

**ILLINOIS COMMERCE COMMISSION**

**DOCKET NOS. 07-0585 (CONS.)**

**REBUTTAL TESTIMONY**

**OF**

**WILBON L. COOPER**

**SUBMITTED ON BEHALF**

**OF**

**CENTRAL ILLINOIS LIGHT COMPANY d/b/a AMERENCILCO**

**CENTRAL ILLINOIS PUBLIC SERVICE COMPANY d/b/a AMERENCIPS**

**ILLINOIS POWER COMPANY d/b/a AMERENIP**

**(THE AMEREN ILLINOIS UTILITIES)**

**APRIL 14, 2008**

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6   **I.    INTRODUCTION**

7       **A.    Witness Identification**

8   **Q.    Please state your name and business address.**

9   **A.    My name is Wilbon L. Cooper. My business address is One Ameren Plaza, 1901**  
10       Chouteau Avenue, St. Louis, Missouri 63103.

11 **Q.    Are you the same Wilbon L. Cooper that previously filed testimony in this**  
12       **proceeding?**

13 **A.    Yes.**

14       **B.    Purpose and Scope**

15 **Q.    What is the purpose of your rebuttal testimony?**

16 **A.    The purpose of my testimony is to respond to certain Staff and intervenor**  
17       testimonies as it relates to their positions regarding Rider VBA and Rider QIP.  
18       Specifically, I will comment on the more mechanical or operational issues  
19       associated with these riders. Please note that Mr. Craig Nelson addresses more of  
20       the policy questions that have been raised. Finally, many witnesses have  
21       addressed the propriety of using riders or automatic adjustment mechanisms.

22 Many of the arguments or positions are the same or similar but stated somewhat  
23 differently. Because I have not addressed a witness' argument or point should not  
24 be interpreted that I have agreed with the witness.

25 **II. RIDER VBA DISCUSSION**

26 **Q. What is the Staff's position regarding the implementation of Rider VBA?**

27 **A.** Staff witness Ms. Teresa Ebrey offers certain recommendations in the event the  
28 Commission was to approve the rider. In particular, she asserts that the same or  
29 similar features that were adopted for The Peoples Gas Light & Coke Company  
30 ("Peoples") and North Shore Gas Company ("North Shore") in Docket Nos. 07-  
31 0241/07-0242(cons.) ("Peoples/North Shore Docket") be adopted for Rider VBA:  
32 provisions for a pilot program, a sunset provision with criteria to be met for the  
33 rider's continuation, an annual reporting of the earned rate of return and the effect  
34 of the rider on the return, and a percentage of fixed cost adjustment in the  
35 calculation of the monthly VBA adjustment.

36 **Q. How do you respond?**

37 **A.** The Ameren Illinois Utilities generally support the following statements from the  
38 Commission's Order in the People/North Shore Docket that are fairly consistent  
39 with Ms. Ebrey's recommendations:

40 1) "Furthermore, given the unique nature of Rider VBA, the Commission  
41 deems it appropriate to implement VBA as a four year pilot program. The  
42 Commission further accepts the Utilities' suggestion that a general rate  
43 case needs to be filed if Rider VBA is to become effective upon  
44 conclusion of the pilot program."

45 2) "In furtherance of Commission oversight of this pilot program, the  
46 Commission directs Staff to provide Commissioners an annual report on

47 the Companies' rates of return and the effect on that return of Rider VBA,  
48 to the extent that it is determinable by Staff."

49 3) "To this end, the Commission directs the Utilities to set the VBA formula  
50 to recover only its fixed costs...."

51 As to Rider VBA being approved in the context of a pilot program, the  
52 Ameren Illinois Utilities have no disagreement with that recommendation. For  
53 purposes of convenience, we propose the pilot period be tied to a calendar year.  
54 Therefore, we recommend the pilot conclude by December 31, 2012. Regarding  
55 statement 2) above, Ms. Ebrey recommended the Ameren Illinois Utilities, rather  
56 than the Staff as was directed by the Commission, to separately provide in the  
57 Rider VBA reconciliation filings the annual earned rate of return and an analysis  
58 of the impact of Rider VBA revenues collected for that period on the reported  
59 return. The Ameren Illinois Utilities are agreeable to this slight modification  
60 offered by Ms. Ebrey of the Commission's requirement in the Peoples/North  
61 Shore Docket.

