Ameren Exhibit 4.0

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 06-0448

DIRECT TESTIMONY

OF

ROBERT J. MILL

Submitted On Behalf

Of

AMEREN ILLINOIS UTILITIES

AUGUST 17, 2006

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 06-0448

DIRECT TESTIMONY

OF

ROBERT J. MILL

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 ("Ameren Services"), a subsidiary of Ameren Corporation. I am testifying in this docket on behalf of Illinois Power Company d/b/a AmerenIP, Central Illinois Public Service Company d/b/a AmerenCIPS, and Central Illinois Light Company d/b/a AmerenCILCO ("Ameren Illinois Utilities").

Q. Please describe your employment experience and educational background.

A. I began my career at Central Illinois Public Service Company ("CIPS") (now known as AmerenCIPS) in 1976, in the Accounting Department. In 1979, I was promoted to the Rates and Research Department and held several analytical and supervisory positions within that department until 1989, when I was named manager. In 1993, I was named manager of the Corporate Planning Department, responsible for overseeing economic and financial forecasting activities and CIPS' strategic planning and resource planning functions. In 1995, I became manager of

the Regulatory Services Department. I became an employee of Ameren Services in August 2001. In 2002, I became manager of the State Regulatory Policy Department and named general manager over Regulatory Policy and Planning in 2003. My title recently changed from general manager to director over the same responsibilities. I received a Bachelor of Science degree in 1975 from Western Illinois University and a Master of Arts degree in business administration in 1981 from Sangamon State University, now known as the University of Illinois at Springfield. I have previously testified on behalf of Ameren Illinois Utilities in various proceedings before the Illinois Commerce Commission ("Commission") and the Federal Energy Regulatory Commission ("FERC").

Q. What is the purpose of your testimony?

A. I present, for illustrative purposes, the rate impact of hypothetical power and delivery charges on residential customers for each of the Ameren Illinois Utilities with and without the Plan proposed in this docket.

Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Ameren Exhibits 4.1 and 4.2.

Q. What is shown in Ameren Exhibits 4.1 and 4.2?

A. Page 1 of Ameren Exhibit 4.1 provides a summary of results for hypothetical bundled residential rate increases that would take effect in 2007 and 2008 for each of the Ameren Illinois Utilities, with and without the Plan. The percentage increases compare present bundled rates to the hypothetical restructured bundled rates. The remaining pages of Ameren Exhibit 4.1 provide further detail regarding the assumptions. Ameren Exhibit 4.2 shows the deferral amounts and the net

average impact on average residential rates in each of the years 2007 through 2010 resulting from implementing the Plan based on the hypothetical assumptions. Ameren Exhibit 4.2 also details the hypothetical bond charge that would be applicable to residential customers.

Q. Please describe assumptions and sources for data used to develop present bundled rates, and proposed delivery and power rates.

A. Present bundled revenue, sales, and average rates were taken from the Ameren Illinois Utilities' 2005 FERC Form 1 and ICC Form 21. Proposed delivery service rates in Ameren Exhibit 4.1 consist of Delivery Service and transmission service components. AmerenCIPS values were adjusted to include the Illinois Metro East data for the AmerenUE-Illinois load that was transferred to AmerenCIPS in May 2005.

For illustrative purposes I am assuming the Commission approves the Staff's proposed delivery service revenue requirement in the pending Ameren Illinois Utilities delivery service cases. Average residential delivery service rates per kWh derived from the test year billing determinants, adjusted to recover the Staff revenue requirement proposed in their rebuttal testimony, were applied to 2005 sales to develop a common base for comparisons of present and proposed revenue. It is important to note that my use of the Staff's proposed rebuttal delivery service revenue requirement in this testimony is not an endorsement of that revenue requirement and related positions taken by Staff in those cases.

The transmission service component is also derived from the Ameren Illinois Utilities' pending Delivery Service rate cases. Specifically, the transmission

component assumes recovery of FERC-approved transmission costs expected to be incurred to deliver Ameren Illinois Utility supplied electric power and energy to residential customers. The transmission service component is estimated to be $0.0022/kWh for AmerenIP and $0.0018/kWh for both AmerenCIPS and AmerenCILCO.

