STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission	)	
On its own motion	)	
v.	)	
Central Illinois Light Company,	)	
d/b/a AmerenCILCO;	)	
Central Illinois Public Service Company,	)	**Docket No. 07-0165**
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.	)	
	)	

REPLY BRIEF ON EXCEPTIONS OF THE AMEREN ILLINOIS UTILITIES

August 14, 2007

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INTRODUCTION

The Ameren Illinois Utilities[1] submit this Reply Brief on Exceptions to the Administrative Law Judge's Proposed Order in this matter dated July 31, 2007 ("Proposed Order"). The Ameren Illinois Utilities have only two issues to address, Staff's objection to retaining the rate prism, and IIEC's objection to the rate limiter and proposed sunset date.

I. The Proposed Order's Retention of the Rate Prism is Reasonable.

The Ameren Illinois Utilities stated in testimony that they do not oppose Staff's proposal to eliminate the rate prism for residential (BGS-1) and small non-residential (BGS-2) customers, but opposed Staff's proposal with respect to larger customer classes. (AIU Init. Br., pp. 32-34; AIU Ex. 3.0, pp. 12-13.) However, the Ameren Illinois Utilities agree with and support the Proposed Order's finding that "adoption of Staff's proposal to eliminate the role of the rate prism and the rate mitigation formula, with respect to the procurement of supply in the 2008 Auction process, would be premature," particularly in light of pending legislation. (P.O., p. 52.)

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 Reply Br., pp. 10-11; 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. Currently, 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. A flat, across-the-board implementation of new power

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[1]The Ameren Illinois Utilities are 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."

supply contracts into the BGS rates would likely encourage many BGS-3 customers to switch away from BGS service in an unanticipated manner, to the detriment of residential and small general service customers who take BGS-1 and 2 service.

It is expected that a flat increase or decrease across all customer classes will most likely shift costs away from customers with low load factors, such as residential, to customers with higher load factors, typically larger commercial customers. While this may provide for less of an impact on residential and small business customers initially, as more relatively larger customers leave BGS-3, a scenario would likely develop where the under-recovery of power costs associated with the switching will result in a deficit that will ultimately be collected from residential and small commercial customers through the monthly over/under calculation. Thus, any perceived advantages of new rate subsidies for residential and small business customers created by Staff's proposal would quickly disappear.

The Ameren Illinois Utilities have no interest in retaining BGS customers longer than necessary for the development of sufficient competitive alternatives for such customers. However, the Ameren Illinois Utilities are concerned that artificial migration associated with BGS interclass rate subsidies created by Staff's proposal will result in larger than expected over/under charges on customer bills, thus burdening residential and small commercial customers unnecessarily. Costs associated with increased BGS-3 switching related deficits would result in confusing customer bills. In this manner, it is an undesirable situation to have customers paying bills driven by factors that are, to a large degree, unassociated with usage characteristics, such as increased BGS-3 commercial customer migration due to arbitrary rate subsidies levied on these customers with competitive options.

Residential and small general service customers do not at this time have viable competitive alternatives, and will end up responsible for any switching losses caused by an across the board flat BGS-FP allocation of new contract costs if Staff's proposed changes to the Proposed Order are adopted.

Additionally, for some commercial customers with seasonally differentiated rates, the elimination of the BGS rate prism could actually discourage such customers from seeking competitive alternatives. 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. Essentially, residential and small business customers could end up subsidizing commercial customers based upon the time of year in which their power consumption reaches its peak and without gaining any advantage by doing so.

Eliminating the rate prism could thus result in arbitrary price signals for BGS-3 customers, and, as a result, 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.

Moreover, the pending rate relief legislation contains extensive provisions related to the procurement of power for BGS customers. Senate Bill 1592 ("SB 1592") establishes the Illinois

Power Agency that will be responsible for purchasing BGS power. The legislation also declares competitive all customers with annual peak usage of 400kW or higher, and , as a result, such customers that elect to take generation service from a Retail Electric Supplier, cannot revert to BGS service. SB 1592, pp. 203-204.

The new competitive customer classifications associated with House Amendment No. 5 SB 1592 will no doubt cause even further complications as costs will have been allocated to customers who have completely exited BGS service. Further potential changes related to procurement would also necessitate future changes to BGS rates and rate allocations. Changes resulting from the enactment of SB 1592 are on the horizon, and it is simply premature to make changes to the BGS rate prism until that legislation is acted upon and the significant regulatory changes it calls for are assessed.

For these reasons, the Ameren Illinois Utilities believe the Proposed Order is correct in declining to eliminate the rate prism at this stage.

II. The Proposed Order's Findings on the Rate Limiter Are Correct.

In its Brief on Exceptions, the Illinois Industrial Energy Consumers (IIEC) argued that the Demand Rate Limiter should not be implemented, or in the later alternative, should be subject to a sunset date. The Ameren Illinois Utilities support the Proposed Order with regard to the implementation of the demand rate limiter for DS-3 and DS-4 customers. The Ameren Illinois Utilities agree that rate subsidies are generally undesirable. However, in certain circumstances it becomes necessary to mitigate sudden rate impacts on certain customer groups. In this situation, the Illinois Grain and Feed Association (GFA) intervened in this matter due to the sudden rate impacts that were particularly problematic given the unique load characteristics of its constituent grain-drying operations. The implementation of the January 2007 rates and rate design created unanticipated problems for this group in a manner that led them to request rate design mitigation measures. The Ameren Illinois Utilities believe that the $0.02 per kWh demand limiter is a reasonable and fair mitigating rate design mechanism for these customers. Additionally, a rate sunset is not necessary, and the Proposed Order is correct to note that the duration of the rate limiter "is one more appropriately considered in future proceedings based on the record in those proceedings." (P.O., p. 33.)

Dated: August 14, 2007

Respectfully submitted,

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d/b/a AmerenCILCO,
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CERTIFICATE OF SERVICE

I, Laura M. Earl, certify that on August 14, 2007, I served a copy of the foregoing Ameren Illinois Utilities' Brief on Exceptions by electronic mail to the individuals on the Commission's official Service List for Docket 07-0165.

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