

**ILLINOIS COMMERCE COMMISSION**

**DOCKET 16-\_\_\_\_\_**

**DIRECT TESTIMONY**

**OF**

**KAREN R. ALTHOFF**

**Submitted on Behalf Of**

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

**April, 2016**

**TABLE OF CONTENTS**

	<b>Page</b>
<b>I. INTRODUCTION.....</b>	<b>1</b>
<b>A. Witness Identification.....</b>	<b>1</b>
<b>B. Purpose, Scope and Identification of Exhibits .....</b>	<b>2</b>
<b>II. COST OF SERVICE STUDIES.....</b>	<b>4</b>
<b>A. Discussion of Cost Allocations and Methodologies .....</b>	<b>4</b>
<b>B. Results of Embedded Cost of Service Studies .....</b>	<b>12</b>
<b>III. RATE DESIGN.....</b>	<b>13</b>
<b>A. Delivery Service Charges – Rate MAP-P Pricing Development.....</b>	<b>13</b>
<b>B. Pricing .....</b>	<b>18</b>
<b>C. Bill Impacts Comparisons .....</b>	<b>20</b>
<b>D. Public Notice.....</b>	<b>21</b>
<b>IV. Rider PSP – Power Smart Pricing .....</b>	<b>21</b>
<b>V. CONCLUSION.....</b>	<b>23</b>
<b>APPENDIX.....</b>	<b>1</b>

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7   **I.    INTRODUCTION**

8       **A.    Witness Identification**

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

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

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

13      A.    I am employed as a Supervisor of Rates and Analysis for Ameren Illinois Company d/b/a  
14      Ameren Illinois (AIC or the Company).

15      **Q.    What are your current responsibilities as a Supervisor of Rates and Analysis?**

16      A.    My duties and responsibilities include developing rate analyses, rate design, and cost of  
17      service studies, developing and interpreting gas and electric tariffs, testifying in regulatory  
18      proceedings, and performing other rate-related projects as assigned. I also have responsibilities  
19      relating to wholesale cost of service studies, rate design, and other related projects under the  
20      jurisdiction of the Federal Energy Regulatory Commission (FERC).

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

22 A. Please see my Statement of Qualifications attached as an Appendix to this direct  
23 testimony.

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

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

26 A. The purpose of my direct testimony is to discuss AIC's electric embedded cost of service  
27 studies (ECOSS), cost and revenue allocation methods, and rate design. I also discuss and  
28 present in my testimony the prices developed as a result of this year's formula rate update - those  
29 that will become effective beginning January 2017 - and discuss the impact those price changes  
30 will have on customers' electric bills.

31 My testimony presents the results of AIC's ECOSS for its three Rate Zones based on  
32 AIC's updated revenue requirement, utilizing a 2015 test year and ratemaking adjustments for its  
33 performance based formula rate, Rate Modernization Action Plan – Pricing (Rate MAP-P). I  
34 present and discuss the net revenue requirement for each rate class, which is determined by  
35 adding the 2015 rate year revenue requirements produced from the ECOSS to the corresponding  
36 allocation of the reconciliation amount.

37 My testimony also discusses the approved revenue allocation and rate design calculations  
38 necessary to produce new delivery service charges that will recover the Company's net revenue  
39 requirement<sup>1</sup> for the 2016 Rate MAP-P annual update, as discussed by Ameren witness Ronald  
40 Stafford (Ameren Ex. 1.0).

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<sup>1</sup>See Ameren Exhibit 1.2, Schedule FR A-1, Line 30.

41 The ECOSS, revenue and cost allocation, and rate design methodologies are consistent  
42 with the methods approved by the Commission in Docket 13-0476.

43 I also discuss the Company's recommendations from its program report for Rider PSP –  
44 Power Smart Pricing (Rider PSP).

45 **Q. What impact will this formula rate update filing have on customers' bills?**

46 A. The net revenue requirement for each of AIC's three Rate Zones has decreased since the  
47 2015 formula rate update; in total, AIC's net revenue requirement has decreased from  
48 approximately \$1.030 billion to \$1.016 billion. This is an approximately \$14 million decrease in  
49 the net revenue requirement. The change in delivery service revenue will be collected through  
50 new delivery service charges that have been determined using the approved cost allocation and  
51 rate design methodologies.

52 **Q. When will these new electric delivery service charges become effective?**

53 A. The new delivery service charges will become effective on the first billing cycle of the  
54 January 2017 billing period.

55 **Q. Are you proposing any tariff changes in this proceeding?**

56 A. Yes. I am sponsoring tariff changes for Rider PSP and Supplemental Customer Charges  
57 relating to a change in the non-participant charge under Rider PSP.

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

59 A. I conclude that:

- 60 • Rate MAP-P pricing is based on AIC's updated net revenue requirement utilizing  
61 2015 actual costs, 2016 plant additions, including ratemaking adjustments, and  
62 the 2015 reconciliation;

- 63                   • Rate MAP-P pricing relies on separate Rate Zone net revenue requirements and  
64                   embedded class cost of service study results;
- 65                   • The cost allocation, revenue allocation, and pricing methods adhere to the  
66                   currently-approved cost allocation and rate design methods as established in  
67                   Docket 13-0476; and,
- 68                   • The Company’s recommendations from its program report for Rider PSP – Power  
69                   Smart Pricing should be adopted by the Commission in this proceeding.

