



National Association of Regulatory Utility Commissioners

Ratemaking Tutorial Gas Utility Example Ameren Illinois Company Docket No. 13-0192

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Overview

- Cost of Service Study Results
- Cost of Service Study Issues
 - Allocation of low pressure distribution mains
 - Allocation of transmission and distribution (T&D) mains

• Rate Design Issue

 Restrict each rate class increase to 1.5 times the overall average for all rate classes combined.





Cost of Service Study Results (In Thousands)

Class	Total	Capacity	Customer	Commodity
GDS-1 (Res)	\$124,897.1	\$56,946.5	\$67,950.6	\$0
GDS-2 (Small)	32,564.4	18,406.7	14,157.7	0
GDS-3 (Med.)	8,597.1	6,286.5	3,310.6	0
GDS-4 (Large)	13,807.9	12,517.5	1,290.4	0
GDS-5 (Seasonal)	1,561.2	988.0	573.2	0
Total	\$181,427.7	\$95,145.2	\$86,282.5	\$0

Indicates each customer class' responsibility for capacity-related, customer-related, and commodity-related costs of gas delivery.





Cost of Service Study Issues





Allocation of T&D Mains – Utility Proposal

- The utility proposed to allocate T&D mains using Average and Peak method.
- Allocates costs based on a weighting of:
 - Each class' demand on the peak demand day (70-80%)
 - Each class' demand on an average day (20-30%)
- This approach takes into account that the system is designed primarily to meet the peak demand but that it also exists to meet average daily demand.





Allocation of T&D Mains – Industrial Customers' Proposal

- Representatives of the industrial customers (GDS-4) took issue with the Utility's proposal for two reasons:
 - A portion of the cost of low pressure mains should be allocated to customer classes on a customer basis.
 - The remaining cost of T&D mains should be allocated to customer classes using peak demand only rather than a combination of peak and average daily demand.





Allocation of Low Pressure Mains

- Industrial customers (GDS-4) argued that a portion (40%) of the cost of low-pressure mains should be allocated on a customer basis rather than a demand basis.
- Argument: Theoretically, there is a minimum-sized distribution system that is not related to the demands of the different customer classes. (Demand relates to diameter of pipe rather than to linear feet of pipe)
- Result: Allocates less cost to the industrial customers.





Allocation of Low Pressure Mains

- The utility and other parties opposed the industrial customers (GDS-4) proposal.
- These parties argued that the 40% proposal lacks factual or analytical support.
- Would allocate more costs to residential customers and less cost to larger customers who have more consistent usage throughout the year.
- The Commission has consistently rejected similar recommendations.





Allocation of Low Pressure Mains

- The Commission rejected the industrial customers' proposal to allocate a portion of the cost of low pressure mains on a customer basis.
- The Commission was not convinced that the costs of low pressure distribution mains are directly a result of the number of customers.





Allocation of Transmission and Distribution Mains

- Industrial customers (GDS-4) also argued that the demand-related cost of the T&D mains should be allocated based the peak day demand only.
- Argument: This better allocates the costs based on how the system is designed.
- Result: Allocates less cost to the industrial customers.





Allocation of Transmission and Distribution Mains

- The utility and other parties opposed the industrial customers' (GDS-4) proposal.
- The peak and average allocator emphasizes peak day demand but still recognizes the need to serve daily demand.
- Investment in T&D mains must meet average demands as well as peak day demands.
- The Commission has consistently approved using the peak and average method.





Allocation of Transmission and Distribution Mains

- The Commission rejected the industrial customers' (GDS-4) proposal to allocate the demand-related cost of T&D mains on peak day demand only.
- The Commission found that the T&D facilities exist because there is a daily need for such facilities, not solely because there is a need to serve peak demand.





Rate Design Issue





Class Revenue Allocation Moderation

- The utility proposed to limit the revenue increase any individual rate class would receive to 1.5 times the overall average percentage increase for all classes combined.
- For example, if the overall average increase for all classes combined were 10%, then no individual class would receive more than a 15% increase and any excess over the 15% would be spread among the other classes.





Class Revenue Allocation Moderation

- Representatives of the residential customers (GDS-1) opposed the utility's proposal to use the 1.5 factor for industrial customers (GDS-4) and proposed instead to use factor of 2.0 to 2.4 times the average overall increase.
- Argument: this would more quickly move industrial customers (GDS-4) to rates that reflect full cost of service and eliminate subsidies to that class.





Class Revenue Allocation Moderation

 The Commission continued using the 1.5 factor and in subsequent cases will continue to evaluate the progress of the industrial customer class (GDS-4) towards paying its full cost of service.