yes. The proposed Uncollectible Factors proposed for Rider S –System Gas Service are as  
550 follows:

<b>Rider S Uncollectible Factors</b>	
GDS-1	0.01218
GDS-2	0.00127
GDS-3	0.00159
GDS- 4	0.00053
GDS-5	0.00000

551 **VII. CONCLUSION**

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

553 **A.** Yes, it does.

**APPENDIX**

**STATEMENT OF QUALIFICATIONS**

**KAREN R. ALTHOFF**

My educational background consists of a Bachelor of Science Degree in Accounting from Millikin University along with a Master of Business Administration degree. I am a Certified Public Accountant and a member of the American Institute of Certified Public Accountants ("CPA") and the Illinois CPA Society. I began employment with Illinois Power Company upon graduation from Millikin University. I then became an employee of Ameren Corporation upon the acquisition of Illinois Power Company by Ameren in September 2004. Beginning in 2009, I became an employee of AmerenCILCO. I then became an employee of AIC on October 1, 2010 upon the merger of the three AIC legacy companies.

While employed by Illinois Power Company, my initial position was in the Internal Auditing Department where I performed customer service, power plants and corporate function audits. I then held several positions in the Accounting Department including Accountant, Staff Accountant, Business Leader and Supervisor – Financial Reporting. My duties in the Accounting Department encompassed general accounting activities, reporting to various regulatory bodies and internal management reporting, and accounting for both electric fuel and gas purchases. I also worked in the company's Finance Department where I was responsible for capital expenditure forecasting. While in Finance, my work experience also included responsibilities for Investor Relations where I would respond to various inquiries of shareholders and financial analysts along with developing financial community presentations.

I then transferred to Illinois Power Company's Rate Department where I have held the positions of Senior Regulatory Specialist, Pricing and Costing Manager and Lead Rate Specialist. My duties and responsibilities relating to the gas and electric rates of Illinois Power

have included developing rate analyses, rate design and cost of service studies, development and interpretation of gas and electric tariffs including standard terms and conditions; rules, regulations and conditions, testifying in regulatory proceedings; monitoring the Company's rate of return performance; and other rate or regulatory projects as assigned. Upon the acquisition of Illinois Power Company by Ameren, I continued these responsibilities and also acquired additional responsibilities relating to regulatory filings and support of Ameren's Missouri operating company. In January 2008, I assumed duties solely related to AIC regulatory responsibilities.

I have submitted testimony concerning class cost of service before the Illinois Commerce Commission in Docket 98-0680 regarding an investigation concerning certain tariff provisions under Section 16-108 of the Public Utilities Act and related issues, Dockets 99-0129 and 99-0134 (Consolidated) regarding approval of the Company's Delivery Services Implementation Plan and Tariffs, Docket 01-0432 regarding electric Delivery Service Tariffs, Docket 04-0476 regarding embedded class cost of service study for the gas business, Docket 09-0306 – 09-0308 (Consolidated) regarding embedded class cost of service study for the electric business, and Dockets 11-0282 and 13-0192 regarding embedded class cost of service study and rate design for the gas business, Dockets 13-0266 and 14-0262 regarding reconciliation of AIC's Utility Consolidated Billing and Purchase of Receivables and Docket 14-0443 for AIC's proposed Rider CCA regarding recovery of clean coal costs. I have also presented testimony to the Federal Energy Regulatory Commission regarding AIC's wholesale distribution service. In addition, I have presented testimonies on various electric and gas miscellaneous type charges including single bill option credit and other various electric delivery charges (i.e., off-cycle switching, Purchase Power Option calculator, etc.) along with gas electronic metering equipment fees.