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STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

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Illinois Commerce Commission,
On Its Own Motion

vs.

Central Illinois Light Company,
Central Illinois Public Service Company,
Commonwealth Edison Company,
Illinois Power Company,
Interstate Power Company,
MidAmerican Energy Company,
Mount Carmel Public Utility Company,
South Beloit Water, Gas, and Electric Company, and
Union Electric Company

Investigation Concerning the Unbundling of Delivery
Service Under Section 16-108 of the Public Utilities Act

Docket No. 99-0013

**BRIEF OF
CENTRAL ILLINOIS PUBLIC SERVICE COMPANY AND
UNION ELECTRIC COMPANY REGARDING PHASE II ISSUES**

Central Illinois Public Service Company ("CIPS") and Union Electric Company ("UE")
(collectively referred to herein as the "Ameren Companies") hereby submit this Brief addressing
issues in Phase II of the Commission's inquiry into the further unbundling of delivery services
pursuant to Section 16-108 of the Illinois Public Utilities Act. 220 ILCS 5/16-108.

I. STATEMENT OF THE CASE

In its Interim Order issued in this docket on April 12, 1999, the Commission determined
that metering and billing services should be unbundled by September 1, 2000. Policy issues
regarding the appropriate scope of meter and billing service unbundling, the appropriate method
for calculating credits for unbundled metering services, and related matters were deferred for

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consideration in the current phase (Phase II) of the docket. Witnesses presenting testimony with respect to these issues on behalf of the Ameren Companies were Jon R. Carls, Rate Administration Supervisor in the Regulatory Department of CIPS; David J. Schepers, Manager of the Distribution Operating Department of Ameren Services Company; and Wilbon L. Cooper, Supervising Engineer in the Rate Engineering Department of Ameren Services Company. Following the issuance of an Order in this phase of the docket, a third phase will be conducted to address issues related to the implementation of unbundling, including the related tariff terms and conditions and the determination of the credit applicable to unbundled metering services.

II. SUMMARY OF THE AMEREN COMPANIES' POSITION

For the reasons discussed herein, the Ameren Companies support the unbundling of metering services in accordance with the terms and conditions set forth in a Memorandum of Understanding ("MOU"), which has been endorsed by several parties to this proceeding, including potential alternative meter service providers ("MSPs"), as well as public utilities.¹ The Ameren Companies agree with other parties that the MOU provides a reasonable and practical way in which to implement the unbundling of metering services by September of 2000, in accordance with the Interim Order. The MOU provides, *inter alia*, that (i) unbundling metering services should be made available only to those customers who are actually taking services under the utility's delivery service tariff; and (ii) a non-utility entity desiring to offer unbundled metering services should be certified as an alternative retail electric supplier ("ARES").

The methodology used to determine the credit to delivery service customers who elect to take unbundled metering service from an alternative MSP should be the utility's long-run

¹ The MOU is contained in Appendix A of the Direct Testimony of PHASER Advanced Metering Services witness H. Ward Camp. In addition to Ameren Companies, other parties which have endorsed the MOU are PHASER, eMeter, Teldata Solutions, Itron, Alliant Energy, Commonwealth Edison Company, and Illinois Power Company.

avoided costs. For the reasons to be discussed, Staff's proposal to calculate such credits on the basis of the utility's fully embedded costs should be rejected because it would result in credits which exceed the utility's long-run avoided costs, thereby (i) depriving utilities of the opportunity to recover the full costs incurred to provide delivery services and (ii) resulting in subsidies to alternative MSPs and an inefficient allocation of resources.

The Commission should not require the unbundling of billing services beyond the unbundling which has already occurred through establishment of the single billing option ("SBO"). Any further unbundling of the billing function would be impractical and inefficient. For the same reason, there is no basis in the record to adopt the suggestions made by some parties that the Commission require the unbundling of certain ill-defined "customer handling" activities.