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

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

- 72                   • Ameren Exhibit 8.1: Summary of Electric Rate Zone ECOSSs – Present Rates of  
73                   Return
- 74                   • Ameren Exhibit 8.2: Summary of Electric Rate Zone ECOSSs – Proposed Rates  
75                   of Return
- 76                   • Ameren Exhibit 8.3: Summary of Electric Rate Zone ECOSSs – Unbundled Cost  
77                   of Service Results under Equalized Rates of Return (excluding reconciliation)
- 78                   • Ameren Exhibit 8.4: Summary of Electric Rate Zone - Net Revenue  
79                   Requirements (including reconciliation)
- 80                   • Ameren Exhibit 8.5: Process of Determining Delivery Service Charges
- 81                   • Ameren Exhibit 8.6: Determination of Delivery Service Charges & Price  
82                   Summary
- 83                   • Ameren Exhibit 8.7: Residential Bill Impact Comparisons
- 84                   • Ameren Exhibit 8.8: Non-Residential Bill Impact Comparisons
- 85                   • Ameren Exhibit 8.9: Rider PSP Report

86   **II.     COST OF SERVICE STUDIES**

87       **A.     Discussion of Cost Allocations and Methodologies**

88   **Q.     What is an ECOSS?**

89   A.     AIC provides delivery services to its customers under a number of residential and non-  
90   residential rate classifications. These rate classifications are primarily differentiated by customer

91 characteristics, usage levels and supply voltage level. The purpose of the ECOSS in this  
92 proceeding is to present the functionalization, classification, and allocation of distribution  
93 delivery service-related costs to the Company's rate classes and to support the Company's rate  
94 designs and pricing. The ECOSS is the result of allocating and/or assigning the various costs of  
95 providing electric distribution delivery services to the delivery service classes in a way that best  
96 reflects the manner in which such costs are incurred.

97 **Q. What is the fundamental principle underlying the ECOSS?**

98 A. Cost causation is the fundamental principle applicable to all cost studies for purposes of  
99 allocating costs to the individual delivery service classes. The Commission "[g]enerally . . .  
100 prefers to allocate costs among the various classes as close to the cost of serving each class as is  
101 reasonably possible and/or appropriate. The purpose of doing so is to assign costs to those who  
102 cause them." Docket 09-0306, Order at 228 (April 29, 2010). The results of the ECOSS provide  
103 the data necessary for rate design and pricing, which are discussed later in my testimony.

104 **Q. What are the three major steps in preparing an embedded cost of service study?**

105 A. In general, preparing a cost of service study involves: (1) functionalization, (2)  
106 classification and (3) allocation.

107 **Q. Please generally describe the process of cost functionalization.**

108 A. Functionalization is the assignment of investments (rate base) and expenses to the major  
109 utility service categories such as production, transmission, distribution, customer-related, and  
110 administrative & general. These major functions are further divided into FERC Accounts.<sup>2</sup> The

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<sup>2</sup> FERC Accounts are industry standard accounts defined in the Uniform System of Accounts.

111 distribution function, for instance, is the sum total of FERC Accounts 360-374. FERC Account  
112 365 (Overhead Conductors & Devices), for example, includes the installed cost of overhead  
113 conductors and devices used for distribution purposes. Functionalization sometimes requires  
114 identifying more granular functions (sub-functions), such as operating voltage of distribution  
115 equipment. In the above example of FERC Account 365, costs are assigned across the various  
116 voltage levels (sub-functions) of distribution lines operated by AIC.

117 **Q. Do you testify to each of the functionalization steps mentioned above?**

118 A. No. Mr. Stafford provides the separation of costs by major function and FERC Account  
119 for each Rate Zone. My testimony and analysis relate only to the determination of any sub-  
120 function separation of costs.

121 **Q. Please generally describe the process of classification.**

122 A. Classification is the further separation and/or assignment of functionalized plant and  
123 expenses into categories of cost causation based upon how the costs are generally incurred. For  
124 example, costs might be incurred when new customers are connected to the system, when they  
125 increase their demand (kW) on the local distribution system, or when they use more energy  
126 (kWh). Three classifications - customer-related, demand-related, and energy-related - are used  
127 to account for these distinguishable ways a utility incurs costs.

128 **Q. What costs are classified as customer-related costs?**

129 A. Customer-related costs are those rate base and expense items that are incurred to extend  
130 and provide service to individual customers and typically vary with the number of customers  
131 rather than their demand or their energy consumption. For example, customer accounts and  
132 customer service expenses, service drops, and meters are classified as customer-related costs.

