DIRECT TESTIMONY

of

Mike Luth
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Rates Department
Financial Analysis Division
Illinois Commerce Commission

Central Illinois Light Company d/b/a AmerenCILCO
Central Illinois Public Service Company d/b/a AmerenCIPS
Illinois Power Company d/b/a AmerenIP

Proposed general increase in rates for delivery service

Docket Nos. 06-0070/06-0071/06-0072 (Consolidated)

April 26, 2006

WITNESS IDENTIFICATION

Q. Please state your name and business address.

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

Q. Please state your professional qualifications and work experience.

A. I received a B.S. in Accounting from Illinois State University. I have earned the C.P.A and C.M.A professional designations. Since graduating, I have worked as an Assistant Property Manager with a real estate company and as a Field Auditor with the Wisconsin Department of Revenue. In October 1990, I joined the Accounting Department of the Illinois Commerce Commission ("Commission"). In June 1998, I transferred from the Accounting Department of the Commission to the Rates Department.

Q. Have you testified in any previous Commission dockets?

A. Yes. I have testified on numerous occasions before the Commission.

PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. I have reviewed and analyzed the filings of Central Illinois Light Company d/b/a AmerenCILCO ("AmerenCILCO"), Central Illinois Public Service Company d/b/a AmerenCIPS ("AmerenCIPS"), and Illinois Power Company d/b/a AmerenIP ("AmerenIP") (jointly "Ameren" or "Companies")

for a proposed general increase in rates for delivery service. Specifically, I address the rates presented in the Direct Testimony of Ameren witness Leonard M. Jones and recommend changes in the proposed customer and meter charges to more properly match revenue recovery with cost (AmerenCIPS Exhibit 10.0; AmerenCILCO Exhibit 10.0; and AmerenIP Exhibit 10.0). Additionally, I will address the following proposed riders and/or language changes for Local Government Fees and Adjustments, Supplemental Customer Charges, Tax Additions, Miscellaneous Fees and Charges, Rider RDC, and Rider EEA.

COMPARISON OF CUSTOMER CHARGE REVENUES WITH CUSTOMER COSTS, AND METER CHARGE REVENUES WITH METER COSTS

Q. Is Ameren's proposal to develop one meter charge and one customer charge that would be charged to customers in all of the Ameren service territories reasonable?

A. In general, Ameren's proposal to develop one meter charge and one customer charge for similar customers across the Ameren service territory is reasonable. The uniform meter and customer charges, however, should properly match customer costs with cost recovery under customer charges and meter costs with cost recovery under meter charges.

Q. Please compare customer and meter costs with recovery of those respective costs under Ameren's proposed customer and meter charges.

A. Overall, Ameren's rate proposals do not properly differentiate customer and meter cost recovery. When comparing the cost of service study (Schedule E-6) with revenues shown on Schedule 10.6 attached to Mr. Jones' direct testimonies (AmerenCIPS Exhibit 10.0; AmerenCILCO Exhibit 10.0; and AmerenIP Exhibit 10.0), meter costs are under-recovered through the meter charge while customer costs are over-recovered through the customer charge.

As explained in the footnote explaining columns (4) and (5) of Schedule 10.3 attached to Mr. Jones' testimonies, the proposed meter charge is based upon the embedded cost of meters and the allocated cost of meter reading. When comparing the embedded cost of meters, account no. 370, and the allocated cost of meter reading, account no. 902, with revenues recovered under the proposed meter charge (Ameren Schedule 10.6), meter charges under-recover meter costs by $21,538,344; or 25.36 percent of meter costs. Meter costs total $84,925,000 for the Companies (attached Schedule 8.1, pages 1-3, sum of line nos. 12 and 13, "Total Ill. Elec." column from each page) but meter charges recover only $63,386,656. Conversely, customer costs total $122,580,000 but customer charges recover $139,070,910; for an over-recovery of $16,490,910 or 13.45 percent of customer costs.

