IIEC Exhibit 2.0

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

AMEREN ILLINOIS COMPANY, d/b/a Ameren Illinois,	)	
Petitioner,	)	**Docket No. 16-0387**
Revenue-Neutral Tariff Changes Related to Rate Design	)	

Rebuttal Testimony and Exhibits of

Robert R. Stephens

On behalf of

Illinois Industrial Energy Consumers

November 10, 2016

BRUBAKER & ASSOCIATES, INC.

Project 10181

STATE OF ILLINOIS

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Rebuttal Testimony of Robert R. Stephens

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Robert R. Stephens. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility regulation and a Principal with the firm of Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

Q ARE YOU THE SAME ROBERT R. STEPHENS WHO PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

A Yes. On October 4, 2016, I filed Direct Testimony on behalf of Illinois Industrial Energy Consumers ("IIEC").

Q WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A I will respond to the Rebuttal Testimony of Ameren witness Steven M. Wills, Ameren Exhibit 3.0, as it pertains to the issue addressed in my direct testimony. My silence on any other issue raised by Ameren, or any other party, should not be construed as agreement with same.

Q WHAT ISSUE DID YOU ADDRESS IN YOUR DIRECT TESTIMONY?

A In my direct testimony, I addressed a single issue, revenue allocation. I highlighted the potential for Ameren's proposal for achieving rate level uniformity across rate zones to increase revenues above what would otherwise be authorized under the rate moderation cap previously approved by the Commission. As I explained, Ameren's proposal to make rate levels uniform could, in some instances, result in rate class or subclass revenues that exceed what the Commission had deemed appropriate for rate moderation in Docket No. 13-0476. Mr. Wills does not refute my claim that Ameren's move to uniform rate levels could lead to such results.

Q HAS YOUR REVIEW OF MR. WILLS' REBUTTAL TESTIMONY OR THE DIRECT TESTIMONY OF ANY OTHER PARTY IN THIS CASE CAUSED YOU TO CHANGE YOUR POSITION?

A No. I continue to recommend that the Commission's previous finding regarding rate moderation be followed in this case, irrespective of Ameren's desire to make rate levels uniform.[1] I continue to recommend that the Commission determine that the annual movement for rate class or subclass rates toward rate zone uniformity be

[1] I would note that uniformity in this context only relates to the level of charges. The structure of the rates has been uniform across rate zones for some time.

allowed, but only *within the constraints of the previously approved three-pronged rate moderation criteria.*[2]

Q AT PAGE 19, MR. WILLS SUGGESTS THAT AMEREN'S PROPOSAL IN THIS CASE IS CONSISTENT WITH THE COMMISSION'S DETERMINATION IN DOCKET NO. 13-0476, RELATED TO RATE MODERATION. HOW DO YOU RESPOND?

A I disagree. As I indicated in my direct testimony, my review of the Commission's Order in Docket No. 13-0476 does not indicate there was an "exception" to the Commission's concern about the need for rate moderation, or its established revenue allocation caps, simply to reach uniformity sooner. Because of this, to the extent that Ameren has been increasing rate class or subclass revenue collections above the Commission-approved moderation criteria, it appears to have done so without specific Commission authority.

In response to IIEC Data Request 2.01,[3] Mr. Wills indicated his belief that Ameren was authorized to increase rates above the moderation criteria because Ameren's proposal for movement toward uniformity across rate zones was not contested in Docket 13-0476. Mr. Wills goes on to describe Ameren's position in that docket [4] as follows:

> "AIC specifies that uniformity will be allowed: (i) in a customer class in two or more rate zones, if each rate zone's individually calculated cost of service (excluding the EDT) and prices are within 10% of the combined average of one or two additional rate zones; or (ii) if

[2]Mr. Wills correctly describes the Commission's approved three-pronged rate moderation criteria from Docket 13-0476 at page 19, lines 395 through 398 of his rebuttal testimony and at page 16, lines 335 through 339 of his direct testimony, Ameren Exhibit 1.0. These were approved in the Commission's March 19, 2014 Order in Docket No. 13-0476 at pages 62 through 63.

[3]Attached as IIEC Exhibit 2.1.

