STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission	**)**	
On its own motion	**)**	
v.	**)**	
Central Illinois Light Company,	**)**	
d/b/a AmerenCILCO;	**)**	**Docket No. 07-0165**
Central Illinois Public Service Company,	**)**	
d/b/a AmerenCIPS;	**)**	
and Illinois Power Company d/b/a AmerenIP	**)**	
	)	
Investigation pursuant to Section	**)**	
9-250 of the Public Utilities Act of	**)**	
Electric Rate Design.	**)**	

THE AMEREN ILLINOIS UTILITIES' INITIAL BRIEF

June 29, 2007

I. Introduction and Procedural History 1

A. Achieving the Commission's Revenue Neutrality Objective 3

1. Intra- and Inter-Class Rate Redesign 4

2. Timing of Implementation 6

3. Switching Issues 8

4. Administration, Billing, and Accounting Issues 8

B. Existing Rate Design/Bill Impacts 9

1. The Ameren Illinois Utilities' BGS and DS Categories 9

2. Bill Impacts Since January 1, 2007 11

II. Rate Design Solution Scenarios 12

A. The Procurement Docket "Staff Mitigation Approach" 12

B. Preferred Approach to Addressing Bill Impact Concerns 14

1. BGS-1 and BGS-2 Rates 15

2. BGS-3 and BGS-4 Rates 24

C. Impact on Over-/Under-Cost Recovery Mechanism for Rider MV 28

D. Timing of Rate Redesign Implementation 29

E. Future Rate Prism Issues 32

III. Alternate Rate Redesign Scenario 34

IV. Conclusion 36

I. INTRODUCTION AND PROCEDURAL HISTORY

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" or "AIU") hereby submit their initial brief. The Illinois Commerce Commission ("Commission") initiated this docket on its own motion, for purposes of investigating the Ameren Illinois Utilities' rate design pursuant to 220 ILCS 5/9-250, in a March 2, 2007 Order Initiating Investigation ("Initiating Order").

The Initiating Order called for an expedited review of the electric rate design for all customer classes of the Ameren Illinois Utilities, requiring 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. (Initiating Order, p. 4.) The Initiating Order limited the scope of this investigation by stating that the Commission "does not intend to review or consider any changes in the revenue requirement it has most recently determined for the Ameren companies . . . Additionally, the Commission does not intend to modify its conclusions (other than those related to rate design) in the Procurement Dockets." (*Id.*)

The following parties intervened and participated in this docket: the Citizens Utility Board ("CUB"), the Coalition of Energy Suppliers ("CES," consisting of MidAmerican Energy Company, Constellation NewEnergy, and Peoples Energy Services Company), Commonwealth Edison Company ("ComEd"), the Illinois Industrial Energy Consumers ("IIEC," comprising BOC Gases, Air Products & Chemicals Company, Tate & Lyle, Cargill, Inc., and Mittal Steel), the Grain and Feed Association of Illinois ("GFA"), and BlueStar Energy Services Company, Inc. ("BlueStar").

The schedule for this Docket was set by agreement of the parties at the March 12, 2007, prehearing conference. In accordance with that schedule, the Ameren Illinois Utilities filed an Informational Statement on April 3, 2007. Also in accordance with that schedule, the Ameren Illinois Utilities hosted a workshop in Springfield, Illinois, on April 11, 2007. Additional workshops were held on April 18 and 25, and May 2, 16 and 23, 2007. Developments in the workshops led the Ameren Illinois Utilities to move for leave to file a Supplemental Informational Statement on May 9, 2007. The Administrative Law Judge ("ALJ") granted leave on June 11, 2007.

Taking into account the complex nature of rate design in general, and the unique issues before the parties and the Commission in this docket, the Ameren Illinois Utilities' undertook a series of in-depth analyses of the Ameren Illinois Utilities' Basic Generation Service ("BGS") and Delivery Service ("DS") rates, exploring existing and possible rate design scenarios through the workshop process, in the manner contemplated by the Commission's order. For 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. Through those workshops, the parties made significant progress toward resolution of the issues in this docket, which are described in more detail below.

The Ameren Illinois Utilities proposed a "Preferred Approach" to resolving rate design issues in the Direct Testimony of Leonard M. Jones (AIU Ex. 2.0), based largely on progress made through the series of workshops. Parties submitting testimony in this docket indicated substantial agreement with that Preferred Approach. The Ameren Illinois Utilities also presented an alternative rate design proposal (AIU Ex. 2.0, pp. 31-32), to provide the Commission with alternate choices from the full body of rate design options that the parties explored.

This brief discusses (1) guidelines for achieving revenue neutrality in this docket, (2) the Ameren Illinois Utilities' current rate design and the bill impact issues that have resulted from that design, (3) the Ameren Illinois Utilities' proposed preferred rate design approach and issues related to that approach, and (4) an alternative rate design proposal.

The Ameren Illinois Utilities note that, with all of the approaches that have been examined, the parties' primary focus has been on mitigating certain customer impacts associated with the January 2, 2007 rates and rate design, and secondarily on cost causation. While rate designs traditionally attempt to move costs in a direction that links cost causation to the class of customers for which cost recovery is expected, the parties have understood the Commission's primary goal in this docket to be mitigation of rate change impacts. The parties have taken care, however, to not focus entirely on rate impacts while ignoring the cost causation principles of proper rate design. In the long term, the Ameren Illinois Utilities believe that associating rates with cost causation should continue to be the appropriate ratemaking goal of the Commission.

A. ACHIEVING THE COMMISSION'S REVENUE NEUTRALITY OBJECTIVE

The direct testimony of Ameren Illinois Utilities' witness Wilbon L. Cooper (AIU Ex. 1.0) testified to the importance of adhering to the Commissions' objective to maintain revenue neutrality and ensure the utilities' authorized revenue requirements:

> the Commission does not intend to review or consider any changes in the revenue requirements it has most recently determined for the Ameren companies (or which are 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 ….

