Ameren Illinois Utilities' Exhibit 2.0C

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 07-0165

CORRECTED

DIRECT TESTIMONY

OF

LEONARD M. JONES

Submitted On Behalf

Of

CENTRAL ILLINOIS LIGHT COMPANY d/b/a AmerenCILCO,

CENTRAL ILLINOIS PUBLIC SERVICE COMPANY d/b/a AmerenCIPS, and

ILLINOIS POWER COMPANY d/b/a AmerenIP

(The Ameren Illinois Utilities)

June 8, 2007

ILLINOIS COMMERCE COMMISSION

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OF

LEONARD M. JONES

Q. Please state your name and business address.

A. My name is Leonard M. Jones. My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. By whom are you employed and in what capacity?

A. I am employed by Ameren Services Company ("Ameren Services") as Managing Supervisor – Restructured Services – Regulatory Policy and Planning.

Q. Please provide your educational and employment history.

A. I graduated from Western Illinois University with a Bachelor of Arts Degree in Economics in 1987. In 1988, I received a Master of Arts Degree in Economics, also from Western Illinois University. From 1988 through 2004 I was employed by Illinois Power Company ("Illinois Power") as a Rate Analyst, Senior Rate Analyst, Rate Specialist, Team Leader – Costing and Economic Services, and Director – Business Planning and Forecasting. Shortly after completion of Ameren Corporation's ("Ameren") acquisition of Illinois Power, I was assigned to my current position.

Q. Have you previously testified before the Illinois Commerce Commission (the "Commission")?

A. Yes. I previously testified in Docket No. 91-0335, regarding Illinois Power's electric marginal cost of service study; Docket No. 93-0183, regarding Illinois Power's gas marginal cost of service study; Docket No. 98-0348, regarding Illinois Power's proposed Rider DA-RTP II; Docket No. 98-0680, regarding the investigation concerning certain tariff provisions under Section 16-108 of the Public Utilities Act ("PUA" or "Act") and related issues; Docket No. 98-0769, regarding requirements governing the form and content of contract summaries for the 1999 Neutral Fact Finder; Docket Nos. 99-0120 & 99-0134 (Cons.) regarding approval of Illinois Power's Delivery Service Implementation Plan and Tariffs; Docket Nos. 00-0259/00-0395/00-0461 (Cons.) regarding proposed Rider MVI and revisions to Rider TC; Docket No. 01-0432 regarding electric Delivery Service Tariff rate design and related matters; Docket No. 04-0476 regarding gas rate design; Docket Nos. 06-0070/06-0071/06-0072 (Cons.) regarding electric Delivery Service Tariff rate design and related matters; Docket Nos. 06-0691/06-0692/06-0693 (Cons.) regarding residential real-time pricing tariffs; and Docket 06-0800 regarding an investigation into changes to auction process and the Ameren Illinois Utilities' market value tariffs (Rider MV).

Q. What is the purpose of your direct testimony?

A. In its Order Initiating Investigation in this proceeding, the Commission called for an expedited review of the electric rate design for all customer classes of the Ameren Illinois Utilities. Specifically, in finding (4), the Commission requires that the investigation take into account all delivery services, all electric supply services, and all other tariffed aspects of electric service, with a view toward ordering changes in rate design that would take into account historic rate structures. In this regard I have undertaken an analysis of the Ameren Illinois Utilities' rate design of the Basic Generation Service and Delivery Service rates, in the manner contemplated by the Commission's order.

Q. Did the Commission's Order Initiating Investigation place any limits on the scope of rate design changes?

A. Yes. In finding (5) the Commission stated that it "does not intend to review or consider any changes in the revenue requirement it has most recently determined for the Ameren companies (or changes yet to be determined by the Commission in the rehearing phase of Docket Nos. 06-0070, 06-0071, and 06-0072 (Consolidated)). Additionally, the Commission does not intend to modify its conclusions (other than those related to rate design) in the Procurement Dockets".

Q. Have the Ameren Illinois Utilities participated in workshops related to this docket?

A. Yes. The Ameren Illinois Utilities participated in four workshops related to this docket, on April 11, April 18, April 25, and May 2, 2007. In each workshop, the Ameren Illinois Utilities prepared documents and analyses to facilitate discussions, attempted to identify types of customers that may be experiencing above-average bill impacts, discussed various approaches to mitigate such impacts, and provided an overview to the participating workshop parties of the positive and negative sides of the various approaches.

Q. Have the Ameren Illinois Utilities developed scenarios and other analytical work papers related to possible rate design alternatives to address the directives in the Commission's Order Initiating Investigation?

A. Yes. On May 8, 2007, the Ameren Illinois Utilities submitted a supplemental informational filing containing a number of scenarios that address the directives contained in the Commission's Order Initiating Investigation. Those work papers were filed in this docket prior to the direct testimony due date in this case in order to allow all the parties to use those materials as a resource in preparing their direct testimony. My testimony incorporates the supplemental informational filing, which supports my direct testimony.

Q. Please generally describe the schedules, graphs, and other documents provided as part of the Ameren Illinois Utilities' supplemental informational filing.

A. The supplemental informational filing contained exhibits that were arranged in chronological order, according to when they were prepared. Together, they illustrate the analytical process leading up to the conclusions reached in this testimony. The exhibits contain the materials described in the table below:

Supplemental Informational Exhibit No. 1 (Supp. Inf. Ex. 1)	Overview of pre-2007 bundled rates and illustrations relating thereto.
Supplemental Informational Exhibit No. 2 (Supp. Inf. Ex. 2)	Explanation and illustrations concerning the difference between 2006 and 2007 rate structures.
Supplemental Informational Exhibit No. 2.1 (Supp. Inf. Ex 2.1)	Residential Rate design scenarios. Four scenarios are explored for the purpose of evaluating the effectiveness of each in addressing the Commission's directives in this docket.

