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IP Exhibit 6.1
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ILLINOIS COMMERCE COMMISSION

DOCKET NO. 01-

PREPARED DIRECT TESTIMONY OF LEONARD M. JONES

JUNE 1, 2001

I. Introduction and Witness Qualifications

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1. Q. Please state your name, business address and present position.

A. Leonard M. Jones, Illinois Power Company (“Illinois Power”, “IP” or the “Company”), 500 South 27th Street, Decatur, Illinois 62521. I am Director -- Business Planning and Forecasting in the Business Development Services (“BDS”) department.

2. Q. Please summarize your educational background and professional experience.

A. I graduated from Western Illinois University with a Bachelor of Arts Degree in Economics in 1987. In 1988, I received a Master of Arts Degree in Economics, also from Western Illinois University. Since 1988 I have been employed by Illinois Power as a Rate Analyst, Senior Rate Analyst, Rate Specialist, and Team Leader - Costing and Economic Services, in the Company’s Regulatory Services Department. In November 1999, I was promoted to my current position, Director – Business Planning and Forecasting in the Company’s Business Development Services Department.

3. Q. What are your responsibilities in your present position?

- 18 A. I am responsible for directing the completion of load and revenue forecasts,
19 various economic analyses, and rate and regulatory related studies for the
20 Company.
- 21 4. Q. Have you previously testified before the Illinois Commerce Commission (the
22 “Commission”)?
- 23 A. Yes. I previously testified in Docket No. 91-0335, regarding the Company’s
24 electric marginal cost of service study; Docket No. 93-0183, regarding the
25 Company’s gas marginal cost of service study; Docket No. 98-0348, regarding
26 the Company’s proposed Rider DA-RTP II; Docket No. 98-0680, regarding
27 the investigation concerning certain tariff provisions under Section 16-108 of the
28 Public Utilities Act and related issues; Docket No. 98-0769, regarding
29 requirements governing the form and content of contract summaries for the
30 1999 Neutral Fact Finder (“NFF”); Docket Nos. 99-0120 & 99-0134
31 (Cons.) regarding approval of the Company’s Delivery Service Implementation
32 Plan and Tariffs (“1999 DST Case”); and Docket Nos. 00-0259/00-0395/00-
33 0461 (Cons.) regarding proposed Rider MVI and revisions to Rider TC.

34 **II. Purpose and Scope of Testimony**

- 35 5. Q. What is the purpose of your testimony?
- 36 A. The purpose of my testimony is to present: (1) the allocation of the Company’s
37 delivery service revenue requirement among the delivery services customer
38 classes; (2) the rate design and proposed charges included in the Company’s

39 Service Classification ("SC") 110; (3) the determination of billing units and
40 charges used to make up the total test year revenue; (4) changes to Rider TC -
41 Transition Charge for Customers to accommodate residential customers; (5)
42 information on residential load profiles; and (6) supporting evidence for an
43 adjustment to test year rate base and expenses for load research activities.

44 6. Q. In addition to your prepared testimony in IP Exhibit 6.1, which consists of
45 questions and answers 1 through 45 inclusive, are you sponsoring any other
46 exhibits?

47 A. Yes, I am sponsoring IP Exhibits 6.2 through 6.5, which were prepared by me
48 or under my direction and supervision.

49 **III. Interclass Revenue Allocation**

50 7. Q. How have you defined customer classes for purposes of allocating the delivery
51 services revenue requirement?

52 A. Although the Company is proposing only one delivery services tariff (SC 110)
53 applicable to all delivery service customers, those customers have been
54 separated into four categories for revenue allocation purposes. The first
55 category is residential. The second category consists generally of smaller non-
56 residential customers and unmetered service non-residential customers. The
57 third group of customers consists of the remaining non-residential customers,
58 other than lighting customers. Finally, lighting represents the fourth group of

59 customers, which includes both Outdoor Area Lighting (residential and non-
60 residential) Service and Municipal Street Lighting Service.

61 8. Q. What criteria were used to allocate the revenue requirement among the four rate
62 groups?

63 A. First, each group's cost contribution to the revenue requirement, based on the
64 embedded cost of service study sponsored by Ms. Althoff, was examined.
65 Where practical, each group should be allocated its share of the total revenue
66 requirement as determined by the cost of service study. Second, the allocation
67 to each group based solely on cost of service results was examined for rate
68 continuity considerations. Finally, where deviations from an allocation based
69 on cost of service were warranted for a particular customer class, the difference
70 was pro-rated among the other rate classes.

