STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

	)	
Ameren Illinois Company	)	
d/b/a Ameren Illinois	)	
	)	Docket No. 13-0192
Proposed general increase in	)	
Gas rates	)	

DIRECT TESTIMONY OF
STEPHEN PUICAN ON BEHALF OF
THE ILLINOIS COMPETITIVE ENERGY ASSOCIATION
AND THE RETAIL ENERGY SUPPLY ASSOCIATION

I. INTRODUCTION OF WITNESS AND PURPOSE OF TESTIMONY

Q. Would you please state your name and business address?

A. My name is Stephen E. Puican. My business address is 215 Piedmont Road Columbus, Ohio 43214.

Q. What is your present employment?

A. I am currently self-employed as a consultant specializing in issues relating to competitive natural gas markets.

Q. Would you outline your academic and professional qualifications?

A. I received a B.A. degree in Economics from Kent State University in 1980 and an M.A. degree in Economics from Ohio State University in 1983. I began my career with the Public Utilities Commission of Ohio (PUCO) in 1985 after two years at the Ohio Department of Development's Energy Division. I retired from the PUCO in 2012. During my tenure at the PUCO I held several management positions overseeing regulation of both the natural gas and electric industries. For the last ten years before retiring I was Co-Chief of the Rates and Tariffs/Energy and Water Division. In that position, I managed the Utilities Department's natural gas staff which had responsibility for the economic regulation of Ohio's natural gas utilities. I was involved in the development and evolution of Ohio's customer choice programs since their inception and was instrumental in the PUCO's adoption of an auction process to replace an antiquated Gas Cost Recovery mechanism for natural gas commodity pricing. I have testified extensively before the PUCO in support of transitioning to a more market driven natural gas industry in Ohio.

Q. Have you ever testified before a regulatory agency?

A. Yes. I have testified on numerous occasions before the Public Utilities Commission of Ohio.

Q. On whose behalf are you testifying today?

A. I am testifying on behalf of the Illinois Competitive Energy Association ("ICEA") and the Retail Energy Supply Association ("RESA"). ICEA/RESA witness Kevin Wright provided a description of the operations of ICEA and RESA in his Direct Testimony in this proceeding, ICEA/RESA Ex. 1.0.

Q. What is the purpose of your Direct Testimony?

A. The purpose of my Direct Testimony is to respond to the Direct Testimony of Ameren Illinois Company ("AIC" or "Ameren") with respect to the creation and implementation of a small volume transportation ("SVT" or "Choice") program. In his Direct Testimony (AIC Ex. 1.0), Mr. Craig Nelson addresses the background of the SVT Program, namely the Commission's requirement, in AIC's last rate order, Ill. C. C. Dockets 11-0279/11-0282, consolidated, for workshops to consider such a program. Mr. Nelson states his understanding that the workshops resulted in a lack of consensus on the SVT Program. Therefore, AIC did not file a petition to implement an SVT Program. Instead, Mr. Nelson states AIC's position that it stands ready to implement an SVT Program if the Commission so directs and approves the recovery of related costs. (AIC Ex. 1.0, pp. 6-7) Subsequently, in response to a request by the Commission Staff that AIC submit tariffs for an SVT Program, AIC filed the Supplemental Direct Testimony and Exhibits of Ms. Vonda Seckler (AIC Ex. 13.0). Ms. Seckler sponsored two exhibits. AIC Exhibit 13.1 is a copy of the last version of draft tariffs that were circulated to workshop participants. AIC Exhibit 13.2 is an updated version, which includes refinements AIC added after the conclusion of the SVT workshops. Ms. Seckler reaffirms AIC's position that it is neutral with regard to an SVT Program and considers the matter to be one of policy to be determined by the Commission.