(March 2, 2007 Initiating Order, p. 3.)

Regardless of any rate design changes arising from this docket, it is critical that the Commission ensure full, timely, and precise recovery of all costs associated with the

procurement of power and energy needed to serve Ameren Illinois footprint customers, as well as full recovery of all delivery service revenues authorized by the Commission in the Ameren Illinois Utilities' Delivery Services Dockets (06-0070, -0071, and -0072, cons.). This recovery is critical to both the financial health of the Ameren Illinois Utilities, and also, to the development of a robust competitive retail power market in Illinois. (AIU Ex. 1.0, p. 4.) Absent timely recovery of actual power procurement costs from customers, the financial health of the Ameren Illinois Utilities could be unduly harmed. Additionally, from a market perspective, cost-based class rates are essential for the development of a competitive power market, as the Ameren Illinois Utilities' rates for power should effectively compete with prices from Alternative Retail Electric Suppliers ("ARES" or "RES"), alternative fuels, and co-generation in order to facilitate the development of competitive alternatives that benefit Illinois electric consumers. As demonstrated below, this rate re-design effort presents significant complexities and challenges for the rate designer. Numerous rate design scenarios have been modeled as part of this docket and it is clear that there is no one single cure or panacea that would produce more just and more reasonable rates as ordered by the Commission. However, the end result should be a rate design that strikes the best possible balance considering all the relevant factors.

1. Intra- and Inter-Class Rate Redesign

The Commission's directive requires careful rate re-design based on detailed analysis from both intra-class and inter-class perspectives. (AIU Ex. 1.0, pp. 5-6.) The Ameren Illinois Utilities' witness Mr. Jones' testimony provides numerous rate re-design scenarios that offer guidance for re-designing intra-class recovery within the residential and small general service classes, as well as inter-class shifts of Basic Generation Service revenue responsibility from the residential class to the small general service class. (AIU Ex. 2.0) These scenarios show that

such shifts will have varying impacts on customers within each of these classes, depending on their respective load patterns and historic bill expectations.

First, from an intra-class perspective, the revenue neutrality principle requires that any reduction in a rate component of a given class be offset by an increase in a charge(s) within the same class. (AIU Ex. 1.0, p. 6.) For example, if the rate designer were to decrease a non-summer rate component, then said decrease would have to be offset by an increase in another rate component (e.g., a summer rate component). In this example, a customer with high summer usage and low non-summer usage would experience an annual bill increase. While a customer with low summer usage and high non-summer usage will also experience an annual bill increase. Depending on the magnitude of the rate design changes or shifts, the impact on an individual customer's bill could be materially significant. Overall, however, the annual revenue requirement of the class would remain unchanged. Thus, if newly designed rates result in the intra-class shifting of non-summer revenue responsibility to the summer, a balancing is necessary to reduce non-summer rates to reflect historical rate structures without unduly increasing summer rates.

Second, from an inter-class perspective, the revenue neutrality principle requires that any reduction of the revenue responsibility of a given class be offset by an increase(s) to the revenue responsibility to another class(es). (AIU Ex. 1.0, p. 6.) Again, the annual revenue requirement of each individual utility would not change.

The need to maintain revenue neutrality in this docket from an intra-class perspective presents practical challenges. (AIU Ex. 1.0, p. 7.) As indicated in the Initiating Order, this docket is intended to examine the relative impacts of January 2, 2007 rate design changes and ameliorate the impact on certain customers (in particular residential electric space heating customers) in the Ameren Illinois Utilities' service territory who have experienced higher relative bill increases. Certainly, the Ameren Illinois Utilities share with the Commission and its

customers the strong desire to resolve and implement such changes "at the earliest possible time consistent with statutory mandates and due process of law." (Initiating Order, p. 4.) However, as noted above and in the Initiating Order, it is important that such changes do not affect the Ameren Illinois Utilities' ability to recover their Commission-authorized revenue requirements. From an intra-class perspective, this presents a significant challenge, as described below.

2. Timing of Implementation

The Ameren Illinois Utilities' witness Mr. Jones' Direct Testimony demonstrates this challenge. (AIU Ex. 2.0.) As described in more detail in Section II.D below, if implemented prior to January, 2008, Mr. Jones' testimony establishes how several rate design scenarios involving intra-class shifts of revenue responsibility from the non-summer billing periods to the summer billing periods would result in an under-recovery of revenue. Each of the Ameren Illinois Utilities' rates differ from summer to winter, and are carefully designed to bring in revenue amounts based on customers' expected seasonal usage. (AIU Ex. 1.0, pp. 7-8.) Seasonally differentiated rate designs inherently divide and allocate costs among defined time periods that would otherwise be collected uniformly regardless of the time of year. As a result, implementation of any of the intra-class seasonal revenue shift scenarios outlined in Mr. Jones' testimony prior to 2008 would result in the under-recovery of delivery service rate revenue in 2007. Essentially, once the summer rate period has passed, any shift of costs away from the non-summer rates to the summer rates detrimentally affects the Ameren Illinois Utilities' ability to collect its costs for the entire year. A mid-year inter-seasonal rate reallocation results in unreasonable rates because it either promotes under-recovery or over-recovery of revenue. In this case, a shift away from the non-summer months would result in under-recovery. Absent any special accounting treatment that would accrue deferrals of the difference between the status quo (i.e., January 2, 2007) rates and any of these scenarios, there would be a foregoing of

Commission-authorized 2007 delivery service revenue. This result would be detrimental to the financial health of the Ameren Illinois Utilities.