71 9. Q. Did you identify any rate continuity considerations which warranted a deviation
72 from an allocation based on cost of service?

73 A. Yes, this occurred in this case with respect to the Lighting class. Setting rates
74 for Lighting based solely on the allocated cost of service would result in a
75 disparity between the delivery services rates and the bundled rates for Lighting
76 service. In the 1999 DST case, the delivery services charges to Lighting
77 customers were set equal to the bundled Lighting rates less the energy
78 component included in the bundled rates. This rate design allows customers to

79 choose an alternate energy supplier for lighting based on comparisons to the
80 energy cost embedded in the Company's bundled rate.

81 10. Q. What was the outcome of the Company's delivery service revenue requirement
82 allocation among the four customer classes?

83 A. IP Exhibit 6.2, pages 1 and 2, show the results of the revenue requirement
84 allocation. As I have described, the starting point is the Company's embedded
85 cost of service, presented by IP witness Althoff in IP Exhibit 8.1. However, as
86 I have described, the Lighting class' revenue requirement responsibility was
87 limited to the level produced by setting Lighting delivery services rates equal to
88 the bundled Lighting rates less the energy components for purpose of rate
89 continuity. This generates revenue for the Lighting class that are \$1.1 million
90 more than the Lighting class' cost of service, as shown on page 2 of IP Exhibit
91 6.2. The excess was reallocated pro-rata among the remaining three rate
92 classes, thereby decreasing their respective overall revenue requirement
93 responsibilities.

94 11. Q. Were any of the revenues resulting from transactions fees allocated to the
95 customer groups?

96 A. Yes. Revenues from fees charged for services such as processing DASR
97 submittals, termination requests, RES registrations, provision of historical
98 customer usage information, and the single billing option were received in 2000
99 and the related costs are included in the Company's cost of service. These

100 revenues are recorded as miscellaneous revenues along with other items such as
101 service activation fees. The miscellaneous revenues were allocated to the
102 customer classes, which lowered the remaining revenue requirement that must
103 be recovered from each class. However, revenues from transaction fees
104 associated with services that only a particular group of customers may take
105 were assigned to those classes. An example is the PPO administrative fees
106 since PPO service is available only to non-residential customers.

107 **IV. Delivery Services Rate Design**

108 12. Q. What is shown on IP Exhibit 6.3?

109 A. IP Exhibit 6.3, pages 1 and 2, summarize the Company's present (where
110 applicable) and proposed delivery service rates for SC 110. Page 1 of the
111 exhibit shows Residential, Small Use General Service, Unmetered Service, and
112 Demand Metered General Service Rates. Page 2 shows all lighting rates.

113 13. Q. Please describe the general guidelines and objectives which were followed to
114 develop prices for SC 110.

115 A. First of all, rates need to be set to recover the total revenue requirement. Next,
116 the Company considered the requirement in the Customer Choice Law that
117 delivery service rates be cost-based. The Customer Choice Law also states
118 that utilities should be allowed to recover the costs of providing delivery
119 services through charges to delivery service customers. The Customer Choice
120 Law further states that voltage level differences should be considered when

121 establishing charges for delivery services. Finally, we recognized that, at the
122 present time, Transition Charges may mute the price signal to some customers
123 that would otherwise be provided by delivery services rate design.
124 With these underlying considerations as the starting point, we generally relied
125 upon the applicable bundled rates, marginal costs and embedded costs to
126 develop the rate design. Use of applicable bundled rates helps promote rate
127 continuity, which may help customer understanding of the rates and avoid undue
128 or disproportionate impacts when a customer switches between bundled service
129 and delivery service, which could inappropriately discourage the choice of one
130 or the other service. Use of marginal costs for specific rate elements helps to
131 send appropriate price signals to enable customers to make correct economic
132 choices. This was especially appropriate for transformation and reactive
133 demand charges. Embedded costs were used as a guide to develop demand
134 charges for each voltage level. These principles guided the rate design I
135 describe below.

136 14. Q. Did you use the same customer groups for rate design purposes that you used
137 for revenue allocation purposes?

