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

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| **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' REPLY BRIEF

**July 10, 2007**

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## 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 reply brief. Arguments presented in the Ameren Illinois Utilities' Initial Brief are incorporated herein by reference, and will not be repeated for sake of brevity. Issues not specifically addressed here are not waived.

Initial briefs have been filed by Staff of the Illinois Commerce Commission ("Staff") the Grain and Feed Association of Illinois ("GFAI"), Constellation NewEnergy ("CNE"), the Illinois Industrial Energy Consumers ("IIEC"), and the Citizens Utility Board ("CUB"). This reply will focus specifically on the following issues raised in those briefs:

- the appropriateness of the Ameren Illinois Utilities' and Staff's preferred proposals, which accomplish the Commission's goals in this docket but necessarily shift revenue responsibility;
- the Ameren Illinois Utilities' appropriate proposed implementation date of January 1, 2008, to ensure revenue neutrality and minimize customer confusion, while ensuring timely bill impact mitigation;
- the general equivalence of both the Ameren Illinois Utilities' and Staff's proposed alternative approaches to eliminate inter-class subsidies;
- the impact of the Commission's June 12, 2007 order approving changes to Rider MV on testimony and proposals regarding Rider MVA in this docket.

## A. ACHIEVING THE COMMISSION'S REVENUE NEUTRALITY OBJECTIVE

### 1. Intra- and Inter-Class Rate Redesign

As noted in the Ameren Illinois Utilities' Initial Brief, the Commission's directive to achieve revenue neutrality in this docket requires careful rate redesign based on detailed analysis from both intra-class and inter-class perspectives. (AIU Init. Br., pp. 3-6; AIU Ex. 1.0, pp. 5-6.) The initial briefs of both Staff and the Ameren Illinois Utilities show that 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, from an intra-class perspective; and, 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 Init. Br., pp. 4-6, AIU Ex. 1.0, p. 6; Staff Init. Br., p. 5.) CNE and IIEC's initial briefs claim that using such mechanisms to balance the increase in revenue responsibility and minimize bill impacts would create cross-subsidies. (IIEC Init. Br., p. 3; CNE Init. Br., pp. 4-13.) CNE suggests that the Commission's revenue responsibility directive in this docket is Ameren-created. (CNE Init. Br., p. 7.)

The Commission's March 2, 2007 order initiating this docket ("Initiating Order") called for a review of the electric rate design for all customer classes of the Ameren Illinois Utilities, but limited this docket's scope 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." (Initiating Order, p. 4.) As Staff rightly points out, achieving this objective requires that "whatever relief is offered to any group of customers must be balanced by higher rates for others." (Staff Init. Br., p. 5.) In order to

address "extraordinary increases experienced by some Ameren customers . . . bills must be increased for other customers who will not necessarily welcome paying higher rates." In other words, the extraordinary circumstances that led the Commission to open this docket require that some amount of cost shifting must take place in any proposed rate redesign solution. CNE's and Staff's suggestions that *any* amount of cost shifting would be improper thus runs contrary to the stated goals of this docket and should be disregarded.

#### 2. Timing of Implementation

Please see Section II.D, below.

#### 3. Switching Issues

Please see Ameren Illinois Utilities' Initial Brief, p. 8.

#### 4. Administration, Billing, and Accounting Issues

Please see Ameren Illinois Utilities' Initial Brief, pp. 8-9.

### B. EXISTING RATE DESIGN/BILL IMPACTS

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

Please see Ameren Illinois Utilities' Initial Brief, pp. 9-11.

#### 2. Bill Impacts Since January 1, 2007

Please see Ameren Illinois Utilities' Initial Brief, pp. 11-12.

## II. RATE DESIGN SOLUTION SCENARIOS

### A. THE PROCUREMENT DOCKET "STAFF MITIGATION APPROACH"

Please see Ameren Illinois Utilities' Initial Brief, pp. 12-14. Staff refers to the Ameren Illinois Utilities' testimony and discussion on this mitigation mechanism as an "Ameren-Developed Alternative." (Staff Init. Br., pp. 29-31.) The Ameren Illinois Utilities wish to clarify

that the intent of this discussion was to examine an alternative previously approved by the Commission as an appropriate rate mitigation mechanism and consider its possible application in this docket. The Ameren Illinois Utilities agree with Staff that this approach would not be the best approach to address the Commission's goals in this docket and would have unintended consequences. (AIU Init. Br., pp. 12-14.) In addition to the undesirable results stated in Staff's Initial Brief, the Ameren Illinois Utilities have presented testimony showing that adjusting the mitigation constraint criteria would have negative and erratic effects on switching in the BGS-3 customer groups, which would cause negative impacts in the BGS-1 and BGS-2 customer groups. (AIU Init. Br., pp. 13-14.) CNE's proposal to implement the mitigation approach for this docket's purposes (CNE Init. Br., pp. 5-6) is not supported by the evidence. For all of the reasons stated in the Ameren Illinois Utilities' and Staff's Initial Briefs, the Commission should disregard the CNE proposal.