Supplemental Informational Exhibit No. 3 (Supp. Inf. Ex 3)	Overview of a multi-step process to redesign rates between residential and small non-residential customers.
Supplemental Informational Exhibit No. 3.1 (Supp. Inf. Ex 3.1)	Provides a demonstration of Scenario A or the "all-electric" rate alternative. This alternative is also consistent with Staff's mitigation approach.
Supplemental Informational Exhibit No. 4 (Supp. Inf. Ex 4)	Revised multi-step approach.
Supplemental Informational Exhibit No. 4.1 (Supp. Inf. Ex 4.1)	Comparison of alternative rate designs that employ both a block rate structure and a block rate together with a seasonal design element.

Q. Please provide an overview of the existing rate design, specifically the Basic Generation Service (BGS) and Delivery Service (DS) designs.

A. Customers may take power from the Ameren Illinois Utilities under BGS. BGS is provided to customers at a fixed price. BGS service is subdivided into classes of customers. In general, BGS is available to customers with demands under 1,000 kilowatts ("kW"). BGS-1 refers to service available to residential customers. BGS-2 is provided to non-residential customers up to 150 kW of demand. BGS-3 is available to non-residential customers from 150 kW demand up to 1,000 kW demand. BGS-5 is provided to lighting service customers or unmetered service with a photo-cell control device. Collectively, BGS-1, 2, 3, and 5 are all procured under the same auction product (referred to as BGS-FP, where FP stands for Fixed Price). The BGS-FP auction product was bid for the entire Ameren-Illinois footprint. Stated differently, the cost basis (winning auction value) is the same for each of the Ameren Illinois Utilities.

The winning BGS-FP auction value is price-shaped for each of the BGS categories (or classes) described above using a retail rate prism. The retail rate prism takes into consideration the usage patterns of each of the BGS classes to develop average rates by season, or on- and off-peak. As a result, each BGS class receives slightly different prices. BGS-1 contains a declining non-summer usage block at 800 kWh, and is seasonally differentiated. BGS-2 is seasonally differentiated, but does not contain a usage block. BGS-3 uses a time-of-use structure where the prices vary by season and by on- and off-peak periods. BGS-5 (lighting service on photo-cell controlled facility) reflects primarily off-peak usage.

The rate class eligibility for BGS and DS employ the same criteria. For example, DS-1 applies to residential customers, DS-2 applies to non-residential customers with demands under 150 kW, etc. DS-1 contains a customer and meter charge, as well as a Distribution Delivery Charge. The Distribution Delivery Charge is a flat per kilowatt-hour ("kWh") usage based charge. DS-2 also contains customer, meter and a flat per/kWh Distribution Delivery Charge, similar to DS-1. DS-3 contains voltage differentiated customer, meter and demand based ($/kW) Distribution Delivery Charges. In addition, these customers also pay an unbundled price for utility-provided transformation service. DS-5 charges (lighting) contain a Fixture Charge that varies with the fixture type (e.g., 100 watt sodium vapor, 400 watt sodium vapor, 175 watt metal halide, etc…). In addition, these customers pay a kWh based Distribution Delivery Charge. DS-4 is patterned after DS-3, except the tariff contains an additional provision for a Reactive Demand Charge.

In addition to DS, if a customer takes power from one of the Ameren Illinois Utilities, they must also pay for transmission service through Rider TS (the one exception is for customers that take service under RTP-LI where application of transmission service is directly applied, rather than through Rider TS).

Q. What are some of the customer types experiencing above-average bill impacts?

A. In general, residential customers whose heating ventilation, and air conditioning system relied solely on electricity for the heating of their homes experienced increases much larger than the expected average increase. The average 2007 over 2006 increase for AmerenCILCO and AmerenCIPS customers residing in the Metro-East region near St. Louis ("AmerenCIPS-ME") is about 55%. The average increase for AmerenIP and AmerenCIPS customers residing outside the Metro-East region near St. Louis ("AmerenCIPS") is about 40% and 37%, respectively. By comparison, customers that heat their homes with electricity are expected to experience increases greater than the class average. Page 3 of the Order Initiating Investigation indicates increase percentages ranging from 88% for AmerenCILCO to 170% for AmerenCIPS-ME. Actual impacts experienced by residential customers were higher or lower depending on the customer's monthly usage.

Q. Please describe the impact on non-residential/small general service customers.

A. Non-residential/small general service customers are expected to experience widely differing impacts. In general, customers with low usage (less than 2,000 kWh per month) are expected to experience below-average bill impacts, while those above 2,000 kWh use are expected to experience average or above-average bill impacts. Ameren Illinois Utilities' Exhibit 2.1, pages 21-27, illustrates the distribution of non-residential rate increases, and the widely varying impacts. In general, small-use customers received a relatively modest increase, or even a decrease. As customer size increases within DS-2, impacts generally increase into the above-average range.

Q. Please discuss some possible solutions examined and depicted in the informational filing, including the "Staff Mitigation Approach."

A. Several scenarios are provided as part of the informational filing. Staff initially proposed a mitigation approach in ICC Dockets No. 05-0160, 05-0161, and 05-0162. Modifications to the mitigation approach were examined as well. The mitigation approach employs a method where each class served by the BGS-FP auction product – all customer classes under 1,000 kW of demand – would not receive an average increase more than the greater of 20% or 150% of the average increase for all BGS-FP customers. This calculation was performed by class for each of the three Ameren Illinois Utilities.