[4]Ameren's response erroneously identifies the docket number as 13-0347.

> charges across rate zones "cross-over" one another, meaning when the pricing ranges overlap one another."

Q WHY DO YOU BELIEVE THAT INCREASES ABOVE THE RATE MODERATION CRITERIA WERE NOT AUTHORIZED BY THE COMMISSION IN DOCKET NO. 13-0476?

A My response is twofold. First, the part of the Docket No. 13-0476 Order (page 63) quoted in Ameren's response shown above was properly categorized in the Order as a *rate design* matter, not revenue allocation. Given the normal sequence of rate cases, it would be highly unusual for the Commission to allow a non-contested rate design issue to disturb a strong finding it has made on revenue allocation. While Ameren's rate design proposal in that case was not contested, the Commission does not explicitly state in its blanket adoption of non-contested issues in 13-0476, that Ameren's proposed methodology for setting uniform charges would supersede its findings about the need for rate moderation or revenue allocation generally.

The Commission's expression of need for rate moderation could hardly be clearer. On page 63 of its Order in Docket No. 13-0476, the Commission states as follows:

> "The Commission remains firmly committed to the principles of gradualism and avoidance of rate shock…. The Commission finds that the modified three tier approach, replacing the first tier 0.05¢/kWh restraint with a 0.025¢/kWh restraint to be the rate moderation approach which will *end the subsidies in the least period of time without causing rate shock*. The Commission believes this rate moderation approach best balances the competing interests identified by the parties." (emphasis added)

I note the absence of any caveat or exclusion related to rate zone uniformity in the Commission's language. Thus, I continue my belief that rate moderation should trump rate zone uniformity, if the increase is too high.

Q HAS AMEREN BEEN INCREASING RATE CLASS OR SUBCLASS REVENUE COLLECTIONS ABOVE THOSE APPROVED BY THE COMMISSION UNDER THE RATE MODERATION CRITERIA?

A Apparently so. IIEC asked Ameren this very question, as relates to DS-4 customer rate subclasses in a data request, Item No. 2.02. In its response, Ameren declined to conduct an exhaustive review of all of its "compliance" filings over the last three years, but did note at least one instance in which the increase exceeded the moderation criteria. In that instance, a Rate Zone II subclass received a 38% increase, instead of the 26.44% increase resulting from the moderation criteria.[5]

Q ASSUMING, *ARGUENDO*, THAT AMEREN WAS AUTHORIZED BY THE COMMISSION TO EXCEED THE RATE MODERATION CRITERIA IN FILINGS SUBSEQUENT TO DOCKET NO. 13-0476, WHY DO YOU BELIEVE THAT SUCH AUTHORITY NO LONGER APPLIES?

A As indicated in Ameren's response to Data Request IIEC 2.01, mentioned and quoted above and shown in IIEC Exhibit 2.1, the circumstances of the current case are different, in that Ameren no longer calculates "each rate zone's individually calculated cost of service," which is a precondition for the pursuit of uniformity. Beginning with this case, Ameren now computes a single cost of service for all of its rate zones.

This is not to say that pursuit of uniform rates is not desirable. However, as I indicated in my direct testimony, and earlier in this testimony, uniformity should only be pursued consistent with the principles of gradualism and the avoidance of rate shock. The Commission should adopt my approach going forward

[5]A copy of Ameren's response to IIEC Data Request 2.02 is included as IIEC Exhibit 2.2 (Ameren's referenced attachment to response 2.02 is omitted for brevity).

Q ON PAGE 20, MR. WILLS ADDRESSES YOUR CONCERN ABOUT ONE OF THE +100 KV DS-4 RATE SUBCLASSES RECEIVING A 26.3% INCREASE UNDER AMEREN'S PROPOSAL, RATHER THAN THE 22% INCREASE THAT WOULD BE PERMITTED UNDER THE COMMISSION'S APPROVED MODERATION CRITERIA. HOW DO YOU RESPOND?