138 A. Yes, but the customer groups were further segmented for purposes of rate
139 design based on customer load size and the voltage levels at which customers
140 take service. The purpose of this segmentation was to establish rates that better

141 reflect the cost of serving these customers. The customer classes for revenue
 142 allocation and the customer classes for rate design are grouped below:

143

Revenue Allocation	Rate Design
Residential	Residential
Non-Residential Small Use General Service (Non-Demand Metered)	Small Use General Service: 1) Metered 2) Unmetered
Non-Residential Demand Metered General Service	Demand Metered General Service 1) Up to 200 kW 2) Over 200 kW, up to 1,000 kW 3) 1,000 kW and over
Lighting	1) Area Lighting by bulb type a) Residential b) Non-residential 2) Street Lighting by bulb type

144

145 Residential and Small Use General Service customers are typically served from
 146 secondary level voltage (i.e., 480 volts or less) and are metered with a watt-
 147 hour meter. Demand Metered General Service customers could be served at
 148 secondary, primary (i.e., 2.4 kV - 12.4 kV), subtransmission (i.e., 34.5 kV -
 149 69 kV) or transmission (i.e., 138 kV) voltage levels, and the facilities serve all
 150 customers too large to qualify for Small Use General Service. Accordingly, the
 151 rate design for Demand Metered General Service customers reflects different
 152 costs to serve at the various voltage levels. Lighting rates are based primarily
 153 on the cost of the local facilities required to provide lighting service.

154 15. Q. Have you changed the criteria for any of the rate groups from those currently in
155 the Company's delivery services tariffs?

156 A. Yes. The Company's present rates refer directly to "Small Commercial"
157 customers, which is defined in the Customer Choice Law and the Company's
158 tariffs as a non-residential customer consuming 15,000 kWh or less of
159 electricity annually. The Company's proposed tariffs change this category to
160 Small Use General Service, with the eligibility identical to that for the
161 Company's bundled Service Classification (SC) 10, Small Use General
162 Service. Thus, the proposed definition of Small Use General Service for non-
163 residential delivery service is any customer with an average daily use less than
164 61 kWh per day during any billing period in the most recent Summer Season.
165 All other non-residential and non-Lighting customers will fall under the rate
166 provisions for Demand Metered General Service. This change in criteria for
167 Small Use General Service will make switching to Delivery Service for existing
168 SC 10 and SC 11 customers more seamless.

169 16. Q. Is the Company changing the basic structure of its non-residential rates from
170 those currently in effect?

171 A. The rate structure for lighting customers is identical to current rates. For Small
172 Use General Service customers, the Delivery Charge is being modified to
173 provide for a two-block rate structure. For Demand Metered General Service
174 customers, the current single demand charge has been separated into two

175 different demand charges. Both of these changes will be discussed in more
176 detail later in my testimony.

177 17. Q. Why was voltage level a rate design consideration?

178 A. Voltage level is a rate design consideration because the costs associated with
179 serving customers grow on a \$/kW basis as service moves from one level to the
180 next lower voltage level. This is because a lower voltage customer typically
181 requires use of more facilities for power to be delivered to its site. The voltage
182 level differentiation is also consistent with Section 16-108^d(~~e~~) of the Customer
183 Choice Law which states that in establishing delivery service rates, the
184 Commission shall take into account voltage level differences. Finally, the
185 voltage level differentiations are also consistent with the Company's existing
186 bundled rates. This rate continuity minimizes customer impacts from switching
187 from bundled rates to delivery service rates, or vice versa.

188 18. Q. Please describe the components of the rate design for SC 110.

189 A. SC 110 contains facilities charges, metering charges, per kWh delivery charges
190 for those customers without demand meters, demand charges, transformation
191 charges, and a reactive demand charge for large customers. I will discuss the
192 charges for each of the customer groups below.

193 19. Q. Please describe the proposed delivery rates for residential customers.

194 A. The residential rate design consists of a facilities charge and a delivery charge.
195 There is a separate Facilities Charge for single and multi-family service, and for

196 single and three-phase service, identical to the Company's bundled SC 2
197 residential service. The Delivery Charge is separated into two blocks, the first
198 covering usage through 300 kWh per billing period and the second covering all
199 usage over 300 kWh. The blocking structure is identical to the Company's
200 bundled SC 2 residential service. The proposed Facilities Charges are \$8.43
201 and \$13.62 for single and three-phase service, and \$7.30 for multi-family
202 service. The proposed Delivery Charge is 3.438 cents/kWh for the first 300
203 kWh and 2.176 cents/kWh for all use over 300 kWh.

204 20. Q. Has metering been unbundled for residential customers?

205 A. No. The charge for metering is included in the residential Facilities Charge.

206 21. Q. Why are you proposing a two block Delivery Charge for Residential SC 110
207 customers?