133 **Q. What costs are classified as demand-related costs?**

134 A. Demand-related costs are those investments and other capacity-related costs that remain  
135 essentially the same, in the short run, no matter how many kilowatt-hours (kWh) are sold or  
136 delivered. Demand costs are associated with the electrical facilities necessary to supply  
137 customers' service requirements during periods of maximum, or peak, power consumption.  
138 Usage is expressed in terms of the customer's maximum power consumption during peak  
139 periods, commonly referred to as "kilowatts of demand." As so defined, demand-related costs  
140 include the majority of AIC's investment in Distribution Plant and associated expenses.

141 **Q. What costs are classified as energy-related costs?**

142 A. Energy-related costs are driven by usage and are incurred when customers use  
143 incremental kWh. These costs vary in direct proportion as customers use more or less energy  
144 over a period of time.

145 **Q. Please generally describe the process of allocating costs to rate classes.**

146 A. Once costs have been classified as described above, allocation factors (also referred to as  
147 allocators) are paired with classified costs in order to allocate the costs to each rate class. The  
148 pairing of allocation factors involves determining the appropriate match of each classified cost  
149 with the available allocation factors. For example, distribution substations have been classified  
150 as demand-related; therefore, an allocation factor based on the demand among customer classes  
151 is an appropriate pairing, as opposed to an allocation factor based on the number of customers in  
152 a customer class or the energy consumed by the customer class. Allocation factors are developed

153 from test year information and/or other available customer information.<sup>3</sup> The most common cost  
154 allocators used are based on customer/meter counts, kilowatt-hours of energy usage, and kilowatt  
155 demand.

156 **Q. Please describe how test year rate base was allocated to the delivery service rate**  
157 **classes.**

158 A. The components of electric rate base were allocated to delivery service rate classes,  
159 consistent with the methodology approved in Docket 13-0476, as follows:

- 160 • Customer-related Distribution Plant. Services and Meters are the primary  
161 components included in this classification. These plant balances are allocated to  
162 customer classes in proportion to the current cost of serving each delivery service  
163 class. Street lighting equipment is also considered customer-related and is  
164 directly assigned to the lighting class.
  
- 165 • Demand-related Distribution Plant. Remaining investments in Distribution Plant,  
166 including distribution lines, substations, and line transformers, are considered  
167 fixed and allocated based on demand placed by customer classes on the  
168 distribution system. These distribution plant items have been classified as  
169 demand-related and separated into various voltage levels. Class demands at each  
170 respective voltage level formed the basis of allocating this demand-related  
171 distribution plant. Class demands were based on load research data. AIC has  
172 allocated substations using the Coincident Peak (CP) demand of each delivery  
173 service class. High Voltage Distribution lines consisting of lines above 30 kV  
174 have also been allocated using class CP demands. Primary and Secondary  
175 distribution lines are allocated using Non-Coincident Peak (NCP) class demands.  
176 One exception to the allocation method of primary distribution lines includes the  
177 reduction of the DS-5 class's NCP demand to 50% of the actual NCP demand as  
178 developed by load research.<sup>4</sup> Line Transformers (FERC Account 368) are  
179 allocated using SigmaNCP<sup>5</sup> class demand allocation factor.
  
- 180 • General and Intangible Plant. These components of Distribution Plant are shared  
181 by all delivery service classes based on the labor ratio.

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<sup>3</sup> This information includes load research, customer billing records, engineering records, etc.

<sup>4</sup> Per Final Order in Docket 13-0476.

<sup>5</sup> SigmaNCP for each delivery service class is defined as the sum of each customer's highest annual peak demand within a class.

- 182           •    Material and Supplies. This component consists of materials related to  
183           distribution facilities. Distribution materials are allocated to the delivery service  
184           classes on the basis of the composite allocation of the original cost of Distribution  
185           Plant.
- 186           •    Cash Working Capital. This item is related to payroll, various taxes and interest  
187           expense and is therefore allocated to each delivery service class in proportion to  
188           the allocated original cost of Distribution Plant.
- 189           •    Customer Advances for Construction, Construction Work in Progress not subject  
190           to Allowance for Funds Used During Construction (AFUDC) and Customer  
191           Deposits. Customer Advances and Construction Work in Progress not subject to  
192           AFUDC were assigned to each delivery service class on a customer count basis.  
193           Customer Deposits are allocated based on AIC's records for deposits made by  
194           customers in each delivery service class.
- 195           •    Total Accumulated Deferred Income Taxes. The component is related primarily  
196           to investment in property, and is internally allocated to each delivery service class  
197           on the basis of allocated cost of original Distribution Plant.

198   **Q.    Please describe how test year expenses were allocated to the delivery service rate**  
199   **classes.**

200   **A.    The test year electric expenses were allocated as follows:**

- 201           •    Distribution O&M Expenses. Distribution O&M Expense Accounts 580-598 were  
202           individually aligned with one or more Distribution Plant accounts and allocated to  
203           each delivery service class based upon the allocation of the aligned plant  
204           accounts. This method can be described as the “expenses follow plant” cost  
205           allocation methodology, and is generally accepted in the industry.
- 206           •    Customer Accounts Expenses. Account 903 – Customer Records and Collection  
207           Expenses was divided between customer records and collection expense in that  
208           account. Expenses related to customer records were allocated to the delivery  
209           service classes based on number of customers. Collections expenses were  
210           allocated to each delivery service class on the basis of the level of such activities  
211           for each class as determined from our billing system net write-offs. This is the  
212           same method used for Account 904 – Uncollectible Accounts. Meter Reading  
213           Expenses were allocated to delivery service classes by estimating the relative  
214           difference in labor cost required to read residential, commercial, and industrial  
215           meters (as provided by AIC metering department). Account 901 – Supervision  
216           was allocated to each class on the basis of the composite allocation of all other  
217           Customer Accounts Expenses.