II. POTENTIAL VALUE OF AN SVT PROGRAM

Q. Why do you believe an SVT program would be beneficial to Ameren's customers?

A. I believe that introducing a market based approach for pricing natural gas commodity will result in lower prices and greater control of prices for customers than the current Purchased Gas Adjustment (PGA) mechanism. The PGA is a reasonable approach to pricing gas within the context of a monopoly provider of natural gas in that it provides consumer protections against potential abuses of that monopoly status. There is however no reason to continue with that model as the only option when it has been demonstrated that there is a highly functional competitive retail natural gas market available to provide natural gas commodity service. The availability of multiple suppliers in a competitive natural gas market will provide the market discipline to ensure customers are protected from abuses in pricing and terms of service should they choose a market-based product in lieu of a regulated PGA. The PGA provides consumer protection by ensuring dollar for dollar recovery of gas purchasing costs with no profit while also ensuring the purchasing practices are reasonable. This procedure however provides little incentive for the utility to minimize its gas purchasing costs. The incentive for the utility is to minimize its risk of any disallowance in the Commission's after the fact PGA review. As long as the utility can demonstrate its purchasing practices were not unreasonable, they will recover their costs. Bad decisions are penalized and good decisions are unrewarded. This skewed incentive structure provides the utility an incentive to make only the most conservative gas purchasing decisions. It rewards risk minimization and discourages innovation. In my opinion an open market provides a more appropriate incentive structure for ensuring consumers are being provided the best pricing options available.

Q. Do you have any evidence to demonstrate that competition can result in lower natural gas commodity prices?

A. Yes. The experience in Ohio demonstrated a significant drop in commodity prices when the Gas Cost Recovery (GCR) mechanism (Ohio's equivalent to the PGA) was replaced with a market based retail auction for three of Ohio's natural gas utilities. Although I understand that an auction is not being proposed in Illinois at this time, Ohio's experience is relevant in demonstrating the inefficiencies inherent in PGA type mechanisms. The Ohio auctions determined a Retail Price Adjustment (RPA) which is a fixed price adder to the monthly New York Mercantile Exchange (NYMEX) settlement price for natural gas. Winning suppliers serve customers at a retail level including having their name on the customer's bill. Prior to the original auctions, the Staff of the PUCO conducted an analysis of the historic differences between the GCR and NYMEX prices to serve as a benchmark in evaluating whether the auction result was reasonable. The following table shows the Staff's calculated GCR/NYMEX benchmark delta, which represents the adders to the NYMEX, for each company along with the current auction based RPA. Units are dollars per 1,000 cubic feet.

	Benchmark	Current RPA
Dominion East Ohio[1]	$2.50	$0.60
Vectren Energy Delivery of Ohio[2]	$2.36	$1.05
Columbia Gas of Ohio[3]	$3.06	$1.29

Again, I understand an auction is not currently under consideration in this proceeding. I'm presenting these results as an illustration of the potential for the market to produce lower retail natural gas commodity prices than the existing regulatory system.

I have reviewed the draft SVT program outline and proposed tariffs and in my opinion it is a very well designed structure for an SVT program. It addresses all the major issues involved in implementing such a significant change to how customers purchase natural gas. There are however a few areas where I would like to

[1] PUCO Case Nos. 05-474-GA-ATA and 12-1842-GA-EXM
[2] PUCO Case No. 07-1285-GA-EXM
[3] PUCO Case No. 08-1344-GA-EXM

recommend changes that I think will enhance the program from both a customer and supplier perspective. These recommendations should not be interpreted as criticisms of the current program design but rather as enhancements based on Ohio's fifteen plus years of experience with natural gas customer choice programs.

III. PURCHASE OF RECEIVABLES

Q. What are your recommendations to the program design regarding the Purchase of Receivables (POR)?

A. A POR program is a necessary element for a well functioning SVT program. Ameren recognizes the importance of POR to both marketers and customers in creating a successful SVT program and includes a specific proposal in its program design. Without POR a supplier is forced to collect directly from customers and customers will need to deal with two separate entities for a charge that formerly appeared on a single utility bill. In addition, without POR suppliers will be forced to request social security numbers and conduct credit checks of customers all of which creates additional burdens for customers and SVT suppliers. Utility systems are already designed to collect all of the information necessary for collection. In addition, if a customer moves within the service territory the utility has the ability to find the customer – something a supplier cannot do without additional expense. In my experience, POR programs reduce customer confusion by placing their total bill with a single entity for collection and reduce additional collection costs which ultimately flow into a customer's rate. These comments apply in particular to residential customers. I agree with Ameren that AGS should retain the option of either consolidated billing or dual billing for commercial participants in the program.

The current proposal for purchasing receivables is that Ameren will purchase them at a discount which would be the same as the Uncollectible Factor contained in Rider S. For GDS-1 eligible accounts that factor would be 1.713 percent for Rate Zone I, 2.079 percent for Rate Zone II and 2.281 percent for Rate Zone III. These percentages are all at the high end of discount rates that I am familiar with for residential natural gas receivables as the following list shows.