III. DISCUSSION

A. Implementation of Meter Service Unbundling

1. Regulation of Meter Service Providers

The MOU provides that an MSP must be a retail electric supplier ("RES") and that a non-utility entity desiring to offer unbundled metering services, which would otherwise be outside the Commission's jurisdiction, should be certified as an alternative retail electric supplier ("ARES"). This requirement is consistent with Section 16-102 of the Act, which (i) defines an ARES to include any entity that "engages in the delivery or furnishing of electric power and energy to, . . . retail customers" and (ii) defines "delivery services" to include "standard metering" services. Non-utility providers of unbundled standard metering service are engaged in the "delivery of power" and, therefore, fall within the definition of an ARES and should be regulated as such. [Ameren Ex. 2.0, pp. 3-4.]

Consistent with the criteria for the certification of ARES under Section 16-115 of the Act, and to ensure the safety and reliability of electric service, the Commission should require each prospective MSP to demonstrate that it has the technical, managerial and financial ability to perform the service it wishes to offer. 220 ILCS 5/16-115. A rulemaking proceeding should be initiated to add a new subpart to 83 Ill. Admin. Code 451, "Certification Requirements of Alternative Retail Electric Suppliers," to establish the specific certification requirements applicable to MSPs. [Staff Ex. 1.0, p. 9; ComEd Ex. 7.0, p. 29.] For the reasons discussed by Staff witness Christel Templeton, the Commission should, at a minimum, require a showing that the MSP's employees possess knowledge, skills and competency consistent with that possessed by a utility employee performing the same functions. [Staff Ex. 1.0, p. 10.] In addition to the ARES certification rules, other rules, including 83 Ill. Admin. Code Part 410, "Standards of Service for Electric Utilities," are likely to require revisions to provide for the appropriate regulation of the provision of unbundled metering services by MSPs certificated as ARES. [Staff Ex. 1.0, p. 10; ComEd Ex. 7.0, p. 29.] The Ameren Companies concur with Commonwealth Edison's suggestion that a complete list of such rules be identified through the workshop process and rulemakings to insure that uniform, appropriate rules be applied to all providers. [ComEd Ex. 7.0, p. 29.]

2. Availability of Unbundled Metering Service

As previously discussed, metering service is a delivery service within the meaning of the Act. Accordingly, Ameren fully concurs with the MOU's provision that the only customers who should be eligible to take unbundled metering and other delivery services are those customers who are actually taking services under a utility's delivery service tariff pursuant to Section 16-108 of the Act. [Ameren Ex. 2.0, p. 6.] Customers which take bundled electric service (either because they are not yet eligible to become delivery service customers or because they have

ected not to take delivery service) should not be entitled to take metering services on an unbundled basis. A requirement that utilities be required to provide unbundled metering service to bundled electric service customers would violate Section 16-103(e) of the Act, which prohibits the Commission from requiring an electric utility "to offer any tariffed services other than the services required by this Section," i.e., the utility's existing tariffed services, delivery services, the power purchase options and real time pricing. 220 ILCS 5/16-103(e).

In his testimony, eMeter witness Larsh Johnson appeared to recommend that a delivery services customer taking unbundled metering services, who returns to a bundled electric service rate (and, thereby, ceases to be a delivery service customer), should be allowed to continue to take metering services from an MSP on an unbundled basis. For the reasons discussed above, this recommendation should be rejected. Unbundled metering service is a delivery service and, therefore, should only be available to delivery service customers. [Ameren Ex. 6.0, p. 2.] As Mr. Schepers discussed, however, there is nothing that would prevent a utility (or an MSP) from outsourcing its obligations to a qualified contractor. Hence, if the utility chose to hire an MSP to provide metering services on the utility's behalf - whether to a bundled or unbundled customer - the utility should be free to do so. A bundled customer's contractual relationship should, however, always be with the utility. [Id.]

3. Scope of Unbundling.

For the reasons discussed by Mr. Schepers in his Direct Testimony, the Ameren Companies believe that metering services could, as a practical matter, be unbundled into three discrete functions: ownership, physical meter services, and meter data management services. [Ameren Ex. 2.0, pp 4-6]. The Ameren Companies further believe that, in principle, (i) MSPs should not be required to provide all three metering functions and (ii) customers electing to take

unbundled metering services should not be required to take all unbundled metering functions from a single provider. As discussed above, however, the Ameren Companies have agreed, for purposes of this proceeding, to support adoption of the MOU. The MOU sets forth an agreed-upon list of processes deemed to comprise "metering service." The MOU further provides, in part, that, to the extent that a delivery services customer elects to take unbundled metering service, (i) the customer must take all of the unbundled metering processes and (ii) a single retail electric supplier ("RES") will have the responsibility for providing all of the metering processes to that customer.