In Direct Testimony, Staff witness Mr. Peter Lazare proposed that revised rates take effect October 1, 2007; however, Mr. Lazare acknowledges that an October implementation will result in revenue deficiency for 2007 if DS rates are adjusted at that time. (ICC Staff Exhibit 1.0, p. 32) In Rebuttal Testimony, Mr. Jones explained why the Ameren Illinois Utilities would under-recover $16.5 million in BGS if Mr. Lazare's October 1 proposal were adopted. (AIU Ex. 3.0, p. 9.) If the changes intended for DS rates were instead made to BGS rates for the period from October through December, the DS revenue deficit for each of those months ($5.2 million in October, $4.8 million in November, and $6.5 million in December (see Ameren Illinois Utilities' Exhibits 3.06)) would instead shift to a BGS under-recovery that would roll forward to recovery in 2008. Such a proposal is contradictory to the Commission's stated goal of revenue neutrality. This evidence and the Ameren Illinois Utilities' rebuttal position is described in further detail below in Section II.D.

In short, the Commission must take annual revenue requirement concerns into account when determining the appropriate date to implement any rate design changes, in order to maintain revenue neutrality in this docket. (AIU Ex. 1.0, pp. 8-9.) The facts show that any intra-class delivery service rate design changes arising from this docket that would: a) result in a shift in revenues between the Ameren Illinois Utilities' tariff billing seasons (i.e., summer [June – September] and non-summer [October through May]) and b) be effectuated prior to January 2008 could likely produce delivery service revenues during 2007 that vary significantly from those ordered by the Commission and result in rates of return significantly different than those ordered by the Commission in ICC Docket Nos. 05-0160, -0161, -0162 (cons.) ("Procurement Dockets"), and 06-0070, -0071, and -0072 (cons.) ("DST Dockets").

For these reasons, the Ameren Illinois Utilities' new rate design should not be implemented until January 2008. In addition to easily resolving the revenue neutrality issue, allowing a full year of the new rate structure would provide the added benefit of developing an entire year of data related to the operation and customer impacts caused by the new rates. This data would allow parties and the Commission access to data from an entire twelve-month period in order to determine how to address future challenges in an evolving restructured environment.

3. Switching Issues

With regard to the inter-class shifting of Basic Generation Service revenue responsibility from the residential class to the small general service class, a re-balancing is required not only to reflect historical rate structures, but also to reflect that the Ameren Illinois Utilities have experienced small general service customers switching to third party supply for power and energy since January 2, 2007. (AIU Ex. 1.0, p. 10.) As of March 31, 2007, at least 13% of the Ameren Illinois Utilities' small general service load was taking power and energy supply from an ARES. The actual data indicates the real possibility that, if too much residential Basic Generation Service responsibility is shifted to the small general class, this would result in additional switching of small general service customers to third party power and energy supply. If these customers switch to third-party supply, there would be even fewer small general service customers from which to recoup the reduced residential Basic Generation Service revenue requirement. In the extreme, all small general service customers could potentially switch due to increasing Basic Generation Service prices resulting from this imbalance. And, if this were to occur, residential customers would effectively revert back to status quo rates and the current bill impacts issues would re-emerge.

4. Administration, Billing, and Accounting Issues

The Ameren Illinois Utilities' administrative, billing, and accounting systems have undergone significant changes to accommodate the transition from essentially pre-2007 vertically integrated billing to 2007 billing consisting of delivery service charges, transmission charges, and power and energy supply charges. (AIU Ex. 3.0, pp. 11-12.) The current tariff provisions for administration and billing of these services are provided under the individual utility's delivery service, transmission service, and BGS tariffs, including Rider Market Value ("Rider MV") that contains provisions for monthly "tracking" adjustments to BGS charges to reflect the difference between payments to suppliers and billings to customers. Several of the Ameren Illinois Utilities' rate design scenarios involve a shifting of BGS revenue responsibility from the residential class to the small general service class. If these changes were adopted by the Commission, tariff modifications along with additional administration and programming of the individual utility's billing and accounting systems would be necessary. For example, accounting data for the Rider MV tariff and its billing tracking mechanism mentioned above would have to be re-designed to track the shift of residential BGS revenue responsibility to the small general service class so as to prevent the negating of the shift via the existing tracking mechanism within Rider MV. While these changes would not be insurmountable, they would involve considerable hours to develop, test or review, and then implement. As a result, it is imperative that any rate design changes arising from this docket allow adequate time for these changes to be completed.

B. EXISTING RATE DESIGN/BILL IMPACTS

1. <u>The Ameren Illinois Utilities' BGS and DS Categories</u>

The Direct Testimony of Ameren Illinois Utilities' witness Mr. Jones describes the rate structure and service categories for the Ameren Illinois Utilities. (AIU Ex. 2.0, pp. 5-7.) In general, BGS is available to customers with demands under 1,000 kilowatts ("kW"), at a fixed price. BGS-1 refers to service available to all residential customers. BGS-2 is provided to non-

residential customers with 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. (AIU Ex. 2.0, pp. 5-6.) 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 kW, and is seasonally differentiated. BGS-2 is seasonally differentiated, but does not contain a usage block. BGS-3 utilizes 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. (AIU Ex. 2.0, pp. 6-7.) 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 per 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).

2. Bill Impacts Since January 1, 2007

Generally, residential customers who rely solely on electricity for the heating of their homes experienced a much larger-than-expected average bill increase, since January 1, 2007. (AIU Ex. 2.0, p. 7.) 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 heating their homes with electricity are expected to experience increases greater than the class average. The Initiating Order indicates increase percentages ranging from 88% for AmerenCILCO to 170% for AmerenCIPS-ME. (Initiating Order, p. 3). Actual impacts experienced by residential customers were higher or lower depending on the customer's monthly usage.

Non-residential/small general service customers are expected to experience widely differing impacts. (AIU Ex. 2.0, pp. 7-8.) In general, customers with low usage (less than 2,000 kWh per month) are expected to experience below-average bill impacts, while those whose usage is above 2,000 kWh 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.