Company	Discount Rate
Columbia Gas of Ohio	0%
Duke Energy Ohio	0%
Dominion East Ohio	0%
Michigan Consolidated Energy	0%
Michigan Consumers Energy	0%
New Jersey Natural Gas	0%
Vectren Energy Delivery of Ohio	0%
National Grid (LI) Gas	0.75%
Washington Gas (MD)	0.98%
NIPSCO Gas	1.00%
PECO Gas	1.00%
Central Hudson Gas	1.19%
Orange and Rockland Gas	1.46%
Columbia Gas of PA	1.52%
Ameren Rate Zone I	**1.713%**

BG&E (Gas)	1.80%
Columbia Gas of Kentucky	2.00%
Ameren Rate Zone II	**2.079%**
Ameren Rate Zone III	**2.281%**
Public Service Gas	2.29%
NYSE&G (Gas)	2.43%
Con Edison Gas	2.63%
National Fuel Gas	2.83%
Rochester G&E (Gas)	4.28%

In my experience, the discount rate on receivables is an important consideration for potential suppliers in their decisions as to which customer choice programs to participate in. Lower discount rates attract more suppliers and customers in turn benefit through the lower prices that a highly competitive market produces.

At the time Ohio first established its customer choice programs, the initial discount rates for supplier receivables were set at either one percent or two percent depending on the host utility. However recovery of uncollectibles at that time was strictly through base rates with no true-up to the actuals. Over time the Ohio Commission approved Uncollectible Expense Riders for each natural gas utility with a Customer Choice program. Once these riders were approved and implemented, the host utilities agreed to eliminate the discount and purchase 100 percent of the receivables. Should the Commission choose to adopt the discount procedure as proposed by Ameren, I recommend the amount of the discount be revisited after the SVT program has been in effect for twelve months. There is evidence to suggest that customers that switch to alternative suppliers have a lower level of default than customers as a whole. If that can be verified after twelve months of actual experience, the receivables discount should be adjusted accordingly to reflect that lower default rate. I see no reason why the POR Discount Rate should not be based on the uncollectible experience of SVT customers once there is sufficient experience under the SVT Program.

IV. ALLOCATION OF CAPACITY

Q. Do you have any recommendations on how storage and capacity are treated as customers switch?

A. Yes, while AIC Ex. 13.1, page 4, states that assets “follow” SVT customers, that is the case only on a limited basis. As I understand the tariff, the released storage assets are based on a May thru April year, although most natural gas utilities in the U.S. recognize April thru March as the ‘standard’ storage year. Ameren proposes that if a supplier adds customers to their SVT pool after May 1 that supplier does not get assigned any additional capacity assets, but instead is required to purchase gas for those incremental customers from Ameren, until the next capacity allocation calculation is made for November. While the Ameren tariff allows SVT customers to enroll at any time, the practical effect of this provision is to discourage suppliers from adding ‘out of cycle’ (i.e. generally all months except April and October) customers to their SVT pools. For mass marketing of customers a supplier needs the ability to economically move customers each month. I recommend this provision be modified such that Ameren will recalculate the amount of capacity assigned to each supplier on a monthly basis based on increases or decreases in the size of each supplier’s SVT pool. The Ameren proposal already includes a provision for the monthly recall of unused capacity based on reductions in the size of a supplier pool. It would seem to be a relatively straightforward matter to simultaneously reallocate that capacity to the suppliers that experienced a corresponding increase in pool size. All Ohio utilities with Customer Choice programs utilize this approach. This is a more efficient methodology for reallocating capacity than having Ameren hold the recalled capacity for up to six months and forcing suppliers to purchase gas from Ameren at the PGA rate. This change will allow suppliers greater flexibility in how they source and supply their gas and will not limit enrollment of customers to only certain times of year. I believe this modification will greatly enhance the attractiveness of the SVT program to potential suppliers and the capacity will truly "follow" the customer as stated on page 4 of AIC Ex. 13.1.

Finally, if a supplier loses customers and is "stuck" with storage inventory, since the market knows Ameren is willing to buy it at only 50% of the market price, the supplier's ability to find a buyer at a reasonable price will be severely limited. Ameren should instead use a method of moving inventory with customers as they migrate. Each month as suppliers gain or lose customers, Ameren should buy or sell an appropriate inventory volume based on the size of the customer and the month (how far into the injection season it is at the time). The price would be a first of the month index from an agreed upon source such that Ameren doesn't make or lose money on the transaction. Ameren would simply facilitate the volumes to be transferred and the exchange of money associated with it. With this approach, the gas in storage that was purchased for a given customer stays with that customer. Once again I believe these benign modifications will enhance the SVT program's attractiveness to potential suppliers.