208 A. Use of the two blocks better matches the pricing to how local low voltage costs
209 are incurred. Local secondary facilities (lines and transformers) may serve from
210 one to a few customers, and are sized to meet the customer's (or customers')
211 expected maximum demand. Since these customers are not demand metered,
212 we cannot use a charge based on a rolling 12-month maximum demand to
213 recover transformation costs, as is done for the Demand Metered General
214 Service customers and for demand metered bundled service customers.
215 Therefore, these costs are appropriately recovered through a fixed facilities
216 charge or a first block energy charge. We have elected to recover these costs

217 through the initial block in the Delivery Charge in order to maintain some usage
218 sensitivity to this component of cost recovery.

219 22. Q. Why did you choose 300 kWh as the break point in the blocks for the
220 residential SC 110 Delivery Charge?

221 A. Approximately 80% of the Company's residential customers consume more
222 than 300 kWh per month, and nearly 34% of total usage falls in the first block.
223 Thus, through use of a 300 kWh block, recovery of the costs I described in my
224 previous answer, while not certain, is still fairly predictable. Further, a block at
225 300 kWh is the same size block as in the bundled service rate, SC 2.

226 23. Q. What is the rate structure for Small Use General Service SC 110 customers?

227 A. These customers most closely resemble the Company's bundled SC 10
228 customers, typically take service at secondary voltage level, and have a watt
229 hour meter. The facilities charge in SC 110 for these customers is \$6.56 and
230 \$7.12 for single and three-phase service, respectively. The meter charge is tied
231 directly to cost of service developed by IP witness Althoff. The meter charge in
232 SC 110 for these customers is \$3.48 per month for single-phase service and
233 \$7.92 per month for three-phase service. The Delivery Charge has been
234 separated into two blocks, the first for monthly usage up to 300 kWh and the
235 second for monthly usage over 300 kWh. The charge will be 2.359 cents/kWh
236 for the first 300 kWh and 1.538 cents/kWh for all remaining use.

237 24. Q. Why are you proposing to separate the Delivery Charge into two different
238 usage blocks for Small Use General Service SC 110 customers?

239 A. A two part Delivery Charge is being proposed for the same reasons as
240 discussed for Residential customers. The blocks better match the pricing to
241 how local low voltage costs are incurred. The service characteristics of Small
242 Use General Service customers closely resemble those of the residential class.
243 The average Small Use General Service customer consumes slightly less energy
244 than an average residential customer, and the summer usage limit (average of 61
245 kWh per day) helps keep the peak demands of customers in this rate group
246 reasonably low, and somewhat predictable. Approximately 55% of the
247 Company's Small Use General Service customers consume more than 300
248 kWh per month, and nearly 36% of total usage falls in the first block. Thus,
249 recovery of the local low voltage costs through this block, while not certain, is
250 still fairly predictable.

251 25. Q. What are the charges in SC 110 for Unmetered Service customers?

252 A. Unmetered Service customers take service on either an uncontrolled or
253 controlled (by a photo-electric cell) basis. Customer usage is determined
254 through an audit of the customer's connected load, and as such, the expected
255 peak demand is known in advance. Thus, there is no question about the
256 appropriate local secondary and transformer facilities needed to serve the
257 customer. These costs are therefore more appropriately recovered in the

258 Facilities Charge. All Unmetered Service customers will pay the same
259 proposed facilities charge, \$8.50 per month. Controlled Unmetered Service
260 customers are assessed a facilities charge only. The proposed Delivery Charge
261 for Non-controlled Unmetered Service customers is 1.152 cents/kWh for all
262 usage.

263 26. Q. Please describe the rates for Demand Metered General Service customers
264 under 200 kW.

265 A. This group of customers most closely resembles the Company's SC 11 bundled
266 service customers. They typically receive service at low voltage and have
267 demand meters. Pricing for these customers includes a Facilities Charge, Meter
268 Charge, Transformation Charge, Distribution Capacity Charge, and a Demand
269 Charge.

270 27. Q. What Facilities Charges and Meter Charges are you proposing for General
271 Service Demand Metered Customers?

272 A. For customers with a delivery voltage under 2.4 kV and demand under 200
273 kW, the combined Facilities and Meter Charge is proposed to be \$25.54 per
274 month and \$34.27 per month for single and three phase service, respectively.
275 The Meter Charge has been updated to reflect current metering costs as
276 presented by IP witness Althoff. The new Meter Charges are \$8.82 and
277 \$16.33 for single and three phase service, respectively. The Facilities Charge

278 (exclusive of the Meter Charge) is \$16.72 and \$17.94 for single and three
279 phase service, respectively.