II. RATE DESIGN SOLUTION SCENARIOS

A. THE PROCUREMENT DOCKET "STAFF MITIGATION APPROACH"

As part of the informational filing, the Ameren Illinois Utilities examined and presented several possible rate design scenarios, including the "Staff Mitigation Approach." (AIU Ex. 2.0, p. 8.) In the Procurement Dockets, Staff proposed a mitigation approach, which employs a method whereby 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 Ameren Illinois Utilities.

The Ameren Illinois Utilities' presentation of the effect of Staff's Mitigation Approach examined 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. (AIU Ex. 2.0, pp. 8-9.) 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.

Staff's Mitigation Approach's resulting affect on rates if the DS/BGS-1 class were divided to include a subgroup for all electric customers is shown in Ameren Illinois Utilities Exhibit 2.1, page 38. (AIU Ex. 2.0, p. 9.) 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 the residential all electric subgroup.

Lowering the constraint from 150% to 125%, while including a residential all electric residential subgroup, does not significantly improve this result. (AIU Ex. 2.0, pp. 9-10.) 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. 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.

The issue of customer switching is important to keep in mind because 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. (AIU Ex. 2.0, p. 10.) 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 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 time.

The outcome of Staff's Mitigation Approach also does not improve if the constraint is adjusted to 100% instead of 150%, and a residential all-electric subgroup is created. (AIU Ex. 2.0, pp. 10-11.) 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, Staff's Mitigation Approach under this scenario would decrease rates for AmerenCIPS-ME's all electric residential customers by 2.109 cents/kWh. This credit would apply to all kWh of usage throughout the year. (AIU Ex. 2.1, p. 40.) However, a 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.

The results of the modified mitigation approach analyses are instructive and may be used as a means to guide further analysis. (AIU Ex. 2.0, p. 11.) 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 a more focused methodology was developed to provide relief to larger non-summer-use customers.

B. PREFERRED APPROACH TO ADDRESSING BILL IMPACT CONCERNS

1. BGS-1 and BGS-2 Rates

The Ameren Illinois Utilities' preferred approach to addressing bill impact concerns associated with residential customers follows three primary steps. (AIU Ex. 2.0, p. 12-13.) The first step involves determining an average revenue target, and resulting percentage increase, over the bundled rates customers paid in 2006. This step allows for subsidies from BGS-2 to BGS-1, if desired. Ameren Illinois Utilities' 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%. In limiting the percentage point shift to 10%, 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.

For AmerenIP, the 10% limit would result in $21.3 million of cost responsibility moved from BGS-1 to BGS-2. (AIU Ex. 2.0, p. 13.) 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.

The second step of the residential rate redesign approach involves shifting DS revenues between the summer and non-summer periods. (AIU Ex. 2.0, p. 14.) 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. (AIU Ex. 2.0, p. 14.) 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 Illinois Utilities' Exhibit 2.3 (see the bottom portion of the exhibit).

The third step of the residential rate redesign proposal involves adjusting BGS rates to lessen bill impacts for customers with higher non-summer kWh usage. (AIU Ex. 2.0, pp. 14-15.) 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. (AIU Ex. 2.0, p. 15.) Instead, all customers were billed under the same rates. Also note that for the AmerenCIPS general use 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 general use 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. (AIU Ex. 2.0, p. 16.)

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. (AIU Ex. 2.0, p. 16.) The calculations are shown in Ameren Illinois Utilities' 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, as discussed below.

The Ameren Illinois Utilities noted that this "preferred" methodology is designed to address the significant bill impacts experienced by customers with high non-summer use, especially those who heated their homes with electricity. (AIU Ex. 2.0, p. 16.) However, this methodology does not ensure equivalent proposed target prices for non-summer use over 800 kWh per month between the general use and all-electric groups. Such prices will vary among those groups and among the Ameren Illinois Utilities. 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, as has been the experience with the current rate design. The Ameren Illinois Utilities' preferred methodology effectively addresses bill impacts, and eases the transition to fully cost based rates at some future date.

The Ameren Illinois Utilities chose a 5% limit to summer rates in an attempt to achieve balance between providing rate relief to those impacted the most (the high non-summer use customers), while not substantially impacting other customers. (AIU Ex. 2.0, pp. 16-17.) Approximately 15% of the Ameren Illinois Utilities' customers heat their households with electricity. Stated another way, approximately 85% of customers are general-use customers, and 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.

Summer rate changes will not become effective in 2007. The Commission's Order is not scheduled to be issued in this case until mid-September. Consequently, 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. (AIU Ex. 2.0, p. 17.)

AmerenCIPS customers who were previously served under rates applicable to portions of Henderson and Hancock counties in 2006 would receive the same pricing as AmerenCIPS-ME customers. (*Id.*) The 2006 rate structure of AmerenCIPS customers in Henderson and Hancock counties was similar to that of AmerenCIPS-ME. The 2006 base prices were about 0.6 cents/kWh higher than those for AmerenCIPS-ME.

The result of applying the rate design changes on customer bills is shown in Ameren Illinois Utilities' Exhibit 2.4, which provides a series of charts of bill comparisons at various usage profiles. (AIU Ex. 2.0, pp. 17-18.) 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.

Rates for small non-residential customers (DS and BGS-2) were adjusted, first, by using the same adjustment applied to DS/BGS-1. (AIU Ex. 2.0, pp. 18-19.) As with the residential methodology, BGS-2 is targeted to pick up an additional $6.2 million for AmerenCILCO, $21.3 million for AmerenIP, and $12.6 million for AmerenCIPS. The second step is also 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. (AIU Ex. 2.0, p. 19.) The formerly applicable 2006 bundled service rates were much more numerous than those of the residential class. The Ameren Illinois 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. (*Id.*) 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 Ameren Illinois Utilities' Exhibit 2.5, and was updated in Ex. 3.01.