The current application of the mitigation approach examines the average increases for residential (DS/BGS-1), small non-residential (DS/BGS-2), general service non-residential (DS/BGS-3), and lighting service (DS/BGS-5) classes. As shown in Ameren Illinois Utilities Exhibit 2.1, page 37, no adjustment was warranted for any class within AmerenIP and AmerenCILCO. For AmerenCIPS, the DS/BGS-3 class received a discounted rate of 0.267 cents/kWh, while the rates for all other classes were raised by an amount to compensate for the revenue deficiency. The mitigation adjustment applies to all kWh of BGS provided power.

Q. How would the mitigation approach affect rates if the DS/BGS-1 class was divided to include a subgroup for all electric customers?

A. The results are shown in Ameren Illinois Utilities Exhibit 2.1, page 38. The adjustment results in a rate decrease for AmerenCILCO DS/BGS-5 and a small rate increase for all other groups. For AmerenIP, the all electric subclass would receive a 1.162 cents/kWh credit and the rates for all other customer groups would increase to compensate for the revenue deficiency. For AmerenCIPS, the all electric subgroup would receive a 0.083 cents/kWh credit, the all electric subgroup for AmerenCIPS-ME would receive a 1.051 cents/kWh credit, and the DS/BGS-3 group would receive a credit of 0.225 cents/kWh. Rates for residential general use, DS/BGS-2, and DS/BGS-5 would increase to compensate for the revenue deficiency caused by the credits. While these results would help to mitigate bill impacts, they would not produce material reductions in the bills of residential all electric subgroup.

Q. Would lowering the constraint from 150% to 125%, while including a residential all electric residential subgroup, improve the result?

A. Changing the mitigation constraint criteria to 125% does not provide a uniform "fix" to bill impact issues among the utilities. The results are shown in Ameren Illinois Utilities Exhibit 2.1, page 39. As shown, the subsidy provided to the AmerenCIPS DS/BGS-3 group – a group that has already switched more than 1/3 of its load to third-party suppliers – increases to 0.744 cents/kWh. Shifting additional dollars for recovery there would likely slow the pace of customer switching, and may encourage those customers to return to BGS service to take advantage of the subsidy. Conversely, the DS/BGS-3 rates for AmerenIP and AmerenCILCO customers would be increased to subsidize other groups. This rate increase would likely serve to accelerate switching.

Q. Why is the issue of customer switching important to keep in mind?

A. Rider MV contains a "true-up" mechanism that ensures costs and revenues match over time for the entire customer base served by the BGS-FP product. As previously stated, the BGS-FP product serves customers taking service under BGS-1, -2, -3, and -5. All of these customers are also allowed to switch from BGS-FP supply to supply with a third-party supplier. If additional cost recovery were targeted to be recovered from BGS-3, these customers would be encouraged to switch to a third-party supplier due to the higher BGS-3 price. Costs targeted for recovery from BGS-3 would not be entirely recovered from BGS-3 customers. Instead, recovery of costs will fall back to customers that remain on the Ameren Illinois Utility-supplied product – primarily BGS-1 (residential) and BGS-2 (small non-residential) customers, and to a lesser extent BGS-3 customers, due to the operation of the Rider MV over/under recovery mechanism. Therefore, it is reasonable to conclude that it is best not to adjust BGS-3 rates at this point.

Q. Does the outcome of the mitigation approach improve if the constraint is adjusted to 100% instead of 150%, and the residential all electric subgroup is created?

A. Changing the mitigation approach to a 100% constraint did not result in an improved solution. The DS/BGS-3 subsidy and subsidization issues were exacerbated, and relief to all electric households may not be sufficient to address bill impacts for each of the Ameren Illinois Utilities. For example, the mitigation approach under this scenario would decrease rates for AmerenCIPS-ME all electric residential customers by 2.109 cents/kWh. This credit would apply to all kWh of use through the year. (Please see Ameren Illinois Utilities Exhibit 2.1, page 40.) However, an rate comparison of 2006 bills to current 2007 expected bills for AmerenCIPS-ME indicates that non-summer rates are expected to increase by 100% or more, while summer rates are only about 5% higher than 2006. Applying the credit uniformly to summer and non-summer use seems to provide a credit at times where one is not necessary to provide desired bill impact relief.

Q. Do you have a recommendation on how to use the results of these mitigation approach studies?

A. The results of the modified mitigation approach analyses are instructive and may be used as a means to guide further analysis. For example, in each modified analysis, the DS/BGS-2 class was targeted to subsidize other classes. This suggests that the transition to current 2007 rates may not be as severe for these customers. Moreover, the "all electric" residential subclass for each of the Ameren Illinois Utilities was to receive a subsidy in the 125% and 150% constraint scenarios. These observations were considered as we developed a more focused methodology to provide relief to larger non-summer use customers.

Q. Before you continue, do you have any general comments about the bill impact scenarios contained in your testimony and in the informational filings?

A. Yes, I would note with all of the approaches that have been examined, the primary focus is on mitigating certain customer impacts associated with the January 2, 2007 rates and rate design, not cost causation. Rate designs traditionally try to move costs in a direction that links cost causation to the class of customers for which cost recovery is expected. Rate change impacts are also an important consideration; however, care should be taken in this docket to not focus entirely on rate impacts, while ignoring the cost causation principles of proper rate design. In the long-term, associating rates with cost causation should continue to be the appropriate ratemaking goal of the Commission.

<u>Preferred Approach to Addressing Bill Impact Concerns</u>

Q. Do the Ameren Illinois Utilities have a preferred approach to address bill impact concerns associated with residential customers?