62 **Q. With regard to statement 3), that is the setting of the VBA formula(s) to**  
63 **recover only fixed costs, have you performed any calculations to develop**  
64 **respective "percentage factors" to apply to the "[RCBR/RCC)-**  
65 **(ABRR/AC)]" element of the Effective Component of Rider VBA for each**  
66 **respective Ameren Illinois Utility by customer class?**

67 **A.** Yes. Ameren Exhibit 25.1 attached hereto depicts the development of these  
68 factors/percentages by Ameren Illinois Utility and by class needed to set the VBA  
69 formula to recover only fixed costs.

70 **Q. Ms. Ebrey also makes certain changes to the formula for the calculation of**  
71 **Rider VBA adjustments. Do you agree?**

72 **A.** No, I do not. Ms. Ebrey's recommendations appear to be based on a  
73 misunderstanding of certain portions of the testimony of Ameren witness Nelson.  
74 There is no need to burden the record of this docket with disagreements in  
75 semantics between Ms. Ebrey and Mr. Nelson. Rather, simply stated, the Ameren  
76 Illinois Utilities' Rider VBA, as filed in my direct testimony and as so noted by  
77 Ms. Ebrey in her direct testimony, was virtually identical in letter and in spirit to  
78 the Peoples and North Shore Rider VBA. Therefore, considering the  
79 Commission's approval of the Peoples and North Shore Rider VBA without Ms.  
80 Ebrey's recommended formulaic changes, there is no justification for changing  
81 the formulas now based on Ms. Ebrey's misunderstanding of certain portions of  
82 Mr. Nelson's testimony.

83 **Q. On pages 38-39 of Ms. Ebrey's direct testimony there is a recommendation**  
84 **regarding the annual internal audit feature of Rider VBA. Please comment.**

85 **A.** Ms. Ebrey recommends certain enhancements to the proposed internal audit  
86 language of Rider VBA to better able the Staff and Commission to monitor Rider  
87 VBA. The Ameren Illinois Utilities are agreeable to Ms. Ebrey's  
88 recommendations excepting the following noted changes:

89 The Company shall annually conduct an internal audit of  
90 the operation of ~~its costs and recoveries of such costs~~  
91 ~~pursuant to the Rider.~~ The internal audit shall determine if:  
92 1) the Actual Base Rate Revenue ~~amount of revenues~~ per  
93 customer that exceeds or fall short of any previously  
94 established Rate Case Base Rate Revenue per customer

95 ~~levels collected through base rate charges~~ are correctly  
96 reflected in the calculations; 2) the revenues are not  
97 collected through other approved tariffs; 3) Rider VBA is  
98 being properly billed to Customers; 4) Rider VBA revenues  
99 are recorded in appropriate accounts; and 5) any  
100 ~~reimbursements of costs~~ **Rider VBA charges or credits**  
101 are identified and recorded properly for calculating rates  
102 and reconciliation. The above list of determinations does  
103 not limit the scope of the audit.

104 The Company shall submit the audit report to the ICC's  
105 Manager of the Accounting Department by May 31<sup>st</sup> each  
106 year beginning in 2010. Such report shall be verified by an  
107 officer of the Company.

108 The boldface changes and deletions excepting the "May 31<sup>st</sup>" provide  
109 better clarity. The May 31<sup>st</sup> change extends the audit report date to allow the  
110 Ameren Illinois Utilities' auditing personnel additional time to complete the audit  
111 in light of other prior Commission audit commitments.

112 **Q. On page 45 of Ms. Ebrey's direct testimony there are four recommendations**  
113 **suggested to be addressed by rebuttal testimony of the Ameren Illinois**  
114 **Utilities on Rider VBA. Please comment.**

115 **A.** The first two recommendations on the approval of Rider VBA as a pilot and an  
116 annual rate of return calculation are addressed above. The remaining two  
117 recommendations, a request for a calculation of the monthly Rate Case Base  
118 Revenue by customer class based on the Ameren Illinois Utilities' proposed  
119 revenue requirements in this case and an explanation of the effect of weather  
120 normalization adjustments on Rate Case Base Revenue are attached hereto as  
121 Ameren Exhibit 25.2.