280 For customers with a delivery voltage greater than 2.4 kV, the combined Meter
281 and Facilities Charges have been set in conjunction with the charges for the
282 other Demand Metered General Service customers. The combined charge is
283 \$295.83 per month, \$1,091.65 per month and \$4,671.60 per month for
284 primary, subtransmission and transmission voltage level service, respectively.

285 The proposed Meter Charge for primary, subtransmission, and transmission
286 delivery voltage level service is \$150.95, \$361.24, and \$1,418.94,
287 respectively. Finally, the Facilities Charge has been changed to \$144.88,
288 \$730.41, and \$3,252.66 for primary, subtransmission, and transmission voltage
289 level service, respectively.

290 28. Q. Please describe the process used to develop the proposed Demand Charges.

291 A. The Demand Charges were set for all demand-metered customers after the
292 Transformation Charges were set, to recover the remainder of the revenue
293 requirement by voltage level. However, as indicated earlier, the existing
294 Demand Charge has been separated into two proposed demand charges. The
295 first is a Distribution Capacity Charge. This charge is designed to recover the
296 cost of low voltage facilities that for the most part do not share in the load
297 diversity of the larger system. As such, the customer's Distribution Capacity
298 (the maximum 12-month demand reached by the customer) provides a better fit

299 to the manner in which the costs are incurred. The Distribution Capacity
300 Charge is assessed based on the customer's maximum demand reached in the
301 past 12 months. This charge operates identically to the Distribution Capacity
302 Charge assessed to bundled service customers. The second demand charge is
303 identified as the Demand Charge. This charge is designed to recover the cost of
304 high voltage facilities that are designed primarily based on the diversity of
305 several customers' loads. Thus, the Demand Charge is based on the
306 customer's maximum monthly demand, which is identical to what is used for
307 present Delivery Service Demand Charges. The proposed Distribution
308 Capacity Charge is \$2.165 per kW for primary level supply voltage. The
309 proposed Demand Charge is \$0.548 per kW, \$0.533 per kW, and \$0.053 per
310 kW for primary, subtransmission and transmission level supply voltages,
311 respectively.

312 29. Q. Please describe the proposed rates for Demand Metered General Service
313 customers with demands from 200 kW to 1,000 kW.

314 A. The proposed Meter Charge and Facilities Charge for customers with
315 secondary delivery voltage are \$18.32 and \$44.53, respectively. The Meter
316 Charge and Facilities Charge for primary, sub-transmission and transmission
317 delivery voltage are identical to those described above for customers with
318 demands under 200 kW. The Meter Charge for these customers has been
319 updated to reflect the current test-year costs as presented by IP witness Althoff.

320 The Distribution Capacity and Demand Charges for these customers are
321 identical to those described above for customers with demands under 200 kW.

322 30. Q. Please describe the rates for the largest SC 110 customers, those over 1,000
323 kW demand.

324 A. The Facilities Charge and Meter Charge for these customers are the same as
325 those for the 200-1,000 kW demand customer group. The Distribution
326 Capacity Charge and the Demand Charge is also set at the same levels as the
327 Distribution Capacity Charge and the Demand Charge for the other demand
328 metered customers, except that the Distribution Capacity Charge and the
329 Demand Charge for the large SC 110 customers has been reduced to account
330 for the separate charge to these customers for reactive demand. Reactive
331 demand is price-unbundled since customers over 1,000 kW are large enough to
332 make installation of customer-owned capacitors economical. The Reactive
333 Demand Charge was based on the installed cost of capacitors at various ~~voltage~~ *KVA*
334 levels, and is \$0.20 per KVAR. This charge will send the customer the proper
335 price signal as to how to most efficiently correct its power factor.

336 31. Q. Please explain the Transformation Charges applicable to all demand metered
337 customers.

338 A. Transformation represents the reduction of supply line voltage to the customer's
339 delivery voltage through use of the transformer. Customers may take this
340 service through SC 110, or may choose to rent or own transformation facilities.

341 Transformers may be sized to generally meet a customer's expected peak
342 demand, and range in size from 10 kVa to 2,500 kVa. Thus, the price for
343 transformation is based on a cost per kW of transformation capacity and is
344 based on the customer's highest maximum demand experienced in the past 12
345 months. SC 110, like existing demand metered bundled rates, includes a per
346 kW Transformation Charge. The proposed Transformation Charge for
347 customers under 3,000 kW is \$0.50 per kW. The Company recently changed
348 SC 110 to allow delivery services customers over 3,000 kW to pay the same
349 Transformation Charge as in their former bundled service, \$0.75 per kW.
350 Previously, these customers were required to either rent or own transformation
351 facilities. This change promotes rate continuity, making the change from
352 bundled service to delivery services more seamless.