A. Yes. The preferred rate redesign approach follows three primary steps. The first step involves determining an average revenue target, and resulting percentage increase, over bundled rates customers paid in 2006. This step allows for subsidies from BGS-2 to BGS-1 if desired. Ameren Exhibit 2.2 illustrates estimated revenue under 2006 rates for DS/BGS-1 and DS/BGS-2 customer classes, and the total amount of revenue shift required to provide an equalized percentage increase between the two classes. For each of the Ameren Illinois Utilities, the percentage increase to the residential class is larger than the percentage increase to the small general service class. Thus, equalizing increases would result in a shift from DS/BGS-1 to DS/BGS-2. As shown, full equalization would result in a $30.9 million being shifted from BGS-1 to BGS-2 (or a 14.5 % increase to DS/BGS-2) for AmerenIP, $12.6 million (or 8.4 % increase to DS/BGS-2) for AmerenCIPS, and $10.9 million (or 17.5 % increase to DS/BGS-2) for AmerenCILCO. The Ameren Illinois Utilities stop short of full equalization for each of the Utilities. Instead of moving to full equalization, the Ameren Illinois Utilities recommend limiting the percentage point increase shift to 10%.

Q. Why should the percentage point shift be limited to 10%?

A. The Ameren Illinois Utilities are attempting to achieve an equitable balance between residential and small general service classes. On one hand, the class average increases suggest that the DS/BGS-2 class could absorb additional revenue responsibility to equalize revenue between the residential and small general service classes. On the other hand, movement of too much revenue to the small general service customers may have the unintended consequence of creating or adding to bill impact problems for these customers.

Q. What are the subsidy amounts under a 10% limit?

A. For AmerenIP, the limit would result in $21.3 million of cost responsibility moved from BGS-1 to BGS-2. For AmerenCILCO, the same limit results in a $6.2 million movement from BGS-1 to BGS-2. AmerenCIPS at 8.4% is already under the 10% threshold and thus does not require further adjustment.

Q. What is the second step of the residential rate redesign approach?

A. The second step involves shifting DS revenues between the summer and non-summer periods. Each of the Ameren Illinois Utilities experiences its annual peak demand during the summer season. Some facilities are tied to an individual customer's peak demand (e.g., service line, transformer). Other facilities are tied to the collective peak demands of many customers connected to the same facilities (e.g., high voltage 34.5 kV line, distribution substations). Conceptually, summer demands drive a larger sizing of distribution facilities shared by many customers than do non-summer demands. The size of the facilities often corresponds to the cost of facilities.

Thus, the Ameren Illinois Utilities suggest that the Distribution Delivery Charge for residential customers be increased by 0.75 cents/kWh in the summer, and decreased by about 0.4 cents/kWh in the non-summer months. This movement is supported in part with the conceptual cost rationale discussed above, and in part by an outcome that will help lower bills for high non-summer use customers during non-summer months. The design is revenue neutral within the DS-1 class for each utility. In other words, annual DS-1 revenue is expected to be the same for AmerenIP, AmerenCIPS, and AmerenCILCO. This step does not involve BGS rates in any way. The particulars of this calculation are shown in Ameren Exhibit 2.3 (see the bottom portion of the exhibit).

Q. What is the third step of the residential rate design proposal?

A. The third step of the residential rate design involves adjusting BGS rates to lessen bill impacts for customers with higher non-summer kWh usage. This step contains three sub-steps. First, the "all-in" rate for customers using more than

800 kWh per month was set to a level that is no higher than the energy rate paid in 2006 plus an amount equal to the average residential increase for the particular Utility. For example, rates in 2006 for AmerenCIPS-ME contained a tail block rate of 2.175 cents/kWh. The overall rate increase for all of AmerenCIPS is 35.3%. Increasing the 2006 tail block rate of 2.175 cents/kWh by 35.3% results in a tail block target for AmerenCIPS-ME of 2.944 cents/kWh. This step requires that a separate category be continued for AmerenCIPS and AmerenIP customers that formerly took service under those Utilities' special "space-heat" rates. (Any premises that previously took service under the special electric heat rate would be assigned to the all-electric category for 2007 adjusted rates.) The following table illustrates tail block rates in 2006, the target class average increase, and the resulting tail block price targets for each Utility and subgroup.

	CILCO	CIPS-NSH	CIPS-SH	CIPS-ME	IP-NSH	IP-SH
Winter Prices						
2006 Marginal Price	$ 0.03521	$ 0.06988	$ 0.03350	$ 0.02175	$ 0.05947	$ 0.02499
Class 1&2 Avg Inc	152.4%	135.3%	135.3%	135.3%	135.3%	135.3%
Target Tail Block Rate	$ 0.05365	$ 0.09458	$ 0.04534	$ 0.02944	$ 0.08047	$ 0.03382

Note: The utility refers to the respective Ameren Illinois Utility. NSH refers to "non space-heat" or general use, and SH refers to "space-heat" or all electric.

AmerenCILCO and AmerenCIPS-ME did not have tariffs in 2006 that required customers to qualify for a special "all electric" rate. Instead, all customers were billed under the same rates. Also note that for the AmerenCIPS all electric customer, the 9.458 cents/kWh target value is higher than rates under the 2007 status quo. The non-summer tail block rates were not increased. In other words, the AmerenCIPS all electric tail block BGS rate was not adjusted from the 2007 status quo.

Second, the summer rate was adjusted to a level 5% greater than the estimated rate that customers are expected to pay in 2007.

Third, the prices for non-summer use for the first 800 kWh were increased to a level to recover the balance of the overall target revenue level for each Utility.

The calculations are shown in Ameren Exhibit 2.3. As shown, the revenue target for BGS-1 was an under-recovery of $6.2 million for AmerenCILCO, $21.3 million for AmerenIP, and $12.6 million for AmerenCIPS. These costs will shift to be recovered within BGS-2, which I will discuss shortly.