The MOU contemplates that modifications to the agreed-upon provisions for unbundled meter services could be implemented by January 1, 2002, or at such time as residential customers become eligible to take delivery services, whichever is earlier. Accordingly, although the Ameren Companies continue to believe that the approach to unbundling described in Mr. Schepers' Direct Testimony is reasonable, the Commission should adopt the MOU. The market experience that is gained during the next two years under the terms of the MOU will greatly assist the Commission in its ultimate resolution of unbundling issues. [Ameren Ex. 6.0, p. 2.]

4. Demarcation of Unbundled Facilities.

Mr. Schepers also addressed the proper line of demarcation between metering facilities considered for unbundling and those which are not considered for unbundling. For a self-contained metering installation, such as those used for residential customers, the demarcation point should be the supply (line) side terminals of the meter connection device. The other type of metering installation is a transformer rated metering installation, which includes instrument transformers. Instrument transformers are devices which reduce the voltage and current supplied

by the utility to levels compatible with the meter. There are two kinds of instrument transformers:

1) a voltage, or potential, transformer, which is a device used to change voltage levels; and 2) a current transformer, which is a device used to change the current. For a transformer rated metering installation, the demarcation point should be the meter side terminals of either: a) the test switches or b) socket-integrated disconnection device, whichever is installed nearest to the supply side of the meter. The delivery service provider ("DSP") and the provider of unbundled metering services may both operate the test switches, subject to protocols to be agreed upon.

Ownership, maintenance and repair of the test switches should, however, remain with the DSP.

[Ameren Ex. 2.0, p. 7.]

All work associated with instrument transformers for metering should remain the responsibility of the DSP. This work includes all services associated with instrument transformers and auxiliary devices (e.g., test switches) including, but not limited to: ownership, installation, exchange, removal, testing, and wiring. As discussed by Mr. Schepers, this is consistent with the approach taken in California and is proper for the following reasons:

- Current transformers (CTs) are fixed devices inserted in the path of current flow. In order to exchange the CTs of one MSP for those of the DSP, or of another MSP, an outage must be taken with the customer. Since many customers operate continuously, an outage may be very costly and, therefore, will impede actual competition rather than promote it. The meter itself, on the other hand, can be bypassed and exchanged without any such outage. Outages may or may not be needed for the exchange of potential transformers (PTs).
- An alternative to instrument transformer exchange which would avoid the outage would be to sell the devices from one MSP to another. However, in order to avoid restricting the abilities of customers to change MSPs, some methodology may have to be constructed to control the sale price. Otherwise, unreasonable prices could be set, forcing the customer to pay the price or face the outage.
- Ownership of instrument transformers does not promote name branding. These devices are not in public view (i.e., they are installed in enclosed cabinets) and therefore do not provide any opportunity to enhance the provider's brand image.

- While the use of advanced meters offered by one MSP over another may offer advantages to the customer, no such advantage can be gained by using one provider's instrument transformers over another's. Instrument transformers are unintelligent devices, one differing from another only by its degree of accuracy and mounting style. Since all "metering-class" instrument transformers are of the same degree of accuracy, no advantage can be gained.
- If MSPs are to install and work on instrument transformers, they must be certified to work on all voltage classes. Restricting their work to the meter itself would limit their exposure to low voltages (600 volts and below). Including instrument transformers in the work allotted to meter service providers would increase certification requirements, increase training, and impact safety. Medium and high-voltage instrument transformers are typically located in switchgear or on poles and other structures.
- Changing meters from one MSP to another would not require coordination with the DSP. Exchanging instrument transformers would, by necessity, require coordination with utility personnel.
- If utility distribution companies are "providers of last resort" for metering, they should control the installation of all "fixed" devices, such as instrument transformers, wiring, test devices, etc., so that they are not forced to accept less than standard installations upon loss of the meter service provider.