353 32. Q. What are the proposed charges in SC 110 for customers taking service under
354 the Company's Outdoor Area Lighting Service and Municipal Street Lighting
355 Service?

356 A. First of all, Outdoor Area Lighting rates have been separated into residential
357 and non-residential. No changes have been proposed to the rates for non-
358 residential Outdoor Area Lighting service or Municipal Street Lighting service,
359 in order to maintain continuity with the frozen bundled Lighting rates, as I
360 discussed earlier. The specific Facilities Charges for all the street lighting and
361 outdoor lighting options are shown on IP Exhibit 6.3, page 2. As shown in IP

362 Exhibit 6.3, Outdoor Area Lighting is separated into residential and non-
363 residential. The cost basis for the two services is identical. However,
364 residential Outdoor Area Lighting customers received the benefit of the 15%
365 rate reduction implemented in August 1998, and will receive an additional 5%
366 rate cut beginning May 1, 2002, creating a new "class" of Lighting customer.
367 In the interest of rate continuity, we have also set the residential Outdoor Area
368 Lighting delivery services rates equal to the bundled price that will be in effect
369 on May 1, 2002, less the energy cost component in the bundled rates. This is
370 the same approach followed for non-residential Lighting delivery service rates,
371 as I described earlier; however, because the bundled residential Outdoor Area
372 Lighting rates are lower than the non-residential Outdoor Area Lighting rates,
373 the effect is to maintain separate lighting rates for residential and non-residential
374 customers.

375 33. Q. Does the Company's proposed delivery services tariff include rate provisions
376 for customers taking delivery services for standby purposes?

377 A. Yes. A provision has been added to SC 110 to require these customers to
378 contract for a standby capacity requirement. This amount will be equal to the
379 customer's load requirement on the Company's distribution facilities in the event
380 of an outage of the customer's generation. Low voltage customers (primary
381 voltage supply) will be assessed the Distribution Capacity Charge, Demand
382 Charge, and any applicable Transformation Charge based on their contracted

383 standby capacity requirement rather than on their 12 month maximum demand.
384 Similarly, higher voltage customers (subtransmission voltage supply and above)
385 will be assessed the Demand Charge and applicable Transformation Charge
386 based on their contracted standby capacity requirement rather than their
387 monthly maximum demand. If the customer's generation happens to go down
388 while the customer's demand is also high sometime during the year, the standby
389 capacity requirement and the 12 month maximum demand would likely produce
390 similar results. However, if the generation runs well during a period extending
391 beyond 12 months, the customer's metered 12 month maximum demand would
392 be less than the total demand the customer would place on the system in the
393 event of an outage of the customer's generation. In the absence of the standby
394 capacity requirement, the customer would receive standby service for his full
395 load, but only pay for a portion of the cost. The standby capacity requirement
396 helps ensure that other customers do not subsidize the delivery services standby
397 customer.

398 Under this provision, if the customer's maximum demand in a month exceeds
399 the standby capacity requirement, the customer's standby capacity requirement
400 will be increased to the level of its maximum demand. The customer will also be
401 billed, for that month, a charge equal to three times the applicable Demand
402 Charge, Distribution Capacity Charge and Transformation Charge applied to
403 the excess of the customer's maximum demand over its standby capacity

404 requirement. This provision will provide an incentive for the customer to specify
405 a standby capacity requirement that reasonably represents the customer's load
406 requirement on IP's distribution system in the event of a generation outage.

407 34. Q. What is the basis for the rates charged customers who take Interim Supply
408 Service ("ISS") under the Company's Rider ISS?

