

**ILLINOIS COMMERCE COMMISSION**  
**DOCKET NOS. 05-0160, 05-0161, 05-0162 (Consolidated)**

**SURREBUTTAL 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**

**August 29, 2005**

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**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 Company, a subsidiary of Ameren Corporation

**Q. Are you the same Robert J. Mill who previously filed rebuttal testimony in this proceeding?**

A. Yes, I am.

**Q. What is the purpose of your surrebuttal testimony?**

A. The purpose of my testimony is to respond to issues raised in the rebuttal testimony of: Staff witnesses Mr. Scott Struck and Ms. Mary Selvaggio; Illinois Industrial Energy Consumers (IIEC) witnesses Mr. Brian Collins and Mr. James Dauphinais; Mr. John Domagalski and Mr. Richard Spilky representing the Coalition of Energy Suppliers (CES), and Mr. William Steinhurst on behalf of the Citizens Utility Board (CUB).

24 **Q. Can you briefly describe the areas on which you will be testifying?**

25 A. Yes. I will be responding to issues regarding the proposed adjustments to the  
26 Basic Generation Service (BGS) prices, and the operation and administration of  
27 the Market Value Adjustment Factor (MVAF) and Contingency Supply Factor  
28 (CSF) adjustment mechanisms contained in Rider MV. I also will respond to  
29 comments regarding whether there is a need for an annual auction review docket  
30 to be initiated between auctions, whether the Commission should initiate a  
31 proceeding to examine any “communication” materials that utilities may be  
32 planning to offer regarding Post 2006 matters, and whether renewable energy  
33 initiatives or demand response resources need to be coordinated with the  
34 procurement process at issue in this docket.

35 **Q. Mr. Struck raises the question as to whether your proposal that the**  
36 **uncollectible expense cost component for BGS, once determined in a later**  
37 **delivery service rate case, be applied as a factor to the Rider MV retail**  
38 **supply charges, conflicts with your rebuttal testimony that both the**  
39 **methodology and value for the uncollectible adjustment be determined in the**  
40 **delivery services rate cases. Will you comment?**

41 A. Yes. Mr. Struck has identified an inconsistency between my testimony and the  
42 response to Staff Data Request OGC 1.01. While the use of a factor for recovery  
43 of uncollectible expense from customers taking BGS seems to be a reasonable  
44 methodology, I agree that my rebuttal position was that both the methodology and  
45 the value for the uncollectible adjustment be deferred until the next delivery  
46 services rate case. Consequently, I am in agreement with Mr. Struck’s modified

47 Rider MV tariff language regarding the uncollectible adjustment at lines 83-88 of  
48 his rebuttal testimony.

49 **Q. Do you have any other comments regarding Mr. Struck's position that the**  
50 **recovery "methodology" for uncollectible and other adjustments to the retail**  
51 **supply charges be delayed until the delivery services rate case?**

52 A. Yes. Based on Mr. Struck's representations that it is appropriate to decide the  
53 methodology for recovery of such adjustments in a rate case setting rather than in  
54 this docket, I expect no opposition from Mr. Struck and Staff on the inclusion of  
55 these costs in BGS supply charges for 2007 and beyond once the approved cost  
56 levels and methodologies for recovery are decided in the upcoming delivery  
57 service rate case. Stated differently, the Ameren Companies do not want to learn  
58 in the next delivery service case that Staff or the Commission is then taking the  
59 position that we cannot seek to recover these BGS related costs because the  
60 methodology for their cost recovery was not addressed in these proceedings.