The modeling assumes a weighted average winning auction value of $60/MWh for the BGS-FP category of service (the service used to supply residential customers, among others) in the years 2007-2009. This is not intended to be prediction of the price produced by the auction. The final price could be higher or lower. The winning auction value, once placed into the Ameren Illinois Utilities' retail rate prism prepared for the September auction, generates rates differentiated by billing season and adjusted for distribution losses. As a simplifying assumption, this analysis uses the average annual composite rate; however, the "mitigation adjustment", as described in Rider MV, was added to or subtracted from the residential electric power rates for the respective utility. Thus, the "power per kWh" values shown in Ameren Exhibit 4.1 may vary slightly by utility.

Q. Why did you elect to use the $60/MWh power supply price in your illustration?

A. It is impossible to predict with any accuracy the rate increase impacts to current bundled rates until after the September procurement auction results are adopted by the Commission and the final order is issued in the Delivery Services rate cases, expected in mid to late November, 2006. The $60/MWh assumption is a

reasonable assumption for evaluating the 2007 bundled rate impacts and securitization plan for residential customers. The $60/MWh value for the procurement auction clearing prices was chosen because of its proximity to AmerenIP's market values used in calculating Transition Charges. Market values used in the Transition Charge calculation are developed from polling electronic exchanges and published reports for forward looking prices for the next 12 months. The average residential market value for AmerenIP's September/October 2006 Rider TC effective period is $61.50/MWh. Thus, using a $60/MWh winning auction value for the illustrative examples seemed reasonable.

Q. Have you assumed any different power price for power supply auctions occurring in 2008 and 2009?

A. No. A simplifying assumption used for this analysis held power supply prices constant for the study period, meaning we assumed for modeling purposes that the $60/MWh market clearing price would be the weighted average clearing price in the 2007, 2008 and 2009 auctions. It is important to note that in each of the second two auctions, which become effective in mid-2008 and mid-2009, only one-third of the supply will be up for auction each time, meaning that any change in the auction clearing price in the second and third auctions will still be weighted against the hypothetical $60/MWH value for the initial auction used in this study. Also, any change in future auction price assumptions would have an impact on rates both with and without the Plan. For these reasons, I concluded that it was appropriate to hold the auction price constant.

Q. If the legislature were to enact legislation that would allow a cap and deferral form of rate phase-in and securitization of the deferred amounts, how would you envision implementing the Plan?

A. It would depend on the specific provisions of the law and other considerations, as discussed more fully by other witnesses.. However, an approach that would be straight forward and easily verifiable would be to simply apply the first year phase-in percentage increase to present residential bundled revenue as reported in FERC Form 1 and ICC Form 21, deferring all power supply related costs incurred above the phase-in revenue level for future recovery. It is possible that the percentage could vary by utility. A second phase-in percentage would likewise be added to the prior period residential bundled revenue amount. In the third year, rates would reflect the full cost of service, whatever that might be. It is important to note that any rate phase-in should be applied on a rate class average basis and not on an individual customer basis. Developing a phase-in Plan for each individual residential customer is not a practical solution since it would create numerous additional billing system and administrative complexities and problems. Another method to phasing in a rate increase would be to simply establish a uniform average residential bundled price per kWh for the first year of the phase–in that would be used to design rates for each of the Ameren Illinois Utilities; followed by a subsequent uniform price per kWh for 2008. This approach would produce a unique percentage increase for each of the Ameren Illinois Utilities. This method would likely not produce a phase-in as smooth as the approach modeled since it does not adequately reflect the price differences

that exist today between Ameren's Illinois Utilities, or the overall percentage increases required by each utility after 2006. Accordingly, we have not modeled this approach.

Q. What would the average residential rate increase be in 2007 without any cap and deferral proposal?

A. Page 1 of Ameren Exhibit 4.1 shows the unmitigated future rates and the increase percentages for each Ameren Illinois Utility in Columns 2 and 3. Individually, the average increases are estimated to be approximately 32% for AmerenIP, 32% for AmerenCIPS and 47% for AmerenCILCO, assuming a winning auction value of $60/MWh, as well as the aforesaid Delivery Service revenue requirement values. The weighted average residential rate increase impact for 2007 under the study assumptions for the Ameren Illinois Utilities would be approximately 34%. Any increment or decrement of $10/MWh from $60/MWh would change the percentages by approximately 14 percentage points for AmerenIP and Ameren CIPS and 15 percentage points for AmerenCILCO.