Q. Why are you concerned that meter costs are being under-recovered and customer costs are being over-recovered?

A. Since meter services are a competitive service, the Companies' under-recovery of meter costs discourages meter service competition in Illinois. An alternative provider's cost to install, maintain, and read meters would be less beneficial to the customer if the avoided Ameren meter charge is lower than Ameren's metering costs would suggest. For example, if an alternative meter service provider could install, maintain, and read meters to an average AmerenIP DS-4 customer for 10 percent less than the average AmerenIP cost per DS-4 meter of $1,088.80 per month ($3,568,000 (attached Schedule 8.1, page 1, line no. 12 + line no. 13, DS-4 column) divided by 3,277 test year DS-4 meter bills (AmerenIP Exhibit 10.0, Schedule 10.3, page 2 of 4)), the resulting average charge would be $979.92 ($1,088.80 x 0.9). Since the average DS-4 monthly charge from the alternative meter service provider would be less than the average AmerenIP DS-4 meter charge, the alternative meter service provider could be viewed favorably by a DS-4 customer because the monthly meter charge would be nearly $109 less per month ($1,088.80 minus $979.92 = $108.88), or $1,307 per year ($108.88 x 12 = $1,306.56). As proposed, however, AmerenIP would charge the average DS-4 customer only $46.26 per month ($151,587 meter charge revenues from AmerenIP DS-4 customers (AmerenIP Schedule 10.6) divided by 3,277 DS-4 meter bills (AmerenIP Schedule 10.3, page 2 of 4)) for metering service, which would

make the alternative meter service provider uncompetitive with AmerenIP, despite being able to offer meter service for 10 percent less than AmerenIP.

In addition, the average AmerenIP DS-4 customer charge is overstated at $924.79, when the average cost-based charge should be $116.26 per month. The over-stated average DS-4 customer charge does not net to the over-stated combined customer and meter charge because the over-recovery of customer costs is less than the under-recovery of meter costs. The additional margin on meter service could make the alternative Illinois electric supply market more desirable, and result in more participation by Alternative Retail Electric Suppliers ("ARES"), if an ARES had the option to package meter service with electric supply. However, if the average AmerenIP DS-4 meter charge is $46.26 per month rather than a cost-based $1,088.80, it would not be a foreseeable option for an ARES to offer meter service.

Q. In the preceding question and answer, your example focused on AmerenIP DS-4 customers. Are meter cost recovery and customer cost recovery properly matched with proposed meter and customer charges for AmerenCILCO and AmerenCIPS including the former AmerenUE, as well as other customer classes?

A. Ameren's proposed meter charges under-recover meter costs for

customer classes DS-1, DS-2, DS-3, and DS-4 in each Ameren electric distribution company, while Ameren's proposed customer charges over-recover customer costs. Among customer classes DS-1, DS-2, DS-3, and DS-4, only AmerenCILCO DS-1 is an exception to the general concept that Ameren's proposed charges over-recover customer costs and under-recover meter costs.

Q. Why are DS-5 customers not affected by the problem of under-recovered meter costs and over-recovered customer costs?

A. Ameren is not proposing a metering charge for DS-5 Lighting customers. It does not appear to be necessary for a metering charge to apply to DS-5 customers because only AmerenCIPS has any metering costs allocated to DS-5 customers, and those costs total only $13,000 (attached Schedule 8.1, page 2, line no. 12 + line no. 13, "Total Lighting" column); which is less than 4 one-hundredths of one percent of the $34,226,000 DS-5 revenue requirement across the combined Companies (attached Schedule 8.1, pages 1-3, sum of line no. 22, "Total Ill. Lighting" column on each page).

Q. Should the meter charge recover the metering costs?

A. Yes, to assure proper matching between cost recovery and charge, metering charges should recover metering costs for each customer class at each Ameren electric distribution company. In addition, the customer

charge should be reduced so that the proposed net difference between the general over-recovery of customer costs and larger under-recovery of meter costs is retained.

