

BEFORE THE
STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

INTERSTATE POWER COMPANY)
)
Re: Delivery Services Tariffs) **Docket No. 01-_____**
submitted pursuant to Section 16-104)
and Section 16-108 of the Illinois Public)
Utilities Act)

DIRECT TESTIMONY OF

Brian E. Penington

FOR

Interstate Power Company

September 28, 2001

01-0628
IP 2.0
1/3/02

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

2 A. My name is Brian E. Penington and my business address is, P.O. Box 192, 222
3 West Washington Avenue, Madison, Wisconsin 53701-0192.

4 Q. **By whom are you employed?**

5 A. I am employed by Alliant Energy Services Company, Inc. ("AESC") as a
6 Regulatory Pricing Analyst.

7 Q. **How long have you been employed by AESC?**

8 A. I have been employed by AESC for two years.

9 Q. **On whose behalf are you testifying?**

10 A. On behalf of Interstate Power Company ("IPC").

11 Q. **What are your duties as a Regulatory Pricing Analyst?**

12 A. My current responsibilities include the design, analysis, and implementation of
13 gas, electric and water rates in Alliant Energy's Wisconsin and Illinois service
14 territories, along with providing support for projects that involve regulatory
15 pricing concerns.

16 Q. **Please describe your educational background.**

17 A. I received a Bachelor of Science degree in Economics from Northern Illinois
18 University. I have also completed various industry-sponsored training courses,
19 including Practical Skills For a Changing Utility Environment, as co-sponsored
20 by the Center for Public Utilities - New Mexico State University and the National
21 Association of Regulatory Utility Commissioners.

22 Q. **Please describe your work experience prior to joining AESC.**

1 A. Before joining AESC I was employed for three years by Wisconsin Public Service
2 Corporation as a Market-side Forecaster in the Rates and Economic Evaluation
3 Department where my responsibilities included the development of electric and
4 gas consumption forecasts, as well as varying projects requiring economic and
5 statistical analysis.

6 **Q. Please describe Alliant Energy's public utility subsidiaries.**

7 A. Alliant Energy Company is a holding company which owns AESC and three
8 public utility subsidiaries. They are Wisconsin Power and Light Company
9 ("WPL"), IPC and IES Utilities Inc. ("IES"). In addition, WPL has a wholly
10 owned utility subsidiary, South Beloit Water, Gas and Electric Company.

11 **Q. Please describe IPC.**

12 A. IPC is a combination electric and gas utility whose service territory encompasses
13 over 10,000 square miles in the States of Iowa, Minnesota and Illinois. IPC
14 provides electric service to about 162,000 customers in Iowa, Minnesota and
15 Illinois (including the cities of Dubuque, Clinton, Mason City, Iowa and Albert
16 Lea, Minnesota). The Illinois customer base of IPC is approximately 12,300
17 customers. In addition, IPC provides natural gas service to approximately 49,000
18 customers in these same three states. IPC's system peak of 1,011 MW (net of
19 interruptible load) occurred on July 14, 1995. IPC has installed generating
20 capacity of 1,081 MW and 281 MW of firm capacity purchases.

21 **Q. Please describe the purpose of your testimony.**

22 A. I will present testimony in support of IPC's delivery service tariff filing. The
23 delivery service tariff filing is a requirement of section 16-108 of the Illinois

1 Public Utilities Act of 1997 and is a mandated filing for Illinois electric utilities,
2 including IPC. Although this filing only requires the utility to file residential
3 delivery service rates, IPC will be proposing to revise all delivery service rates to
4 reflect the current revenue requirements. I will discuss three subject areas related
5 to the filing in my testimony. The three subject areas include:

- 6 • The cost of service study used to allocate the delivery service revenue
7 requirement to rate classes.
- 8
- 9 • The design of delivery service rates.
- 10 • The terms and conditions of delivery service tariffs.

11 Mr. Martin Seitz of Alliant Services will present testimony on the development of
12 the revenue requirement for IPC's delivery services tariff in IPC Exhibit
13 _____ (MWS-1.0). Mr. Enrique Bacalao of Alliant Services will provide
14 testimony on the development of the return on equity used in developing IPC's
15 delivery service tariff tariff in IPC Exhibit _____ (EB-3.0).

16 **Q. Please describe how your testimony is organized.**

17 **A.** My testimony is divided into three main sections. Section I of my testimony
18 covers class cost of service issues related to IPC's delivery service tariff. Section
19 II of my testimony covers the design of IPC's delivery service rates. Section III of
20 my testimony covers the terms and conditions of the delivery service tariff.

