AmerenCILCO's, AmerenCIPS', and AmerenIP's
Response to
Illinois Office of Attorney General (AG) Data Requests
ICC Docket Nos. 07-0585 thru -0590 (Cons.)
Proposed general increase in electric and gas delivery services rates

AG 8.10 (MLB) **Ref: Ameren Rebuttal of Craig Nelson, Ameren Ex. 18.0, lines 232-241 (Rider QIP depreciation reserve, deferred taxes, O&M savings)**

Mr. Nelson appears to not refute that Rider QIP fails to account for updates to the depreciation reserve, deferred taxes and O&M expenses, instead stating instead that, "the Ameren Utilities will be filing an annual rate of return report along with each Rider QIP filing." Please respond to the following:

a) Does Mr. Nelson agree that Rider QIP does not account for updates to the depreciation reserve?

b) If your response to part (a) is negative, explain and provide supporting documentation for your response.

c) Does Mr. Nelson agree that Rider QIP does not account for deferred taxes associated with new plant investment included within Rider QIP?

d) If your response to part (c) is negative, explain and provide supporting documentation for your response.

e) Does Mr. Nelson agree that Rider QIP does not account for any O&M savings arising from new plant investment that would be includable within Rider QIP?

f) If your response to part (e) is negative, explain and provide supporting documentation for your response

g) Explain the basis for excluding O&M savings and deferred tax effects in the development of the revised Rider QIP.

h) Is it Mr. Nelson's opinion that precision in the design of rider tariffs is unimportant or less important, as long as the revenue collections under the rider are subject to a rate of return earnings calculation indicating overall utility return levels are not excessive?

i) Is Mr. Nelson or Ameren aware of any tariff riders approved by the ICC that are subject to a periodic rate of return filing and review? If affirmative, please provide citation to the ICC Order approving same.

Response: a) - g) Rider QIP, as modified by my rebuttal testimony, does account for updates to the depreciation reserves, deferred taxes and the most recent O&M expense in that an annual rate

OFFICIAL FILE

ILL. C. C. DOCKET NO. 07-0585-0590

AG Cross Exhibit No. 2

Witness

Date 6-9-08 Reporter CB

of return report will be filed with each Rider QIP filing, which the Commission may consider when evaluating whether or not to allow Rider QIP recovery (See Mr. Nelson's rebuttal testimony beginning at line 232).

h) The data request is unclear as the level of precision is undefined; however, Mr. Nelson believes that reasonable precision in the design of rider tariffs is important.

i) Yes, the Peoples/North Shore Rider VBA (Docket Nos. 07-0241/07-0242).

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Date: April 25, 2008

RIDER QIP-QUALIFYING INFRASTRUCTURE PLANT SURCHARGE

APPLICABILITY

Rider QIP – Qualifying Infrastructure Plant Surcharge (Rider QIP) is applicable to Rate DS-1 – Residential Delivery Service (Rate DS-1), DS-2 Small General Delivery Service (Rate DS-2), DS-3 General Delivery Service (Rate DS-3), and DS-4 Large General Delivery Service (Rate DS-4). The charges applied under this Rider shall be monthly charges that recover qualifying costs. This Rider shall operate on a pilot basis for a four year period pursuant to ICC Order in Docket No. 07-0585 (Cons.). This Rider shall terminate December 31, 2012, upon the conclusion of the required reports and reconciliations set forth below.

PURPOSE

The purpose of this Rider is to provide for the recovery of the capital costs of distribution plant intended to replace or enhance the Company's existing distribution plant utilized primarily to serve existing customers as determined in the Company's latest rate proceeding. Such replacements or enhancements are intended to increase the reliability of the Company's Delivery Service. Only the costs associated with system modernization or service reliability enhancement projects or initiatives shall be recovered through this Rider.

QUALIFYING INFRASTRUCTURE PLANT

To be classified as QIP, the plant additions must meet the following criteria:

1) The plant additions must be enhancements to or replacements of existing plant items from the accounts listed below:.

2) Such plant additions must not be associated with new load or service.

3) Such plant additions would be those which: (a) pertain to the improvement of the Ameren Illinois Utilities' distribution system for the purposes of enhancing service provided by the Companies to their retail Customers; (b) are included in the Companies filed request for recovery through this Rider; and (c) recovery begins under this Rider pursuant to approval by the ICC.

4) Such enhancements or replacements are installed for system modernization or service reliability enhancement. Such projects ~~to~~will enhance service to Customers, improve reliability or replace facilities that are worn out or deteriorated or damaged or defective or to replace facilities that are obsolete and at the end of their useful service lives or required to be relocated or customer requested work or due to a change in law or a change in the regulations of a governmental entity.

