

**STATE OF ILLINOIS**  
**ILLINOIS COMMERCE COMMISSION**

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Illinois Commerce Commission	)	
On Its Own Motion	)	
-vs-	)	
Central Illinois Light Company d/b/a	)	
AmerenCILCO; Central Illinois Public	)	Docket No. 07-0165
Service Company d/b/a AmerenCIPS;	)	
Illinois Power Company d/b/a AmerenIP	)	
Investigation pursuant to Section 9-250	)	
of the Public Utilities Act of Electric	)	
Rate Design	)	

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**INITIAL BRIEF OF THE**  
**STAFF OF THE ILLINOIS COMMERCE COMMISSION**

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Staff of the Illinois Commerce Commission (“Staff”), by and through its counsel, pursuant to Section 200.800 of the Rules of Practice (83 Ill. Adm. Code 200.800) of the Illinois Commerce Commission’s (“Commission”), respectfully submits its Initial Brief in the above-captioned matter.

**I. INTRODUCTION**

Based upon a Staff Report dated March 1, 2007, the Commission initiated this proceeding on March 2, 2007 to investigate pursuant to Section 9-250 of the Illinois Public Utilities Act the rate design 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 (collectively, “Ameren” or the “Ameren Companies” or the “Ameren Illinois Utilities”).

## **A. Procedural History**

A prehearing conference was held on March 14, 2007. The Ameren Companies appeared in the matter and the following parties intervened: the Citizens Utility Board (“CUB”); MidAmerican Energy Company (“MEC”), Commonwealth Edison Company (“ComEd”); the Illinois Industrial Energy Consumers (“IIEC”);The Grain and Feed Association of Illinois (“GFA”); and Constellation NewEnergy, Inc (“CES”)., Direct Energy Services, LLC, MidAmerican Energy Company, and Peoples Energy Services Corporation, as the Coalition of Energy Suppliers (“CES”); and BlueStar Energy Services, Inc. (“BlueStar”).

By agreement of the parties and Staff, Ameren filed an Informational Statement on April 3, 2007 and a Supplemental Information Statement on May 9, 2007. The Ameren Companies, CUB, GFA and Staff filed direct testimony. The Ameren Companies, GFA, CNE, IIEC and Staff filed rebuttal testimony.

At a hearing held on June 11, 2007 the parties agreed to waive cross examination and the various testimony and attached exhibits, schedules and attachments were admitted into evidence by affidavit. The Administrative Law Judge marked the record heard and taken on June 11, 2007 and gave certain parties leave to file various affidavits and corrected testimony and schedules.

## **B. Staff’s Recommendation**

Beginning in January 2007, the significant rate increases approved for the Ameren Companies have been unevenly distributed among ratepayers. For residential customers, the largest increases occurred on the winter bills of space heating

customers. This created a significant hardship for a number of customers and prompted many ratepayer complaints.

Residential customers were not the only ratepayers impacted by the implementation of current rates. A number of smaller non-residential customers incurred significant increases in their bills. Among the larger non-residential customers, intermittent users, such as grain dryers, absorbed significant increases in the transition to the current rate design.

The Commission has expressed a desire to address the extraordinary bill impacts arising from the implementation of post-2006 rates. The Initiating Order in this proceeding gives a clear indication of the Commission's perspective on the bill impacts issue. The Initiating Order concludes as follows:

IT IS THEREFORE ORDERED that an investigation is initiated under Section 9-250 of the Act into all aspects of the rate design of AmerenCILCO, AmerenCIPS, and AmerenIP, specifically including all delivery services, all electric supply services, and all other tariffed aspects of electricity services, for the reasons stated in the prefatory portion of this Order, with a view toward ordering any changes in rate design the Commission determines on the basis of the record to be necessary to make the rate structure of each of these utilities, with appropriate consideration of historical rate structures, more just and more reasonable than the rate structures in effect as of March 2, 2007.

(Docket No. 07-0165, Initiating Order, p. 4 (March 2, 2007))

The Commission clearly signaled its intention not just to investigate post-2006 rates but to change those rates. It has a "view toward ordering any changes in rate design" to make post-2006 rates "more just and more reasonable". (*Id.*) The Commission is clearly seeking a revision of Ameren's post-2006 rates to address the resulting adverse bill impacts.

Staff has responded to the Commission's concerns by sponsoring a new set of rates that seeks to address inordinate increases for residential and non-residential customers. The first priority of the rate redesign is to address the extraordinary increases for residential space heating customers. Staff's proposed rates address this problem by reducing the winter tail block rate under which most space heating consumption takes place to a level consistent with the overall bill increase for residential customers as a whole. (ICC Staff Ex. 1.0, p. 21)

The second priority is to address the adverse impacts for larger customers within the small non-residential class (BGS-2/DS-2). This was accomplished by adopting a declining block supply charge on winter bills for the class and also implementing a summer declining block supply charge for BGS-2/DS-2 customers in the AmerenCIPS service territory. (ICC Staff Ex. 2.0, p. 6) In addition, delivery rates were revised for both the residential and small residential (BGS-2/DS-2) classes. Delivery rates were increased in summer months to reflect the higher costs in that period and commensurately lowered in winter months. (ICC Staff Ex. 1.0, p. 23) Further, to address the impacts for larger intermittent non-residential customers, a two cents per kWh rate limiter is proposed for delivery rates for the DS-3 and DS-4 classes. (ICC Staff Ex. 2.0, p. 31)

Staff's concern about residential space heating customers is shared by CUB Witness Thomas who argued that, "[t]he commission must act in the interest of residential customers and correct the rate design issues that lead to disproportionate impacts on residential space heat customers." (CUB Ex. 1.0, p. 2) It should be remembered, however, that the current proceeding is by definition revenue neutral. So

whatever relief is offered to any group of customers must be balanced by higher rates for others. The proposed rates seek to address the extraordinary increases experienced by some Ameren customers. To address those increases, bills must be increased for other customers who will not necessarily welcome paying higher rates. Nevertheless, the objective of the proposed rates is to more evenly distribute the increases over 2006 rates incurred by Ameren customers as a whole. Staff believes that its proposed redesign of rates accomplishes that goal. (ICC Staff Ex. 2.0, pp. 13-14)

## **II. Bill Impacts**

### **A. Development of Current Rates**

Current rates for bundled service are developed in a two part process. The delivery component, accounting for approximately one-third of customer bills, is shaped by the results of the recent delivery service proceeding (Docket Nos. 06-0070, 06-0071 & 07-0072 (Cons.)). The supply component, which comprises the remaining two-thirds of customer bills, reflects the results of the auction process in which the prices paid to suppliers are fed into the rate prism to determine supply charges paid by customer classes receiving auction power. (ICC Staff Ex. 1.0, p. 6)

Bundled service bills represent the sum of the delivery and supply components. For example, residential customers receive delivery service under the DS-1 rate class and supply under the BGS-1 classification. Small non-residential customers up to 150 kW receive service under the DS-2 and BGS-2 classifications. The corresponding classes for medium non-residential customers (150 kW – 1000 kW) are DS-3 and BGS-3. Lighting customers receive service under DS-5 and BGS-5. Supply costs for

bundled customers in each of these classifications were determined in the BGS-FP auction.<sup>1</sup> Large non-residential customers over 1000 kW are designated as DS-4 and BGS-4. Their supply costs were determined in a separate auction. (ICC Staff Ex. 1.0, pp. 6-7)

In Docket Nos. 050160/0161/0162 (Cons.), Staff proposed a plan to mitigate bill increases for bundled service customers in the BGS-FP auction which covered loads of less than one MW. The proposal limited bill increases for any individual customer class to either 20% or 150% of the BGS-FP auction group's average bill increase, depending on which produces the larger increase. The Staff proposal was adopted by the Commission in that proceeding. (Docket Nos. 05-0160/05-0161/05-0162 (Cons.), Final Order, p. 245 (January 24, 2006)) (*Id.*, p. 7)

However, the effect of the mitigation plan was limited because the most significant impacts occurred at the subclass, rather than the class, level. The experience of residential electric space heating customers illustrates the issue. Before January 2, 2007, all of the Ameren Companies offered discounted tail block rates to residential electric space heating customers and/or other high use customers. There were some differences between the offerings. AmerenIP and AmerenCIPS (excluding Metro East<sup>2</sup>) offered the lower tail block rate to residential space heating customers only, while all residential customers received access to the discounted tail block rate in the Metro East and AmerenCILCO territories. For all the Ameren Illinois Utilities,

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<sup>1</sup> BGS-FP refers to the "Blended" auction group which is comprised of residential customers and non-residential customers with usage of less than 1 MW.