For example, continuing with customer class DS-4, customer charges over-recover customer costs by $4,288,730 for the combined Companies, while metering charges under-recover metering costs by $4,394,550. To match metering costs with meter charge revenues, overall proposed Ameren DS-4 meter charges should be increased by a factor of approximately 17.19. Conversely, overall Ameren DS-4 customer charges should be reduced by a factor of approximately 6.8 so that customer charges recover $4,394,550 less than proposed by Ameren. This same process should be applied to the uniform customer charge and uniform meter charge proposed by Ameren for each customer class.

OTHER CHARGES

Q. Do you have any objection or proposed corrections to Ameren's proposed riders and/or language changes for Local Government Fees and Adjustments, Supplemental Customer Charges, Tax Additions charge, Miscellaneous Fees and charges, Rider RDC, and Rider EEA?

A. At this time, nothing has come to my attention that would cause me to object or propose a modification to Ameren's proposed riders and/or language changes for Local Government Fees and Adjustments,

Supplemental Customer Charges, Tax Additions charge, Miscellaneous Fees and Charges, Rider RDC, and Rider EEA. If other parties object or recommend changes to those riders, I reserve the right to comment on those potential alternative recommendations in rebuttal testimony.

The Commission should have the opportunity to review each Local Government Fee and Adjustment the Companies may propose to charge. Therefore, the Companies should be required to notify the Commission and receive authorization to implement any new charge or change in an existing charge under Local Government Fees and Adjustments, Sheet No. 36. Any notification to the Commission and request for authorization to implement a new or revised charge under Local Government Fees and Adjustments should include proper documentation and supporting calculations for the proposed charge. The Companies should also include a listing of Local Government Fees and Adjustments by local government authority similar to the listing of Municipal Tax Additions included in the tariff for Tax Additions, Sheet No. 37.

OPEN ISSUES

Q. Is it possible you may recommend other adjustments to Ameren's proposed charges?

A. Yes. To date, Ameren had not yet responded to Staff data requests ML 1.01 through ML 1.02, which were due April 14, 2006. Furthermore, I

received the Company responses to ML 1.03 through 1.06, which were also due on April 14th, on April 21, 2006 and have not had sufficient time to review the responses. The data requests relate to (1) inconsistencies between the schedules filed by Ameren to meet requirements under 83 Ill. Adm. Code 285 concerning billing units, (2) possible differences in billing units resulting from different assumptions in weather normalization based upon a 10-year review period rather than a 30-year period, and (3) differences in billing units resulting from post-2004 growth in customer usage and number of customers. Data obtained from Ameren's responses to these data requests, and from data requests following up Ameren's responses to these data requests, could result in differences in billing units employed to determine rates and result in rates different from those presented in the Companies' Schedules 10.6 in determining revenue recovery.

Additionally, Ameren's rates should be adjusted to the level of the revenue requirement in the Order. For example, if the Order revenue requirement is 70 percent of that proposed by Ameren, then rates should be adjusted to 70 percent of those proposed by Ameren, consistent with my recommendations concerning customer charges and meter charges.

Q. Does this conclude your direct testimony?

A. Yes.

ILLINOIS POWER COMPANY
EMBEDDED COST OF SERVICE STUDY
FOR THE 12 MONTHS ENDING DECEMBER 31, 2004
(THOUSANDS OF DOLLARS)
ANNUAL SUMMARY