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5) Such enhancements or replacements are installed after the conclusion of the test year in the Company's latest rate proceeding; and

6) The plant additions shall be limited to items from the following Distribution Plant accounts:

Account 361 Structures and Improvements
a) Account 362 Station Equipment
b) Account 364 Poles, Towers and Fixtures
c) Account 365 Overhead Conductors and Devices
d) Account 366 Underground Conduit
e) Account 367 Underground Conductors and Devices
f) Account 368 Transformers
g) Account 369 Services
h) Account 370 Meters

QIP shall include only plant additions installed on or after January 1, 2008.

<u>ANNUAL PROJECT FILING</u>

<u>Before any project cost can be recovered through Rider QIP, the Company shall file a cost/benefit analysis for each proposed Rider QIP project or initiative with the ICC. The filing shall be made on or before April 1st of each applicable calendar year. The ICC shall have 150 days to review proposed projects and initiatives. Projects that are approved shall be included in Rider QIP charges effective the following January 1st.</u>

<u>In order to mitigate the impact associated with the Annual Project Filing on ICC recourses, the Ameren Illinois Utilities shall pay a combined fee of $100,000 annually to cover ICC costs.</u>

CALCULATION OF THE QUALIFYING INFRASTRUCTURE PLANT SURCHARGE

$$S_c\% = \frac{(NetQIP \times PTR \times .25) + NetQDep + (R \times .33) + ((O+INT) \times Om)}{PQR} \times 100\%$$

Where:

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$S_C\%$ = The qualifying total infrastructure plant ("QIP") surcharge percentage shall be expressed as a percentage carried to two decimal places. $S_C\%$ shall be applicable to classes DS-1, DS-2, DS-3, and DS-4 to recover each class' respective responsibility for QIP. The percentage may be a single value applicable to all classes or a separate percentage for each class as ordered by the ICC in its pre-approval of a QIP project. $S_C\%$ shall be applied to the total amount billed to each customer for the applicable Monthly Billing Period. The QIP surcharge percentage (S_C) shall be capped at 5% of the QIP base rate revenues billed to customers and shall not be applied to any add-on taxes, to any revenues attributable to Basic Generation and/or Real Time Pricing Service, or to any other revenues not recorded in a QIP base rate revenues account.

NetQIP = Original cost of QIP less accumulated depreciation. NetQIP shall be the level of investment in QIP existing at the end of the calendar month preceding the month in which an information sheet is filed. QIP costs shall include the pre-tax return on QIP (PTR) and the net depreciation expense applicable to QIP. Net depreciation expense shall be calculated by applying the Company's approved depreciation rate to each category of QIP. The depreciation expense for QIP shall be reduced by the depreciation expense on the plant being replaced.

PTR = Pre-tax return, calculated using the weighted cost of debt and weighted cost of equity determined in the Company's last rate case. The weighted cost of equity is multiplied by the gross revenue conversion factor (GRCF). The product is then added to the weighted cost of debt to obtain the pre-tax return. The pre-tax return is calculated using the following formulas:

$$GRCF = 1 \div (1 - SIT)\,(1 - FIT)$$

$$PTR = ((WCCE + WCPE) \times GRCF) + WCLTD + WCSTD$$

Where:

GRCF = Gross Revenue Conversion Factor.

SIT = Illinois State income tax rate in effect at the time of the initial, annual or quarterly filing.

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FIT = Federal income tax rate in effect at the time of the initial, annual or quarterly filing.

PTR = Pre-tax return.

WCCE = Weighted cost of common equity from the Company's last rate case.

WCPE = Weighted cost of preferred equity from the Company's last rate case.

WCLTD = Weighted cost of long term debt from the Company's last rate case.

WCSTD = Weighted cost of short term debt from the Company's last rate case.

NetQDep = Net quarterly depreciation expense applicable to NetQIP less the quarterly depreciation applicable to plant being retired.

R = Company-determined reconciliation component calculated for the reconciliation year under the reconciliation feature as described below. The reconciliation component shall be collected over nine months from April through December. No reconciliation component amount shall be included for the January through March quarter.

R = (ActNetQIP x PTR) + ActNetDep - QIPRev + Rpy + Opy where:

R = Company-determined reconciliation component.

ActNetQIP = The average actual cost of the investment in QIP for the Company for the reconciliation year less actual accumulated depreciation of QIP for the Company for the reconciliation year. The average actual cost of QIP, net of depreciation, shall be computed by using an average of 13 end-of-month balances of QIP and accumulated depreciation for the period from December 31 of the year preceding the reconciliation year through December 31 of the reconciliation year.

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PTR = Pre-tax return as described in this Rider.

ActNetDep = Actual net depreciation expense related to the average investment in QIP for the Company for the reconciliation year. Depreciation expense shall be calculated by multiplying the actual investment in QIP by plant account, net of retirements, by the approved depreciation rates for the respective accounts in which the specific items included in the average QIP investment are recorded.