122 **Q. AG witness Brosch offers a number of arguments challenging Rider VBA.**  
123 **Principally, he asserts the rider results into piecemeal rate increases, that**  
124 **margin revenues have been steady over the past several years, and that an**  
125 **increase in the number of gas customers offsets the decrease in customer**  
126 **usage. Do you agree?**

127 **A.** No, I do not. First, Mr. Brosch's statement of piecemeal increases under Rider  
128 VBA clearly ignores the symmetry of Rider VBA adjustments. That is,  
129 adjustments under Rider VBA may produce either credits or debits on customers'  
130 bills. Indeed had Rider VBA been in effect this past winter season, customers  
131 would have received credit associated with three of the four winter billing  
132 months. Moreover, any adjustment under Rider VBA does not represent a change  
133 in rates, but rather achieving the status quo level of margin revenue requirements  
134 for test year customer levels approved by the Commission.

135 Second, while margin revenues have been relatively stable over the past  
136 13 years, our costs of service or margin revenue requirements over this same  
137 period have not been as stable. Ameren witness Nelson's direct testimony  
138 addresses this condition with the statement that, "The level of sales we have  
139 experienced has been consistently lower than that assumed in the test year...[t]his  
140 has caused us to significantly under-recover our cost of service, and thus not earn  
141 our authorized rate of return." (Lines 452-455 of Mr. Nelson's direct testimony).

142 Third, clearly an increase in the number of customers helps to offset  
143 decreased customer usage, but looking at this in a vacuum and ignoring the  
144 additional costs associated with the growth in customers is blatantly unjust and

145 inequitable.

146 In summary, the real metric for determining whether the tariffs for a utility  
147 are just and reasonable is a comparison between the margin revenues generated by  
148 these tariffs versus the margin revenue requirement necessary for the utility to  
149 have a reasonable opportunity to earn its Commission authorized rate of return.  
150 Evidence provided in the direct testimony of Mr. Nelson clearly demonstrates the  
151 current tariff structure, in most cases, did not result in the Ameren Illinois Utilities  
152 earning their authorized rates of return.

153 **Q. IIEC witness Chalfant challenges Rider VBA because it represents**  
154 **untraditional ratemaking, frustrates voluntary conservation efforts,**  
155 **asymmetrically transfers business risk to customers, makes the Ameren**  
156 **Illinois Utilities less responsible to customer needs, and increases rate**  
157 **volatility. Can you respond?**

158 **A.** I would not consider Rider VBA to be “untraditional ratemaking”. Riders and  
159 automatic adjustment recovery mechanisms have been part of the regulatory  
160 landscape as long as I have been in this industry. I do not believe Rider VBA will  
161 frustrate voluntary conservation, as customers who conserve natural gas  
162 consumption will see reduced billings for natural gas supply in excess of positive  
163 Rider VBA adjustments, if any. With regard to Mr. Chalfant’s statement of  
164 asymmetrical transfer of business risk, the symmetrical nature of Rider VBA  
165 adjustments also deprives the Ameren Illinois Utilities of the opportunity to  
166 experience increased margin revenues for test year customer levels. The  
167 elimination of this opportunity may be considered as an offset to the asymmetrical

168 transfer of business risk. Furthermore, while Rider VBA does provide the  
169 Ameren Illinois Utilities with a better opportunity to earn its Commission  
170 authorized rate of return, it does not ensure (regardless of customer growth  
171 conditions) that the Ameren Illinois Utilities will actually earn the rate of return.  
172 This results from Rider VBA's ensuring the test year margin revenue for test year  
173 customer levels only; the Ameren Illinois Utilities would still need to manage  
174 their operations consistent with test year performance in order to achieve the  
175 authorized rate of return. Lastly, Mr. Chalfant's statement of rate volatility is a  
176 bit of a stretch considering the following percentage approximation of the  
177 breakdown of the billing components for customers affected by Rider VBA:

178	Customer Charge	19%
179	Delivery Charge (Rider VBA component)	15%
180	Natural Gas Supply	<u>66%</u>
181	TOTAL	100%

182 If one were to assume a +10% adjustment due to Rider VBA, then the  
183 volatility of the customer's bill would be 1.5% (10% x 15%) higher. The 1.5%  
184 change may be material to some; however, the term "volatile" does not come to  
185 mind.