## B. PREFERRED APPROACH TO ADDRESSING BILL IMPACT CONCERNS

### 1. <u>BGS-1 and BGS-2 Rates</u>

Staff and the Ameren Illinois Utilities are in complete agreement on the preferred approach to addressing bill impact concerns for the DS-1/BGS-1 and DS-2/BGS-2 rate classes. (AIU Init. Br. pp. 15-23; Staff Init. Br. pp. 14-25.) This preferred approach to addressing bill impact concerns associated with residential customers follows three primary steps. (AIU Ex. 2.0C, p. 12-13.) The first step involves determining an annual 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. The second step of the residential rate redesign approach involves shifting DS revenues between the summer and non-summer periods. (AIU Ex. 2.0C, p. 14.) 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. 2.0C, 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. *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. 2.0C, 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. 2.0C, p. 16.)

This "preferred" methodology is designed to address the significant bill impacts experienced by customers with high non-summer use, especially those who heat their homes with electricity. (AIU Ex. 2.0C, 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. CNE has argued that such variations convey "distorted price signals that then inevitably lead to inefficiency and less-than-optimal investment in the electric infrastructure . . .." (CNE Init. Br., p. 4.) The Ameren Illinois Utilities agree that developing prices equal to costs is an appropriate rate design objective. However, under certain circumstances, resetting component prices to equal costs can sometimes cause undue rate shock, as has been the experience with the current rate design. The Ameren Illinois Utilities' and Staff's preferred methodology effectively addresses bill impacts, and eases the transition to full cost-based rates at some future date.

### 2. **BGS-3 and BGS-4 Rates**

The Ameren Illinois Utilities do not support adjusting the BGS-3 and/or BGS-4 prices, but do support implementing a rate limiter for DS-3 and DS-4 rates, as set forth in the Memorandum of Understanding ("MOU") between Ameren Illinois Utilities and GFAI. (AIU Init. Br., pp. 24-28; AIU Ex. 2.0C, pp. 21-22.) The implementation of the rate limiter would require minor adjustments to the Delivery Charges for these customer classes to satisfy the revenue neutrality condition mentioned above. All other parties appear to be in general agreement that the BGS-3 and BGS-4 prices should not be adjusted. IIEC and CNE, however, expressed disagreement with the DS-3 and DS-4 rate limiter proposal. (IIEC Init. Br. pp. 5-8; CNE Init. Br. pp. 8-10.)

A 2 cents/kWh limiter is reasonable for DS-3 and DS-4 Distribution Delivery and Transformation Capacity Charges. Customers with lower load factors, such as grain drying and some pumping districts have been impacted more severely than others. (AIU Init. Br., pp. 24-28; AIU Ex. 2.0C, p. 23; GFAI Init. Br., pp. 1-3.) 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. The Distribution Delivery Charges for DS-2 service for each of the Ameren Illinois Utilities is about 2 cents/kWh, so setting the rate limiter at 2 cents/kWh 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.

Further, because the rate limiter would not affect BGS-3 and BGS-4 prices, this proposal is competitively neutral, as CNE concedes. (CNE Init. Br., p. 10.) CNE notes that "Ameren will be indifferent to customers' supply choices as Ameren will collect the same amount of revenues

from the same customers, regardless of whether they are served on Ameren's BGS-3/BGS-4 or by a RES." (*Id.*)

The Ameren Illinois Utilities have noted that a decision to implement this rate limiter would likely be revisited in future rate cases to determine whether it is still needed or should be changed to a different level. (AIU Init. Br., p. 27; AIU Ex. 2.0C, pp. 25-26.) Any decision to modify the rate limiter in a future rate case must be based solely on the record in that case. *See* 220 ILCS § 5/10-102. For that reason, the Commission should reject IIEC's suggestion that the rate limiter automatically expire at the time of "the effective date for the delivery service rates approved in Ameren's next delivery service rate case." (IIEC Init. Br., p. 7.) CNE notes with approval that the rate limiter proposal is designed to be applied "in a competitively neutral manner" (CNE Init. Br., p. 10), but argues for a vague "sunset date" for this and all of the Ameren Illinois Utilities' proposed rate changes. (CNE Init. Br., pp. 5, 10.) There is no support in the record for the Commission to implement such an expiration date. CNE does not even attempt to suggest or explain on which date such rate redesign provisions should expire. The Commission should reject these proposals.

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

Please see Ameren Illinois Utilities' Initial Brief, pp. 28-29, and discussion below at Section II.D (regarding the June 12, 2007, Commission-approved Rider MV modification).

### D. TIMING OF RATE REDESIGN IMPLEMENTATION

As more fully discussed in the Ameren Illinois Utilities' Initial Brief, if changes are implemented on October 1, 2007, the price reductions proposed for non-summer use will reduce the Ameren Illinois Utilities' revenue. (AIU Init. Br., pp. 6-7, 29-32.) 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 $16.5 million ($5.2 million in October, $4.8 million in November, and $6.5 million in December). (AIU Ex. 3.0, p. 9, AIU Ex. 3.06.) 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.