21 **SECTION I: COST OF SERVICE STUDY**

22 **Q. What is the purpose of the Cost of Service Study portion of your testimony?**

1 A. IPC is required to file an embedded cost of service study used to develop delivery
2 service rates. This section of my testimony addresses the embedded cost of
3 service study used in developing IPC's delivery service rates.

4 **Q. What is the purpose the IPC embedded cost of service study?**

5 A. The embedded cost of service study presents the functionalization, classification
6 and allocation to IPC rate classes of all Illinois jurisdictional delivery service
7 costs on the IPC system. The cost of service study is used as the basis for
8 designing delivery service rates.

9 **Q. What was the basis of the jurisdictional delivery service costs used in the cost
10 of service study?**

11 A. The jurisdictional delivery service costs were obtained from the revenue
12 requirement produced by IPC witness Mr. Martin Seitz. Mr. Seitz provides
13 testimony on the development of the delivery service revenue requirement.

14 **Q. Please summarize the delivery service costs from the revenue requirement
15 that were used in the cost of service study.**

16 A. The total delivery service revenue requirement presented in Mr. Seitz's testimony
17 is \$5,409,643. The revenue requirement is broken into two main categories,
18 distribution revenue requirement and customer revenue requirement. The two
19 main categories are divided into further sub-categories. A summary of the two
20 main categories, the sub-categories and the revenue requirement allocated to each
21 category is summarized below.

22 **Distribution Revenue Requirement**

- 23 • Substations Primary Lines - \$909,197

- 1 • Lines - \$1,899,503
- 2 • Meters - \$196,473
- 3 • Services \$105,530
- 4 • Street Lighting - \$88,250
- 5 • Transformers \$385,566

6 **Customer Revenue Requirement**

- 7 • Customer Accounting \$1,036,899
- 8 • Customer Services \$155,058

9 **Q. Did you use the categories listed above in the development of your cost of**
10 **service study?**

11 **A.** Yes, though I did divide the lines category into primary lines and secondary lines.

12 **Q. Why did you divide the lines category into primary and secondary?**

13 **A.** Allocating costs down into these two categories allowed secondary distribution
14 costs to be allocated to secondary customers only.

15 **Q. How was the allocation of the lines and substation category into the**
16 **substations/primary lines and secondary lines performed?**

17 **A.** The allocation was based on an estimation of the costs associated with substation
18 primary lines and secondary lines.

19 **Q. What are the cost of service study allocators used to allocate the items in the**
20 **delivery service revenue requirement listed above to specific rate classes?**

21 **A.** A list of the revenue requirement categories along with the allocators applied to the
22 categories are summarized below.

- 23 • Primary lines - Class coincident demands all retail customers.
- 24 • Substations - Class coincident demands all retail customers.
- 25 • Secondary lines - Non-coincident demands of secondary customers.

- 1 • Meters - Meter investment per customer class.
- 2 • Distribution Services - Investment in services per customer class.
- 3 • Street lighting - Direct allocation to street lighting class.
- 4 • Transformers - Non-coincident demand of secondary customers.
- 5 • Customer accounting - Number of customers.
- 6 • Customer service - Class kWh including distribution losses.

7 **Q. What rate classes was the delivery service revenue requirement allocated**
8 **across?**

9 A. A list of the rate classes used to allocate the revenue requirement is presented in
10 exhibit IPC Exhibit _____ (BEP-2.1).

11 **Q. Why did you use the rate classes in IPC Exhibit No. 2.1 to allocate the**
12 **delivery service revenue requirement?**

13 A. The rate classes in IPC Exhibit _____ (BEP-2.1) mirror the rate classes that
14 currently exist in IPC bundled service tariffs. Allocating based on these costs was
15 performed for two reasons. First, historic data is available based on these rate
16 classes to use in the development of allocaters. Secondly, the final delivery
17 service rates are developed based on the current bundled tariffed rates offered by
18 IPC.

19 **Q. Can you provide a summary of the revenue requirement allocated to each**
20 **rate class?**

21 A. Yes. IPC Exhibit _____ (BEP-2.1) provides such a summary.

1 A. Yes. I attempted to mirror the delivery service tariff rate classes for IPC to the
2 existing bundled electric rate classes of IPC. For example, there is currently a
3 General Service (292) bundled tariff for IPC. I have created a delivery services
4 version of the General Service tariff that has the same features as the current
5 bundled General Service tariff except for the level of rates associated with the
6 delivery service tariff versus the level of the rates for the bundled General Service
7 tariff.

