

**ILLINOIS COMMERCE COMMISSION**

**DOCKET NO. \_\_\_\_\_**

**DIRECT TESTIMONY**

**OF**

**ROBERT J. MILL**

**Submitted On Behalf**

**Of**

**Central Illinois Public Service Co. d/b/a AmerenCIPS**

**Illinois Power Co. d/b/a AmerenIP**

**Central Illinois Light Co. d/b/a AmerenCILCO**

**February 28, 2005**

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**DOCKET NO. 05-XXXX**

**DIRECT TESTIMONY**

**OF**

**ROBERT J. MILL**

**I. INTRODUCTION**

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

A. My name is Robert J. Mill. My business address is 1901 Chouteau Avenue, St Louis, Missouri, 63166.

**Q. By whom are you employed and in what capacity?**

A. I am the Director of the Regulatory Policy and Planning Department of Ameren Services, a subsidiary of Ameren Corporation. I am testifying in this docket on behalf of Central Illinois Public Service Co. d/b/a AmerenCIPS, Illinois Power Co. d/b/a AmerenIP and Central Illinois Light Co. d/b/a AmerenCILCO, hereinafter referred to as the “Companies” or “Ameren Companies.”

**Q. What are your responsibilities in that position?**

A. I have responsibility for: assuring that the Ameren Companies comply with state and federal regulatory commission regulations; cost of service and rate design; administering tariffs; monitoring regulatory commission actions; following emerging regulatory issues; communicating with regulatory commissioners and staff; facilitating corporate responses to regulatory initiatives; and advising senior management on regulatory issues.

23 **Q. What is your educational and employment background?**

24 A. I began my career at Central Illinois Public Service Company (“CIPS”) (now  
25 known as AmerenCIPS) in 1976, in the Accounting Department. In 1979, I was  
26 promoted to the Rates and Research Department and held several analytical and  
27 supervisory positions within that department until 1989, when I was named  
28 manager. In 1993, I was named manager of the Corporate Planning Department,  
29 responsible for overseeing economic and financial forecasting activities and  
30 CIPS’ strategic planning and resource planning functions. In 1995, I became  
31 manager of the Regulatory Services Department. I became an employee of  
32 Ameren Services in August 2001. In 2002, I became manager of the State  
33 Regulatory Policy Department and named general manager over Regulatory  
34 Policy and Planning in 2003. My title recently changed from general manager to  
35 director over the same responsibilities. I received a Bachelor of Science degree  
36 in 1975 from Western Illinois University and a Master of Arts degree in business  
37 administration in 1981 from Sangamon State University, now known as the  
38 University of Illinois at Springfield. I have previously testified on behalf of  
39 Ameren Companies in various proceedings before the Illinois Commerce  
40 Commission (“Commission”) and the Federal Energy Regulatory Commission.

41 **Q. What is the scope of your testimony?**

42 A. I will discuss the Ameren Companies’ request that certain tariffs contained in this  
43 filing be approved as part of the Commission’s Order in this docket, and the  
44 Companies' overall Post-2006 tariff strategy and their plan to implement uniform  
45 tariffs and rate policies. I will also sponsor a tariff for determination of market

46 value, including a market value adjustment factor. Finally, I will present  
47 testimony on a post-auction review process open to all stakeholders that could  
48 result in refinements to the procurement process and related tariffs prior to  
49 subsequent auctions.

50 **POST-2006 TARIFF DISCUSSION**

51 **Q. Please describe the Ameren Companies' Post -2006 Tariff strategy.**

52 A. This filing represents the first step in a two-step regulatory plan to implement the  
53 Companies' Post-2006 rates. In this filing, the Companies are seeking approval of  
54 the auction process and tariffs associated with the provisions of utility procured  
55 power supply service, including approval of a market value tariff - Rider MV.  
56 Unique in this effort is that the power procured to serve the Ameren Companies'  
57 customers will all come from the wholesale market.