<sup>2</sup> AmerenCIPS – Metro East refers to the former Union Electric properties in the East St. Louis metro area as well as some service territories in Hancock and Henderson Counties.

residential electric space heating customers of all the Ameren Companies did not constitute a class on their own but rather were considered a subclass of the larger residential class. So the application of the Commission's mitigation plan did not filter down to their level. (*Id.*, pp. 8-9)

While the Commission mitigation plan kept the increase for the residential class as a whole in line with other rate classes, it did not specifically mitigate increases for subgroups such as residential space heating customers. As a result, significant disparities arose between the increases for residential space heating and non-space heating customers. (*Id.*)

The elimination of the rate freeze on January 2, 2007 produced a host of changes for Ameren customers. First, bundled rates increased substantially for all three Ameren Illinois Utilities. AmerenCIPS customers in the BGS-1/DS-1 and BGS-2/DS-2 classes received average increases of 36.1%. Based upon Ameren's Supplemental filing in this proceeding, Staff noted that the corresponding average increases for AmerenIP and AmerenCILCO were 30.9% and 50.5%, respectively. (*Id.*, p. 9)

Second, the number of rate schedules for Ameren customers declined significantly in the post-2006 era. Furthermore, special rates for groups such as residential electric space heating customers were eliminated and those customers were included with other residential customers on a single rate schedule. (*Id.*)

Third, differences in rate levels between the three Ameren Illinois Utilities were significantly reduced. In other words, the bills for comparable customers of the three Ameren Companies are closer today than they were before. (*Id.*, p. 10)

These changes were designed to align Ameren rates with the underlying cost of service. Those costs underwent a significant change due to the changes in the electricity market. The bundled rates in effect before January 2, 2007 were based on costs for vertically integrated utilities which owned the power plants that served their bundled service customers. Current rates are designed to recover costs for transmission and distribution utilities that purchase electricity for bundled service customers from the wholesale market utilizing a reverse auction process. (*Id.*)

**B. Current Bill Impacts - Residential**

The evidence clearly demonstrates that current rates create inordinate bill impacts for significant groups of residential BGS-1/DS-1 and non-residential BGS-2/DS-2 customers. The residential customers most adversely impacted are electric space heating customers and other high use customers who, in some cases, received individual bill increases approaching 200% in some winter months. (ICC Staff Ex. 1.0, p. 2)

According to Ameren’s Supplemental filing in this proceeding, Staff noted that the average annual increases over 2006 rates for residential customers specifically are as follows:

AmerenCIPS (Excluding Metro East)	36.2%
AmerenCIPS (Metro East)	56.6%
AmerenIP	40.2%
AmerenCILCO	56.8%

(ICC Staff Exhibit 1.0, p. 10)

While bill increases vary considerably within the residential class, electric space heating customers, who are the largest consumers, received the biggest increases. After a review of Ameren’s Supplemental filing in this proceeding, Staff noted that the

average annual increases over 2006 bundled rates for residential space heating customers of the Ameren Companies are as follows:

AmerenCIPS (Excluding Metro East)	61.1%
AmerenCIPS (Metro East)	79.5%
AmerenIP	67.0%
AmerenCILCO	66.6%

(*Id.*, p. 11)

These annual increases do not reveal the full story of bill impacts because the winter increases for these customers are significantly higher than the annual average increases. Based on the Ameren's Supplemental filing, Staff indicated that the following are winter bill increases for average use electric space heating customers:

AmerenCIPS (Excluding Metro East)	88%
AmerenCIPS (Metro East)	135%
AmerenIP	87%
AmerenCILCO	81%

(*Id.*)

These results are particularly problematic considering that these customers incur their highest bills in winter months.

Adverse bill impacts are further concentrated in the largest bills for the winter months for residential space heating customers. Based on Ameren's Supplemental filing in this proceeding, Staff presented the next table, which represents the increase in the January bill for an average use space heating customer:

AmerenCIPS (Excluding Metro East)	96%
AmerenCIPS (Metro East)	151%
AmerenIP	104%
AmerenCILCO	91%

(*Id.*, p. 12))

Based on Staff's review of Ameren's Supplemental filing in this proceeding, the following is a table presenting the increase in a January bill for a high use space heating customer who consumes 6,003 kWhs in the month:

AmerenCIPS (Excluding Metro East)	115%
AmerenCIPS (Metro East)	196%
AmerenIP	143%
AmerenCILCO	116%

(*Id.*) As the above table indicates, the largest increases for residential customers occur with the highest usage bills.

Bill impacts for customers are shaped by two factors. The first factor is the percentage increase and the second factor is the overall dollar increase of the bill. For example, a 100% increase on a \$15.00 electric bill may create a lesser bill impact than a 50% increase on a \$100.00 bill because the former produces only a \$15.00 increase while the latter results in a \$50.00 increase. (*Id.*, p. 13)

The bill impacts for Ameren residential space heating customers are problematic because they received the greatest bill increases in both percentage and dollar terms. The potential upheaval in monthly budgets for Ameren space heating customers of an increase that could approach 200% or \$350 is understandable. (*Id.*)

### **C. Current Bill Impacts – Non-Residential**

The implementation of post-2006 rates has also had varied impacts on BGS-2/DS-2 customers, the small non-residential customers up to 150 kW. The largest increases in the BGS-2/DS-2 class generally fall on higher use customers. Per Ameren's Supplemental filing, Staff noted that the impacts ranged from rate decreases

for a significant number of smaller DS-2 customers to increases in excess of 100% for larger customers within the class. (ICC Staff Ex. 1.0, p. 13)

The wide range of impacts may be explained by the reduction in the number of available rates for DS-2 customers. In 2006, bundled non-residential customers of all three Ameren Illinois Utilities could take advantage of numerous rate schedules for electric service. (*Id.*, p. 14) However, most of the available rates for DS-2 customers were eliminated as of January 2, 2007 and these customers were limited to a single auction-based, bundled service offering. As a result, DS-2 customers for the three Ameren Illinois Utilities went from many bundled service starting points in 2006 to a common end-point in 2007. This combination of customers into a common rate schedule produced a variety of bill impacts, from significant decreases to significant increases. The impacts are documented in Schedule 1.02 attached to Mr. Lazare's direct testimony. The schedule shows that these customers incurred impacts ranging from bill decreases of approximately 50% to increases of more than 100%. (*Id.*, p. 14)

Staff reached three general conclusions concerning bill impacts for BGS-2/DS-2 customers. First, the impacts vary widely and actually include rate decreases for smaller customers. Second, the larger customers within the class, on average, received bigger bill increases. Third, while a significant range of impacts is inevitable given the numerous rate offerings available in 2006, the stratification appears extreme under the rate prism. That some customers received bill decreases while others received extraordinary increases causes problems from a bill impacts standpoint. (*Id.*, pp. 14-15)

