

Docket No.: 04-0476
Meeting Date: 06-29-05
Deadline: 07-06-05

MEMORANDUM

TO: The Commission

FROM: Michael L. Wallace, Administrative Law Judge

DATE: June 20, 2005

SUBJECT: Illinois Power Company

Proposed general increase in natural gas rates.

Application for Rehearing and Reconsideration filed by Illinois Power Company

Application for Rehearing filed by Dynegy, Inc.

RECOMMENDATION: Deny both applications for rehearing and reconsideration.

The Commission, on May 17, 2005, entered an order granting an increase in natural gas rates. The major contested issues in the case relate to inclusion in rate base of investments associated with the Hillsboro Storage field. The Commission found that the field was 53.44% used and useful and that the incremental cost of the base gas inventory should not be included in rate base. IP and Dynegy have both filed applications for rehearing/reconsideration on those two issues. IP continues to argue that Hillsboro is 100% used and useful and even using Staff's methodology and prices, the field is 84% used and useful. IP argues that the conclusions ignore prior Commission decisions and constitute poor policy. IP asserts that the order creates a dichotomy between Hillsboro's actual operating capability and the capability attributed to it by the order will be detrimental to ratepayers.

IP's application contains a quite lengthy discussion of this dichotomy, and to summarize, IP argues that the order will create a disincentive to further development of underground storage resources. Resources that, according to IP, provide significant reliability and gas cost savings benefits to ratepayers. IP also takes issue with the Commission's use of a three-year period of 2001-2004 rather than a three-year period that takes a prospective view. IP asserts that the field was restored to 100% operating condition by the end of the 2004 injection season.

IP also requests rehearing/reconsideration of the Commission's decision to exclude from rate base the \$10,368,000 cost IP incurred to reinject 1.8 Bcf of base gas

into the field. IP argues that the order excludes a capital cost item from rate base without making any finding that the investment in question was imprudently incurred or is not used and useful. IP asserts that the exclusion is being based on "management error" without any finding of imprudence or that the amount reinjected was not fully supported by a number of industry accepted techniques.

Dynegy seeks rehearing on the same issue dealing with the Hillsboro Storage Field and requests the Commission to find the field 100% used and useful and that the \$10,368,000 be included in rate base. Dynegy's arguments were generally similar to those of IP's above.

Unless the Commission wishes to revisit these issues, I would recommend that the applications for rehearing/reconsideration be denied. I think that for the most part all the arguments were made previously concerning the Hillsboro Storage Field.

MLW/lw