61 **Q. Mr. Struck states that the Supply Procurement Adjustment (SPA) should**  
62 **not be tracked through the MVAF as proposed by CES witnesses**  
63 **Domagalsky and Spilky and as agreed by you in your rebuttal testimony.**  
64 **According to Mr. Struck, the stated goal of CES's proposal, to ensure that**  
65 **the Ameren Companies neither over collect nor under recover these costs,**  
66 **would not be accomplished. Ms. Selvaggio also supports Mr. Struck's**  
67 **position. Do you agree?**

68 A. No. First let me describe again the nature of SPA costs to be recovered. They are  
69 the costs listed in detail in the proposed Rider MV that are directly or indirectly

70 associated with the procuring and administering of utility power supply pursuant  
71 to the process resulting from the final Order in this docket, with such costs not  
72 recovered through or by any other means. Specifically, the Rider MV tariff lists  
73 the SPA costs as including: professional fees, costs of engineering, supervision,  
74 insurance, payments for injury and damage awards, taxes, licenses, and any other  
75 administrative and general expense not already included in the auction prices for  
76 power and energy service, and not recovered from the supplier fee. This  
77 adjustment shall also include any capital and operating costs for generation  
78 resources incurred outside of the CPA process and any costs assigned to the  
79 power supply administration function. Continuing, the costs established for the  
80 SPA in a rate case would be precisely recovered if they were included in the  
81 MVAF tracking mechanism. This is so because the SPA costs are only  
82 recoverable from the retail supply charges applied to bundled customers,  
83 requiring an estimate of the MWH to be sold to bundled customers when initially  
84 adding the SPA to the retail supply charges resulting from the auction. Without  
85 the MVAF mechanism to also true-up the collection of the authorized level of  
86 SPA costs, the Ameren Companies will always be in an over or under recovery  
87 position with respect to such costs, due mostly to the level of customer switching  
88 between RES service and utility bundled service. Again, the proposed MVAF  
89 tracking of SPA costs would be limited to the fixed level of SPA costs established  
90 by the Commission in a rate case as being associated with supply procurement,  
91 and will not factor in any changes due to the actual SPA costs between rate cases.

92                   It seems that the source of Mr. Struck's confusion may be his assumption  
93                   that the MVAF would track SPA cost recovery against "actual" SPA costs as they  
94                   develop prospectively, but that is not the case in my acceptance of the CES  
95                   proposal. The Ameren Companies will not recover an annual amount of SPA that  
96                   will exceed the level established in the prior rate case. This is so because we will  
97                   monitor how much of the previously approved SPA amount is being recovered  
98                   each month. The MVAF calculation will then be used to synchronize the actual  
99                   cost recovery with the annual established SPA cost target.

100   **Q.    Is there any downside to accepting the Staff position?**

101   A.    Yes. The downside associated with adoption of the Staff position is that the  
102           Ameren Companies may not be made whole for SPA costs previously identified  
103           by the Commission as being just and reasonable and that customers may overpay  
104           SPA costs. From the consumer perspective, it appears that the CES proposal as  
105           clarified by my testimony will accurately charge customers for Commission  
106           approved SPA costs, synchronizing future recovery to the level established in the  
107           prior rate case.

108                   We are entering a new era where there is a great deal of uncertainty  
109                   whether customers will continue taking utility supply service or whether they  
110                   switch to a competitive supplier, and it is necessary that the Commission decide  
111                   now how such cost components will be trued-up in conjunction with the MVAF  
112                   formula.

113   **Q.    CES witnesses Mr. Domagalski and Mr. Spilky still insist the Commission**  
114   **should address the types of costs that should be included in the SPA in this**

115 **proceeding, though they do agree the upcoming rate case is the appropriate**  
116 **venue for the Commission to set the actual SPA charges. Will you please**  
117 **comment?**

118 A. Yes. Their proposal is unnecessary. Already included within Rider MV, and  
119 previously referenced in my surrebuttal testimony, is a detailed listing of the costs  
120 to be considered as part of the SPA. I believe this list to be adequately  
121 comprehensive and will provide useful guidance to parties in the rate case as costs  
122 are reviewed and assigned to the power supply function.