	REVENUES REQUIRED	TOTAL ILL ELECT.	TOTAL DS 2	TOTAL DS 3	TOTAL DS 4	DS 1 RESIDENTIAL	PLACEHOLDER FOR FUTURE	TOTAL LIGHTING
1	DEMAND COMPONENTS	291,721	64,622	30,987	22,873	169,643	0	3,596
2	DEMAND PRODUCTION	0	(0)	(0)	(0)	0	0	(0)
3	DEMAND TRANSMISSION	0	(0)	(0)	(0)	0	0	(0)
4	DEMAND SUBTRANSMISSION	85,857	15,055	9,987	14,598	45,429	0	788
5	DEMAND DISTRIBUTION	205,864	49,567	21,000	8,275	124,214	0	2,808
6	DEMAND DISTRIBUTION PRIMARY	137,857	31,560	18,298	7,210	79,003	0	1,786
7	DEMAND DISTRIBUTION SECONDARY	47,646	13,346	(0)	(0)	33,542	0	758
8	DEMAND DISTRIBUTION SUBSTATION	20,362	4,661	2,703	1,065	11,669	0	264
9	ENERGY COMPONENTS	0	(0)	(0)	(0)	0	0	(0)
10	CUSTOMER COMPONENTS	108,979	9,321	6,178	3,949	68,375	0	21,156
11	369 - SERVICES	16,007	1,313	102	17	14,574	0	(0)
12	370 - METERS	34,116	4,205	2,711	3,462	23,739	0	(0)
13	902 - METER READING EXPENSE	13,251	1,365	578	106	11,202	0	(0)
14	903 - CUST REC & COLL EXPENSE	23,821	2,440	2,787	364	17,515	0	715
15	904 - UNCOLLECTIBLE ACCOUNTS EXPENSE	1,495	165	5	1	1,271	0	53
16	908-916 - CUST SERV AND INFO & SALES EXP	3,246	351	12	2	2,870	0	11
17	CUSTOMER OTHER	17,043	(518)	(16)	(2)	(2,797)	0	20,377
18	CUSTOMER DISTRIBUTION	0	(0)	(0)	(0)	(0)	0	(0)
19	CUSTOMER DISTRIBUTION PRIMARY	0	(0)	(0)	(0)	(0)	0	(0)
20	CUSTOMER DISTRIBUTION SECONDARY	0	(0)	(0)	(0)	(0)	0	(0)
21	OTHER REVENUE	(14,787)	(2,069)	(844)	(619)	(8,195)	0	(3,061)
22	TOTAL COMPANY	385,912	71,874	36,321	26,204	229,822	0	21,691

Source : Section 285.5110, Schedule E-6, subpart b.4.B (Excel Worksbook) Cells A1041:B1062 and L1041:R1062 in "Unbundled" worksheet

AMEREN CIPS
EMBEDDED COST OF SERVICE STUDY
FOR THE 12 MONTHS ENDING DECEMBER 31, 2004
(THOUSANDS OF DOLLARS)
ANNUAL SUMMARY

	REVENUES REQUIRED	TOTAL DS2	TOTAL DS3	TOTAL DS4	DS 1 RESIDENTIAL	PLACEHOLDER FOR FUTURE	TOTAL LIGHTING
1	DEMAND COMPONENTS	34,346	19,468	26,445	76,026	0	2,576
2	DEMAND PRODUCTION	(0)	(0)	(0)	0	0	(0)
3	DEMAND TRANSMISSION	(0)	(0)	(0)	0	0	(0)
4	DEMAND SUBTRANSMISSION	10,556	6,901	11,692	25,561	0	803
5	DEMAND DISTRIBUTION	23,790	12,567	14,753	50,465	0	1,773
6	DEMAND DISTRIBUTION PRIMARY	14,027	9,850	11,564	29,634	0	1,041
7	DEMAND DISTRIBUTION SECONDARY	5,895	(0)	(0)	12,658	0	445
8	DEMAND DISTRIBUTION SUBSTATION	3,868	2,717	3,189	8,173	0	287
9	ENERGY COMPONENTS	(0)	(0)	(0)	0	0	(0)
10	CUSTOMER COMPONENTS	8,945	3,879	1,186	45,630	0	6,407
11	369 - SERVICES	2,126	205	17	9,149	0	(0)
12	370 - METERS	3,433	929	851	13,300	0	12
13	902 - METER READING EXPENSE	1,113	395	55	6,437	0	1
14	903 - CUST REC & COLL EXPENSE	1,693	2,219	239	10,638	0	13
15	904 - UNCOLLECTIBLE ACCOUNTS EXPENSE	468	15	2	4,551	0	(0)
16	908-916 - CUST SERV AND INFO & SALES EXP	415	116	16	2,445	0	1
17	CUSTOMER OTHER	(303)	(1)	6	(890)	0	6,380
18	CUSTOMER DISTRIBUTION	(0)	(0)	(0)	(0)	0	(0)
19	CUSTOMER DISTRIBUTION PRIMARY	(0)	(0)	(0)	(0)	0	(0)
20	CUSTOMER DISTRIBUTION SECONDARY	(0)	(0)	(0)	(0)	0	(0)
21	OTHER REVENUE	(1,954)	(964)	(1,228)	(5,590)	0	(299)
22	TOTAL COMPANY	41,336	22,383	26,403	116,066	0	8,685