Q. Are you concerned that the proposed target prices for non-summer use over 800 kWh per month vary widely among the Ameren Illinois Utilities and between the general use and all electric groups?

A. The Ameren Illinois Utilities view developing prices equal to costs as a rate design objective. However, setting component prices to equal costs can sometimes cause undue customer bill impacts. The evidence in this case indicates that customers with high non-summer use, especially those who heated their homes with electricity, have experienced significant bill impacts. This methodology effectively addresses bill impacts, and eases the transition to fully cost based rates at some future date.

Q. Why was a 5% limit to summer rates chosen?

A. The Ameren Illinois Utilities are once again attempting to achieve balance between providing rate relief to those impacted the most (high non-summer use customers), while not substantially impacting other customers. Approximately 15% of the Ameren Illinois Utilities' customers heat their households with electricity. Stated another way, approximately 85% of customers are general use customers where summer use is a more prominent component of total consumption. Ameren Illinois Utilities' Exhibit 2.1, pages 4-7 and 12-15, show that customers are expected to experience below-average increases to summer bills (comparing 2006 rates to 2007 rates under the status quo). This suggests that summer rates may be increased to help lower bills for high non-summer use customers; however, applying a higher increase to 85% of the residential customer base may cause unintended bill impact concerns for those customers.

Q. Would summer rate changes become effective in 2007?

A. No. The Commission's Order is not scheduled to be issued in this case until mid-September. Consequently, the summer 2007 will have already passed before any rate redesign changes are implemented. It will be summer 2008 before the incremental 5% increase takes place.

Q. What price adjustments would apply to AmerenCIPS customers that were previously served under rates applicable to portions of Henderson and Hancock counties in 2006?

A. These customers would receive the same pricing as AmerenCIPS-ME customers. The 2006 rate structure of "Henderson and Hancock" AmerenCIPS customers was similar to that of AmerenCIPS-ME. The 2006 base prices were about 0.6 cents/kWh higher than those for AmerenCIPS-ME.

Q. What is the result of applying the rate design changes on customer bills?

A. Ameren Exhibit 2.4 provides a series of charts of bill comparisons at various usage profiles. The first chart illustrates annual impacts for the various usages, while the second and third charts on a page show summer and non-summer (non-summer) impacts, respectively. The dotted line depicts the percentage increase expected by comparing bill amounts at 2006 rates to bill amounts at expected 2007 rates under the status quo. The solid line represents the percentage increase by comparing the same 2006 bill amount to bills at expected 2007 rates adjusted as discussed above. As expected, adjusted 2007 summer rates are about 5% higher than 2007 rates under the status quo. Also, adjusted 2007 non-summer rates for all electric households are less than 2007 expected rates under the status quo. In general, the impact to general use customers is modest. Annual increases generally fall within 7% or less compared to 2007 rates under the status quo. Annual bills for AmerenCIPS, AmerenCIPS-ME, AmerenCILCO, and AmerenIP general use customers are expected to increase by about 7%, 5%, 5%, and 2%, respectively. Further, average annual increase percentages for high non-summer use customers move closer to the overall DS/BGS-1 class average.

Q. How were rates for small non-residential customers (DS and BGS-2) adjusted?

A. The first step is shared by DS/BGS-2 and DS/BGS-1. As discussed with the description of the residential methodology, BGS-2 is targeted to pick up an additional by $6.2 million for AmerenCILCO, $21.3 million for AmerenIP, and $12.6 million for AmerenCIPS. The second step is very similar to that used by the residential class. The Distribution Delivery Charge has been increased in the summer by 0.75 cents/kWh, and the non-summer charge has been decreased by about 0.4 cents/kWh in order to achieve a revenue neutral seasonal rate shift for each Utility. The third step differs somewhat from the residential methodology.

Q. How does the third step differ from the methodology used for the residential class?

A. The formerly applicable 2006 bundled service rates were much more numerous than those of the residential class. The Utilities had end use rates for small customers, larger customers, schools, churches, grain drying, municipalities, some were demand based while others were not, some had blocked rates, and some were time-of-use rates. Moreover, it is relatively rare for a residential customer to exceed 60,000 annual kWh of use; however, since the class of DS/BGS-2 customers includes customers with demands up to 150 kW, a customer using just under 150 kW could use 60,000 kWh in one month at 55% load factor. These factors make it very difficult, and administratively burdensome, to develop a set of non-residential rates tied to a tail block rate that customers paid in 2006. Instead, summer rates were increased by an amount sufficient to recover the added revenue responsibility shifted from BGS-1. Non-summer prices for the first 2,000 kWh of use were increased by an amount approximately equal to the summer increase. Prices for use over 2,000 kWh were decreased by an amount approximately equal to the non-summer first block revenue gain. On balance, the price adjustments recover the revenue shift from the residential class (BGS-1) for each Ameren Illinois Utility. The details of this calculation are shown on Exhibit 2.5.

Q. Why is the non-summer tail block rate for AmerenCIPS discounted by a larger amount compared to those proposed for AmerenCILCO and AmerenIP?

A. The higher tail block credit was developed in an attempt to provide additional relief to customers that are expected to experience above-average bill impacts in the non-summer season. Specifically, the credit targets customers that were eligible for the formerly applicable space-heat rates.