123 **Q. The CES witnesses suggest that the Ameren Companies may have to make**  
124 **further tariff language changes to Rider MV language sometime in 2006 if**  
125 **the allocation methodology is not addressed now and that could create**  
126 **customer uncertainty. Do you agree?**

127 A. No. Allocation methodology is typically an issue reserved for rate cases where  
128 cost functionalization methods are under review and fully litigated. In any event  
129 the Rider MV tariff language is quite adequate in determining the nature of the  
130 costs to be recovered through the SPA; no further modifications are warranted.

131 **Q. Is the magnitude of the SPA significant in terms of the overall BGS cost?**

132 A. No. The SPA will be a relatively small component of the total Retail Supply  
133 Charge. For example, if one were to assume that the costs of managing the power  
134 procurement function including overhead was \$3 million annually, the SPA cost  
135 would represent only about \$0.10 to \$0.20 per MWh, depending on the amount of  
136 bundled load being served. On a kilowatt-hour basis, this translates to \$0.0001 to  
137 \$0.0002 per kWh. Assuming a small commercial customer who has an annual

138 load of 20,000 kWh, the annual charge would be approximately \$2 to \$4. The  
139 claims of uncertainty surrounding the SPA adjustment ,and thus making it  
140 difficult for ARES to conduct business with potential commodity customers, is  
141 simply non-existent.

142 **Q. Mr. Domagalski and Mr. Spilky continue to recommend the Commission**  
143 **establish a new proceeding to evaluate communication materials prior to**  
144 **their dissemination to customers. Is this reasonable?**

145 A. The Ameren Companies are acutely aware of how to communicate with  
146 customers and the limitations imposed on such communications by virtue of the  
147 Commission's IDC rules. This is not a new challenge, as the utilities have been  
148 so engaged for several years, and there has been no previous call to have formal  
149 dockets to examine their literature or materials sent to customers in the manner  
150 they prescribe. In addition, even if the Commission were to initiate such a docket  
151 at the conclusion of these hearings, the materials will not exist in their final forms.  
152 Communications with our customers is an ongoing effort by the Ameren  
153 Companies. There will be many communication materials generated prior to  
154 2007, and beyond. The Commission should not have to initiate a docket every  
155 time the utility intends to post information on its website or send customers a  
156 letter or a bill insert regarding Post 2006 matters.

157 **Q. Ms. Selvaggio has withdrawn her recommendation to include interest in the**  
158 **RB Factor of the MVAF formula, since such RB adjustments would not**  
159 **likely be material. However, she continues to propose that interest be**

160 **reflected in the CSF formula and suggests proposed language to factor in**  
161 **interest or carrying charges. Do you agree with her approach on this issue?**

162 A. No. I believe there is a better approach for reflecting interest or carrying charges  
163 that will make customers whole for the time value of funds associated with  
164 default of a supplier.

165 **Q. Will you please clarify how the Ameren Companies envision processing any**  
166 **default damages received in the event of a default supplier?**

167 A. It is our view that when the Ameren Companies experience a supplier default at a  
168 time when market prices are higher than those contained within the supplier  
169 contract, the credit provisions in the Supplier Forward Contract would trigger a  
170 lump sum payment to the Ameren Companies. The Ameren Companies would  
171 follow their contingency procedures in the tariff to replace the energy  
172 responsibilities of the defaulted supplier. Our plan would call for the  
173 amortization of the default damages over the remaining months of the defaulted  
174 supply contract. This approach would allow the default payment to more closely  
175 track the period for which the contingency costs are related and, therefore, ensure  
176 a closer match between retail power prices and future power supply costs. Thus,  
177 in this regard, customers receive the benefit of better price signals, and cost  
178 recovery is synchronized. Based on this explanation, I agree that there should be  
179 an accrual of interest associated with the period the Ameren Companies hold the  
180 unamortized balance of default damages. The Contingency Power Cost (CPC)  
181 Factor of the CSF should be clear on this point.