The transition to post-2006 rates has had a wide variety of effects on the small non-residential customers of the three Ameren Illinois Utilities. The impacts range from

bill decreases for a number of BGS-2/DS-2 customers to sizeable increases for other customers within the class. (ICC Staff Ex. 2.0, p. 4)

While the relationship is inexact, the evidence suggests that the adverse bill impacts relate directly to the size of the monthly bills for individual customers. For example, 60.2% of the former Rate 10 Small Use General Service customers on the AmerenIP system are currently receiving rate decreases. In contrast, only 13.3% of Rate 11 Demand Metered Space Heating customers are receiving rate decreases. (ICC Staff Ex. 1.0, Schedule 1.02, p. 1)

Similarly, on the AmerenCIPS system, 99.5% of Rate 2B General Electric Service – Secondary customers currently receives increases of 25% or less. The corresponding percentage for Rate 9T Light and Power TOU Space Heating Secondary customers is 14.8%. (ICC Staff Ex. 1.03, pp. 3-4, Ameren Companies' response to Staff Data Request PL-1.01)

These disparate impacts present problems. The operations of business, organizational and governmental customers in this class can be disrupted by sharp increases in costs such as electricity. With rates sharply rising, bill impacts should be reasonably distributed among non-residential customers.

Current rates also create bill impacts issues for larger non-residential customers. Since January 2, 2007, a large majority of customers in classes DS-3 and DS-4 have switched from bundled service to obtaining power from Retail Electric Suppliers. This makes their overall bill impacts difficult to discern because the cost of power provided by their alternative suppliers is not publicly known.

However, issues have arisen concerning the delivery service component of bills for DS-3 and DS-4 customers. Some DS-3 and DS-4 customers who were previously on bundled rates calculated on a usage, or per-kWh, basis have incurred significant impacts in the transition to rates calculated on a demand, or kW, basis. High peak demands relative to average usage can lead to significant increases over 2006 bills for customers within these delivery classes. (ICC Staff Ex. 1.0, p. 15)

GFA witness Adkisson discussed the issue in direct testimony on behalf of the Grain and Feed Association of Illinois. (GFA Ex. 1.0) The problem arose for these intermittent users according to Mr. Adkisson because their usage levels are low while their peak demands are high. Thus, the introduction of distribution demand charges significantly increased their overall bills. For example, more than 80% of the 155 AmerenIP customers on separate grain drying rates in 2006 have received increases in excess of 50% based on current bundled service prices. (Ameren Illinois Utilities' Ex. 2.1, p. 30 of 49) (ICC Staff Ex. 2.0, pp. 9-10)

#### **D. Conclusions Concerning Bill Impacts**

The effort to align bundled service rates with costs has produced unacceptable bill impacts in three ways. First, inordinate annual bill increases were incurred by customer groups at the subclass level. While residential electric space heating customers are the most well-known recipients of inordinate bill increases, they are joined by a significant number of nonresidential customers who also encountered substantial impacts. (ICC Staff Ex. 1.0, p. 16)

Second, as discussed earlier, bill impacts are unequally distributed between the winter and summer seasons. The larger winter increases have exacerbated impacts for space heating customers whose demands increase as temperatures fall. (*Id.*)

Third, the largest residential bill increases occur in the biggest bills of the largest consumers, which certainly is the case for residential space heating customers. The net effect of these increases is to produce individual monthly bills that fundamentally stress the finances of individual customers. Even though the current rate structure meets cost of service objectives, increases of the magnitudes that are being seen have created unreasonable bill impacts in both percentage and absolute dollar terms. (*Id.*)

### **III. Proposed Rate Redesign**

#### **A. Proposed Class Revenues**

As previously noted, the first priority of the rate redesign in this proceeding is to mitigate the extraordinary increases for residential space heating customers. The second priority is to address the adverse impacts for larger customers within the small non-residential class (BGS-2/DS-2). A third goal was to address the impacts for larger intermittent non-residential customers. Staff's proposed class revenues and design of individual rates seek to advance these priorities.

The rate redesign approach begins at the overall class level and then works its way down to individual rates. The rate redesign proposal includes changes in both supply and delivery charges. Staff's proposed approach does not shift revenues between the Ameren Companies. Thus, the overall revenue levels received from AmerenCIPS customers, AmerenIP customers and AmerenCILCO customers will not change as a result of this rate redesign proposal. (ICC Staff Ex. 1.0, p. 17)

The rate redesign approach maintains the levels of both supply and delivery service revenues collected from DS-3 and DS-4 customers at current levels. The argument for DS-4 is straightforward. These customers who are 1 MW and above have their own separate auction product and have largely abandoned bundled service for alternative supply. Thus, their bill impacts in the transition to post-2006 rates cannot be determined. This information vacuum makes it difficult to determine how revenues might be reallocated between DS-4 and other classes. (*Id.*, p. 18)

Staff does advocate a realignment of supply revenues between the BGS-1/DS-1 and BGS-2/DS-2 classes. The largest issue confronting the parties in this proceeding is the significant increase in post-2006 residential bills, especially for residential electric space heating customers who, in some cases, have received bill increases approaching 200%. These impacts argue for shifting revenue responsibility from the BGS-1/DS-1 to the BGS-2/DS-2 class. (*Id.*, p. 19)

The reallocation of supply revenues from the BGS-1/DS-1 to the BGS-2/DS-2 class also recognizes the different opportunity for the two classes in the competitive market. Currently, non-residential customers have access to a market for competitive supply while residential customers do not. The availability of alternative suppliers enables non-residential customers to shop for less expensive power. The one unknown is the level of savings achieved because the prices charged by alternative suppliers are not a matter of public record. (ICC Staff Ex. 2.0, p. 5)

As far as current bundled service revenues are concerned, BGS-2/DS-2 customers receive a smaller percentage increase over 2006 bills than BGS-1/DS-1 customers for all three Ameren Companies. This created the opportunity to propose to

shift revenues from BGS-1/DS-1 to BGS-2/DS-2 customers and more actively address the bill impacts confronting residential customers. Under this initial step, the percentage increases over 2006 bills for BGS-1/DS-1 and BGS-2/DS-2 customers of AmerenCILCO and AmerenCIPS were set to equal (that is, both classes for these utilities were designed to have the same bill increase). For AmerenIP customers, however, the differences in the increases over 2006 bills for BGS-1/DS-1 and BGS-2/DS-2 customers were narrowed but not eliminated. (ICC Staff Ex. 1.0, pp. 19-20)

In the second step, a portion of the revenues for AmerenCILCO and AmerenIP that were originally shifted from BGS-1/DS-1 to BGS-2/DS-2 customers were shifted back to BGS-1/DS-1 customers out of concern that the initial revenue increase was too large for BGS-2/DS-2 customers to absorb. (*Id.*, p. 20) The Ameren Companies indicated support for this proposed reallocation of revenues. (Ameren Ex. 2.0, p. 13)

Staff is reluctant to revise bundled service revenues for BGS-3/DS-3 customers. The class is in a competitive state of flux with many customers having abandoned bundled service for alternative supply. If revenue levels rise or fall, the competitive equilibrium for these customers could unravel. Furthermore, any significant changes in rate design could upset the competitive balance for the class. It could trigger a significant shift in customers between bundled and unbundled service and thereby create service issues for either auction suppliers or ARES. It would be most reasonable to let competition for DS-3 customers continue to develop in a gradual, orderly manner. Therefore, any changes to address bill impacts for DS-3 customers should be limited. (ICC Staff Ex. 1.0, p. 18)

Staff has developed a proposed set of rates for residential BGS-1/DS-1 customers and small non-residential BGS-2/DS-2 customers which address the inordinate bill impacts that have arisen under current rates. The proposed rates are included with this brief in Attachment A.