Q. Why did you choose a non-summer block at 2,000 kWh per month, with higher prices for the first 2,000 kWh per month?

A. The Ameren Illinois Utilities examined a series of bill comparisons at various usage profiles and levels. In general, customers using less than 2,000 kWh per month are expected to receive rate decreases or relatively small rate increases. For example, Ameren Illinois Utilities Exhibit 2.1, pages 21-34, illustrates a distribution of customers grouped by the annual percentage increase expected by transitioning from 2006 rates to 2007 rates under the status quo. Implementing a non-summer block at 2,000 kWh, and charging more for the first 2,000 kWh of use, is an attempt to increase rates for customers that have either received a rate decrease or a small increase. Conversely, implementing a declining block non-summer rate recognizes that there are several larger use customers that are already experiencing above-average increases, many of whom may have heated their business with electricity. The objective is for all customers to share in a rate increase, while not causing additional hardship to customers already experiencing above average increases.

Q. Do you have any bill impact examples showing the expected rate changes for the various non-residential customer groupings?

A. Yes. Exhibit 2.6 provides a comparison of formerly applicable 2006 rates to those expected in 2007 under the status quo, and those expected if the rate redesign adjustments are adopted. A consistent pattern for all of the Utilities emerges: lower-use customers should expect to see increases from current 2007 rates by about 20%, higher summer use customers should expect to see increases from current 2007 rates by about 10%, and higher non-summer use customers should expect to see minor increases (5% or less) or decreases.

Q. Is there a need to adjust rates of BGS-3 or BGS-4 to address bill impact concerns?

A. The situation for customers over 150 kW up to 1,000 kW (DS-3) and those using 1,000 kW or more (DS-4) is different than that experienced by the residential and small general service classes. Approximately 90% of energy used by DS-4 customers is provided through a third-party supplier, and only about 5% energy is provided through BGS-4. Moreover, BGS-4 prices are approximately 2 cents/kWh higher on average than those of BGS-1, -2, and -3. Average increases to DS-4 customers, assuming they took BGS-4, are estimated to be about 80% or more (see the Post-Auction Public Report of the Staff, page 23, dated December 6, 2006). Customers on BGS-4 are not allowed to switch to an alternate supply until June 1, 2008, and adding costs to this group would appear to run counter to the goal of creating more just and reasonable rates. Likewise, customers currently on BGS-4 had an opportunity to switch to an alternate supplier or take Real Time

Pricing service from the Utilities before defaulting to BGS-4 (and about 95% of customers chose not to take BGS-4). By their actions (or inaction) they have affirmed that they are willing to pay BGS-4 rates. Thus, no BGS-4 rate changes are necessary.

Prices for BGS-3 are set based on auction bids to serve the loads of all customers under 1,000 kW of demand (BGS-1, -2, -3, and -5). Customers on BGS-3 have an opportunity to switch to service with a third-party supplier or to RTP on short notice (7-45 days). To date, about 1/3 of customer load eligible for BGS-3 is served by a third-party supplier. Adjusting BGS-3 rates higher would serve to accelerate a customer's incentive to switch to a third-party supplier. Thus, any revenue subsidization projected based on today's BGS-3 load would be at risk of falling back to customers targeted to receive the subsidy through the automatic over/under cost recovery mechanism within Rider MV. Conversely, moving BGS-3 rates lower would create an incentive for customers to remain on BGS-3 or switch back from a third-party supplier. If this happens, any targeted subsidy provided would grow as customers switch back to service on BGS-3, increasing a deficit to be recovered through the over/under mechanism in Rider MV. In my judgment, neither outcome is desirable. The Ameren Illinois Utilities recommend that BGS-3 rates remain competitively neutral, and no new adjustments are applied as a result of this proceeding.

Q. Are some DS-3 and DS-4 customers experiencing large bill impacts as a result of transitioning to new Delivery Services rates?

A. Yes. The Ameren Illinois Utilities are aware that customers with lower load factors, such as grain drying and some pumping districts have been impacted more severely than others. These customers establish high kW demands, but have little kWh usage. Consequently, the demand-based DS-3 and DS-4 charges can be relatively expensive to these customers.

Q. How can bill impacts for these customers be mitigated?

A. The Ameren Illinois Utilities propose that a demand limiter of 2 cent/kWh be imposed within DS-3 and DS-4 tariffs for each of the Utilities. The demand limiter would limit the monthly total cost of the Distribution Demand Charge and Transformation Capacity Charge to 2 cents/kWh. Exhibit 2.7 provides a chart of the number of customers at various average cents/kWh intervals for DS-3 and DS-4, by Utility. An analysis of DS-3 estimated bills indicates that the limiter would create a revenue shortfall of $688,000, $304,000, and $409,000 for AmerenIP, AmerenCIPS, and AmerenCILCO, respectively. An analysis of DS-4 estimated bills indicates that the limiter would create a revenue shortfall of $65,000, $64,000, and $37,000 for AmerenIP, AmerenCIPS, and AmerenCILCO, respectively.

Q. Would the 2 cent/kwhr limit be applicable to all DS-3 and DS-4 customers?

A. No, the limiter would only apply to those customers that limit their total kwhr consumption during the four summer months to 20% or less of their annual kwhr usage. This would insure that customers receiving the limiter would be those that do not make larger than normal contributions to system costs which are typically driven by summer loads.

Q. How would the "20% usage during the summer months" criteria apply?

A. Each existing customer's eligibility for the limiter would be assessed following the September billing period and be applied for the entire subsequent non-summer billing periods of October through May. The limiter would apply prospectively. New customers with less than 12 months of usage history after the September billing period would not have the limiter applied in the subsequent non-summer period, but would be re-evaluated during the following September billing period and adjusted if their usage indicated that they would have qualified. Such customers would receive a limiter credit in their October bill equal to the amount that would have been limited to 2 cents/kWh in the previous months. No re-evaluation would be done for customers with a full 12 months of usage history at the time of the September eligibility is determined.