58 No later than February 1, 2006, the Companies will file Delivery Services  
59 ("DS") tariffs intending to have them conform and work in synchronization with  
60 the Basic Generation Service ("BGS and BGS-L") tariffs and other related supply  
61 tariffs across the Ameren Companies in order to provide a continuation of  
62 bundled electric service. The BGS tariffs to be approved as part of the current  
63 proceeding, the revised DS tariffs included in the next filing and all other tariffs  
64 continuing in effect after January 1, 2007, will become part of the new Electric  
65 Service Schedule of tariffs for each Ameren Company, to take effect on January  
66 2, 2007, fully replacing the existing Electric Service Schedules in effect today for  
67 bundled service and for delivery service.

68 **Q. Why is it necessary to file revised DS tariffs?**

69 A. Tariff uniformity has long been a goal of both market participants and the  
70 Commission's Staff. In earlier DS proceedings it was recognized that where  
71 utilities could use common terms and conditions, and employ common operating  
72 procedures, this would facilitate retail competition. Those stakeholders interested  
73 in promoting the retail market saw a great benefit in commonality or uniformity.  
74 Customers with facilities in different service territories could rely upon a common  
75 data set in procuring power and energy, and marketers could reduce  
76 administrative costs and enhance ease of transacting business. The end result is  
77 the reduction of barriers to retail competition. Certainly the same goals are  
78 applicable today. Ameren Corporation, through its utilities, has taken steps to  
79 make conforming changes to delivery tariffs for the Ameren Companies after its  
80 acquisition of AmerenCILCO and is presently working to conform AmerenIP  
81 tariffs.

82 There are, however, limits as to what can be conformed during the  
83 mandatory transition period. For instance, AmerenIP offers the Power Purchase  
84 Option ("PPO") and charges a transition charge while the other Ameren  
85 Companies do not. After the mandatory transition period, such differences will  
86 no longer be an issue. Another area we will pursue is the establishment of  
87 uniform DS tariff customer classes and uniform DS tariff terms and conditions.  
88 There is no need to preserve the historical rate class definitions for each utility.

89 **Q. Are there other benefits associated with tariff uniformity?**

90 A. Yes. Uniform tariffs and service policies will benefit Ameren Companies’  
91 customer service network, billing systems, tariff administration and field  
92 operations by effectively administering a single set of electric tariffs versus three  
93 for Illinois. This streamlining effort will allow the Companies to achieve  
94 efficiencies in their operations and will result in even better customer service for  
95 their customers.

96 **RIDER MV DISCUSSION**

97 **Q. Please describe the Ameren Companies’ proposed Market Value Tariff**  
98 **(Rider MV).**

99 A. Rider MV provides for appropriate determination, on a periodic basis and in a  
100 transparent manner, of the market value of electric power and energy supply as a  
101 function of contracts applicable to the market in which the Company sells, and  
102 retail customers in its service area buy, electric power and energy. Rider MV  
103 makes this determination based on the prices and terms contained in wholesale  
104 contracts entered into by the Company with suppliers resulting from a competitive  
105 procurement process. Rider MV establishes the methodologies by which such  
106 prices are translated into seasonal and peak and off-peak values, as applicable, for  
107 use in calculating individual supply-related charges in the Company’s retail tariffs  
108 to which this Rider is applicable. Such methodologies take into account relevant  
109 characteristics of retail customers in the Company’s service territory and are  
110 described through formulae. Rider MV also describes the competitive  
111 procurement process which employs annual auctions conducted by an

112 independent auction manager in which registered bidders vie for the obligation to  
113 provide electric power and energy supply and certain other related services to the  
114 Company in amounts sufficient to serve percentage shares of the Company's  
115 retail electric power and energy supply requirements for specified, varying  
116 durations. Rider MV defines the criteria that such a process must meet in order  
117 for the resulting contracts and prices to be used as provided in this Rider. Rider  
118 MV also includes computations that provide for seasonal differentiation in the  
119 payments made to suppliers. Finally, Rider MV provides the market value retail  
120 supply charges derived from the Competitive Procurement Auction ("CPA")  
121 process and certain market value adders.