Staff's Initial Brief acknowledges this reality. (Staff Init. Br., p. 34.) However, Staff argues that an October 1, 2007 implementation date is necessary to avoid bill impact problems in late autumn. (Staff Init. Br., p. 33.) As set forth in the Ameren Illinois Utilities' Initial Brief, this proposal would result in a large revenue shortfall and would create confusing billing impacts. (AIU Init. Br., pp. 29-32; AIU Ex. 3.0, pp. 7-8.) The Ameren Illinois Utilities have noted the still ongoing negotiations with state legislators and other parties regarding the level of rate increases experienced by customers. Rate relief programs and/or legislative credits are an integral part of those negotiations, designed to provide relief to those large winter use residential customers that experienced the sharpest increases under rates that began on January 2, 2007. When the Ameren Illinois Utilities implement one or more of these negotiated rate relief programs, or the legislature enacts any proposed credit program, increases to customers that heat their households with electricity will be substantially mitigated this autumn. Implementing rate redesign changes on top of any of the proposed programs will result in rates and bills below those paid by customers in 2006, which will result in a severe income shortfall for the Ameren Illinois Utilities, even more than the serious shortfall indicated in testimony. (AIU Ex. 2.11.) Further, if such special programs are set to expire at the end of 2007, this will give customers the signal that they have received a rate increase starting with their January bills.

Staff's Initial Brief fails to recognize the Commission's approval of changes to Rider MV, in arguing for changes to minimize fluctuations in Rider MVA adjustment levels passed on to ratepayers. (AIU Init. Br., pp. 36-37.) 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).

Because the Commission has approved changes to Rider MV in Dockets 07-0350, 07-0351 and 07-0352, examining further changes to the Rider MVA mechanism is no longer necessary. It should be noted, however, that these approved changes to Rider MV would not 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), further exacerbated by upcoming legislative rate relief. 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.

Thus, rate redesign implementation should be withheld until January 1, 2008. The Ameren Illinois Utilities will inform the Commission of any legislative action or special negotiated program providing substantial benefits to residential high non-summer use customers

carried out prior to the final Order in this docket, and will ask the Commission to take administrative notice of such events.

### E. FUTURE RATE PRISM ISSUES

Staff has argued for an across-the-board increase in rates to be applied to meet the supply costs that emerge from the upcoming 2008 power procurement, rather than applying the rate prism mechanism the Commission approved in 05-0160, -0161, and -0162 (cons.). (Staff Init. Br., pp. 37-43; ICC Staff Exhibit 1.0, lines 923-924). The Ameren Illinois Utilities have agreed that 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 Init. Br., pp. 32-34; AIU Ex. 3.0, pp. 12-13.) Staff's Initial Brief does not address these concerns.

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 decisions regarding power and energy supply. 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.) 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

Both the Ameren Illinois Utilities and Staff have presented alternate rate redesign scenarios, if the Commission decides to reduce or eliminate the proposed subsidization of BGS-1 by BGS-2. (AIU Init. Br., pp. 32-34; AIU Ex. 2.0C, pp. 30-31; Staff Init. Br. p. 32.) However, Staff's Initial Brief does not acknowledge that, similar to Staff, the Ameren Illinois Utilities have proposed a rate design alternative to eliminate or reduce subsidies. (AIU Init. Br., pp. 32-34.) The Ameren Illinois Utilities wish to clarify that their alternative rate redesign proposal is essentially the same as Staff's, with minor modifications.

The difference between the two methodologies is that the Ameren Illinois Utilities have included additional steps (1) adjusting tail block non-summer rates upward to reflect the higher "average" increase target for each utility, and (2) relaxing or eliminating the residential summer rate increase limit of 5% over 2007 status quo rates. (AIU Init. Br., pp. 34-35.) The results of this analysis are presented in Ameren Illinois Utilities' Exhibits 2.12-2.17, 3.07, 3.08 (AIU Init. Br., pp. 35-36), and are not limited as Staff suggests. (Staff Init. Br., p. 32.) The Ameren Illinois Utilities agree that either proposal would accomplish the same goal, to mitigate bill impact issues without inter-class subsidies. Staff is also correct that Staff's and the Ameren Illinois Utilities' preferred methodology more aggressively addresses the most serious bill impact problem, concerning residential space heating customers. If the Commission decides to implement a proposal that eliminates revenue shifting from the BGS-1 and BGS-2 classes, however, either Staff's or the Ameren Illinois Utilities' proposed alternative would effectively accomplish that goal.

## IV. CONCLUSION

IIEC and CNE are correct that rates should align 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, everyone must work to reduce subsidies that encourage uneconomic energy consumption. However, the Ameren Illinois Utilities note that the scenarios presented for purposes of this docket are designed to address the unusual immediate circumstances, including mitigation of high increases in costs for certain types of customers, particularly the space heating customers. In the future, it is advisable that the Commission re-visit this rate design, and consider changes that bring rates more closely into alignment with cost-causation principles.

Dated: July 10, 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 July 10, 2007, I served a copy of the foregoing Reply Brief of the Ameren Illinois Utilities by electronic mail to the individuals on the Commission's Service List for Docket 07-0165.

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