## **B. Residential Rate Redesign**

The starting point for the redesign of residential bundled service rates is the winter tail block rate, the key driver of winter bills for electric space heating customers. The current rate design for residential customers features a winter tail block rate significantly above the various tail block rates in effect in 2006. The current winter tail block rate consists of three main components: distribution, transmission and supply charges. This contrasts with the 2006 bundled rates which consisted of a single per-kWh charge. So, for example, an increase of 40% in the winter tail block rate means the sum of distribution, transmission and supply charges is approximately 140% of the 2006 bundled rate charge. (ICC Staff Ex. 1.0, p. 21)

Since the relevant comparisons are between the combined distribution, transmission and supply charges today with the single per-kWh charge that prevailed in 2006, the discussion will focus on overall per-kWh charges that prevailed in 2006; that are currently in place and that are proposed for this docket.

Based on the Ameren Supplemental filing, Staff notes that the following table compares current space heating tail block rates with 2006 rates:

(in \$/kWh)

	<u>2006</u>	<u>Current</u>	<u>Difference</u>	<u>%</u>
AmerenCIPS (Metro East)	.02175	.08130	.05955	274%
AmerenCIPS (Other)	.03350	.08130	.04780	143%
AmerenIP	.02499	.08600	.06101	244%
AmerenCILCO	.03521	.08760	.05239	149%

(*Id.*, p. 20) This table shows that the winter tail block rates faced by space heat customers nearly quadrupled for AmerenCIPS Metro East customers and more than doubled for all Ameren customers.

Under Staff's proposal, the increase in the winter tail block rate for each Ameren Illinois Utility was set approximately equal to each utility's average overall increase for bundled service residential customers. So, if residential customers as a whole receive average bill increases of 40%, the revised winter tail block rate is approximately 40% higher than the 2006 tail block rate.

Based on Ameren's Supplemental filing in this proceeding, Staff concluded that this approach produces the following winter tail block rates:

	(in \$/kWh)
AmerenCIPS (MetroEast)	.02967
AmerenCIPS (Other)	
Space Heating	.04559
Non-Space Heating	.07727
AmerenIP	
Space Heating	.03325
Non-Space Heating	.07922
AmerenCILCO	.05201

(ICC Staff Ex. 1.0, p. 22) A comparison of the proposed winter tail block rates to the corresponding tail blocks in 2006 is as follows:

(in \$/kWh)

	<u>2006</u>	<u>Proposed</u>	<u>Diff.</u>	<u>Pct.</u>
AmerenCIPS (MetroEast)	.02175	.02967	.0079	36.4%
AmerenCIPS (Other)				
Space Heating	.03350	.04559	.0121	36.1%
Non-Space Heating	.06988	.07727	.0074	10.6%
AmerenIP				
Space Heating	.02499	.03325	.0083	33.1%
Non-Space Heating	.05947	.07922	.0198	33.2%
AmerenCILCO	.03521	.05201	.0168	47.7%

(*Id.*, p. 22)

Four additional rate changes accompanied this lower winter tail block rate. The first, as previously mentioned, entailed shifting revenue recovery from BGS-1/DS-1 to BGS-2/DS-2 customers. The second shifted the recovery of a share of delivery service revenues from the winter to the summer period. Third, the summer per-kWh rate was increased to offset the lower winter tail block rates. Fourth, the first block winter rate was generally increased to ensure that the target revenues for the class were met. (ICC Staff Ex. 1.0, pp. 22-23)

Staff's proposed rate redesign also revises delivery rates. Delivery service rates currently remain the same on a year-round basis. The redesign proposal would make them vary by season. It would increase the summer per-kWh delivery charge by 0.75 cents and reduce the corresponding winter charge by approximately 0.4 cents per kWh to make the seasonal shift revenue neutral. (*Id.*, p. 23) The Ameren Companies have indicated they concur with these proposed seasonal rates. (Ameren Ex. 2.0, pp. 14, 18-19)

This shift in the recovery of delivery service revenues from the winter to summer makes sense for two reasons. First, it is cost justified. Demand-related delivery service costs are allocated on the basis of class contributions to the system peak which occurs

in the summer months. Thus, summer usage plays the key role in determining these costs. The 0.75 cent increase in the summer delivery charge reflects a reasonable judgment of the role that summer usage plays in shaping these costs. (ICC Staff Ex. 1.0, p. 23)

Second, the shift in the delivery service charges from winter to summer helps address the imbalance in winter and summer supply charges resulting from Staff's proposed rate redesign. A key feature of Staff's proposed rates is a significant reduction in the bundled per-kWh winter tail block rate. Reflecting the full reduction solely in the supply charge will generate a substantial under-recovery of supply charges in winter and a large over-recovery in summer. (*Id.*, pp. 23-24)

A shift in recovery of delivery service charges from winter to summer will reduce these seasonal under- and over-recoveries. It will increase the supply charge for all winter usage by approximately 0.4 cents for the three Ameren Illinois Utilities. In the summer, the delivery service revenue shift will permit a downward adjustment in the supply charge by 0.75 cents on a per-kWh basis. (*Id.*, p. 24)

The third step in Staff's proposed redesign of the residential rates is to set summer per-kWh rates. The bundled per-kWh rates that were developed included the following:

	(in \$/kWh)
AmerenCIPS (MetroEast)	.09401
AmerenCIPS (Other)	.09401
AmerenIP	.09891
AmerenCILCO	.10061

(*Id.*, p. 24)

The following table presents the proposed charges with both 2006 and the charges currently in effect:

(in \$/kWh)

	<u>2006</u>	2007 <u>Current</u>	<u>Proposed</u>
AmerenCIPS (MetroEast)	.08673	.08951	.09401
AmerenCIPS (Other)	.08186	.08951	.09401
AmerenIP			
0-300 kWh	.08315	.09421	.09891
>300 kWh	.07515	.09421	.09891
AmerenCILCO	.074479	.09581	.10061

(*Id.*, p. 25)

The proposed charges effectively balance summer bill impacts with the need to address winter bill impacts for space heating customers. Most residential customers incur their largest bills in summer months. An excessive increase in those bills could trigger a further outcry against electricity rates. (*Id.*, p. 25)

Averting this outcome requires placing limits on summer rate increases as a means to provide relief for winter space heating customers. Therefore, Staff proposes to limit the increase in summer rates to approximately 5% over current per-kWh summer charges for each of the three utilities. The increases over 2006 summer bills are significant, but still far below the bill increases experienced by space heating customers this past winter. In short, the proposed charges help address the problem of winter bill impacts for space heat heating customers without unduly exacerbating summer bill impacts. (*Id.*)

The final step in Staff's proposed redesign of residential rates entails the determination of the first block winter charges. The redesign proposal uses the winter

first block rates as a balancing mechanism to ensure that the overall residential revenue target is met. This results in the following set of charges for the first winter block:

(in \$/kWh)

AmerenCIPS (MetroEast)	.10368
AmerenCIPS (Other)	.10482
AmerenIP	.10258
AmerenCILCO	.11157

(*Id.*, p. 26)

The proposed charges compare with first block charges for 2006 and for the rates currently in effect as follows:

(in \$/kWh)

	<u>2006</u>	<u>2007</u> <u>Current</u>	<u>Proposed</u>
AmerenCIPS (MetroEast)	.05880	.09871	.10368
AmerenCIPS (Other)	.06988	.09871	.10482
AmerenIP	.07707	.10341	.10258
AmerenCILCO	.06618	.10501	.11157