186 **III. RIDER QIP DISCUSSION**

187 **Q. A number of parties have expressed disagreement regarding Rider QIP.**  
188 **Before addressing the specific comments, have the Ameren Illinois Utilities**  
189 **given consideration to any modifications or changes to the rider?**

190 A. Yes, Mr. Nelson highlights some of these changes in his testimony. They are as  
191 follows: 1) changing the definition of Rider QIP projects to only include those  
192 associated with system modernization or service reliability enhancements, 2)  
193 annual filings on or before April 1 filing of Rider QIP projects and associated  
194 cost/benefit analyses for approval by the Commission, 3) 150 day Commission  
195 review process before implementation of Rider QIP charges, 4) the filing of an  
196 annual rate of return report with each Rider QIP reconciliation filing, 5)  
197 Commission option to vary from Rider QIP's standard formula for the collection  
198 of Rider QIP project costs from customer classes, and 6) the establishment of  
199 Rider QIP as a pilot program concluding December 31, 2012.

200 **Q. Staff witness Lazare claims Rider QIP is open ended and unclear. Do you**  
201 **agree?**

202 A. No. First, Mr. Lazare offers little in attempting to explain his point. Notably,  
203 Rider QIP is mirrored after the rule that outlines the water and sewer utilities  
204 infrastructure rider. If Rider QIP is open ended and unclear, so must be the rule  
205 and any riders that were modeled after the rule. Of course I do not believe that to  
206 be the case.

207 **Q. AG witness Brosch argues the rider will raise prices outside the rate case**  
208 **without the offset for increased productivity, lower expenses, and other**  
209 **claimed benefits that ordinarily occur outside a rate case. He goes on to state**  
210 **the rider does not account for growth in depreciation and deferred tax**  
211 **reserves. Please comment.**

212 A. As part of the modifications to Rider QIP mentioned above, the Ameren Illinois  
213 Utilities are proposing to file annual rate of return reports with the Commission in  
214 conjunction with their Rider QIP reconciliation filings. Each of the elements  
215 raised in Mr. Brosch's testimony will be included in the annual rate of return  
216 reports filed and to the extent these elements or others produce a rate of return  
217 higher than that approved by the Commission in this case, the Commission can  
218 take that into account in deciding when to approve further project cost recovery.

219 **Q. The AG witness also suggests the implementation of the rider will avoid**  
220 **prudent review of investment decisions. IIEC witness Stephens and AARP**  
221 **witness Smith offer similar sentiments. Do you agree?**

222 A. As part of the modifications to Rider QIP mentioned above, the Ameren Illinois  
223 Utilities are proposing Commission pre-approval of all Rider QIP projects. This  
224 proposal satisfactorily addresses these sentiments.

225 **Q. CUB witness Cohen offers that there is no regulatory review associated with**  
226 **the investment until the next rate case. He also asserts the 5% cap is**  
227 **arbitrary and undermines any rationale for the rider. How do you respond?**

228 A. As noted above, we will seek pre-approval from the Commission and so in this  
229 respect there is regulatory oversight. In terms of the cap being arbitrary, I  
230 disagree. First, the 5% cap is a self imposed limit on what amount can be  
231 recovered. In fact, the cap should alleviate stated concerns regarding over earning  
232 between rate cases, the possibility of sales growth, the perceived incentives to be

233 more efficient between rate case, and the like. Moreover, it is the Commission  
234 that ultimately controls how much is recovered through the rider.

235 **Q. Several witnesses assert the rider will cause the utility to be less prudent and,**  
236 **perhaps, not be as cost conscious as it might otherwise behave. Can you**  
237 **respond?**

238 **A.** First, there remains the opportunity for cost disallowances. There is an annual  
239 reconciliation to ensure only the costs associated with the approved project will be  
240 recovered. This is a strong incentive for the utility to ensure it is incurring prudent  
241 expenses directly attributable to the approved project. Further, there remains the  
242 possibility of a rate base disallowance if the project is deemed not used and  
243 useful. Finally, the utility has still the incentive to efficiently manage all other  
244 operations and costs in between rate cases.