Q. How would you propose to recover the revenue shortfall for each DS class?

A. The revenue shortfall may be recovered by increasing the current Distribution Delivery Charges by an equal percentage amount until the revenue shortfall is recovered. Exhibit 2.8, pages 1 and 2, show the Distribution Delivery Charge adjustments needed to ensure revenue neutrality within the DS-3 and DS-4 class, respectively, for each of the three Illinois Operating Utilities. The largest DS-4 adjustment is for AmerenCILCO. For primary voltage supply service, an adjustment of $0.022 per kW is required, or $220 per month (and $2,640 per year) for a 10,000 kW customer taking primary voltage supply service. For a customer taking high voltage supply (service usually at 34.5 or 69 kV), the incremental rate adjustment of $0.005/kW would result in a $50 per month increase, or $600 per year. For DS-3, the largest adjustment is again necessary for AmerenCILCO. For primary voltage supply service, an adjustment of $0.197 per kW is required, or $98.50 per month (and $1,182 per year) for a 500 kW customer taking primary voltage supply service. For a customer taking high voltage supply (service usually at 34.5 or 69 kV) using 500 kW, the incremental rate adjustment of $0.043/kW would result in a $21.50 per month increase, or $258 per year. In summary, the adjustment attempts to strike a balance of providing relief to customers who pay relatively high average distribution delivery charges (on a cents/kWh basis), while not burdening other customers.

Q. Why is a 2 cents/kWh limiter reasonable for DS-3 and DS-4 Distribution Delivery and Transformation Capacity Charges?

A. Customers taking service under DS-2 pay a cost based customer and meter charge. The Distribution Delivery Charge recovers all other costs attributed to the DS-2 class. Similarly, DS-3 and DS-4 customers pay a cost-based customer and meter charge. The Distribution Delivery and Transformation Charges recover the remaining delivery costs (service under DS-4 also includes a Reactive Demand Charge). The Distribution Delivery Charges for DS-2 service for each of the three Illinois Ameren Utilities is about 2 cents/kWh. Setting the rate limiter for DS-3 and DS-4 provides rate continuity between DS-2 and DS-3 & DS-4 customer classes. This is not meant to imply that DS-3 or DS-4 customers with low load factors should never pay more than 2 cents/kWh. Rather, in this time of transition to post 2006 rates, these customers need time to adapt to the newer rate structure. The rate limiter would likely be revisited in future rate cases as to whether it is still needed, or should be changed to a different level.

Q. Do all of the rate re-design proposals mentioned above result in overall revenue neutrality for each of the Ameren Illinois Utilities?

A. Yes, consistent with the Commission's order establishing this case, these rate re-designs are revenue neutral.

<u>Impact on Over/Under Cost Recovery Mechanism Within Rider MV</u>

Q. You previously mentioned the over/under cost recovery mechanism within Rider MV. Please explain the basic operation of this tariff provision.

A. The purpose of the over/under recovery mechanism is to ensure that costs paid to suppliers for the BGS-FP (serving BGS-1, -2, -3, and -5) auction product balance with the revenue billed to customers. For example, costs and revenues for the respective period are evaluated, and the over or under recovery of costs, due to differences in customer demand and usage, is recovered in a subsequent period. The amounts paid to suppliers are locked into place for the duration of the auction contracts. About 1/3 of the contracts expire on May 31, 2008. Another 1/3 expires on May 31, 2009 and the final 1/3 expires on May 31, 2010. As each contract expires, replacement power must be procured.

The weighted average annual cost of the BGS-FP product is $65.20/MWh. This annual cost is split into a summer and non-summer price. Presently, the average summer price is about $63/MWh and the non-summer price is about $66/MWh.

Q. Why is it important to understand the operation of the over/under calculation within Rider MV?

A. The over/under calculation is expected to yield relatively minor per kWh adjustments, assuming customers pay the retail supply charges under the 2007 status quo. The rate re-design proposals discussed here involve significant adjustments in the revenue expected from customers 1) by season, 2) by usage block, and 3) by customer class. The over/under recovery formula within Rider MV should be modified to ensure that the revenue shifting does not "wash out" through the monthly adjustment factors. For example, $2 million of BGS revenue has been shifted from January to other months for AmerenCILCO. Assuming that costs and revenues previously matched, the result of the rate redesign would create a deficit of $2 million for January to be recovered in March. The $2 million deficit divided by March sales would likely produce an estimated under-recovery factor greater than 0.5 cents/kWh for all BGS-FP March usage – a charge greater than the average price reduction expected for the BGS-1 class in March.

Q. Do you have a suggestion on how the monthly over/under calculation could be adjusted to minimize the effect of this seasonal "wash-out"?

A. A set of fixed monthly revenue factors could be applied to artificially adjust revenue by an amount sufficient to preserve the planned monthly BGS revenue shifting. These factors are shown in Exhibit 2.9 for BGS-1 and BGS-2, by Utility. For example, BGS-1 revenue for AmerenCILCO is expected to decrease by 0.867 cents/kWh in January as a result of rate re-design. Within the monthly over/under calculation examining January revenue, revenue could be adjusted up by 0.867 cents/kWh to reflect what would have been received in the absence of rate redesign. The difference will be held for future recovery (in the summer, primarily from BGS-2 customers). The Ameren Illinois Utilities would include interest, at the rate established by the ICC in accordance with 83 Illinois Administrative Code Section 280.70(e)(1), on the differences created by application of the fixed factors. Provided estimated sales are close to actual kWh sales, the over/under calculation should balance by year-end.

Q. Is it reasonable to assume that actual kWh sales and estimated kWh sales will always be close?

A. Total residential and small general service customer kWh sales can be predicted with a fairly high amount of certainty, except for the influence of weather. Weather could influence monthly sales by 10% or more.