(*Id.*)

These results are reasonable from a ratemaking standpoint. The winter first block clearly receives the greatest increase of all the charges being adjusted in the redesign ratemaking process. However, this is a necessary price to pay to limit bill impacts for winter space heating customers and summer users. (*Id.*, p. 27)

As previously noted, most residential customers incur their highest bills in the summer months and smallest bills in the winter months. Thus, the increase in the winter first block charge will affect their smaller, more manageable bills. It should be remembered that large winter users will still receive protection from the significant reduction in the tail block rate described previously. (*Id.*)

The proposed rates contain two unique features. The first pertains to relative rates for AmerenCIPS customers within and outside of the MetroEast area. Current rates produce significantly higher bill increases for MetroEast residential customers than other AmerenCIPS customers (56.6% vs. 36.2%). Thus, absent a revenue reallocation between the two areas, MetroEast residential customers will receive disproportionate bill increases. These increases were mitigated in Staff's proposal by developing a single percentage increase for both MetroEast and non-MetroEast AmerenCIPS customers. Such a rate redesign should not unduly burden the non-MetroEast area because its much larger customer base will temper the consequent increase. The following presents the average annual increases over 2006 rates for MetroEast and non-MetroEast customers if all AmerenCIPS customers receive the same percentage increase:

MetroEast	36.1%
Non-MetroEast	36.1%

(*Id.*, pp. 27-28) The above figures demonstrate how a combined percentage increase for the two areas provides clear benefits to MetroEast while avoiding an excessive increase for non-MetroEast customers. (*Id.*, p. 28)

The second feature pertains to AmerenIP and the non-MetroEast AmerenCIPS which in 2006 made lower winter tail block rates only available to space heating customers. The issue on a going forward basis is whether to maintain this separate space heating status for the redesign of bundled service electricity rates. (*Id.*)

Staff's proposed rate redesign restores the distinction between tail block rates for space heating and non-space heating customers that existed in 2006 rates. That

means two separate winter tail block rates will be provided to AmerenIP and non-MetroEast AmerenCIPS customers, one for space heating customers and another for non-space heating customers. The two winter tail block rates for space heating customers and non-space heating customers were derived in the same manner as the winter tail block rates for AmerenCILCO and AmerenCIPS MetroEast. The increases in the separate tail blocks for space heating customers and non-space heating customers were tied to the overall increase in residential revenues over 2006 revenues. So, for example, AmerenIP space heating and non-space heating customers will pay different winter tail block rates but their rates will increase by the same percentage over 2006 levels. (*Id.*, pp. 28-29)

This approach makes it possible to more evenly distribute the winter bill impacts between space heating and non-space heating customers. Without this distinction, all large winter users, with and without electric space heat, would pay the same tail block rate. Then, reducing the tail block rate to benefit space heating customers could cause bills for non-space heating customers to fall below 2006 levels which featured significantly higher tail block rates. This result would undermine the goal of distributing post-2006 bill increases more evenly among customers. To avert that outcome, the distinction that existed in 2006 winter tail block rates must be maintained. (*Id.*, p. 29)

Bill impacts associated with Staff's proposed residential rate redesign are presented in Attachment B to this brief<sup>3</sup>. Attachment B presents the bill impacts of high use residential space heating and non-space heating customers. These results

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<sup>3</sup> On June 25, 2007, Staff filed its Motion to Enter Late Filed Exhibit ("Motion"). Attachment B to this brief is Attachment A to that Motion, with the exception of the line graphs. As of the date of the date of filing this brief, Staff's Motion has not been ruled upon.

demonstrate that the proposed redesign rates provide a more balanced distribution of the post-2006 rate increases than the rates currently in effect. (*Id.*, p. 30) In particular, they demonstrate that the proposed rates significantly reduce the increases incurred by space heating customers during winter months, which was the source of considerable ratepayer anger earlier this year.

In sum, Staff recommends that the residential rate redesign approach presented in Attachment A be adopted by the Commission. The approach provides a balanced distribution of post-2006 bill impacts increases by ensuring that customers large and small receive comparable increases. It represents a significant advance over current rates which produces disparate increases for customers and creates unacceptable bill impacts for the largest residential users, electric space heating customers. (*Id.*, p. 30)

The Ameren Companies have expressed their agreement with this method of designing residential rates. Ameren witness Jones states as follows in his rebuttal testimony:

Mr. Lazare supports the approach to residential rate design as provided in the response to Staff data request PL-1.01, and attached as Schedule 1.03 to Staff Exhibit 1.0. The approach and results are the same as what I provided in my direct testimony at pages 12-17, and in Ameren Illinois Utilities' Exhibits 2.2 through 2.4. Thus, I believe that Staff and the Ameren Illinois Utilities are in agreement on how to best approach residential rate design.

(Ameren Illinois Utilities' Exhibit 3.0, pp. 1-2)

### **C. Small Non-Residential (BGS-2/DS-2) Rate Redesign**

The Staff's proposed rates for BGS-2/DS-2 small non-residential customers feature a declining block in winter months for customers of all three Ameren Illinois Utilities. The proposed summer rates feature a declining block rate for AmerenCIPS

and flat rates for AmerenIP and AmerenCILCO. The break point for all declining blocks for BGS-2/DS-2 customers comes at 2,000 kWhs per month. All usage below that level is subject to the higher monthly charge while all additional usage is charged at the lower tail block rate. (ICC Staff Ex. 2.0, p. 6) The proposal to implement these declining block rates for BGS-2/DS-2 customers reflects the need to focus on bill impacts rather than cost in designing rates for this docket.

The proposed rates significantly reduce the number of smaller customers receiving a decrease from their 2006 electricity bills. Bill decreases for some customers do not make sense when other customers are facing sizeable increases. It should be noted that because of the wide range of rates in effect in 2006, it is not possible to eliminate all reductions from 2006 bills. (*Id.*, p. 8)

The redesigned rates also address adverse bill impacts for large users within the BGS-2 class. While the proposed rates do not entirely eliminate disproportionate increases for large customers in the class, they do reduce the absolute levels of increase these customers face. (*Id.*)

Furthermore, the proposed rate redesign accomplishes these goals despite an increase in overall supply costs for the BGS-2 class. That the proposed rates could address these objectives, even as the overall revenue responsibility increases, attests to the reasonableness of the proposed rates. (*Id.*, p. 9)

#### **D. DS-3 and DS-4 Delivery Rate Redesign**

Staff recommends that bill impacts for certain intermittent customers in the DS-3 and DS-4 classes be addressed through changes to delivery rates. The specific proposal, termed a “rate limiter”, would cap demand charges for certain intermittent

users to ensure that they do not exceed the level of 2 cents per kWh consumed by customers in the class. Specifically, the rate limiter would apply to those customers in the DS-3 and DS-4 classes who consume 20% or less of their annual electricity in summer months. The effect of this rate limiter is to prevent these intermittent users from incurring large bill increases driven by the effect of demand charges for the delivery service component of their bills. (ICC Staff Ex. 2.0, p. 10)

This proposal would impact bills for other customers in the DS-3 and DS-4 classes. According to Ameren Illinois Utilities' Exhibit 2.8, this limiter is estimated to reduce the levels of delivery service revenues for the DS-3 and DS-4 classes by \$1.4 million and \$166 thousand, respectively. The \$1.4 million reduction corresponds to approximately 3% of the \$47.8 million in annual DS-3 revenues while the \$166 thousand is approximately 0.5% of the \$32.4 million in DS-4 revenues. This means that other DS-3 and DS-4 customers will experience delivery service rate increases of approximately 3% and 0.5%, respectively to cover the shortfall corresponding to the rate limiter. (*Id.*)