409 A. The proposed rates for ISS for non-residential customers have not changed.
410 The same charges will be billed to a residential customer who receives service
411 under Rider ISS. The rates for ISS were designed in light of the fact that the
412 customer will be taking the service on a temporary, unplanned basis. Thus, the
413 rates are designed to recover the cost the Company incurs to provide the
414 service on no notice, which is in part a market-based cost. Further, the rates
415 for ISS are more advantageous to the customer than being charged the energy
416 imbalance charges under the Open Access Transmission Tariff ("OATT"). The
417 customer will pay 110% of the Rider DA-RTP rate for electric power and
418 energy, and the administrative charge stated in that tariff. In addition, the
419 customer will pay the firm point-to-point and ancillary services maximum daily
420 rate per kW in the Company's OATT, and the other charges stated in SC 110.
421 However, as IP witness Voiles explains, proposed Rider ISS includes
422 provisions, applicable only to residential customers, which will allow a
423 residential customer, under certain conditions, to spread a portion of the Rider

424 ISS charges over the three months following the period that the customer is on
425 Rider ISS.

426 35. Q. Is the Company proposing a change to the manner in which it charges for
427 bundled service for those customers that choose to place a portion of their
428 electric power and energy requirements on delivery services and to continue to
429 have the remaining portion of such requirements served by IP?

430 A. Yes. Presently, these customers are allowed to take the Company-supplied
431 portion of their requirements under the Company's applicable standard bundled
432 rates. The Company is proposing to implement Rider PRS under which the
433 customer would be charged a market-based cost of power, plus 10%, for the
434 Company-supplied portion of the customer's power and energy requirements.
435 In addition, customers will pay an administrative charge, any applicable delivery
436 service rates, applicable Transition Charges, and charges equal to the monthly
437 point to point transmission service rate plus ancillary service fees. The cost of
438 power and energy will be tied to the cost determined for the purpose of IP's
439 Rider DA-RTP. The customer will not be allowed to take service under any
440 bundled tariff other than Rider PRS. To prevent undue impact to existing split-
441 load customers, however, contracts entered into under the present tariff will be
442 honored through the term stated in the contract, so long as the contract was
443 executed prior to the effective date of Rider PRS.

444 **V. Billing Determinants**

445 36. Q. What is shown on IP Exhibit 6.4?

446 A. IP Exhibit 6.4 shows the billing determinants used to develop the proposed
447 rates for delivery service. The billing units are based on 2000 historical data for
448 the Company's electric customers. The only adjustment to test year data was
449 to weather-normalize energy usage and demand for weather sensitive load. The
450 exhibit shows that the proposed rates recover the allocated revenue requirement
451 shown in IP Exhibit 6.2.

452 **VI. Transition Charges**

453 37. Q. Have changes been made to Rider TC -- Transition Charge?

454 A. Yes. The tariff has been updated to accommodate residential delivery services.
455 The tariff itself is included in IP witness Voiles' exhibits.

456 38. Q. Does Rider TC provide for any residential customers' Transition Charges to be
457 determined through a customer-specific calculation?

458 A. No. The Customer Choice Law requires individual calculations for customers
459 over 1,000 kW. No residential customer exceeds this criteria. Further, IP has
460 voluntarily calculated individual Transition Charges for non-residential customers
461 down to 100 kW, well above the typical residential customer's demand of
462 about 5kW.

463 39. Q. How will a residential customer's Transition Charge be determined?

464 A. The residential customer's Transition Charge will be the Transition Charge
465 calculated for the TC Group into which the customer falls based on various

466 usage characteristics. A customer's TC Group will be based on the following
467 factors: (1) the customer's former bundled service classification, (2) whether the
468 customer is a space heat or non-space heat customer, and (3) the customer's
469 annual kWh usage. Separate load profiles will be used for space-heat and non-
470 space-heat customers in order to develop a historic usage pattern for the TC
471 Group to apply in the Transition Charge calculation. Former SC 2 customers
472 will fall into either the space-heat or non-space-heat category, each of which is
473 further divided into three potential usage categories: 1) 0-7,500 kWh/yr.; 2)
474 7,500-15,000 kWh/yr; and 3) over 15,000 kWh/yr. In addition, customers
475 will be separated based on delivery voltage (single or three-phase). Former SC
476 3 customers will fall into either the space-heat or non-space-heat category, each
477 of which is further divided into two usage categories: 1) 0-25,000 kWh/yr; and
478 2) over 25,000 kWh/yr. In addition, former SC 3 customers will be separated
479 based on delivery voltage (single or three-phase). Thus, a SC 2 customer could
480 fall into one of 12 possible TC Groups, while a SC 3 customer could fall into
481 one of eight possible TC Groups, if the customer elects delivery services. In
482 addition, Residential lighting customers (former SC 39 customers) form an
483 additional TC group. The TC Groups are listed in IP Exhibit 5.7 sponsored by
484 IP witness Voiles.

485 40. Q. Why does Rider TC provide for so many residential TC Groups?