Source : Section 285.5110, Schedule E-6, subpart
b.4.B (Excel Worksbook) Cells A1041:B1062 and
L1041:R1062 in "Unbundled" worksheet

AMEREN CILCO
EMBEDDED COST OF SERVICE STUDY
FOR THE 12 MONTHS ENDING DECEMBER 31, 2004
(THOUSANDS OF DOLLARS)
ANNUAL SUMMARY

	REVENUES REQUIRED	TOTAL ILL ELECT.	TOTAL DS 2	TOTAL DS 3	TOTAL DS 4	DS 1 RESIDENTIAL	PLACEHOLDER FOR FUTURE	TOTAL LIGHTING
1	DEMAND COMPONENTS	108,037	22,647	13,206	5,422	65,991	0	770
2	DEMAND PRODUCTION	(0)	(0)	(0)	(0)	0	0	(0)
3	DEMAND TRANSMISSION	(0)	(0)	(0)	(0)	0	0	(0)
4	DEMAND SUBTRANSMISSION	27,598	5,254	3,685	2,692	15,808	0	160
5	DEMAND DISTRIBUTION	80,438	17,394	9,521	2,730	50,183	0	610
6	DEMAND DISTRIBUTION PRIMARY	51,805	10,686	7,733	2,218	30,793	0	374
7	DEMAND DISTRIBUTION SECONDARY	16,659	4,238	(0)	(0)	12,272	0	149
8	DEMAND DISTRIBUTION SUBSTATION	11,974	2,470	1,788	513	7,118	0	87
9	ENERGY COMPONENTS	0	(0)	(0)	(0)	0	0	(0)
10	CUSTOMER COMPONENTS	32,359	3,009	2,686	394	23,158	0	3,112
11	369 - SERVICES	4,625	378	38	13	4,196	0	(0)
12	370 - METERS	6,665	861	822	160	4,822	0	(0)
13	902 - METER READING EXPENSE	4,366	498	199	32	3,637	0	(0)
14	903 - CUST REC & COLL EXPENSE	12,851	1,230	1,626	189	9,801	0	6
15	904 - UNCOLLECTIBLE ACCOUNTS EXPENSE	(298)	(27)	(1)	(0)	(270)	0	(0)
16	908-916 - CUST SERV AND INFO & SALES EXP	2,186	247	8	1	1,928	0	1
17	CUSTOMER OTHER	1,963	(179)	(6)	(1)	(957)	0	3,106
18	CUSTOMER DISTRIBUTION	0	(0)	(0)	(0)	0	0	(0)
19	CUSTOMER DISTRIBUTION PRIMARY	0	(0)	(0)	(0)	0	0	(0)
20	CUSTOMER DISTRIBUTION SECONDARY	0	(0)	(0)	(0)	0	0	(0)
21	OTHER REVENUE	(2,211)	(372)	(191)	(78)	(1,538)	0	(32)
22	TOTAL COMPANY	138,184	25,284	15,701	5,738	87,611	0	3,850

Source : Section 285.5110, Schedule E-6, subpart b.4.B (Excel Worksbook) Cells A1041:B1062 and L1041:R1062 in "Unbundled" worksheet