Staff considers these increases a reasonable price to pay to address bill impacts for large intermittent users. The proposed solution for these intermittent users is consistent with the principles underlying the proposed rate design solutions for BGS-1 and BGS-2 customers. In each situation, a subgroup of the class has been significantly impacted by the transition to post-2006 rates and Staff has recommended a reallocation of rates to ensure a more even distribution of the overall increase within the class. The proposal for intermittent DS-3 and DS-4 customers would grant similar rate relief to this

subgroup without unduly burdening remaining customers within the class. (*Id.*, pp. 10-11)

The Ameren Illinois Utilities and Grain and Feed Association of Illinois support the proposed rate limiter. They have signed a Memorandum of Understanding (Ameren Illinois Utilities Ex. 3.04) supporting the 2 cents per kWh limiter for “DS-3 and DS-4 customers who limit their total kWh consumption during the four summer billing periods (June through September) to 20% or less of their annual kWh usage.” (*Id.*, p. 4)

IIEC for its part expresses opposition to the rate limiter proposal. IIEC witness Stephens argues that “the Commission has generally avoided the introduction of cross-subsidies in delivery service rates”. (IIEC Ex. 1.0, pp. 4-5) He agrees that there are times when a departure from cost-based rates are warranted, but argues that this should be the exception, not the rule. (IIEC Ex. 1.0, p. 5)

Mr. Stephens goes on to argue that now is not the time to deviate from cost-based rates. He argues that the majority of large, non-residential customers in Illinois are experiencing significant rate increases. Furthermore, the size of their increases cannot be determined because current supply arrangements are generally unknown. Mr. Stephens concludes that “where the Commission does not know the impact in overall bills already experienced by moist large customers, it should not blindly push more costs onto them.” (*Id.*, pp. 6-7) Mr. Stephens then specifically takes up the case of grain dryers and argues that the demonstration has not been made that they have suffered greater bill impacts than other large customers. (*Id.*, pp. 12-13)

The objections by Mr. Stephens lack merit. The fact remains that intermittent users such as grain dryers are in a unique position in the transition to post-2006 rates

because their relatively large demands and intermittent loads produce high delivery costs on a per-kWh basis. Other customers with more balanced usage throughout the year do not face the same problem. The rate limiter is design to address this specific problem.

In addition, the potential impact of the proposed rate limiter is small, especially for larger DS-4 customers. According to Ameren witness Jones, the rate limiter would entail a delivery services revenue shift of \$1.4 million for DS-3 customers and a much smaller shift of \$166 thousand for DS-4 customers. (Ameren Ex. 2.0, p. 23) Thus, the impact for IIEC customers in the DS-4 class would be minimal.

CNE also addresses the proposed rate limiter. CNE witnesses Domagalski and Papadimitriou begin by expressing a concern that the proposal “violates cost-causation principles and energy-efficiency objectives”. (CNE Ex. 1.0, p. 12,) However, they go on to state that their objection to the proposal “is mitigated by Ameren’s application of DS-3 and DS-4 modifications in a competitively neutral manner”. (*Id.*)

Staff would note that the focus of this proceeding is on addressing bill impacts for all Ameren ratepayers. To the extent that bill impacts are addressed, there will be deviation from cost principles. However, the extraordinary nature of the response to the current rates in effect warrants the current efforts to address the full range of bill impacts even for DS-3 and DS-4 customers.

## **E. Alternative BGS-1/DS-1 and BGS-2/DS-2 Rate Redesign**

### **1. Ameren-Developed Alternatives**

Staff considers it necessary to present the Commission with alternative proposals to its recommended rate redesign. Assessing the impacts of bill increases on individual

customers is a matter of judgment. How customers are affected by higher rates depends on a host of factors which cannot be easily quantified. (ICC Staff Ex. 2.0, p. 14)

The presentation of alternative approaches also provides a basis for comparison of the rate redesign Staff recommends in its testimony. The Commission can assess for itself the effects of different approaches to the proposed rate redesign on various subgroups of Ameren customers. (*Id.*, p. 15)

Rate redesign alternatives were presented in Mr. Jones' direct testimony. The proposals fall into two general categories. The first consists of alternative rate redesigns based upon application of the Commission's rate mitigation mechanism to individual rate subclasses. The second set of alternatives for residential customers introduces additional declining blocks at higher usage levels to alleviate rate impacts for space heating customers. (*Id.*, pp. 15-16)

Under the alternatives associated with extending the Commission's rate mitigation mechanism to the subclass level, the maximums would be applied directly to residential space heating customers, for example to limit the level of their increases. However, this approach produces inconsistent results. Residential space heating customers for AmerenIP and AmerenCIPS (MetroEast) would realize rate decreases of just over one cent per kWh from current rates. Space heating customers for AmerenCIPS (non-MetroEast) would receive decreases of less than one-tenth of a cent per kWh and AmerenCILCO space heating customers would actually receive increases to their current rate levels. (Ameren Illinois Utilities' Ex. 2.1, p. 39 of 49)

Staff therefore concluded that this would constitute an inefficient and limited means to address current bill impacts problems. It would only marginally improve matters for some electric space heating customers and leave others either slightly better or worse off. (ICC Staff Ex. 2.0, p. 17)

If the constraint under the Commission mitigation mechanism were reduced from 150% to 125%, the benefits would increase for all space heating customers of the Ameren Illinois Utilities. The problem lies with the impacts on other classes. For example, on the AmerenCIPS system BGS-3 customers would receive an average rate decrease of 0.744 cents per kWh and non-MetroEast residential non-space heating customers would be saddled with a rate increase of 0.523 cents per kWh. (Ameren Illinois Utilities' Ex. 2.1, p. 40 of 49)

Finally, lowering the constraint to 100% would produce greatly varying impacts. Residential space heating customers of both AmerenIP and AmerenCIPS (MetroEast) would incur rate decreases of more than 2 cents per kWh while AmerenCIPS (non-MetroEast) and AmerenCILCO residential space heating customers would receive reductions greater than a cent per kWh. Conversely, non-residential BGS-2/DS-2 customers would receive average increases of approximately one cent per kWh while residential non-space heating customers of AmerenCIPS (non-MetroEast) would incur increases of almost a cent per kWh. (Ameren Illinois Utilities' Ex. 2.1, p. 41 of 49) The magnitude of the increases for BGS-2/DS-2 customers undermines the usefulness of this rate redesign alternative. (ICC Staff Ex. 2.0, pp. 17-18)

Ameren witness Jones also presented a residential rate structure featuring four separate rate blocks in the winter months. The blocks include 0-800 kWhs, 801-1500

kWhs, 1501-3000 kWhs and over 3000 kWhs. The rates feature discounts of 0.675 cents per kWh in the 801-1500 kWh block; 3.1 cents per kWh in the 1501-3000 kWh block and 5 cents per kWh in the over 3000 kWh block. (*Id.*, p. 18)

The analysis is limited and results are only presented for AmerenCIPS (MetroEast) electric space heating customers. (Ameren Illinois Utilities' Ex. 2.1, p. 45 of 49) Nevertheless, the rate design changes appear to have only a limited effect on bill impacts for these residential space heating customers. Under this alternative, the AmerenCIPS (MetroEast) electric space heating customers modeled would still incur an average winter bill increase of 87% over 2006 rates. (Ameren Illinois Utilities' Ex. 2.1, p. 45 of 49) This is not a sufficient solution to the problems currently facing these Ameren customers. (ICC Staff Ex. 2.0, p. 18)