- 218                   •    Customer Service Expense. Account 908 – Customer Assistance Expenses was  
219                   allocated on a weighted customer basis. Account 909 – Informational and  
220                   Instructional Expense was allocated on customer counts because it benefits all  
221                   customers. Account 907 – Supervision and Account 910 – Miscellaneous  
222                   Customer Service and Informational Expense were allocated on the delivery  
223                   service class relationship of Accounts 908 (weighted customer basis) and 909  
224                   (customer counts).
- 225                   •    Administrative & General (A&G) Expenses. Account 924 – Property Insurance  
226                   and Account 927 – Franchise Requirements were allocated to the delivery service  
227                   classes based on the relationship of the Distribution Plant accounts (either  
228                   Demand-related Distribution Plant or Customer-related Distribution Plant) by  
229                   delivery service class. The remaining A&G accounts, including Account 920 –  
230                   Administrative and General Salaries, Account 921 – Office Supplies and  
231                   Expenses and Account 926 – Employee Pensions and Benefits, were allocated  
232                   based on labor as it most closely matches how these costs are incurred.

233   **Q.     How were depreciation and amortization expenses allocated?**

234    A.     Depreciation and amortization expenses were allocated based on the allocation of the  
235    corresponding original cost of Distribution, Intangible and General Plant investments among the  
236    delivery service classes.

237   **Q.     How are electric distribution taxes allocated?**

238    A.     Electric distribution tax expenses are allocated to each delivery service class on the basis  
239    of kWh delivered to each rate class.

240   **Q.     How were real estate taxes and payroll taxes allocated?**

241    A.     Real estate taxes were allocated to delivery service classes on the basis of the sum of the  
242    previously allocated total original cost of Distribution Plant. Payroll taxes were allocated on the  
243    basis of labor.

244 **Q. Please explain the treatment of Other Revenue associated with items such as Late**  
245 **Payment Charges, Excess Facilities Charges and Reconnection Charges.**

246 A. Late Payment, Excess Facilities Charges and Reconnection Charges were allocated to the  
247 delivery service classes on the basis of revenues recorded in the Company's billing system  
248 during the test year.

249 **Q. Please explain the treatment of Other Revenue associated with wholesale**  
250 **distribution services.**

251 A. AIC provides distribution service to a number of wholesale customers. Revenues  
252 collected from wholesale customers for use of AIC's distribution system provide a credit to AIC's  
253 retail delivery service revenue requirement and are allocated to the delivery service classes on  
254 the basis of original cost of Distribution Plant.

255 **Q. How did you incorporate the formula rate reconciliation amount into the ECOSS**  
256 **results?**

257 A. The approximate \$71.5 million reconciliation amount has been allocated to the rate zones  
258 and rate classes on the basis of actual 2015 billed delivery service revenue, consistent with the  
259 methodology approved in the prior MAP-P update proceedings. This process results in a net  
260 revenue requirement for various unbundled cost components for each rate class, which is  
261 consistent with AIC's overall net revenue requirement presented by Mr. Stafford. The net  
262 unbundled revenue requirement components resulting from this process are used for revenue  
263 allocation and pricing, as explained in more detail later in my testimony.

264 **B. Results of Embedded Cost of Service Studies**

265 **Q. What Delivery Service Classes were considered in the ECOSSs?**

266 A. The major rate classifications are DS-1 (Residential Delivery Service); DS-2 (Small  
267 General Delivery Service); DS-3 (General Delivery Service); DS-4 (Large General Delivery  
268 Service); DS-5 (Lighting Service); and DS-6 (Temperature Sensitive Delivery Service). DS-3  
269 and DS-4 have been further divided into three subclasses differentiated by supply voltage: +100  
270 kV, Distribution High Voltage, and Primary Voltage.

271 **Q. Please summarize the results of the Rate Zone ECOSSs.**

272 A. The ECOSS results are summarized in Ameren Exhibits 8.1, 8.2, and 8.3. The net  
273 revenue requirement, including reconciliation, is summarized in Ameren Exhibit 8.4.

274 Ameren Exhibit 8.1 contains, for each Rate Zone and each delivery service class, the rate  
275 of return earned under present operating revenues.<sup>6</sup> Ameren Exhibit 8.1 also includes rate base  
276 components, operation and maintenance expense, customer service and accounts expense,  
277 administrative and general expenses, depreciation and amortization expense, income taxes, and  
278 taxes other than income for each delivery service class within each rate zone, as calculated by the  
279 ECOSS models.

