

Rebuttal Testimony

of

Mike Luth

Rates Department

Financial Analysis Division

Illinois Commerce Commission

Illinois Power Company and Ameren Corporation

Application for Authority to engage in a Reorganization, and to Enter into various Agreements in connection therewith, including Agreements with Affiliated Interests, and for such other Approvals as may be required under the Illinois Public Utilities Act to effectuate the Reorganization

Docket No. 04-0294

August 13, 2004

WITNESS IDENTIFICATION

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

2 A. Mike Luth, 527 East Capitol Avenue, Springfield, Illinois 62701.

3 **Q. Are you the same Mike Luth who filed testimony in this docket, which was**
4 **identified as ICC Staff Exhibit 12.0?**

5 A. Yes, I am.

INTRODUCTION TO TESTIMONY

6 **Q. What is the subject matter of this testimony?**

7 A. I am replying to the Applicants' witness Nelson's statement that "[t]he
8 Commission has never, to [Mr. Nelson's] knowledge, intentionally selected a
9 particular rate design in an effort to cause a utility to under-recover its costs"
10 (Applicants' Ex. 23.0, p. 11). In the Order in Docket Nos. 92-0123 and 92-0200,
11 Consolidated, through Staff's review in that docket, the Commission considered
12 and accepted a reduction in certain rates in order to make an increase in other
13 rates resulting from a change in ownership of service area revenue neutral to
14 acquired area's ratepayers.

15 **Q. Do you agree with Mr. Nelson's statement that "[t]he Commission has**
16 **never, to [Mr. Nelson's] knowledge, intentionally selected a particular rate**

17 **design in an effort to cause a utility to under-recover its costs” (Applicants’**
18 **Ex. 23.0, p. 11)?**

19 A. I certainly cannot comment upon Mr. Nelson’s knowledge, but the Commission
20 reduced rates in effect for customers in Henderson, Hancock, and Adams
21 Counties, Illinois when Central Illinois Public Service Company (“CIPS”), an
22 Ameren predecessor, purchased service territory from Union Electric Company,
23 another Ameren predecessor, in Docket Nos. 92-0123/92-0200 Consol. At the
24 outset of the Hancock County purchase, CIPS proposed that then-current CIPS
25 rates apply to ratepayers in the area upon acquisition, rather than continuing UE
26 rates that customers had been paying (Order, Docket Nos. 92-0123/92-0200
27 Consol., page 8). Staff’s review found that it was desirable, to the extent
28 possible, for customers in the acquired area to pay rates similar in amount to the
29 UE rate structure (Id., page 9). Both rate structures included a Fuel Adjustment
30 Clause (“FAC”) rider. The CIPS FAC was higher than the UE FAC (Id., page 10),
31 with the result that CIPS rates would have generally increased the amount that
32 customers in the acquired area would have paid under UE rates had a change in
33 ownership of the service not taken place. In order to address this difference,
34 Staff and CIPS reduced UE base rates by the amount of the difference in recent
35 FAC charges, with the result that customers in the acquired area would pay lower
36 UE rates than they had been paying, but a higher FAC using CIPS fuel costs
37 (Id.). The adjustment in UE base rates attempted to be revenue neutral so that
38 customers in the acquired area would pay similar amounts under the combined
39 UE base rates and UE FAC in effect prior to CIPS’ acquisition as the combined

40 reduced UE base rates and CIPS FAC after the acquisition (Id.). In its Order, the
41 Commission accepted this agreed-upon change in rate design for the acquired
42 service area. The Order in Docket Nos. 92-0123 and 92-0200, Consol. illustrates
43 that the Commission has taken an interest in rate design before approving a
44 change in ownership of a service territory. The Commission should consider
45 whether the Company's proposed no change in the current IP rate structure,
46 combined with approval of the Company's proposed HMAC rider in this docket,
47 would be revenue neutral.

48 **Q. Does this conclude your rebuttal testimony?**

49 **A.** Yes, it does.