122 Thus, there are four major components of Rider MV: 1) a detailed  
123 description of the auction process; 2) the contingency plans for procurement  
124 outside of the auction process; 3) the retail rate translation process; and 4) the  
125 market value price adjustment methodologies for reconciling the costs of power  
126 supply with the retail service revenues for supply service. The retail prices  
127 applicable to power supply service customers will be reflected in the Retail  
128 Supply Charge Information Sheet, filed at the conclusion of each auction.

129 **Q. Are you sponsoring or addressing the auction process, contingency plan, or**  
130 **translation prism portions of the MV?**

131 A. No. Mr. Craig Nelson and Mr. James Blessing address the auction process and  
132 contingency plan, and Mr. Wilbon Cooper addresses the translation prism.

133 **Q. Are you sponsoring the Market Value Adjustment Factor?**

134 A. Yes. I will discuss the determination of this factor and the process for its  
135 administration. Mr. Nelson discusses the need for such a mechanism in his  
136 testimony.

137 **Q. Please describe the purpose of the Market Value tariff.**

138 A. As Mr. Nelson explains in greater detail, the CPA process is the best means for  
139 the Ameren Companies to procure power for the customers at the lowest cost. The  
140 Rider MV tariff is the rate mechanism by which this wholesale market price  
141 becomes reflected in retail rates. Although I am not an attorney, my  
142 understanding is that the Market Value is established pursuant to Section 16-112  
143 of the Customer Choice Law, and is used for two main purposes: 1) the Market  
144 Value provides the basis for pricing power supplied under the PPO; and 2) the  
145 Market Value is a component of the retail price cap for utility-supplied power  
146 after the mandatory transition period that is established in Section 16-111(i) of the  
147 Customer Choice Law. Given the statutory requirements for a “market price” in  
148 these instances, and in order that this price be translated into retail rates, Rider  
149 MV serves to facilitate these objectives.

150 **Q. Will the Ameren Companies continue to offer customers the PPO after 2006?**

151 A. Yes. The Act requires us to offer the PPO to those customers who paid transition  
152 charges during the mandatory transition period. Rider MV provides that after  
153 January 1, 2007, any customer that qualifies for PPO service from the Company  
154 shall take such PPO service under the terms and charges applicable to Rider BGS,

155 Rider BGS-L, or RTP-L supply tariffs, for which they otherwise qualify for  
156 service.

157 **Q. Is your Post-2006 PPO offering consistent with the Act?**

158 A. Yes, it is. The Act requires that the PPO be priced equal to market value. The  
159 charges under Rider BGS, Ridger BGS-L and RTP-L are equal to the market  
160 value.

161 **Q. How is market value currently determined?**

162 A. Under the Ameren Companies' MVI tariffs, market value is determined using Into  
163 Cinergy index prices as a proxy for prices within Ameren, with certain  
164 adjustments as defined within the MVI tariffs.

165 **Q. Why are the Ameren Companies proposing to change from the existing MVI  
166 formulae to another method after 2006?**

167 A. The Into Cinergy measures have been useful as a proxy for Ameren zone-specific  
168 prices where and when we lacked sufficient Ameren zone-specific data to  
169 establish prices specific to the Ameren zone market and products. The creation  
170 of an auction process in Illinois whereby participating suppliers actively bid  
171 against one another for serving slices of retail load - reflecting the specific  
172 Ameren Companies' generation service offerings -- is a far more precise measure  
173 of a market price. The continued use of a proxy would no longer be appropriate  
174 and could never be as accurate as the auction process itself. The reason the  
175 Commission adopted the Into Cinergy method and terminated the use of the  
176 Neutral Fact Finder (NFF) method (which used a different proxy for market  
177 value) that had been used previously is that there was general agreement that the

178 NFF method was an inferior and less accurate means of measuring market value.  
179 We are again at a point where we need to terminate the use of a proxy method -  
180 but this time we are not replacing it with a new and improved proxy, but rather  
181 with the actual prices in this market for the actual products being purchased by the  
182 utilities.