280 Ameren Exhibit 8.2 contains, for each Rate Zone and each delivery service class, the  
281 proposed operating revenue, which reflects the cost of service as determined by Mr. Stafford  
282 excluding the prior year reconciliation (line 7). To further clarify, the ECOSSs are prepared  
283 utilizing actual 2015 financial data and 2016 projected capital additions at the FERC account  
284 level. The reconciliation amount is not developed in the detail that allows it to be broken down

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<sup>6</sup> Present revenues are consistent with revenues reflected in the standard informational filing requirements, Part 285.3005 Schedule C-1.

285 by Rate Zone and delivery service class. Ameren Exhibit 8.2 then shows the proposed rate  
286 revenues including reconciliation (line 19) after the rate design process; i.e., revenue allocation  
287 and pricing methodology. Rates of return under these proposed rate revenues<sup>7</sup> are then shown in  
288 line 21 of this exhibit.

289 Ameren Exhibit 8.3 contains, for each Rate Zone and each delivery service class, the  
290 unbundled revenue requirement components necessary for AIC to earn the equalized rate of  
291 return. Unbundled revenue requirement components include categories such as Distribution,  
292 Services, Meters, Customer Service, etc. The sum total of these unbundled revenue requirement  
293 components for all Rate Zones equals the total AIC revenue requirement, excluding the  
294 reconciliation amount.

295 Ameren Exhibit 8.4 shows, for each Rate Zone and delivery service class, the net revenue  
296 requirement necessary to recover AIC's allowed revenue requirement per the performance based  
297 formula rate, as presented by Mr. Stafford. The net revenue requirement shown in Ameren  
298 Exhibit 8.4 allows AIC to earn an equal rate of return for each rate class before the allocation of  
299 the reconciliation amount is made to each class.

### 300 **III. RATE DESIGN**

#### 301 **A. Delivery Service Charges – Rate MAP-P Pricing Development**

#### 302 **Q. How was the Rate MAP-P pricing developed?**

303 **A.** The updated pricing follows the revenue allocation and rate design methodology  
304 approved in Docket 13-0476. Generally speaking, AIC used three major steps, all of which  
305 adhere to the methods established in Docket 13-0476. First, AIC developed the ECOSS and

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<sup>7</sup> Proposed rate revenues include delivery services and miscellaneous other revenues.

306 incorporated the reconciliation amount for each Rate Zone. Second, the revenue allocation  
307 process determined the revenue responsibility for each class within each Rate Zone. Third, the  
308 Company adjusted individual charge components for each Delivery Service Rate Class. Ameren  
309 Exhibit 8.5 explains this methodology in depth.

310 **Q. Please explain the role that rate uniformity plays in AIC's rate design methodology.**

311 **A.** The process outlined in Rate MAP-P helps ensure recovery of the Company's revenue  
312 requirement. Due to the implementation of price uniformity for certain classes among two or  
313 more Rate Zones, revenue generated under proposed rates will deviate from the revenue  
314 requirements determined for each Rate Zone in the Company's revenue allocations.<sup>8</sup> Consistent  
315 with the outcome in Docket 13-0476, several price components are uniform, and will remain  
316 uniform, among the Rate Zones (i.e., Customer, Meter, and Reactive Demand Charges).

317 **Q. Does AIC's rate design methodology permit and promote movement toward**  
318 **additional pricing uniformity?**

319 **A.** Yes. Generally, the rate design methodology promotes and requires additional movement  
320 toward price uniformity if two criteria are met: (i) average costs for each of the applicable Rate  
321 Zones excluding the EDT are within 10% of the weighted average cost of the applicable Rate  
322 Zone; and (ii) current average prices for delivery service for the class or subclass excluding the  
323 EDT in the individual Rate Zone are within 10% of the combined average price of either two or  
324 three Rate Zones. In addition to the tolerances for rate uniformity listed above, prices will be  
325 made uniform in all situations where prices within a rate cross-over one another between Rate  
326 Zones. Prices for DS-6 are uniform among Rate Zones.

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<sup>8</sup> See Column 22 within Ameren Exhibit 8.6, pages 2, 4, and 6, for Rate Zones I, II, and III, respectively.

327 **Q. Has such additional pricing uniformity among the Rate Zones, as described above,**  
328 **occurred as a result of this proceeding?**