## **2. Staff's Alternative Rate Design**

Staff has developed another set of rates for the Commission to consider which are included in Attachment C. The alternative presented in ICC Staff Exhibit 2.0, Schedule 2.04 is similar to Staff's recommended set of rates with one key difference. In contrast to Staff's primary proposal, the alternative features no revenue shift to the non-residential BGS-2 class from the residential BGS-1 customers. In other words, the alternative assumes no change in the total amount of supply costs currently recovered from the BGS-1 and BGS-2 customers. (ICC Staff Ex. 2.0, p. 19)

The alternative exacerbates bill impacts for residential customers but eases impacts for non-residential BGS-2/DS-2 customers. Without the benefit of a revenue shift, rates must increase for residential BGS-1/DS-1 customers. Conversely, non-residential BGS-2/DS-2 would not have to incur a further rate increase associated with

that revenue shift. The bill impacts for residential BGS-1/DS-1 customers are presented in ICC Staff Exhibit 2.0, Schedule 2.05 and for non-residential BGS-2/DS-2 customers in ICC Staff Exhibit 2.0, Schedule 2.06. (ICC Staff Ex. 2.0, p. 19)

The relative merits of the Staff-proposed and alternative rate redesigns depend on the objectives for the ratemaking process. If the focus is on addressing residential bill impacts, then Staff's primary proposal is the more effective tool. A focus more on bill increases for non-residential customers would favor the alternative approach. Because the rate redesign process is revenue neutral, there is no way to ameliorate increases for one group of customers without disadvantaging another group. (*Id.*, pp. 19-20)

Nevertheless, Staff recommends that the Commission approve its primary proposal which best addresses bill impact issues for Ameren customers. Staff's primary proposal most aggressively addresses the most serious bill impacts problem, which is the post-2006 bill increases for residential space heating customers. The size and scope of the problem quickly became apparent when current rates became effective in January 2007 and customers received bills featuring extraordinary increases in electricity costs. The rates which Staff recommends will most effectively mitigate those large increases without unduly burdening other customers. (ICC Staff Ex. 2.0, p. 20)

#### **F. Implementation Date**

Staff believes that the new rates should be implemented on October 1, 2007. This date is reasonable because winter, or non-summer, rates take effect on October 1<sup>st</sup>. There is always the chance that cold weather could arrive early this year and cause usage by electric space heating customers to climb. If current rates remain in effect this

autumn, then the kinds of bill impacts problems that occurred in January 2007 could reappear. (ICC Staff Ex. 1.0, pp. 32-33)

However, an October 1, 2007 implementation date does raise potential revenue requirement issues. Staff's recommended rate redesign proposal features lower winter delivery service charges than current rates. As a result, the Ameren Companies would encounter a delivery service revenue shortfall for 2007, violating the revenue neutrality provisions of the current proceeding. (*Id.*, p. 33)

Staff proposes to address this revenue requirement issue by implementing its rate redesign in two steps. In the first step beginning October 1, 2007, the rate changes necessary to redesign revised per-kWh charges would be solely reflected in revisions to supply charges. In the second step beginning January 1, 2008, the changes proposed for delivery service charges would become effective and supply charges would be adjusted accordingly to ensure that the overall per-kWh charges remain the same. The delay in revising delivery service charges until January 1, 2008 will prevent the Ameren Companies from incurring a delivery service revenue requirement shortfall. (ICC Staff Ex. 1.0, p. 33)

Ameren witness Cooper presents two proposals concerning the implementation date, both of which Staff finds problematic. The first proposal would be to delay implementation until January 1, 2008. The second proposal would entail an October 1, 2007 implementation date. (Ameren Illinois Utilities Ex. 1.0, pp. 9-10)

With respect to Ameren's first proposal, a January 1, 2008 implementation date would run the risk of another bill impact crisis for Ameren customers. If the Ameren territories experience an early chill this fall, electricity use by space heating customers

could rise and electric bills could soar as they did at the beginning of this year. An October 1, 2007 implementation date is essential to avoid the possibility of this occurrence. (ICC Staff Ex. 2.0, pp. 20-21)

Ameren's second proposal is based on the assumption that an October 1, 2007 implementation date is adopted. Ameren witness Cooper thereby proposes to create a regulatory asset as a means to recover a delivery services revenue shortfall resulting from implementation of new rates prior to January 2008. (Ameren Illinois Utilities' Exhibit 1.0, pp. 9-10)

Staff opposes this means of recovery for a revenue shortfall for several reasons. First, Mr. Cooper provides no evidence to demonstrate that such a regulatory asset will, in fact, be revenue neutral. Without such evidence, Mr. Cooper presents a proposal that runs the risk of undermining his own arguments in direct testimony about the importance of preserving revenue neutrality in this docket. (ICC Staff Ex. 2.0, pp. 21-22)

In addition, this proposal is inconsistent with the test year principle that costs for the test year should be matched with revenues during the same period. Staff is concerned that the proposal may be in violation of the Illinois Supreme Court decision regarding the recovery of deferred costs in Business & Professional People for the Public Interest, v. Illinois Commerce Com., 146 Ill. 2d 175. The creation of a regulatory asset as proposed by the Ameren Companies defers certain revenues identified in the delivery services revenue requirement to some later unknown time period. In addition, the actual revenue shortfall will not be known until after the three month period ending

December 31, 2007. Therefore, the regulatory asset will not be quantified until some future date. (ICC Staff Ex. 2.0, p. 22)

Therefore, Staff recommends that the Commission approve Staff's more reasonable two-step approach in order to implement the proposed rate changes. In the first step, on October 1, 2007, the full effect of the proposed rate redesign should be reflected in changes to supply charges only. In the second step, on January 1, 2008, seasonally-based delivery charges would be placed into effect and supply charges will be adjusted accordingly so that bundled service ratepayers will see no change in the overall level of per-kWh charges on their bills. This approach offers the advantage of producing no delivery service revenue shortfall for the Ameren Illinois Utilities and would thereby obviate the need to establish a regulatory asset. (ICC Staff Ex. 2.0, pp. 22-23)

Any under (or over) recovery of supply costs resulting from revisions to supply charges would be recovered (or refunded) to ratepayers through the Market Value Adjustment (MVA) under Rider MV. Thus, any supply revenue shortfall would self-correct under Rider MV. (*Id.*, p. 23)

Staff's recommended rates incorporate significant changes to all supply charges applicable to customers in the BGS-1 and BGS-2 classes. Since supplier payments will not change after the implementation of new supply charges, the issue will arise concerning the relationship between the supply charges collected from ratepayers and the supply costs paid to suppliers not only from month to month but also from season to season. If these relationships were to fluctuate significantly from month to month, the potential exists to cause significant swings in the Rider MVA adjustment levels that are passed on to ratepayers. That, in turn, can cause fluctuations in overall electricity bills

which could confuse ratepayers and impede their efforts to forecast monthly electricity costs. (*Id.*)

The objective should be to develop a Rider MVA mechanism that minimizes to the extent possible the fluctuations in monthly MVA adjustment levels. That is a matter which Staff will explore further with the Ameren Companies after the current docket is completed. (*Id.*, pp. 23-24)

#### **IV. Future Rate Prism Issues**

The Commission should also decide in this proceeding the process for determining supply charges that will go into effect on June 1, 2008. The current process for supply charges is that a supply auction for 1/3 of the bundled service supply will likely occur in late January or early February 2008. New rates that result from that auction will then become effective June 1, 2008. When the results of the early 2008 auction are known, they will be entered into the formula, commonly known as the “prism”, which will automatically generate supply charges for each participating customer class. Under the approach adopted by the Commission, the prism used to translate supply costs into rates for customer classes will be updated with more recent information on forward prices and customer usage levels. (ICC Staff Ex. 1.0, p. 34)