8 **Q. Can you provide a list of the delivery service classes and tariffs that you are**
9 **proposing for IPC?**

10 A. Yes. IPC Exhibit _____ (BEP-2.2) provides the proposed delivery service
11 tariffs for IPC.

12 **Q. Can you provide a basic description on how you arrived at the specific**
13 **charges associated with each rate class?**

14 A. Yes. In most cases I attempted to use the same billing components in the delivery
15 service rates as currently exist in the comparable bundled service tariff. For
16 example if the bundled electric tariff contains a customer charge and an energy
17 charge the delivery service tariff will also contain a customer charge and an
18 energy charge.

19 **Q. How did you determine the level of a rate to be assigned to a specific billing**
20 **component?**

21 A. I relied to a large degree on the structure of the current bundled electric tariffs
22 offered by IPC. For instance if a customer charge was \$5 on the bundled tariff I
23 attempted to use a \$5 customer charge for the delivery service counterpart of the

1 bundled tariff less the unbundled cost for metering. Additional revenue
2 requirement for a rate class that was not collected through the customer charge is
3 collected through another billing component such as energy or demand.

4 **Q. Did you deviate at all from the methodology discussed above in the**
5 **development of delivery service rates for IPC?**

6 A. Yes. For the area lighting service rates offered by IPC, I deviated from the
7 methodology discussed above.

8 **Q. Why did you deviate for this rate classes?**

9 A. This customer class contains various service cost components and metering
10 attributes that are different from other bundled rate categories. The area lighting
11 category has a bundled tariff that includes specific equipment costs, maintenance
12 options and generation, transmission and distribution costs embedded into the rate
13 structure. It is difficult to unbundle these items and produce a reasonable delivery
14 service tariff.

15 **Q. How did you design delivery service tariffs for area lighting.**

16 A. For the area lighting, street lighting and traffic signal classes of customers an
17 energy credit based on the bundled Large Use Residential off-peak tariff will be
18 credited to the customer's bill based on the usage of the customer.

19 **Q. Do you believe that the rate design that you are proposing for IPC**
20 **accomplishes the five fundamental concepts that you have outlined above?**

21 A. Yes. I believe the proposed IPC delivery service rate design satisfies the five
22 fundamental concepts listed above. Clearly the offering of delivery service tariffs
23 is a new experience for all Illinois electric utilities, including IPC, thus I expect

1 that delivery service tariffs will evolve over time. As the delivery service tariff
2 and implementation plan hearing process proceeds additional ideas will likely
3 come to the forefront that may need to be addressed in each utilities delivery
4 service tariff filing including IPC.

5 **SECTION III: TERMS AND CONDITIONS OF THE**
6 **DELIVERY SERVICE TARIFF**

7 **Q. What is the purpose of this section of your testimony?**

8 A. The purpose of this section of my testimony is to discuss the terms and conditions
9 of IPC's delivery service tariff.

10 **Q. What is the purpose of the terms and conditions section of the IPC delivery**
11 **service tariff?**

12 A. The terms and conditions section of the delivery services tariffs is divided into
13 two main sections. The purpose of the first section of the tariff is to stipulate the
14 relationship between IPC and the customer necessary to exist for the provision of
15 delivery services by IPC to the customer. The purpose of the second section of the
16 tariff is to stipulate the relationship between IPC and a Retail Electric Supplier
17 (RES) necessary to exist for the provision of delivery services by IPC to a
18 customer.

19 **Q. What changes do you propose?**

20 A. The changes I propose are limited to: a) re-arranging the current delivery tariffs in
21 the order prescribed by the Commission in its March 21, 2001 Docket 00-0494
22 Order; b) changing the Availability section of the tariffs to indicate that residential
23 customers are now also eligible for delivery service; c) eliminating outdated

1 language regarding the availability of the tariffs to only certain segments of non-
2 residential customers; d) moving miscellaneous charges to the new rates section
3 of the tariff; and e) adding tariff language which describes the relationships
4 among the customer, the energy supplier and the company, including the
5 company's right to disconnect a customer for non-payment by the supplier who
6 elects to bill the customer under the single bill option. The proposed delivery
7 service tariffs are found in IPC Exhibit _____ (BEP-2.3).

8 **Q. What does the company propose regarding the definitions included in**
9 **tariffs?**

10 A. At the time of this filing, there is not a uniform set of delivery service tariff
11 definitions that have been agreed upon for use by all Illinois utilities. If such a set
12 of definitions is agreed to before the record is closed in our delivery services
13 proceeding, we will propose to incorporate the definitions in our tariffs.

14 **Q. Have any non-residential customers elected to take delivery service?**

15 A. No. As of the date of filing of the instant testimony, no non-residential customers
16 have elected to take delivery service.

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

18 A. Yes.