329 A. Yes and the results of price uniformity are reflected in Table 1 below, which shows the  
330 classes and subclasses where delivery service charges have met the criteria for uniform delivery  
331 service pricing<sup>9</sup> as provided by the approved rate design methodology. In Table 1, a value of  
332 “Yes” indicates that the delivery service charges for a particular delivery service classification  
333 have become uniform with those in at least one other Rate Zone in this rate proceeding. In this  
334 proceeding, the DS-4 +100 kV Supply Voltage service Distribution Delivery Charges achieved  
335 rate uniformity among the Rate Zones. This is a result of ECOSS results and revenue allocation  
336 working in conjunction with the rate design methodology approved in Docket 13-0476. Under  
337 present rates for this Supply Voltage level, Rate Zones I and III have uniform Distribution  
338 Delivery Charges (\$0.042 per kW). The present Distribution Delivery Charge within Rate Zone  
339 II is (\$0.079 per kW), and the Electric Distribution Tax (EDT) is presently equal to the average  
340 company-wide rate. Following the process outlined in Docket 13-0476, once the EDT for a DS-  
341 4 subclass within a Rate Zone is equal to the company-wide average rate, it is to remain equal to  
342 the company-wide average rate. This means the only price movement permitted for Rate Zone II  
343 +100 kV is to the Distribution Delivery Charge. The approved pricing methodology also states  
344 that in the development of new prices, if values would otherwise "cross over", they are permitted  
345 to be set at uniform rates rather than remaining separate. That has happened for Rate Zone II  
346 +100 kV DS-4 Distribution Delivery Charges. The ECOSSs and revenue allocation provided for  
347 a rate decrease for Rate Zone II DS-4 +100 kV Supply Voltage. The current Distribution

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<sup>9</sup> Uniform pricing excludes Electric Distribution Tax cost recovery, which is established separately using the procedure described in Ameren Exhibit 6.5, page 4.

348 Delivery Charge of \$0.079 per kW would have otherwise declined below the Rate Zones I and  
349 III price of \$0.042 per kW, thus instead of allowing a "cross over" in prices, the Rate Zone II  
350 value is instead set equal to that for the other two Rate Zones. As such, the DS-4 +100 kV  
351 Supply Voltage Distribution Delivery Charge was set at the present Rate Zones I and III of  
352 \$0.042 per kW. The Distribution Delivery Charge was held constant for Rate Zone I and III DS-  
353 4 +100 kV Supply Voltage. Instead, the EDT Cost Recovery charges for Rate Zones I and III  
354 were increased to achieve the revenue allocation target for those two subclasses. The DS-4  
355 Supply Voltage EDT Cost Recovery increase in turn permitted lower EDT Cost Recovery  
356 charges for DS-1, DS-2, DS-3, DS-5 and DS-6 kWh within Rate Zones I and III.

357 **Q. Please provide additional examples of the pricing uniformity among the Rate Zones.**

358 A. The DS-4 High Supply Voltage service classification has a value of "Yes" for Rate Zone  
359 I and Rate Zone III, but a value of "No" in Rate Zone II. This indicates that the delivery service  
360 charges have become uniform for this service classification in Rate Zones I and III, but not yet in  
361 Rate Zone II. Therefore, customers in Rate Zone I and III are paying the same delivery service  
362 charges, but customers in Rate Zone II pay different charges until a time when the rate design  
363 methodology allows the DS-4 High Supply Voltage service classification in Rate Zone II to  
364 become uniform as well.

365 Another example is the DS-1 service classification. This classification has a value of  
366 "Yes" for all three Rate Zones, indicating that delivery service charges became uniform for all  
367 Rate Zones effective January 2016. The approved rate design methodology has now caused  
368 delivery service rates in the DS-1 class to become completely uniform, except for the Electric  
369 Distribution Tax cost recovery charge, which continues to be different by Rate Zone.

370

Table 1

<b>Combined Rate Zone Delivery Service Charges</b>			
<u>Delivery Service Classification</u>	<u>RZ I</u>	<u>RZ II</u>	<u>RZ III</u>
DS-1 - Residential Service	Yes	Yes	Yes
DS-2 - Small General Service	Yes	Yes	Yes
DS-3 - General Service			
DS-3 - Primary Voltage	Yes	Yes	No
DS-3 - High Voltage	Yes	Yes	Yes
DS-3 - +100 kV Voltage	Yes	Yes	Yes
DS-4 - Large General Service			
DS-4 - Primary Voltage	No	No	No
DS-4 - High Voltage	Yes	No	Yes
DS-4 - +100 kV Voltage	Yes	Yes*	Yes
DS-5 - Protective Lighting Service	No	Yes	Yes
DS-6 - Temperature Sensitive Delivery Service	Yes	Yes	Yes

\*Asterisk denotes change from prior year

371 **Q. Do you expect additional movement towards rate uniformity in the future?**

372 A. Yes, I expect movement towards additional rate uniformity to continue over the course of  
373 annual MAP-P update proceedings. It is unclear how fast or to what extent future movement  
374 will occur due to year-to-year changes in net revenue requirements, investments incurred by  
375 AIC, and many other unknowns. However, I do expect delivery service prices, including  
376 Electric Distribution Tax cost recovery, to become completely uniform among the Rate Zones at  
377 some point in the future.