The non-summer tail block rate for AmerenCIPS discounted by a larger amount compared to those proposed for AmerenCILCO and AmerenIP 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. (AIU Ex. 2.0, p. 20.) Specifically, the credit targets customers that were eligible for the formerly applicable space-heat rates.

The Ameren Illinois Utilities chose a non-summer block rate at 2,000 kWh per month, with higher prices for the first 2,000 kWh per month, by examining a series of bill comparisons at various usage profiles and levels. (AIU Ex. 2.0, p. 20.) 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.

Ameren Illinois Utilities' 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. (AIU Ex. 2.0, p. 21.) Bill impact examples showing the expected rate changes for the various non-residential customer groupings show a consistent pattern for all of the utilities, such that: 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.

In Mr. Jones' Rebuttal Testimony, the Ameren Illinois Utilities provided a general approach and individual rate elements to redesign DS/BGS-2 rates. (AIU Ex. 3.0, p. 2-5.) Mr. Jones set forth a general methodology in his Direct Testimony at pages 18 – 21, describing the general approach for adjusting DS/BGS-2 rates. In summary, BGS-2 is targeted to increase by approximately $40.2 million (for all Ameren Illinois Utilities' electric customers) as a result of shifting revenue from BGS-1 to BGS-2. Next, Distribution Delivery Charges have been increased in the summer by 0.75 cents/kWh, and the non-summer charge has been decreased by

about 0.4 cents/kWh. This step results in a revenue neutral shift of delivery service revenue recovery from non-summer months to summer months. Third, a declining block was created at 2,000 kWh/month and BGS-2 prices were adjusted to recover the additional revenue responsibility target from BGS-1. Summer prices were increased to a level to recover the added revenue responsibility. Non-summer prices were increased for the first 2,000 kWh of monthly usage and decreased for monthly usage over 2,000 kWh. The non-summer design is largely revenue neutral within the BGS-2 class for each of the Ameren Illinois Utilities. The pricing changes in this third step attempt to increase rates for customers that either received a rate decrease or small increase, while not causing additional hardship to customers already experiencing above average increases.

Mr. Jones updated the usage information previously provided in Direct Testimony in his Rebuttal Testimony. (AIU Ex. 3.0, p. 3.) Ameren Illinois Utilities' Exhibit 2.5 provides usage information by block (0-2,000 kWh and all over 2,000 kWh) for DS/BGS-2 for each of the Ameren Illinois Utilities. The usage information for the 0-2,000 kWh block for AmerenCIPS-ME was overstated. Instead of "winter" use at 260,429,368 kWh, it should be 59,019,392 kWh. Similarly, "summer" use was changed from 159,118,612 kWh to 29,758,661 kWh.

This update only impacts revenue and pricing targets proposed in Ameren Illinois Utilities' Exhibit 2.5 for AmerenCIPS (including AmerenCIPS-ME and customers served by AmerenCIPS in portions of Henderson and Hancock counties ("AmerenCIPS-H&H")). (AIU Ex. 3.0, p. 3.) Delivery service rates for the non-summer period need to be adjusted to 0.41 cents/kWh from 0.42 cents/kWh. Likewise, BGS-2 prices in the summer need to be increased over those previously proposed in order to recover the revenue responsibility shift from BGS-1. BGS-2 pricing for each of the Ameren Illinois Utilities has been refined. Therefore, updates to AmerenCIPS' BGS-2 prices will be discussed in the context of this further enhancement.

In Mr. Jones Rebuttal Testimony, the Ameren Illinois Utilities generally redesigned non-summer BGS-2 rates to increase the price for the first 2,000 kWh of use, and decrease the price for use over 2,000 kWh. (AIU Ex. 3.0, p. 4.) Summer prices for AmerenCILCO and AmerenIP remained the same as presented in direct testimony. Summer prices for AmerenCIPS were changed to also introduce a block at 2,000 kWh, where the price for the first block is about 0.5 cents/kWh higher than the price for the tail block. For each of the Ameren Illinois Utilities, the increased prices in the summer still recover the additional revenue responsibility allocated from BGS-1. Further, non-summer prices are still largely revenue neutral within BGS-2 for each of the Ameren Illinois Utilities. An update showing the refined pricing to BGS-2 and DS-2 for each of the Ameren Illinois Utilities is shown in Ameren Illinois Utilities' Exhibit 3.01.

Ameren Illinois Utilities' Exhibit 3.02 provides an update to Ameren Illinois Utilities' Exhibit 2.6, showing 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. (AIU Ex. 3.0, p. 4-5.) In general, compared to the DS/BGS-2 design presented in direct testimony, the rate adjustments proposed here more aggressively attempt to bring small-use customers that previously received rate decreases or small increases closer to the class average increase. Conversely, larger customers with high non-summer use were provided with additional rate relief. Lower-use customers should expect to see increases from current 2007 rates by about 20%-30%, higher summer use customers should expect to see increases from current 2007 rates by about 10%-15%, and higher non-summer use customers should expect to see minor increases (5% or less) or decreases. A distribution of DS/BGS-2 percentage rate increases comparing 2006 bills to estimated 2007 bills, and 2006 bills to redesigned 2007 bills is provided in Ameren Illinois Utilities' Exhibit 3.03.

2. BGS-3 and BGS-4 Rates

The Ameren Illinois Utilities' analysis does not support adjusting the rates of the BGS-3 and/or BGS-4 customer classes. (AIU Ex. 2.0, pp. 21-22.) 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 more 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). (AIU Ex. 2.0, p. 22.) 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-recovery mechanism in Rider MV. 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.