V. RIDER GTA

Q. Do you believe Rider GTA is a fair charge for customers who leave Ameren's supply service?

A. As proposed, Rider GTA could unintentionally punish customers who leave Ameren's supply service. Rider GTA is being proposed as a means of recovering incremental gas costs that were incurred as a result of customers migrating to the SVT. Many utilities have in the past used transition riders but those riders typically only charge migrating customers for a set period of time to ensure a customer does not pay for transition costs they did not cause. My understanding of Rider GTA is that the rider will be applied to all SVT customers whenever there is such a charge or credit. This means customers could be paying for costs incurred years after that customer left sales service. If a customer leaves Ameren sales service and never returns, that customer should not be required to pay for transition costs they did not cause to be incurred. Also, by assessing this charge to SVT customers only, customers who caused those costs by leaving sales service can avoid them by returning even though the cost was still incurred. This structure serves only to create an additional cost on SVT customers which can be avoided by returning to the utility, in other words an incentive to not switch. In the early stages of Ohio's Customer Choice program, migrating customers were required to pay the unrecovered gas cost component of the GCR for twelve months after switching to an alternative supplier. I can testify from personal experience in talking to customers about that charge that, at a minimum, it causes confusion, and many people felt that they had been duped into switching only to then be hit with a hidden additional charge after they made the switch. I have no objection in principle to Rider GTA but it should be limited to a set period of time based on how Ameren actually purchases its gas. Because there is a monthly adjustment to the PGA it is reasonable to ask why a SVT customer would have to pay this for more than a month. However I believe it is also reasonable to allow Ameren the opportunity to demonstrate whether there is a more appropriate time period based on its actual gas purchasing practices. Whether it is in effect for one month or some other time period based on a demonstration by Ameren that a longer recovery period is appropriate, the GTA should only be paid by an SVT customer for a fixed period of time. To do otherwise would amount to a deterrent for customers to participate in the SVT program.

VI. CONTRACT PORTABILITY

Q. Are there any other recommendations you have based on your experience with successful programs in Ohio?

A. Yes. I recommend Ameren prepare a system whereby SVT customers may remain on SVT service when relocating within Ameren's service territory. This functionality would effectively allow supplier contracts to move with the customer when the customer moves or ports their service within Ameren's service territory. In my experience this was not handled early on in Ohio and later became an additional programming cost. By providing this functionality up front, that subsequent additional cost could be avoided by Ameren. The benefit to customers is that it protects their existing pricing as service moves without the risk of either losing their contracted price for a month or two or having to make an additional call to their supplier to re-enroll. This will ensure the customer continues the existing contract on the same terms without interruption. It also protects the supplier in the event that supplier has hedged gas for a customer on a fixed price contract. Often, once a contract is broken due to a move, the customer's price is not held or is not held for very long. This change will ensure a seamless port of the customer's entire gas service while also eliminating the need for additional programming in the future.

VII. OTHER ISSUES

Q. On page 7 of AIC Ex. 13.1, Item XIII, Ameren states that it will conduct meetings annually with suppliers to review any unaddressed issues and any desired changes in the SVT program. Do RESA and ICEA agree that this is a good idea?

A. Yes. RESA and ICEA believe that the requirement of such an annual meeting should be set forth in the tariff or, alternatively, included in the Commission's findings in its final order in this proceeding. RESA and ICEA remain concerned about certain operational components of the program. Nevertheless, except for the items listed in this testimony, RESA and ICEA support the program as filed and look forward to the opportunity to review the program after a year of experience.

Q**. On page 2 of AIC Ex. 13.1, Item IIIb, Ameren states that account level Budget Billing of delivery services will continue to be available to SVT customers who are dual billed or billed under UCB/POR. Please comment**.

A. It is not clear from this statement how customers switching from Rider S to Rider SVT would impact Ameren's Budget Billing Program. It appears from the tariff that a customer on the Budget Billing Program must be enrolled for both natural gas and electricity service. Also, it is not clear how the Budget Billing Program would be handled for customers who have a different retail supplier for natural gas and electricity service. RESA and ICEA have an outstanding data request seeking this information. I recommend however, that Ameren address this issue in its rebuttal testimony. RESA and ICEA expect the Budget Billing Program to function the same regardless of whether the customer is on sales service or the SVT program.

Q. Does this complete your pre-filed direct testimony?

A. Yes, it does.