Q. Have you also modeled residential rates under the hypothetical cap and deferral parameters?

A. Yes, in accordance with the hypothetical parameters set down by Mr. Jerre Birdsong we developed rate phase-in prices for each of the Ameren Illinois Utilities assuming a $60/MWh winning auction supply bid and other assumptions. Page 1 of Ameren Exhibit 4.1 shows the average bundled rates and percentage increases from present rates for each utility for 2007 (Columns 4 & 5) and 2008 (Columns 6 & 7). Under the hypothetical phase-in example, 2007 bundled

residential rates for AmerenIP and AmerenCIPS are capped at a 10 % increase over present rates, while 2007 rates for AmerenCILCO are capped at a 14% increase over present rate levels. Likewise, 2008 rates for AmerenIP and AmerenCIPS residential customers are increased another 10% over 2007 rates, plus a bond charge of 1.5%, while AmerenCILCO's 2008 bundled rates are capped at a 14% increase over 2007 rate levels, plus a bond charge of about 2%. For 2009, it is assumed rates for all residential customers would adjust to the full cost-based rate levels, plus the bond charge related to the 2008 and 2009 bond issuances. For modeling purposes it was assumed the first mitigation bond charge would occur during June 2008. Page 2 of Ameren Exhibit 4.1 shows derivation of the future bundled rates and calculation of the 2007 and 2008 phase-in rates that are summarized on Page 1 of the exhibit. All major study assumptions are listed on Page 3 of Ameren Exhibit 4.1.

Q. What do the study results show?

A. The study results from Ameren Exhibit 4.1 demonstrate that Mr. Birdsong's recommended annual percentage rate increase caps for each utility appear to provide a relatively uniform three-step phase-in from the existing residential average bundled rate level to the estimated future bundled rate level (in 2009), under the power price and delivery service rate assumptions. Using Page 1 of the exhibit, the step-up in price from 2008 average rates to 2009 full bundled rates may be observed by comparing Columns 6 and 7 for 2008, to Columns 2 and 3, which for purposes of this illustrative study are assumed to reflect 2009 bundled rates.

Q. How are the residential rate reductions accumulated and later recovered?

A. An example is provided in Ameren Exhibit 4.2. Each of the Ameren Illinois Utilities would track the total rate reduction applied in 2007, and if applicable, in 2008. For example, in 2007, the rate reduction values (Column 2) applied to actual 2007 Rider BGS residential sales (Column 1) produces a total first year amount to defer (Column 3). Since securitization or rate mitigation bonds cannot be issued for the first year totals until well into 2008, a carrying cost equal to the weighted before tax cost of capital is calculated on the deferred balance (Column 4). The inverse of the rate reduction (Column 3) is added to the carrying cost to arrive at the total balance to be financed through rate mitigation bonds (Column 5). The bond payment target (Column 6) assumes a 10 year recovery term and an interest rate of 5.25%. The bond payment target in 2008 reflects recovery of the costs beginning June 1, 2008. Bonds issued to recover cost from the first year rate cap would extend through May 2018. The process is repeated, if necessary, to address recovery of the rate reduction deferral costs for 2008 (Columns 7-9). Bonds issued to recover cost from the 2008 rate cap would extend through May 2019. The net impact amount (Column 10) and cost per kWh (Column 11) are also shown for each utility. For example, Page 1 of Ameren Exhibit 4.2 (Column 11) shows that the rate mitigation bond charge applicable to all residential customers for 2010 under the study assumptions is estimated to be .351¢/kWh for AmerenIP, .336¢/kWh for AmerenCIPS and .466¢/kWh for AmerenCILCO. The 2010 rate mitigation bond charge reflects the full amount of rate mitigation bonds (for 2007 and 2008 deferrals) issued under the study assumptions. During 2010,

for a typical residential customer of each respective utility, the estimated monthly rate mitigation bond charge would average about: $2.90 for an AmerenCIPS customer; $3.00 for an AmerenIP customer; and $4.00 for an AmerenCILCO customer. Page 2 of Ameren Exhibit 4.2 provides a list of the assumptions.

Q. How would the rate mitigation bond charge be recovered from residential customers?

A. I would anticipate that any securitization legislation would require the Ameren Illinois Utilities to file a tariff, or rider mechanism, that would facilitate the monthly rate mitigation bond charge as an adder to the residential delivery service tariff (DS-1), Such tariff should have provisions that allow the mitigation bond charge to be adjusted periodically for any over-or-under recoveries from the residential customer class and other provisions that will enable the Ameren Illinois Utilities to fully recover the targeted annual bond charge obligations. Additionally, the utilities may need to make modifications to other tariffs or rate policies on file with the Commission in order to fully facilitate the provisions of such enabling legislation and/or Commission financing orders.

Q. Does this conclude your direct testimony?

A. Yes it does.