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. (AIU Ex. 2.0, p. 23.) 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. In direct testimony, the Ameren Illinois Utilities proposed that such impacts can be mitigated by implementing a demand limiter of 2 cents/kWh within DS-3 and DS-4 tariffs for each of the utilities. (*Id.*; AIU Ex. 2.8.) The demand limiter would limit the monthly total cost of the Distribution Demand Charge and Transformation Capacity Charge to 2 cents/kWh. Ameren Illinois Utilities' 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.

The 2 cents/kWh limit would not be applicable to all DS-3 and DS-4 customers; rather, the limiter would only apply to those customers that limit their total kWh consumption during the four summer months to 20% or less of their annual kWh usage. (*Id.*) This would ensure 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.

The "20% usage during the summer months" criteria would be assessed for each customer following the September billing period and be applied for the entire subsequent non-summer billing periods of October through May. (AIU Ex. 2.0, p. 24.) 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 conducted for customers with a full 12-months of usage history at the time the September eligibility is determined.

The revenue shortfall for each DS class may be recovered by increasing the current Distribution Delivery Charges by an equal percentage amount until the revenue shortfall is recovered. (AIU Ex. 2.0, pp. 24-25.) Ameren Illinois Utilities' 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 Ameren Illinois 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.

A 2 cents/kWh limiter is reasonable for DS-3 and DS-4 Distribution Delivery and Transformation Capacity Charges. Customers who take 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 Ameren Illinois Utilities is about 2 cents/kWh. Setting the rate limiter for DS-3 and DS-4 provides rate continuity between DS-2, DS-3 and 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. (AIU Ex. 2.0, pp. 25-26.)

Consistent with the Commission's order establishing this case, these rate re-designs result in overall revenue neutrality for the Ameren Illinois Utilities.

In his Direct Testimony, GFA witness Jeffrey D. Adkisson supported the .02 cents/kWh limiter, but proposed some alternatives to determine eligibility. In Mr. Jones' Rebuttal Testimony, however, the Ameren Illinois Utilities presented a Memorandum of Understanding ("MOU") between the Ameren Illinois Utilities and the GFA reflecting a joint recommendation to the Commission in support of the 2 cent/kWh limiter and the eligibility criteria of a maximum 20% of annual usage occurring in the summer season (June through September Billing Periods). (AIU Ex. 3.04) The terms contained in the MOU are consistent with the Ameren Illinois Utilities' rate limiter proposal, as described above. (AIU Ex. 3.0, p. 6; AIU Ex. 2.0, pp. 22-26.)

Additionally, pages 1 and 2 of Ameren Illinois Utilities' Exhibit 2.8 illustrate how the revenue shortfall created by the implementation of the demand limiter is recovered from other customers within the DS-3 and DS-4 groups, as also set forth in the MOU.

Further, the Ameren Illinois Utilities noted in Mr. Jones' Rebuttal Testimony that the Commission has ordered the Ameren Illinois Utilities to collect on- and off-peak demand data for its demand metered customers for presentation in its next delivery services rate case (Order, DST Dockets, pages 198-199), as Mr. Adkisson also recommended in his Direct Testimony. (AIU Ex. 3.0, p. 6.)

C. IMPACT ON OVER-/UNDER-COST RECOVERY MECHANISM FOR RIDER MV

In testimony, the Ameren Illinois Utilities proposed an over/under recovery mechanism within Rider MV 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. (AIU Ex. 2.0, p. 26.) For example, costs and revenues for the respective period would be evaluated, and the over- or under-recovery of costs, due to differences in customer demand and usage, would be recovered in a subsequent period. The amounts paid to suppliers would be locked into place for the duration of the auction contracts.

In Mr. Jones' Rebuttal Testimony, the Ameren Illinois Utilities noted a proposed alternative to this over-/under- recovery method. (AIU Ex. 3.0, p. 10-11.) The Ameren Illinois Utilities filed a proposed change to Rider MV on May 30, 2007, (ICC Docket Nos. 07-0350, 07-0351 and 07-0352) to allow for greater flexibility in managing large over-/under-recoveries, which was approved by the Commission on June 12, 2007. The changes to Rider MV allow for amortization of adjustments for up to 12 months, and would include interest at the rate established by the Commission in accordance with 83 Illinois Administrative Code 280.70(e)(1).

This new Rider MV language allows the Ameren Illinois Utilities to manage expected over-/under-recoveries. (AIU Ex. 3.0, p. 11.) The expected monthly deficit/excess amounts provided in Ameren Illinois Utilities' Exhibit 3.05 (reflecting an update to Ameren Illinois Utilities' Exhibit 2.9), could be taken into consideration when deciding whether to amortize large over-/under-recoveries and for how long. But, these factors reflect a set of static usage characteristics, usage characteristics that will differ from those planned due to influences of weather and customer switching. The newly proposed over-/under-recovery language within Rider MV would permit adjustments to the monthly over/under factor based on more current information.

Because the Commission has approved changes to Rider MV in Dockets 07-0350, 07-0351 and 07-0352, approval of the previously proposed over-/under-recovery method is no longer necessary. It should be noted, however, that these approved changes to Rider MV would not, however, properly address the estimated $16.5 million BGS revenue deficit that would be created by implementing Mr. Lazare's proposed rate redesign changes on October 1, 2007, through changes solely to BGS prices. (AIU Ex. 3.0, p. 9.) The method whereby revenue is artificially adjusted up or down by fixed factors assumes that over the course of one year, application of the price changes will result in no net change to expected annual revenue. The monthly BGS price adjustment factors would not correct this additional revenue deficit, leaving the under-recovered costs to begin recovery starting in January 2008.