378 **Q. Does additional price uniformity have any effect on reconciling the proposed Rate**  
379 **Zone revenue requirements?**

380 A. Yes. Due to the movement to additional price uniformity described above, the proposed  
381 revenues by Rate Zone presented in Ameren Exhibit 8.6 will not match the proposed revenues by  
382 Rate Zone presented in Schedule A-2, which is sponsored by Mr. Stafford. It should be noted  
383 that although AIC's proposed revenues do not match by Rate Zone in this proceeding and likely  
384 will not match in future proceedings, AIC's total proposed revenues as presented in Ameren

385 Exhibit 8.6 will continue to reconcile with the total Company proposed revenues presented in  
386 Schedule A-2.

387 **B. Pricing**

388 **Q. Previously in your testimony, you stated that AIC is proposing an overall net**  
389 **revenue requirement decrease. How does this translate into new delivery service prices**  
390 **resulting from application of Rate MAP-P?**

391 A. Generally speaking, the proposed decrease in the net revenue requirement will result in  
392 lower delivery service charges. The individual price changes and the magnitude of those  
393 changes depend on the ECOSSs, revenue allocation and rate design methodology under the Rate  
394 MAP-P tariff and outlined in Ameren Exhibit 8.5. For example, residential (DS-1) monthly  
395 customer and meter charges will decrease to \$11.62 and \$4.79, respectively. Ameren Exhibit 8.6  
396 contains all delivery service prices as set forth by Rate MAP-P, supplementing the  
397 “Determination of Delivery Service Charges” section of the tariff. Weather normalized billing  
398 determinants, based on the test year 2015, were used to establish the actual resultant volumetric-  
399 based pricing for all customer classes.

400 Please note that the “present” revenue contained within Ameren Exhibit 8.6 is based on  
401 test year billing determinants and prices approved in Docket 15-0305 (those currently in effect),  
402 and reflected in the Delivery Service Charges Informational Sheet supplemental to the Rate  
403 MAP-P tariff. The net change in revenue presented by Mr. Stafford is a comparison between the  
404 revenue requirement approved in Docket 15-0305 and the proposed revenue requirement in this  
405 proceeding.

406 **Q. Has the value for delivery service “Uncollectible Recovered in Base Rates,” used in**  
407 **conjunction with Rider EUA – Electric Uncollectible Adjustment, changed through**  
408 **application of Rate MAP-P?**

409 A. Yes. The proposed uncollectible base delivery service values have been updated to  
410 reflect proposed expense levels. The values are shown in the Rate MAP-P Informational Sheet.  
411 The values themselves do not impact prices customers pay. Instead, the values are considered a  
412 subset of the Customer Charge and used to track the amount of uncollectible expense that is  
413 included in rates for administration of Rider EUA – Electric Uncollectible Adjustment).

414 **Q. Have the uncollectible factors associated with power supplied by Ameren Illinois**  
415 **been adjusted in this proceeding?**

416 A. Yes. Both Rider PER – Purchased Electricity Recovery (Rider PER) and Rider HSS –  
417 Hourly Supply Service (Rider HSS) require the uncollectible factors to be established in either a  
418 delivery services rate case or formula rate proceeding pursuant to Section 16-108.5 of the Public  
419 Utilities Act.<sup>10</sup> Table 2 below provides the adjusted factors.

420 **Table 2**

**Supply Service**

BGS1/RTP1	0.01844
BGS2/RTP2	0.00273
HSS3/HSS6 <sup>11</sup>	0.00181
HSS4/HSS6 <sup>12</sup>	0.00000
BGS5	0.00146

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<sup>10</sup> See the Company’s Electric Service Schedule Illinois. C. C. No. 1; 1<sup>st</sup> revised Sheet No. 25.016

<sup>11</sup> Customers electing service under DS-6, whose only Company supply option is Rider HSS, who would otherwise be a DS-3 Customer supplied under HSS3.

<sup>12</sup> Customers electing service under DS-6, whose only Company supply option is Rider HSS, who would otherwise be a DS-4 Customer supplied under HSS4.

421 **Q. Do these updated Rider PER and Rider HSS uncollectible factors affect delivery**  
422 **service prices developed in this proceeding?**

423 A. No. These factors are not related to delivery service pricing.

424 **Q. Are these same uncollectible factors also applied to transmission services provided**  
425 **by Ameren Illinois?**

426 A. Yes. Rider TS – Transmission Services (Rider TS) utilizes the same uncollectible factors  
427 in Table 2 above in the development of AIC's Rider TS prices.

428 **Q. Does Ameren Exhibit 8.6 contain a summary of prices necessary to achieve the net**  
429 **revenue requirement presented by Mr. Stafford?**

430 A. Yes. Ameren Exhibit 8.6 contains a summary of prices and a revenue proof similar to  
431 Part 285 Schedule E-5.

432 **C. Bill Impacts Comparisons**

433 **Q. Have you analyzed the bill impacts that the proposed changes in charges will have**  
434 **on various customers?**

435 A. Yes. As an example, the typical<sup>13</sup> residential customer using 10,000 kWh per year will  
436 experience delivery service rate decreases of 2.7%, 2.5%, and 2.7%, for Rate Zones I, II, and III  
437 respectively. Ameren Exhibit 8.7 shows the impact of price changes on a series of residential  
438 customers. Ameren Exhibit 8.8 shows the impact on a series of non-residential customers. The  
439 impacts reflect changes in delivery service prices from those in effect on the date of this filing to  
440 those proposed in this proceeding.

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<sup>13</sup> General Use, Non-Space Heating per Ameren Exhibit 8.7.