183 **Q. Why are the Ameren Companies proposing an adjustment factor for power**  
184 **supply costs?**

185 A. Actually, the Companies are proposing two separate adjustment mechanisms as  
186 defined in Rider MV, one for supply obtained from the standard auction process  
187 and another for supply purchased outside of the normal auction process. The  
188 Market Value Adjustment Factor (“MVAF”) performs the function of tracking the  
189 monthly differences between retail customer revenue for supply services and the  
190 wholesale power supply costs for each of the auction categories under contract  
191 that are obtained through the standard auction process. Any differences  
192 determined between the wholesale supply cost and the associated retail revenue,  
193 subject to other adjustments in Rider MV, is then applied to customer usage as a  
194 credit or a charge in a subsequent billing period.

195 There is also a Contingency Supply Factor (“CSF”) adjustment mechanism that is  
196 only applicable in the event the Company must arrange power supply outside of  
197 the standard auction process.. The purpose of the CSF is to compare the  
198 wholesale power supply costs associated with contingency supply needs with the  
199 supply costs already reflected in the Market Value retail charges, subject to

200 adjustments per Rider MV. The CSF adjustment can either be a credit or a charge  
201 to retail customer usage in a subsequent billing period.

202 **Q. How does the proposed MVAF cost adjustment mechanism operate?**

203 A. The specific formula for the MVAF is reflected in Rider MV. Essentially, the  
204 formula uses a determination month to compare the total costs for a specific  
205 auction procured power supply category to the sum of billed (and unbilled) retail  
206 revenue for the same auction category. The revenue amount is further adjusted to  
207 exclude certain retail adders included in the MV prices. The under-or-over  
208 recovery for the determination month is further adjusted by a balancing amount  
209 (debit or credit) derived from prior applications of the MVAF, a step to ensure the  
210 MVAF is accurate. Finally, the dollar amount to be credited or charged to  
211 customer usage is divided by the forecasted customer usage for the month the  
212 MVAF is to be effective. The Companies will file the MVAF charge or credit  
213 each month with the Commission, along with detail of the calculation, prior to its  
214 effective date. The Companies also propose that annually, no later than April 1,  
215 they submit a report to ICC Staff, summarizing the operation of the MVAF for the  
216 preceding calendar year.

217 **Q. What are the benefits of having a MVAF for retail generation services?**

218 A. As discussed by Wilbon Cooper, the retail rate translation prism (or tool) relies  
219 on a substantial number of market-based inputs and customer data to derive  
220 seasonal and peak period prices for the various customer classes from a single per  
221 Megawatt-hour (“MWh”) power supply price. That level of rate granularity for  
222 each customer class subjects the Ameren Companies and retail customers to

223 possible over-or-under recovery of the power supply costs as load shapes deviate  
224 from those used in the translation process to design the rates. Therefore, the  
225 Ameren Companies are proposing to implement a MVAF as part of the retail  
226 power supply tariffs to synchronize underlying power supply costs with retail  
227 revenue. Through the application of the retail supply tariffs and the MVAF, retail  
228 customers will pay no more and no less than the actual cost of power supply.

229 **Q. What else can Ameren Companies do to reduce the over-or-under recovery**  
230 **concern if the MVAF is not adopted?**

231 A. The Ameren Companies could eliminate most of the risk for over-or-under  
232 recovery by simply applying the overall weighted average seasonal wholesale  
233 supply prices derived from the auction to each customer class without  
234 differentiating rates for individual rate classes, voltage levels or employing  
235 peak/off-peak pricing. While this would reduce the cost recovery risks, it would  
236 result in pricing imperfections that would not reflect cost causation of individual  
237 customer classes and would drastically differ from the rate designs used in  
238 bundled tariffs today.