182 **Q. Please explain why you recommend that any default damages received be**  
183 **amortized over the remaining months of the supply contract of the default**  
184 **supplier and should not be refunded all at once?**

185 A. In the case of default damages being received from a default supplier, market  
186 prices for replacement power for the remaining months would be higher than the  
187 market when the original contract was signed. If the default damages were  
188 returned immediately to customers through the CSF, the commodity retail prices  
189 in future months would rise due to the replacement energy being procured in a  
190 higher cost market than the original contract. Price stability for bundled  
191 customers results from the amortization of damages over the remaining months of  
192 the default contract.

193 **Q What then is your proposal for the CSF?**

194 A. I propose a carrying charge established by the Commission be accrued for any  
195 default damages that remain unrefunded through the CSF mechanism. Such  
196 accrued interest would be amortized over the remaining months of the refund  
197 along with the amortization of principal. This is appropriate because the Ameren  
198 Company would have use of those funds until such time they are returned to  
199 customers through the monthly amortization. The definition of the CPC Factor  
200 must be modified accordingly to implement my recommendation for refunding  
201 the monthly default damage principal plus interest. Therefore, with the adoption  
202 of my proposal, no changes should be made to Factor RB for interest associated  
203 with default damages. Factor RB true-ups in the CSF will mostly result from  
204 over or under-estimating customer usage and for the same reasons that Ms.

205 Selvaggio based her decision to not pursue interest expense as part of the Factor  
206 RB of the MVAF, I see no need to complicate the RB Factor of the CSF for  
207 interest.

208

209 **Q. In the event the Commission was to order a refund due to operation of the**  
210 **CSF or for other reasons, does your rebuttal testimony on this point still hold**  
211 **true?**

212 A. Yes. In that testimony I agreed with Ms. Selvaggio's addition of a Factor O,  
213 designed to flow through a Commission ordered adjustment to the CSF, plus  
214 interest.

215 **Q. Mr. Collins continues to state his view that a Commission formal proceeding**  
216 **be conducted annually to evaluate the auction process. He cites several**  
217 **reasons for such a proceeding including the fact that one is held in New**  
218 **Jersey subsequent to each auction. Do you have anything to add to your**  
219 **rebuttal testimony on this issue?**

220 A. Yes. Aside from stating at length that there is an annual review process in New  
221 Jersey, Mr. Collins has offered convincingly little in the way of any benefits to  
222 be realized from that process. He has ignored the timing considerations I raised  
223 in my direct testimony; he has not explained in any detail what constitutes the  
224 New Jersey process; and he has not offered any rational explanation as to why  
225 the Ameren Companies concerns regarding competing dockets is invalid—to  
226 simply state dockets can be consolidated is not settling. Dockets are not

227 consolidated at random—there are a host of factors that play into such  
228 determinations.

229 **Q. Mr. Steinhurst continues to promote the benefits of physical delivery of**  
230 **renewable energy as opposed to reliance on green certificates. Mr.**  
231 **Dauphinais asserts demand response resources aid in mitigating high market**  
232 **prices and maintaining supply adequacy under certain circumstances. Do**  
233 **you have a response to their positions?**

234 A. Yes. The Ameren Companies will soon be making a filing in conjunction with  
235 the Commission's July 19, 2005 Resolution adopting the Governor's Sustainable  
236 Energy Plan, specifically with regard to wind power. The Commission's  
237 Resolution has also engaged the electric utilities to consider energy efficiency and  
238 demand response programs which presumably will be directed to residential,  
239 commercial and industrial customers. Rulemakings and/or filings regarding these  
240 initiatives are expected to take place during 2006, for programs beginning in  
241 2007. Mr. Steinhurst and Mr. Dauphinais' remarks and interests in these matters  
242 are better directed to that filing and the Commission's initiative.

243 **Q. Does this conclude your surrebuttal testimony?**

244 A. Yes.