A In his response, Mr. Wills first indicates that the +100 kV DS-4 rate zone subclasses would have a uniform Distribution Delivery Charge if the Company's proposal in Docket No. 16-0262 is approved. However, as Mr. Wills acknowledges, that is not the only revenue component at issue here. The revenue allocated to each rate zone class and subclass is collected through <u>all</u> of the charges applicable to the customers in the class or subclass. Just because one component is uniform does not mean that the issue of rate moderation is moot. Indeed, as Mr. Wills points out, the collections for the large DS-4 rate subclasses are influenced significantly by the EDT charges. Thus, by Mr. Wills' own acknowledgement, Ameren's proposal could increase the EDT charges in a way that the total revenue allocation attributed to certain subclasses would exceed the Commission's approved rate moderation criteria.

Mr. Wills goes on to suggest that "it would be impossible to set a subclass revenue target that would be applied uniformly to each rate zone." However, Mr. Wills misses the point. Unless Ameren is seeking to elevate the importance of rate uniformity over moderating rate impacts, which he claims is not the case, then it certainly <u>is</u> possible to set the rate zone class and subclass rates in a way that does not violate the Commission's rate moderation criteria. This is done simply, by ensuring that the increase in revenue collections from each rate zone class or subclass does not exceed the applicable rate moderation criteria.

Q AT PAGE 21, MR. WILLS INDICATES HIS BELIEF THAT THE INCREMENTAL DIFFERENCE BETWEEN A 22% INCREASE AND A 26.3% INCREASE IS "EXTREMELY MINOR" AND "REASONABLE." HOW DO YOU RESPOND?

A The Commission has determined what is an acceptable level of increase for a rate zone class or subclass through the application of the rate moderation criteria previously approved. Mr. Wills seems to be implying that the incremental 4.3% increase is acceptable, in itself, while ignoring the 22% rate increase in the first instance. The appropriate application of the current rate moderation criteria produces a 22% increase, not a 26.2% increase.

Q AT PAGE 22, MR. WILLS SEEKS TO TRIVIALIZE THE ADDITIONAL "UNIFORMITY INCREASE" AS THE DIFFERENCE BETWEEN 4.1% AND 2.4%, WHEN CONSIDERED ON A TOTAL BILL BASIS, INCLUDING POWER SUPPLY AND TRANSMISSION SERVICE. HOW DO YOU RESPOND?

A Gauging the reasonableness of delivery service increases on the basis of customer costs that include items unrelated to delivery service is inappropriate and irrelevant. The Commission has already addressed this issue in Docket No. 09-0306, and Ameren has previously acknowledged the Commission's decision in this regard.[6] Ameren should stick to examining increases to Ameren's delivery service rates that are actually the subject of this rate redesign docket. "Watering down" rate impacts by including unrelated items such as electricity commodity, natural gas commodity, or other utility costs, simply is not relevant.

[6]See Surrebuttal Testimony of Ameren witness Leonard R. Jones, Ameren Exhibit 7.0, in Docket No. 13-0476 at page 34, where Mr. Jones acknowledged that both delivery charges and EDT were to be considered, but not commodity charges.

When only the cost of delivery services is considered, Mr. Wills' example uniformity increase is much less trivial. Rather than a comparison of 4.1% to 2.4% increase in the total bill, as Mr. Wills suggests, it is actually a comparison of 17.0% to 8.4% increase in the delivery services bill, i.e., over double the increase.[7]

Q AT PAGE 23 THROUGH 24 OF HIS TESTIMONY, MR. WILLS SEEKS TO IMPOSE AN ADDITIONAL "SAFEGUARD" THAT MAY LIMIT MOVEMENT TOWARD UNIFORMITY UNDER CERTAIN CIRCUMSTANCES. HOW DO YOU RESPOND?

A Mr. Wills' new proposal is unnecessary and will unduly add complexity to an already complex rate moderation approach. The Commission already determined the maximum amount that rates should be allowed to go up in Docket No. 13-0476. It is only Ameren's apparent desire to elevate the pursuit of rate zone uniformity that causes any conflict with the Commission's approved approach. However, rather than simply adhering to the Commission's moderation approach, Ameren's proposed approach will complicate it, by adding a fourth constraint, which would be applicable only to certain rate classes.