Implementing usage blocks may amplify the effect of weather on expected BGS revenue. For example, if non-summer weather is milder than expected, residential customers that heat their homes with electricity will likely use less energy in the +800 kWh block. Thus, the average unit $/kWh rate for the non-summer months with mild weather will be higher than that expected under "normal" weather conditions, leading to a over/under "hold back" larger than necessary. The converse would also be true.

One non-weather factor also directly influences differences in estimated and actual kWh sales. Customers are eligible to switch from BGS service to energy provided by a third-party supplier. Residential customers have yet to switch; however, more than 10% of DS-2 load is served by third-party suppliers.

Q. Have you evaluated the effect of DS-2 customers switching to third-party supply with respect to your over/under calculation?

A. Yes. Holding all other things constant and reducing BGS-2 sales and revenue by 10% results in relatively minor revenue shortfall during the non-summer months, but a slightly more significant shortfall in the summer months. For example, with only 90% of BGS-2 load, the over/under calculation would experience a shortfall of about 0.05 cents/kWh. This calculation assumes recovery of the shortfall only from BGS-1 and BGS-2 customers. The actual operation of the over/under calculation would also include any BGS-3 and BGS-5 sales in the determination of the factor. In general, for each 10% point drop in BGS-2 sales, there is a 0.05 cents/kWh drop in summer BGS recovery. So if only 60% of DS-2 kWh sales were served under BGS-2, the potential summer shortfall would be about 0.2 cents/kWh or less (less because BGS-3 and BGS-5 would also share in the deficit recovery). Exhibit 2.10 illustrates the projected monthly impact of serving only 90% of BGS-2 load (10% switching) on the over/under calculation.

Q. Would the monthly factors need to be adjusted periodically?

A. The factors should be evaluated periodically to account for additional switching that may have occurred, and to take into account replacement power contracts and the new weighted cost of power supply.

Timing of Rate Redesign Implementation

Q. How would implementation of rate redesign changes impact the Ameren Illinois Utilities' annual revenue?

A. The revenue impact of changing DS and BGS rates depends on when such changes are implemented. If the changes are implemented on January 1, the impact on annual revenue should be negligible. If changes are implemented on October 1, the price reductions proposed for non-summer use will reduce the Company's revenue. This is primarily true of DS revenue. Ameren Illinois Utilities' Exhibit 2.11 illustrates that on an annual basis, revenue changes are negligible. If DS changes are implemented starting in October, the loss of revenue versus the status quo will reach an expected $16.9 million ($5.3 million in October, $4.9 million in November, and $6.6 million in December).

<u>Alternate Re-design Scenario</u>

Q. Do you have a suggested rate design methodology should the Commission decide to reduce or eliminate the proposed subsidization of BGS-1 by BGS-2?

A. Yes. Similar steps to those outlined in the approach above could be followed. First, the revenue allocation step would be adjusted (or eliminated) to reflect a reduced (or no) subsidy. Next, the tail block non-summer rates would be adjusted upward to reflect the higher "average" increase target for each Utility. Third, the residential summer rate increase limit of 5% over 2007 status quo rates could be relaxed or eliminated. If the subsidy were to be eliminated, raising the residential summer increase from 2007 status quo rates by 12% for AmerenCILCO, about 15% for AmerenCIPS, and about 14% for Ameren IP would generate a fully revenue neutral design for the DS/BGS-1 rate class.

Next, BGS-2 rates could be reduced in the summer and the 0-2,000 kWh usage block in the non-summer by equal amounts.

The results of the BGS-1 adjustments, assuming no subsidy, are shown in Exhibit 2.12. A comparison of residential bill impacts, assuming no subsidy from BGS-2, is shown in Ameren Illinois Utilities' Exhibit 2.13. The results of the BGS-2 adjustment, assuming no subsidy, are shown in Ameren Illinois Utilities' Exhibit 2.14. A comparison of non-residential bill impacts, assuming no subsidy to BGS-1, is shown in Ameren Illinois Utilities' Exhibit 2.15. The effect of BGS revenue shifting and an estimate of the impact it may have on the monthly over/under calculation within Rider MV is shown in Ameren Illinois Utilities' Exhibit 2.16. The influence of BGS-2 customer switching on the monthly over/under recovery mechanism within Rider MV is shown in Ameren Illinois Utilities' Exhibit 2.17. As may be expected, a rate re-design scenario with no interclass subsidies results in relatively benign impacts on the monthly over/under calculation.

Q. How should rates be adjusted in the future as power supply contracts expire and new power supply is purchased, as you previously mentioned?

A. At the time new power supply prices are known, the BGS adjustments proposed herein could be adjusted on a uniform percentage basis. For example, if new power supply contracts result in a decrease of 5% in overall power supply costs for the BGS-FP group, all adjustments could be reduced by 5% as well. A more comprehensive review of bill impact concerns could be undertaken at during the Ameren Illinois Utilities' next delivery services rate case proceedings.

Q. Before concluding your testimony, do you have any additional points that the Commission should consider?

A. Yes, throughout this process we have addressed customer impacts and mitigation of high increases in costs for certain types of customers, particularly the home heating customers. I again want to note that the scenarios, including Ameren's preferred approach, are designed to address these immediate customer impacts. In the future, it is advisable that the Commission revisit this rate design, and consider changes that bring rates into alignment with cost causation principles and ultimately send price signals to consumers that will enable them to make positive economic decisions regarding their energy use. As energy, fuel, and environmental costs continue to rise, it is important that we work to reduce subsidies that encourage uneconomic energy consumption.

Q. Does this conclude your testimony?

A. Yes, it does.