[Ameren Ex. 2.0, pp 7-9.]

In short, all advantages available to customers from enhanced meter intelligence will be gained though the use of more advanced meters, not instrument transformers. By leaving the responsibility for all "fixed" devices with the DSP, the quality and safety of the fixed installation can be controlled. A safe installation can be made available to all providers of meter services. [Ameren Ex. 2.0, pp. 7-9.]

B. Credit For Unbundled Metering Services

The delivery service tariffs recently approved by the Commission for each DSP set forth rates which are intended to enable the DSP to recover the costs incurred to provide delivery service, including costs associated with the provision of the metering services which will be unbundled as a result of this proceeding. If a delivery service customer elects to take unbundled

metering service from an RES, it is appropriate for the DSP to provide that customer with a credit for the costs which the DSP will avoid by not having to provide metering service to that customer. [Ameren Ex. 3.0, pp. 1-2.] The methodology used to determine the credit for unbundled metering services should be the utility's long-run avoided costs. Use of long-run avoided costs to calculate the unbundled metering service credit was supported by the Ameren Companies' witness Cooper, and witnesses testifying on behalf of Commonwealth Edison Company, Illinois Power Company and Central Illinois Light Company.

As Mr. Cooper explained, the level of metering service-related costs that can be avoided in the long-run (and, therefore, the appropriate amount of the credit) depends on the nature of the utility's continuing obligation to provide metering services to customers. To the extent that a utility must be prepared to be the metering service provider of last resort, the utility will incur a level of fixed costs which cannot be avoided and, therefore, the credit will be significantly lower than if the utility has no such continuing obligation. [Ameren Ex. 3.0, p. 2.]

To illustrate this point, Mr. Cooper discussed an example of a DSP that has 100 customers. The fully embedded costs incurred by a DSP to provide metering services includes (i) fixed capital investment costs (such as meters, trucks, and testing equipment); (ii) fixed operating costs (such as costs associated with meter procurement activities and tracking systems for meter receipts and meter inventory) and (iii) variable operating costs (such as the cost of labor to read, maintain and test meters). [Ameren Ex. 3.0, pp. 2-3.] If 30 of the DSP's 100 customers switch to a competitive MSP for unbundled metering services, and the DSP is not the metering service provider of last resort, the DSP will, over the long-run, ultimately avoid the investment and variable costs of providing service to 30 customers. Specifically, the DSP will need fewer meters, fewer employees to read, service and test meters, and, possibly, less testing equipment. [Id.]

On the other hand, if the DSP is the metering service provider of last resort, then it will have an obligation to stand ready to provide metering service to all 100 customers, regardless of whether 30 (or any other number) switch to other providers. Although such a DSP may be able to avoid some labor and other variable costs, it would be unable to avoid most (if not all) of the investment and fixed operating costs, either in the short-run or the long-run. Such costs are properly reflected in delivery service rates and should not be included in the calculation of the credit, because they are costs which the DSP will continue to incur. [Ameren Ex. 3.0, p. 3.]

Staff witness Lazare proposed that the credit for unbundled metering services be calculated on the basis of "fully embedded costs." [Staff Ex. 4.00.] Mr. Lazare's proposal should be rejected. Under Mr. Lazare's proposal, DSP customers who switch to a competitive MSP would be given a credit for all of the DSP's fixed (both investment and operating) costs, as well as variable costs, allocable to the metering function, regardless of whether the DSP is actually able to avoid such costs in the long-run. To the extent that DSPs have an obligation to be the MSP of last resort, adoption of Mr. Lazare's proposed methodology will result in the calculation of a credit which exceeds the amount of the DSP's long-run avoided costs. As ComEd witness Dr. Makhholm aptly stated, "[t]he utilities' existing costs do not simply vanish when the unbundling credits exceed the actual costs savings." [ComEd Ex. 17.0, p. 2.] Accordingly, under Mr. Lazare's approach, DSPs will be unfairly deprived of an opportunity to recover all of the costs which they have reasonably incurred to provide delivery services. [Ameren Exs. 3.0, p. 3; 5.0, p. 2.]