441 **D. Public Notice**

442 **Q. Does the Company intend to publish Notice consistent with Part 255 of the Illinois**  
443 **Administrative Code for the proposed change in rates?**

444 A. Yes. An Affidavit of Notice verifying the Company complied with the requirements of  
445 Part 255 will be filed on e-Docket at a later date.

446 **IV. RIDER PSP – POWER SMART PRICING**

447 **Q. Please explain Power Smart Pricing.**

448 A. Power Smart Pricing is a real-time pricing power supply option offered to residential  
449 customers under AIC's Rider PSP. The program allows participating customers to reduce their  
450 energy costs by managing usage during peak times, when electricity prices are typically higher.  
451 Rider PSP was initially approved on an experimental basis, but, in Docket 11-0547 the  
452 Commission authorized AIC to continue Rider PSP indefinitely. The PSP program is  
453 administered by Elevate Energy. Elevate Energy provides services including customer outreach,  
454 education, enrollment, and assistance.

455 **Q. How does AIC recover the costs associated with the Power Smart Pricing program?**

456 A. The costs of the PSP program are recovered in part through a Participation Charge  
457 assessed only to Rider PSP customers, with the remaining costs recovered through a Power Smart  
458 Pricing Charge assessed to all residential customers. Rider PSP requires AIC to reevaluate  
459 charges associated with PSP and submit a report to the Commission assessing whether “the non-  
460 participant charge is commensurate with the benefits and provide a recommendation for any  
461 associated changes.” The Final Order from Docket 11-0547 states, “[f]uture charges associated  
462 with the Rider PSP, including the continued waiver of the incremental meter charge for Rider

463 RTP-1, will be reviewed as part of the Rate MAP-P – Modernization Action Plan-Pricing Filing  
464 required by Section 16-108.5(e) of the Act.”

465 **Q. Has the Company submitted the Report?**

466 A. Yes. The Report is attached as Ameren Exhibit 8.9. Based on the analysis and  
467 discussion contained therein, AIC recommends maintaining the Participation Charge of \$2.25  
468 per month, continuing to waive the incremental meter charge included in Rider RTP-1, and  
469 reducing the Power Smart Pricing Charge applicable to all residential customers from its current  
470 level of \$0.08 per month to \$0.06 per month.

471 **Q. Have you reviewed the Rider PSP program report recently provided by AIC to the**  
472 **Commission?**

473 A. Yes.

474 **Q. Please elaborate on why the Company makes these recommendations.**

475 A. In summary, the Company recommends continuation of the existing Participation Charge,  
476 which has been in place since the inception of the program, because it balances cost  
477 responsibility in a reasonable manner between participants and non-participants, both of whom  
478 have been shown to benefit from the program. Further, maintaining the current participant  
479 charge maintains economic neutrality for Power Smart Pricing customers who must generate  
480 program savings that exceed the incremental charge to benefit from their participation. AIC  
481 proposes that the currently effective Power Smart Pricing Charge (shown in the Supplemental  
482 Customer Charges tariff) of \$0.08 be revised downward to \$0.06 based on the forecasted 2016  
483 program cost less the 2016 forecasted participant revenue (as discussed in the report) divided by  
484 AIC's electric residential bill count. While the program's administrative costs have increased

485 since the establishment of the current \$0.08 Power Smart Pricing Charge, the cost impact of the  
486 waived incremental metering charge has decreased because enhanced metering capability beyond  
487 the typical residential meter is no longer required for participating customers for whom AIC's  
488 automated metering infrastructure has been deployed.

489 **V. CONCLUSION**

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

491 **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 (IP) upon graduation from Millikin University. I then became an employee of Ameren Corporation upon the acquisition of IP by Ameren in September 2004. Beginning in 2009, I became an employee of AmerenCILCO. I then became an employee of Ameren Illinois Company (AIC) on October 1, 2010 upon the merger of the three AIC legacy companies.

While employed by IP, 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 IP'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 IP 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 rate of return performance; and other rate or regulatory projects as assigned. Upon the acquisition of IP by Ameren, I continued these responsibilities and also acquired 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 Delivery Services Implementation Plan and Tariffs approval, Docket 01-0432 regarding electric Delivery Service Tariffs, Docket 09-0306 – 09-0308 (Consolidated) regarding embedded class cost of service study for the electric business, Dockets 04-0476, 11-0282, 13-0192 and 15-0142 regarding embedded class cost of service study and rate design for the gas business, Dockets 13-0266, 14-0262 and 15-0258 regarding reconciliation of Utility Consolidated Billing and Purchase of Receivables, Docket 14-0443 regarding Rider CCA relating to recovery of clean coal costs, Docket No. 14-0573 in which I sponsored AIC's Rider QIP and discussed its cap limits and communication plan and Docket No. 16-0192 regarding the 2015 calendar year reconciliation of Rider QIP. I have also submitted testimony to the Federal Energy Regulatory Commission regarding AIC's wholesale distribution service. I have also presented testimonies on various electric and gas miscellaneous type charges; i.e., off-cycle switching, single bill option credit and gas electronic metering equipment fees.