239 **Q. How will the CSF mechanism work if the Company is required to purchase**  
240 **contingency supply?**

241 A. The details of the CSF mechanism are set forth in Rider MV. The CSF is only  
242 activated if the Company must acquire supply in some manner outside of the  
243 normal auction process. If that were to occur, the CSF computation would  
244 compare for a determination month, the cost of contingency power costs to the  
245 supply costs from prior auctions, if any, that the contingency supply is replacing.

246 The contingency supply costs shall be reduced for any default payments received,  
247 up to the amount of the excess paid for contingency supply for such month. The  
248 cost difference between the contingency supply and the supply being replaced is  
249 divided by the forecasted customer usage for the billing period the CSF will be in  
250 effect. The CSF will also be adjusted with a balancing factor to account for any  
251 CSF inaccuracies during prior months. The CSF will recover only the incremental  
252 cost of contingency supply, no more and no less.

253 **Q. Please describe how customer retail supply prices will be publicly filed and**  
254 **made known to customers after each auction.**

255 A. The Rider MV Translation to Retail Charges section of the tariff sets forth the  
256 methodology to convert the auction prices into retail charges for each customer  
257 group. After each auction, at the time and in the form prescribed in the tariff, the  
258 Company will file a revised Retail Supply Charge Information Sheet to take effect  
259 on the date energy from the most recently concluded auction begins delivery.  
260 Customers taking retail supply service should refer to the Retail Supply Charge  
261 sheet for the applicable prices they will be charged for supply service. Depending  
262 on the customer group and supply tariff, the charges will vary by customer class,  
263 by season, by delivery voltage and by time-of-use. For customers taking service  
264 under Rider RTP or RTP-L, the Retail Supply Charge sheet will only provide the  
265 per kWh adder representing the capacity and adjustments to the market value  
266 energy charges as described in Rider MV. The fluctuating hourly energy prices  
267 will be available to RTP and RTP-L customers pursuant to electronic means.

268                   The exact timetable for making the Retail Supply Charge Informational  
269                   filing at the ICC is included in Rider MV. The Ameren Companies' plan is to  
270                   make this filing on or before the ninth business day following a declaration by the  
271                   Auction Manager that the auction was successful. The Supply Charge  
272                   Information Schedule will be in the form of Appendix A to Rider MV. The  
273                   charges will be referenced by the various retail power supply tariffs as the source  
274                   for energy prices and will be available on Ameren's web-site.

275                   **POST-AUCTION PROCESS**

276                   **Q.     How can the auction process be modified in the future?**

277                   A.     After each auction is completed, Ameren recommends that the Commission  
278                   convene informal workshops that would be open to all stakeholders, including  
279                   suppliers, regulatory personnel, consumer advocates among others. Participants  
280                   would be able to openly discuss potential changes to the auction process or rate  
281                   related issues. The workshops would be held over a specified period of time. This  
282                   would ensure productivity and to the extent any changes were warranted, allow  
283                   enough time for Ameren to seek Commission approval of those changes before  
284                   the next auction.

285                   **Q.     Would this process take place after each auction?**

286                   A.     Yes, at least for the foreseeable future.

287 **Q. What if a participant decided it wanted to propose a specific change to the**  
288 **auction process—would it be barred from doing so as a result of its**  
289 **participation in the informal workshop setting?**

290 A. No. The participant, and for that matter a non-participant, would still have all  
291 rights and remedies that it currently does in terms of bringing such matters before  
292 the Commission.

293 **Q. Please describe the Ameren Companies' plan for public notice of tariffs.**

294 A. We will publish public notice pursuant to Part 255 of Chapter 83 of the Illinois  
295 Administrative Code in newspapers in general circulation throughout our electric  
296 service territory, and will post notice in designated business offices. Proofs of  
297 Publication will be filed in this proceeding when available.

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

299 A. Yes.