D. TIMING OF RATE REDESIGN IMPLEMENTATION

The Commission's Orders authorizing the Ameren Illinois Utilities' current revenue requirements implemented revised delivery service rates and power procurement cost recovery effective January 2, 2007, on a going-forward basis. Thus, January 2, 2007 through January 1, 2008 represents the first twelve-month period for which the Ameren Illinois Utilities would have

an opportunity to earn the rates of return granted in these dockets. The Ameren Illinois Utilities have responsibly budgeted in accordance with these expected rates of return. (AIU Ex. 1.0, pp. 4-5.) These budgets are used to manage the Ameren Illinois Utilities' annual capital expenditures, operations and maintenance expenses, and, also, affect Ameren's earnings guidance provided to the investment community. (*Id.*)

The revenue impact of changing DS and BGS rates depends on when such changes are implemented. (AIU Ex. 2.0, pp. 29-30.) If the changes are implemented on January 1, 2008, the impact on annual revenue should be negligible. If changes are implemented on October 1, 2007, the price reductions proposed for non-summer use will reduce the Ameren Illinois Utilities' 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 October 1, 2007, 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). Shifting costs in mid-year back to a season that has already occurred essentially deprives Ameren Illinois Utilities of any opportunity to recover its costs for the entire year.

The rate redesign changes for DS/BGS-1 and DS/BGS-2 should be implemented on January 1, 2008, unless other mechanisms are employed to hold the Ameren Illinois Utilities revenue neutral. (AIU Ex. 3.0, pp. 11-12.) The rate limiter changes to DS-3 and DS-4 could be implemented anytime shortly after the Order in this case since the proposal does not involve shifting revenue from one season to another, and thus can be effectuated on a revenue neutral basis.

In Rebuttal Testimony, Mr. Jones explained why the Ameren Illinois Utilities will under-recover $16.5 million in BGS if Mr. Lazare's proposal is adopted. (AIU Ex. 3.0, p. 9.) Even though the preferred rate redesign proposal involves shifting some revenue between BGS-1 and BGS-2, total BGS redesigned rates are revenue neutral by utility. Similarly, proposed changes to

DS rates are designed to be revenue neutral by utility. Ameren Illinois Utilities' Exhibits 3.05 and 3.06 show an updated version of Ameren Illinois Utilities' Exhibit 2.09 and 2.11 reflecting estimated monthly revenue impacts of rate redesign for BGS and DS rate elements, respectively. Both exhibits show that implementing the proposed rate redesign changes are substantially revenue neutral on an annual basis. However, if the changes intended for DS rates were instead made to BGS rates for the period from October through December, the DS revenue deficit for each of those months ($5.2 million in October, $4.8 million in November, and $6.5 million in December (see Ameren Illinois Utilities' Exhibits 3.06)) would instead shift to a BGS under-recovery that would roll forward to recovery in 2008.

In Direct Testimony, Staff witness Mr. Peter Lazare proposed that revised rates take effect October 1, 2007; however, Mr. Lazare acknowledges that an October implementation will result in revenue deficiency for 2007 if DS rates are adjusted at that time. (ICC Staff Exhibit 1.0, p. 32) To address this problem, Mr. Lazare proposes a two-step method whereby the full effect of DS/BGS-1 and DS/BGS-2 rate changes are implemented through BGS rate design changes on October 1, 2007 (step 1). In the second step, DS rate design changes would become effective on January 1, 2008, and BGS prices would be readjusted by an offsetting amount. (*Id.)* The appropriate values may be derived from Ameren Illinois Utilities' Exhibit 2.3 (showing residential prices) and Ameren Illinois Utilities' Exhibit 3.01 (showing non-residential DS/BGS-2 prices).

The Ameren Illinois Utilities have concerns with this proposal. (AIU Ex. 3.0, pp. 7-8.) *First*, the Ameren Illinois Utilities have been negotiating with state legislators and other parties regarding the level of rate increases experienced by customers. Rate relief programs have been part of those negotiations, and much emphasis has been on large winter use residential customers that experienced the sharpest increases under rates that began on January 2, 2007. It is possible that if the Ameren Illinois Utilities implement one or more of these negotiated rate relief

programs, increases to customers that heat their households with electricity will be substantially mitigated this autumn. Implementing rate redesign changes on top of a special negotiated program could result in rates and bills below those paid by customers in 2006. If such special programs were to expire at the end of 2007, customers may perceive that they have received a rate increase starting with their January bills. Thus, if the Ameren Illinois Utilities have implemented a special negotiated program providing substantial benefits to residential high non-summer use customers prior to the final Order in this docket, rate redesign implementation should be withheld until January 1, 2008.

Second, acceptance of Mr. Lazare's proposal must be accompanied with an adequate means to address the impact on the over-/under-recovery mechanism within Rider MV and an acknowledgment that further decreasing BGS rates for October through December 2007 will create an under-recovery deficit not designed to be offset with rate redesign adjustments to future BGS rates. (AIU Ex. 3.0, p. 8.) As discussed in my direct testimony, shifting BGS revenue recovery from the non-summer to summer period will result in a mismatch with the underlying supply cost paid to suppliers. Without a modified over-/under-recovery mechanism in place, the adjustment value would become volatile and undermine the efforts made in this docket to reduce significant rate impacts felt by customers. Moreover, further reducing BGS prices by an amount equivalent to the non-summer DS rate change (about (0.4) cents/kWh) would create an additional estimated deficit of about $16.5 million in BGS revenue that must be recovered in the future. This additional amount would be recovered through the over/under calculation within Rider MV, and would raise effective rates in 2008, muting some of the intended benefits of rate redesign.

E. FUTURE RATE PRISM ISSUES

In Direct Testimony, Mr. Lazare proposes to adjust electric supply prices on an across-the-board basis to meet the supply costs that emerge from the upcoming 2008 auction (ICC Staff

Exhibit 1.0, lines 923-924). Mr. Jones agreed the approach has merit for BGS-1 and BGS-2, but expressed concerns if the approach is also meant to apply to BGS-3 and BGS-5. (AIU Ex. 3.0, pp. 12-13.) Mr. Lazare appears to propose that the retail rate prism will no longer be used as a mechanism to adjust prices for any of the BGS-FP customer classes. In addition to BGS-1 (residential) and BGS-2 (small general service), the retail rate prism would also set electric supply rates for BGS-3 (general service) and BGS-5 (lighting service).