QIPRev = Actual QIP revenues collected during the reconciliation year through the QIP surcharge.

Rpy = The R component from the previous reconciliation year.

Opy = The sum of the O component and the calculated interest attributable to the O component, or the sum of any O components and the calculated interest attributable to the O components included in the calculation of the QIP surcharge percentage during the reconciliation year.

O = Commission-ordered adjustment component.

INT = The calculated interest attributable to the O component, which shall accrue interest at the rate established by the Commission under 83 Ill. Adm. Code 280.70(e)(1). Interest on the O component shall be applied from the end of the reconciliation year until the O component is refunded or charged to ratepayers through the QIP surcharge.

Om = The Commission-ordered O component multiplier. Om is a timing factor applied to the O component and the INT to allow for the collection of the O component and the INT over the remainder of the operation year. For example, if the O component and the INT were included in the QIP surcharge percentage on January 1, the Om would be 0.25. Similarly, if the O component and the INT were included in the QIP surcharge percentage on April 1, the Om would be 0.33.

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PQR = Projected quarterly Delivery Service QIP base rate revenues, as applicable, during the calendar quarter when the QIP surcharge percentage shall be in effect. The projected quarterly revenue shall not include any add-on taxes, any revenues attributable to the Basic Generation Service and/or Real Time Pricing Service, or any other revenues not recorded in a QIP base rate revenues account.

ANNUAL RECONCILIATION

a) On or before March 15 of each year, if the Company had a QIP surcharge in effect for all or part of the immediately preceding calendar year, it shall submit to the Commission an annual reconciliation regarding the results for the previous reconciliation year. The annual reconciliation shall be verified by an officer of the Company. As required by this Section, the annual reconciliation shall include a calculation of the R component necessary to adjust revenue collected under this Rider in effect during the reconciliation year to an amount equivalent to the actual level of prudently-incurred QIP cost for the reconciliation year. Any adjustment made through the R component shall be in effect for nine months commencing on the April 1 immediately following submittal of the annual reconciliation.

b) With the annual reconciliation, the Company shall file a petition seeking initiation of the annual reconciliation hearings. After the hearing, the Commission shall determine the amount of the adjustment, if any, that should be made (through the O component) to the level of revenue collected by operation of this Rider during the reconciliation year, so that the amount of such revenue is equal to the actual level of prudently-incurred QIP cost for the reconciliation year (to the extent that such adjustment has not already been reflected through an adjustment made by the Company to the R component of the QIP surcharge percentage).

c) The Company shall calculate the R component using the following formula:

$$R = \underline{(ActNetQIP \times PTR) + ActNetDep - QIPREV + Rpy + Opy - EEA}$$

Where:

R = Company-determined reconciliation component.

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ActNetQIP	=	The average actual cost of the investment in QIP for the reconciliation year less actual accumulated depreciation of QIP for the reconciliation year. The average actual cost of QIP, net of depreciation, shall be computed by using an average of 13 end-of-month balances of QIP and accumulated depreciation for the period from December 31 of the year preceding the reconciliation year through December 31 of the reconciliation year. The amount of the ActNetQip shall be limited as prescribed above.
PTR	=	Pre-tax return as described in this Rider.
ActNetDep	=	Actual net depreciation expense related to the average investment in QIP for the reconciliation year. Depreciation expense shall be calculated by multiplying the actual investment in QIP by plant account, net of retirements, by the approved depreciation rates for the respective accounts in which the specific items included in the average QIP investment are recorded. The amount of the ActNetDep shall be limited as prescribed above.
QIPRev	=	Actual QIP revenues collected during the reconciliation year through the QIP surcharge.
Rpy	=	The R component from the previous reconciliation year.
Opy	=	The sum of the O component and the calculated interest attributable to the O component, or the sum of any O components and the calculated interest attributable to the O components, included in the calculation of the QIP surcharge percentage during the reconciliation year.

d) Any adjustment made by Order of the Commission under subsection (b) or (c) shall be included in the O component and be in effect for either 12 months or nine months, beginning on the next January 1 (if 12 months) or April 1 (if nine months) following the Order of the Commission, or such other period as the Commission may direct in the Order requiring that an adjustment be made.

e) As part of the Annual Reconciliation, the Company shall also file an annual rate of return report which shall contain operating revenues, operating expenses and rate base as of the most recently completed calendar year.

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INFORMATION SHEET FILINGS

The Company will file an information sheet with supporting data no later than the 20th day of the month preceding the effective date of the QIP surcharge percentage. An information sheet with supporting information filed after that date, but prior to the effective date, shall be accepted only if it corrects an error or errors from a timely filed information sheet for the same effective date. Any other information sheet with supporting data shall be accepted only if submitted as a special permission request to become effective on less than 45 days notice under the provisions of Section 9-201(a) of the Act.