The adoption of a credit which exceeds a DSP's long-run avoided costs will not only deprive the DSP of its ability to recover its revenue requirement, it will also result in an inappropriate subsidy to competitive MSPs and result in an inefficient allocation of total societal

resources, thereby defeating the primary purpose of unbundling. [Ameren Ex. 3.0, pp. 3-4; ComEd Ex. 17.0, pp. 18-23; IP Ex. 8.3, pp. 8-9.] This will occur if the cost incurred by an alternative MSP to provide metering services to a DSP customer exceeds the DSP's avoided costs, but is less than the amount of the credit calculated to include fixed DSP costs which have already been incurred and cannot be avoided, *i.e.*, "sunk costs." In that circumstance, the credit will give customers an inappropriate price signal resulting in uneconomic bypass, *i.e.*, customers may be induced to take metering service from an alternative MSP, even though the DSP can provide the service *more efficiently*.

A witness for MidAmerican Energy Company ("MidAmerican"), Naomi G. Czachura, recommended that, for each delivery service (including metering) to be unbundled, the DSP be required to establish a separate tariff rate based on the costs of providing that specific service. Ms. Czachura asserted that the unbundling of tariff charges in this manner is superior to a credit mechanism. The Ameren Companies are indifferent as to whether the Commission adopts a credit mechanism or tariff rate unbundling, so long as three conditions apply: (i) the tariff charge or credit applicable to the unbundled services is developed on the basis of long-run avoided costs, for the reasons previously discussed; (ii) the revenue calculated from tariffed charges must equal the utility's calculated revenue loss based on its credits -- in other words, there must be symmetry so as to avoid any subsidies; and (iii) the tariff charge/credit is developed on a rate class basis. [Ameren Ex. 5.0, p. 4.]

The Commission should reject Ms. Czachura's suggestion that the DSP's charges for unbundled metering services be distinguished based on the type of metering installation that a customer has. The calculation of tariffed charges based on a diverse set of meter installations within a given customer class would impose a severe administrative burden. The initial step

would require an inventory of meter type installation by customer within each class. The next step would be to develop cost-based charges for each of these meter types designed to produce revenues equal to the utility's calculated revenue loss based on its credits so as to avoid the subsidies discussed previously. Assuming that each of the utility's customer classes is fairly homogeneous, it is likely that the cost of such a process would outweigh any benefits. Furthermore, it is unlikely that the entire process could be completed by January, 2000, the target date for filing unbundled metering service tariffs. [Ameren Ex. 5.0, pp. 4-5.]

C. Billing Services and "Customer Handling"

The Commission should not require the unbundling of billing services beyond the unbundling which has already occurred through establishment of the single bill option ("SBO"), which utilities are required to offer pursuant to Section 16-118(b) of the Act. Under the SBO, a RES has the option of providing a customer with a single bill for both the power and energy provided by the RES and the delivery services provided by the utility. The SBO satisfies the Commission's goals for unbundling of the billing function, because it allows providers other than the DSP the option to bill for services that the DSP provides, thereby establishing a competitive market for billing operations. [Ameren Ex. 1.0, p. 3.] It would not be appropriate to further unbundle the various sub-components of the billing function. The billing function consists of an integrated set of activities, including, for example, processing account information, printing bills, putting them in envelopes and taking bills to the post office. Unbundling of such activities would be impractical and inefficient. [Ameren Ex. 1.0, p. 4.]

A witness for Enron/New Energy, Kennan Walsh, recommended that an entity other than the "incumbent utility" should be allowed to calculate the bills for the utility so that the utility may be "bypassed altogether" in the billing process. The recommendation should be

rejected. While Mr. Walsh proposed that ARES be allowed to calculate the bill for the services provided by DSPs, he did not suggest that DSPs be allowed to calculate the bill for services provided by an ARES. Accordingly, Mr. Walsh's proposal lacks symmetry.