245 **Q. Mr. Smith asserts the capital additions at issue are not similar to fuel costs or**  
246 **generation supply costs, as they are not volatile, uncontrollable, or**  
247 **unpredictable. Do you agree?**

248 **A.** I agree they are different categories of cost. I disagree these differences warrant  
249 no rider treatment of the system enhancement and reliability project costs we are  
250 discussing. Mr. Nelson has advanced a number of sound policy reasons that  
251 justify rider recovery. In addition, I aware of a number of automatic adjustment  
252 recovery mechanisms that permit the recovery of costs or expenses that are not  
253 fuel or generation supply related, and where the costs are not necessarily volatile,  
254 controllable, and predictable.

255 **IV. RESPONSE TO CLAIMS OF COMPLEXITY AND ADMINSTRATIVE**  
256 **BURDENS**

257 **Q. On pages 26 through 31 of Mr. Brosch's testimony, he discusses the**  
258 **regulatory complexities and administrative burdens of tracking tariffs.**  
259 **Please comment.**

260 **A.** With regard to Rider VBA, the Ameren Illinois Utilities rider is virtually identical  
261 the Peoples/North Shore Rider VBA which, as mentioned earlier, was approved  
262 by the Commission. Mr. Brosch had argued in the Peoples/North Shore case that  
263 the utilities proposed rider added complexity to the regulatory process as well. It  
264 is reasonable to conclude the Commission weighed both the complexity and  
265 administration of this rider and the additional work for the Commission Staff and  
266 personnel of Peoples/North Shore versus the benefits of the rider prior to  
267 approval. It is also reasonable to conclude the Staff has or will efficiently and  
268 effectively develop(ed) the necessary administration for the Peoples/North Shore  
269 rider and that, considering the "sameness" of that rider and the Ameren Illinois  
270 Utilities' rider; said administration can accommodate the addition of the Ameren  
271 Illinois Utilities Rider VBA with relative ease.

272 Additionally, the Ameren Illinois Utilities have sufficient personnel to  
273 administer the terms and conditions of Rider VBA (and Rider QIP) and expect the  
274 costs of administration to be de minimus. While he disagrees with my assessment  
275 that the cost will be de minimus, he offers only a conclusion. In comparison, my  
276 assessment is based on my years of experience in dealing with such matters,  
277 knowledge of utility budgets, and my expectation not one person will be hired  
278 because of the implementation of these riders. Not only are there sufficient

279 personnel but the calculations he asserts as adding to this complexity simply do  
280 not exist.

281 Lastly, at the request of Staff witness Ebrey the Ameren Illinois Utilities  
282 have developed a key component of the Rider VBA formula (i.e., the monthly  
283 Rate Case Base Revenue by customer class based on the Ameren Illinois Utilities'  
284 proposed revenue requirements in this case (Ameren Exhibit 25.2)) for  
285 consideration by the Commission in the case. This component is the major driver  
286 for adjustments under Rider VBA and the determination of same within the  
287 context of this case minimizes any opportunities for disagreements among parties  
288 on future Rider VBA adjustments, if Rider VBA is approved.

289 My colleague, Mr. Nelson, offers a financial remedy for the mitigation of  
290 the complexities and administration of Rider QIP.

291 **Q. On page 30 of Mr. Brosch's testimony, he offers comments on the increased**  
292 **complexity of customers' bills if the Commission were to approve Rider VBA**  
293 **and Rider QIP. Please comment.**

294 **A.** Full disclosure billing adds to the complexity of customers' bills. However,  
295 increased complexity of customer bills should not be an excuse for misguided  
296 regulatory policy. One would weigh the increased complexity against fair  
297 regulatory policy and then make a decision. I have to say, however, that two  
298 additional lines would not add any meaningful complexity. My colleague, Mr.  
299 Nelson, has convincingly provided rationale for the fair regulatory policy  
300 associated with Rider QIP and Rider VBA and thus Mr. Brosch's bill complexity  
301 concerns should be dismissed.

302 V. CONCLUSION

303 Q. Does this conclude your rebuttal testimony?

304 A. Yes, it does.