In Direct Testimony, Mr. Jones proposed that BGS adjustments in this docket be adjusted on a uniform basis (AIU Ex. 2.0, p. 31, lines 683-688). Since the parties are proposing to adjust only BGS-1 and BGS-2 rates in this case, it follows that adjustments to changes to supply costs that arise from replacing supply contracts would be limited to only BGS-1 and BGS-2. (AIU Ex. 3.0, pp. 12-13.) Rates for BGS-3 and BGS-5 would be allowed to take effect as originally designed (per the existing tariff). Adjusting existing BGS-1 and BGS-2 retail supply charges, plus any applicable adjustments resulting from this case, up or down to reflect the overall increase to power procurement costs for the BGS-FP group seems reasonable. Conversely, supply prices for BGS-3 and BGS-5 should be set by Rider MV as it is presently designed.

Retail supply charges for BGS-3 and BGS-5 should be allowed to change by amounts other than a uniform up or down amount, for a few reasons. (AIU Ex. 3.0, pp. 13-14.) *First,* changes to BGS-3 and BGS-5 are not proposed in this case. *Second,* BGS-3 prices can directly influence a customer's decision to switch to a third-party supplier. About 1/3 of DS-3 customers are served by third-party suppliers, and thus do not take service under BGS-3. Providing such customers with a set of prices that is reflective of more current market factors (and thus the market) allows these customers to make efficient switching decisions. For example, the current pricing structure contains higher non-summer prices than summer prices. A future update to the prism could result in a shift back to lower non-summer prices compared to summer prices (AIU' Ex. 2.1, p. 43 of 49). Retail prices that no longer reflect market-based seasonal price differences

could encourage customers with proportionately high summer usage to return to (or stay on) BGS-3, and customers with proportionately high winter usage to leave for (or remain with) a third-party supplier. In the end, BGS-3 customers may provide less than anticipated revenue, which would fall back to the monthly over/under calculation applicable to all BGS-FP customers – a group dominated by residential and small general service customers. In other words, not updating BGS-3 prices may increase costs to BGS-1 and BGS-2 customers, all other things constant.

Third, the overall annual relationship between BGS-1, BGS-2, and BGS-3 prices is unlikely to significantly change over time. (AIU Ex. 3.0, p. 14.) For example, if BGS-3 prices increase by 5% annually, BGS-1 and BGS-2 annual prices will also likely increase by a similar amount. For this to not be the case, a group's usage characteristics would have to undergo a fundamental transformation. For example, DS/BGS-3 customers shifting a significant portion of their usage to the summer on-peak period would represent a fundamental change. Such a change is unlikely to have occurred since load information was last collected. (As presently designed, the auction price retail translation mechanism within Rider MV uses load information for the entire customer population for a customer class to shape retail prices, not just those served on BGS rates.)

III. ALTERNATE RATE REDESIGN SCENARIO

Should the Commission decide to reduce or eliminate the proposed subsidization of BGS-1 by BGS-2, similar steps to those outlined in the approach above could be followed. (AIU Ex. 2.0, pp. 30-31.) 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 Ameren Illinois Utilities' Exhibit 2.12. (AIU Ex. 2.0, p. 31.) 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 redesign scenario with no inter-class subsidies results in relatively benign impacts on the monthly over/under calculation.

As power supply contracts expire and new power supply is purchased, the BGS adjustments proposed herein could be adjusted on a uniform percentage basis. (*Id.*) 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 during the Ameren Illinois Utilities' next delivery services rate case proceedings.

The alternate redesigned residential rates did not change in the Rebuttal Testimony of Ameren Illinois Utilities' witness Mr. Jones. (AIU Ex. 3.0, pp. 11-12.) Rates for DS/BGS-2 would change given the modification to BGS-2 pricing (modifications primarily increasing the non-summer 0-2,000 kWh block prices, and decreasing non-summer prices for use over 2,000

kWh) and the update to AmerenCIPS-ME 0-2,000 kWh usage; however, the method for adjusting BGS-2 prices remains the same. All summer BGS prices, and initial block non-summer BGS prices, could be reduced by an equal amount until the subsidy is eliminated. Specifically, AmerenCILCO's rates would need to be decreased by about 1.264 cents/kWh, AmerenCIPS' rates would need to be decreased by about 1.163 cents/kWh, and AmerenIP's rates would need to be decreased by about 1.434 cents/kWh. These adjustments are shown in Ameren Illinois Utilities' Exhibit 3.07 (updating Ameren Illinois Utilities' Exhibit 2.14). A comparison of DS/BGS-2 non-residential bill impacts, using the price adjustments from Ameren Illinois Utilities' Exhibit 3.07, is shown in Ameren Illinois Utilities' Exhibit 3.08.

IV. CONCLUSION

In conclusion, the Ameren Illinois Utilities note that the scenarios, including its preferred approach, are designed to address these immediate customer impacts and mitigation of high increases in costs for certain types of customers, particularly the space heat customers. In the future, it is advisable that the Commission re-visit 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.

Dated: June 29, 2007

CENTRAL ILLINOIS LIGHT COMPANY d/b/a AmerenCILCO, CENTRAL ILLINOIS PUBLIC SERVICE COMPANY d/b/a AmerenCIPS, ILLINOIS POWER COMPANY d/b/a AmerenIP

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CERTIFICATE OF SERVICE

I, Laura M. Earl, certify that on June 29, 2007, I served a copy of the foregoing Initial Brief of the Ameren Illinois Utilities by electronic mail to the individuals on the Commission's Service List for Docket 07-0165.

_/s/ Laura M. Earl_____
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