The key issue for supply charges that take effect June 1, 2008 will be bill impacts. Since the implementation of post-2006 rates on January 2, 2007, bill impacts have emerged as the overriding concern for electricity ratepayers in Illinois. Given the current concerns, this ratemaking investigation process must endeavor to prevent inordinate bill impacts on a going-forward basis. Thus, while cost of service has been a

longstanding concern for ratemaking in Illinois, ratemaking has reached the point today where bill impacts have become the primary consideration. (*Id.*, pp. 34-35)

As a result, the design of supply rates based on the early 2008 auction should focus on bill impacts. The charges should be set to ensure that no customer group, or groups, receives an inordinate increase. (*Id.*, p. 35)

The current process to mitigate potential bill impacts arising from the early 2008 auction is the mitigation plan adopted by the Commission for the first auction in September 2006. That plan, which seeks to gradually bring customer supply charges in line with the underlying costs over the long term, limited increases for individual classes in the first BGS auction to a maximum of 20% or 150% of the BGS-FP auction group's average increase. Those same maximums remain in place and, absent any change to its calculations, will limit potential bill increases that will take effect on June 1, 2008, as a result of the early 2008 auction. (*Id.*)

Staff is concerned that the continued use of the 20% and 150% maximums embodied in the Commission's mitigation mechanism have not been sufficiently effective to prevent Ameren customers from receiving unacceptable bill increases under the auction process. This raises the possibility that the next auction to be held in early 2008 could produce a new round of unacceptable bill impacts for Ameren customers. (*Id.*, pp. 35-36)

These adverse bill impacts could occur even though the auction will reset supply costs for only one-third of bundled service load. Once the new supply costs are run through the prism, some customer classes could be facing cost-based charges that differ significantly from their current charges. It should be remembered that the

mitigation mechanism limits increases for customer classes to a maximum of (a) 20% or (b) 150% of the BGS-FP auction group's average increase. Thus, even if the next auction produces no increase or even a reduction in supply costs, that could still trigger individual class increases of as much as 20%. This could have adverse bill impacts implications for classes such as residential space heating customers whose cost of service exceeds the rates they currently pay. (ICC Staff Ex. 1.0, p. 36)

Staff does not consider this further movement towards costs in 2008 to be acceptable. Residential space heat customers received annual increases ranging from 61% to 80% in the transition to post-2006 rates. Another increase of 20% with flat or even declining supply costs would only exacerbate these significant bill impacts. Under this scenario, the bill impacts for this customer class could be considered inordinate. (*Id.*, pp. 36-37)

Adverse bill impacts can be best avoided by eliminating the role of the rate prism in the upcoming auction. Instead, the Commission should consider passing along any changes to supply charges arising from the early 2008 auction by revising all existing supply charges on an across-the-board basis to recover revenues associated with the next set of auction results. For example, if the next auction raises supply costs by ten percent, Staff proposes that each supply charge prior to the auction would be raised by the same ten percent. Similarly, if the next auction reduces overall supply costs for the BGS-FP auction by ten percent, the proposal would reduce all existing supply charges under the auction by that same ten percent. (*Id.*, p. 37)

This approach limits the potential inordinate bill impacts which could emanate from the early 2008 auction. An across-the-board increase means that the supply

charges currently paid by bundled service ratepayers will not change relative to each other. For example, it prevents one class from receiving a 20% increase if the auction as a whole causes no increase, or even a decrease. The problem of bill impacts that has arisen since January 2, 2007 has been exacerbated by the unequal increases for individual customer groups. If the prism is run again for the early 2008 auction, there is simply no assurance of how supply costs will be allocated among the customer classes. Furthermore, as previously noted, the implementation of the Commission mitigation mechanism could produce sizeable increases for individual customer classes. (*Id.*, pp. 37-38)

It would be possible to revise the mitigation mechanism to narrow the range of increases resulting for customer classes. This would reduce, but not eliminate, the potential for rate classes to receive inordinate bill increases. While a tighter range of increases constitutes a step forward from a bill impacts perspective, Staff believes that the approach in the next auction that best addresses bill impacts concerns will be to revise existing supply charges up or down on an across-the-board basis to meet the supply costs that emerge from the upcoming 2008 auction. The across-the-board approach provides the Commission the best assurance that further changes in electricity supply costs will not further exacerbate bill impacts concerns among Ameren ratepayers. (*Id.*, p. 38)

A decision to change supply charges on an across-the-board basis should have a minimal impact on supplier decisions. The across-the-board approach would maintain the relative relationships between supply charges that currently exist. Thus, suppliers could easily determine what the relative supply charges for retail customers will be that

emerge from the next auction. The only issue for suppliers concerns the absolute levels of supply charges that will be based on the auction results. (*Id.*, pp. 38-39)

Clearly, the proposal to substitute an across-the-board increase for the rate prism deviates from cost principles. Nevertheless, the proposal is reasonable at this juncture because ratepayers across Illinois are dealing with negative bill impacts associated with the implementation of cost-based post-2006 rates. Currently, this is the critical issue for the Commission to address in the design of bundled service electricity rates. (*Id.*, p. 39)

At a future date, when concerns about bill impacts have receded, it will be essential for the Commission to redirect its efforts back to basing rates on cost principles. That will best ensure efficiency and fairness in the electricity market over the long run. However, over the shorter term the most important objective is to develop a set of rates that will mitigate bill impacts for bundled service Ameren ratepayers. Staff believes that the revised set of rates presented in response to Staff Data Request PL-1.01 addresses these bill impacts in a reasonable manner. (*Id.*, p. 39)

CNE witnesses Domagalski and Papadimitriou express their opposition to Staff's proposal to abandon the prism for the 2008 auction. They note their appreciation of Staff's motivations, but argue that the proposal constitutes "a step backwards" in the development of competition" and conflict with the historical method of designing rates in Illinois." (CNE Ex. 1.0, p. 13)

Additionally, CNE witnesses Domagalski and Papadimitriou argue that the Staff proposal would adversely impact suppliers who based their plans on the continued application of the rate prism. They also argue that the proposal could affect customer decisions concerning whether to receive bundled or RES service. CNE witnesses

Domagalski and Papadimitriou further opine that Staff's proposal would undermine conservation, energy efficiency and demand response by customers. (CNE Ex. 1.0, p. 14)

These arguments are flawed in two respects. First, the concern about the adverse impact for competition fails to consider the larger issue which is the extraordinary impact of current rates on Ameren ratepayers, particularly space heating customers. The concern expressed by customers has been unprecedented and the need to address those concerns is critical. If the solution impacts suppliers, that is a necessary side-effect to solving the problem.

In addition, CNE witnesses Domagalski and Papadimitriou fail to demonstrate how competitors or energy-efficiency will be adversely affected by adoption of the Staff proposal. They claim that suppliers are basing their plans on the results of the rate prism, but how the prism will work in the 2008 auction and what supply charges will result for customers is unknown today. Thus, it cannot be said what the impact will be on suppliers, competitors or conservation from the application of the rate prism in next year's auction. If the first auction is any guide, the full effects of the rate prism may not be understood until after the auction is conducted.

Nevertheless, the overriding concern is that application of the rate prism in next year's auction does not produce any severe bill impacts as resulted from the first auction. The only way to avoid such a scenario is to bypass the rate prism and approve Staff's proposal to increase supply charges on an across-the-board basis in next year's auction.

## CONCLUSION

Staff respectfully requests that the Illinois Commerce Commission approve Staff's recommendations in this docket.

Respectfully submitted,

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