The better approach is simply to continue application of the rate moderation criteria established by the Commission, even if it means that an additional year or so is required to reach full rate zone uniformity. I cannot say exactly how much longer it may take to reach uniform rates (although IIEC issued a data request seeking this information). However, given the large increases that certain DS-4 subclasses have received in the recent years, it would be difficult to imagine that rate zone uniformity cannot be reached relatively soon, *within the constraints of the Commission's existing moderation criteria.*

[7]From Ameren's response to data request IIEC 2.05 Attach.

Q HAS MR. WILLS ACKNOWLEDGED THAT IT MAY NOT BE POSSIBLE OR REASONABLE TO REACH UNIFORM RATES AT THE END OF ITS PROPOSED THREE YEAR TRANSITION?

A Yes. Mr. Wills has already acknowledged that it is reasonable to delay reaching uniformity, in seeking to justify his proposed fourth criterion.[8] This makes Ameren's reluctance to adhere strictly to the Commission's rate moderation criteria all the more unnecessary.

Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A Yes, it does.

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[8]Ameren Exhibit 3.0 at page 24.

Ameren Illinois Company's
Response to Illinois Industrial Energy Consumers Data Request
Docket 16-0387
Proceeding to Investigate Revenue Neutral Rate Design Changes Pursuant to
Section 16-108.5(e) of the Public Utilities Act.

IIEC 2.01

Please provide the complete basis for Mr. Wills' statement at lines 404 through 405, "the previously approved methodology allowed rates that met certain threshold criteria *after* the revenue allocation and initial pricing was completed to become uniform." (emphasis in original).

a) If basis for this statement is in anyway related to a prior Commission order, please provide a clear citation to same and identify the language from the order that helped form the basis for the statement.
b) Please identify and describe the" previously approved method" referenced.

RESPONSE

Prepared By: Steven M. Wills
Title: Director, Rates & Analysis
Phone Number: 314-554-3216
Date: 11/8/2016

The methodology for movement of rates to uniformity was spelled out in the testimony of Company witness Leonard Jones in Docket 13-0347. The Commission, in its Final Order dated March 19, 2014 adopted the unopposed methodology as evidenced on page 63 of the order. The description of the methodology for setting uniform charges across rate zones as discussed in the order includes the following criteria:

AIC specifies that uniformity will be allowed: (i) in a customer class in two or more rate zones, if each rate zone's individually calculated cost of service (excluding the EDT) and prices are within 10% of the combined average of one or two additional rate zones; or (ii) if charges across rate zones "cross-over" one another, meaning when the pricing ranges overlap one another.

Because, sequentially, Rate Zone specific prices must already be determined in accordance with the revenue allocation and mitigation procedure in order to assess whether the "prices are within 10% of the combined average of one or two additional rate zones", the movement that achieved uniformity would necessarily cause the result in the zones being impacted to have a final rate increase that differed from the mitigated revenue target. The zone being increased toward a uniform rate could potentially realize an increase that exceeded their target.

Ameren Illinois Company's
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Section 16-108.5(e) of the Public Utilities Act.

IIEC 2.02

As relates to the DS-4 subclasses and rate zones, please identify and explain each occurrence of actual rate increases that exceeded the mitigation criteria approved by the Commission in Docket No. 13-0476.

RESPONSE

Prepared By: Steven M. Wills
Title: Director, Rates & Analysis
Phone Number: 314-554-3216
Date: 11/8/2016

Objection. The request is overly broad in scope in asking for the identification and explanation of "each occurrence" on an expedited basis. The request is also argumentative in suggesting that AIC has not properly applied the rate design proposals approved in Docket 13-0476. Subjection to these objections, AIC provides the following response sponsored by Mr. Wills.

Due to the accelerated timeline requested on this data request, an exhaustive review of every movement to uniformity over the last three years has not been conducted. But to illustrate this point, please see "IIEC 2.02 Attach.pdf", which is a copy of the Company's compliance filing in Docket 14-0317, and note that the mitigation criteria applied to the DS-2 rate class in Rate Zone II resulted in an increase of 26.44% for the class, but the final increase to the class in Rate Zone II after uniformity was approximately 38%.