More importantly, Mr. Walsh's recommendation violates the most basic test for unbundling, *i.e.*, it fails to produce any efficiencies. In this regard, each service provider will want, and must be allowed, to calculate the amount due for the service it provides. Under the SBO, the RES and DSP each individually calculate the amount owed for the service it provides, and the RES then sends the customer a consolidated bill, which identifies the amount charged by each. Allowing the RES to calculate the DSP's charges for service would likely lead to frequent disputes between the RES and the DSP as to the proper level of charges. Furthermore, the DSP would continue to perform its own calculation of the amounts owed for the delivery services it provides in order to verify that the RES has calculated the bill correctly. This verification process would add to the DSP's existing billing costs. Accordingly, the DSP would incur an even greater amount of costs than it would otherwise incur if the RES were not calculating DSP's bills. As a result, the DSP's avoided costs would be zero. Unbundling of the bill calculation function would, therefore, result in an unnecessary and inefficient duplication of costs. [Ameren Exs. 1.0, pp. 3-4; 4.0, pp. 1-3.]

Mr. Walsh also proposed that various "activities" that he believes do not "fit neatly" into the metering and billing functions should be unbundled under the heading of "customer handling." As discussed by the Ameren Companies' witness Carls, Mr. Walsh's proposal in this regard is poorly defined and should be rejected. No party has presented an adequate definition of "customer handling" activities. Mr. Walsh simply listed a number of activities without explaining why each could be provided efficiently by another provider. He

offered no evidence that efficiencies could be achieved, relying instead on an assumption that all of these activities are suitable for unbundling. To the contrary, nothing on his list is intuitively suited for unbundling. [Ameren Ex. 4.0, p.3.]

For example, Mr. Walsh asserted that one "customer handling" activity that should be unbundled is "fielding specific customer requests for moves/changes in service." Similarly, Utility.com, Inc. witness King recommended that "customer enrollment" should be unbundled. Mr. Walsh, however, offered no specific rationale for his recommendation, while Mr. King argued simply that customers want to make only one phone call when they move. In reality, customers already can make one single phone call when they move. A customer can already, without the need for unbundling, designate an agent to make all calls necessary to change service for the customer when the customer moves. No additional action by the Commission is necessary to achieve this result. Mr. King erroneously contended that the agent process is "cumbersome" and requires "additional steps." In fact, there is only one step - to designate an agent. This is neither cumbersome nor time consuming. [Ameren Ex. 4.0, p. 3.]

Furthermore, unbundling of the nature suggested by Mr. Walsh and Mr. King would not produce any efficiencies. Presumably, both Mr. Walsh and Mr. King envision a system where the customer makes a single phone call to notify multiple providers. The fact that the customer does not have to notify all of its providers does not mean that all of those providers do not have to be notified. To the contrary, they do still have to be notified, and will be notified by the new "moves/changes" agent/provider. Hence, no efficiency will be produced at the provider level. The only "efficiency" produced will be for a customer, who will only have to make a single telephone call. While a customer may find this attractive, it does not justify or support a credit. [Ameren Ex. 4.0, p. 4.]

In support of his position, Mr. King claimed that the unbundling of "customer handling" is similar to the elimination of carrier access numbers in the market for long distance telecommunication services. As Mr. Carls explained, Mr. King's analogy is inapt. Mr. King's testimony refers to a time when a customer of a competitive long distance carrier was required to dial an access number each time he used the carrier's service. This process is not at all comparable to the situation in which an electric customer may have to make one or two phone calls every few years when he changes address. A better analogy to the long distance market would be what happens when a telephone customer changes address. In such a situation, the customer is required to notify both his local and long distance carriers of the move. There is no single phone call option. [Ameren Ex. 4.0, pp. 4-5.]

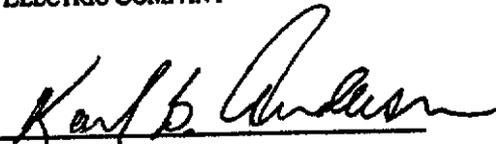
IV. CONCLUSION

For all the reasons discussed herein, the Commission should (i) order the unbundling of metering services in accordance with the terms of the MOU; (ii) determine that credits for unbundled metering services should be calculated on the basis of long-run avoided costs; and (iii) not require any additional unbundling of billing or "customer handling" services beyond the unbundling that has already occurred through establishment of the SBO.

Respectfully submitted,

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