486 A. The Company's average residential base rates are sensitive to volume and to
487 selection of optional rate provisions such as space-heat. For example,
488 customers served on Service Classification 2 pay from approximately 25
489 cents/kWh to 7.5 cents/kWh on average depending on their usage
490 characteristics. Therefore, in order to be able to establish Transition Charges for
491 customers that are more closely representative of the customer's usage
492 characteristics, rate options and other factors than would be the case if
493 Transition Charges were calculated solely on a Service Classification-wide
494 basis, the Company has broken each Service Classification into TC Groups.
495 This will result in Transition Charges which are more equitable for both the
496 customer and the Company and will avoid disproportionate impacts which
497 could discourage a customer from switching from bundled service to delivery
498 service. In general, creating more homogenous groups allows individual
499 members of the group an opportunity to save an amount closer to the group
500 average mitigation factor than would be the case with fewer groups. This is
501 similar to the rationale and approach used in creating the Company's non-
502 residential TC Groups in Rider TC.

503 41. Q. What are the principal components of the Transition Charge calculation?

504 A. The principal components of the Transition Charge Calculation are (1) the
505 customer's or TC Group's base revenue, calculated based on the customer's or
506 TC Group's usage for the applicable historical period; (2) the customer's or TC

507 Group's Delivery Services revenues, which consist of the Transmission Services
508 revenues (including Ancillary Services revenues) and Distribution Delivery
509 Services revenues, also calculated based on the customer's or TC Group's
510 usage for the applicable historical period; (3) the market value of the customer's
511 or TC Group's usage for the applicable historic period, determined using
512 market values determined by Rider MVI, and with certain adjustments to the
513 Rider MVI market value as specified in Rider TC; (4) the "mitigation factor"
514 amounts applicable to the customer or TC Group, based on the mitigation
515 factor specified in Section 16-102 of the Customer Choice Law for the period
516 for which the Transition Charge is being calculated, applied to the customer's or
517 TC Group's usage for the applicable historical period; and (5) the customer's
518 or TC Group's usage for the applicable historic period. Components (2), (3)
519 and (4) are deducted from component (1) and the resulting value is divided by
520 component (5) to produce a per-kWh Transition Charge. The details of this
521 calculation are set out in Section 4(a) of Rider TC. The Appendices and work
522 papers to Rider TC provide additional detailed information that is used in the
523 calculation of Transition Charges.

524 42. Q. Are all of the work papers to Rider TC needed to support a residential
525 Transition Charge complete at this time?

526 A. No. The Transition Charge calculation for residential customers requires usage
527 data for the 36-month period ending January 2002, which is not yet available.

528

VII. Residential Load Profiles

529 43. Q. What load profiles will be used for residential delivery service?

530 A. The Company will use two load profiles for residential service - space-heat and
531 non-space-heat. The profiles were developed in conjunction with the
532 Company's non-residential load profiles. The profiles allow the transformation
533 of monthly kWh billing data into discrete hourly usage increments. The
534 residential load profiles will be accessible on IP's web site along with the non-
535 residential load profiles. Hourly kWh values are used in the Company's energy
536 imbalance settlement systems.

537

VIII. Pro-forma Adjustment

538 44. Q. Please provide support for the Company's pro-forma rate base and expense
539 adjustments for the costs of its load research program.

540 A. The Company began implementing a load research program in early 2001, and
541 the program is expected to be operative in early June. The Company's
542 previous load research program was terminated in 1988. Because it did not
543 have current service-area specific load research data, IP was required to hire a
544 consulting firm to develop load profiles for end-use customers, using data from
545 other parts of the country. As of March 31, 2001, the effort to implement a
546 load research program has required \$1,606,000 in actual and projected capital
547 investment to install infrastructure, and is projected to cost \$144,000 per year
548 to operate. The capital investment has been required principally for acquisition

549 and installation of specialized load research meters to collect data. The annual
550 O & M costs consist principally of telephone charges for cell phones installed
551 on the meters to enable data to be accessed. Cost details for the components
552 that make up the capital investment and O & M expense are shown in IP
553 Exhibit 6.5. Load research results were specifically requested as a minimum
554 filing requirement in the last DST case, and are proposed in the still pending Part
555 285 case. The data gathered should assist in verifying existing load profiles, and
556 may ultimately allow us to replace the current profiles with profiles based on IP-
557 specific data. The data may also be used in distribution system planning,
558 allowing proper sizing of equipment due to a better understanding of expected
559 customer loads.

560 45. Q. Does this conclude your prepared direct testimony?

561 A. Yes, it does.