

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

Central Illinois Light Company	:	
d/b/a AmerenCILCO	:	
Central Illinois Public Service Company	:	
d/b/a AmerenCIPS	:	
Illinois Power Company	:	DOCKET NOS. 07-0585
d/b/a AmerenIP	:	THROUGH 07-0590 (Consol.)
Proposed general increase in electric delivery service rates.	:	
Central Illinois Light Company	:	
d/b/a AmerenCILCO	:	
Central Illinois Public Service Company	:	
d/b/a AmerenCIPS	:	
Illinois Power Company	:	
d/b/a AmerenIP	:	
Proposed general increase in gas delivery service rates.	:	

**CITIES OF CHAMPAIGN, URBANA, DECATUR,
BLOOMINGTON AND MONTICELLO'S
AND THE TOWN OF NORMAL'S
INITIAL HEARINGS BRIEF**

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INITIAL HEARINGS BRIEF**

I. INTRODUCTION.

This Initial Hearings Brief is filed by the Cities of Champaign, Urbana, Decatur, Bloomington and Monticello and the Town of Normal, Illinois. All of the listed municipalities receive service from AmerenIP. For convenience, they will be referenced as Cities.

The Cities will address only two issues in this Brief. By doing so, the Cities do not waive raising any other argument or position in reply. In addition, even though an issue is not addressed by the Cities, there should be no inference that the Cities agree with Ameren on any issue not addressed.

This brief addresses the following issues:

- **The charge for street light fixtures in the AmerenIP service area.** While the Cities believe the street lighting charge should be uniform throughout the Ameren service area, for this Docket, the Cities propose that the increase to AmerenIP's lighting fixture charge be limited so that the fixture rates are set equal to the common incremental cost for each fixture type and size.
- **The proposed QIP tariff.** The Cities recommend that the proposed Rider QIP be rejected.

While the Cities must follow the mandatory briefing outline, the Cities primary reason for filing an intervention in these dockets concerned the charge for street lighting fixtures.

II. Rider QIP Should Be Rejected.¹

The Ameren electric utilities, including AmerenIP, have requested that the Commission approve a new rider to collect “Qualifying Infrastructure Plant,” Rider QIP. This proposed rider should be rejected as being an inappropriate rider. Furthermore, as currently proposed, Rider QIP would add new regulatory proceedings that would burden intervenors such as the Cities.

Ameren has proposed the rider to allow for preapproval of system modernization projects for the electric system. Once approved, the Company would be able to recover the investment in and on the projects between rate cases. Numerous parties to this proceeding, including the ICC Staff, have presented testimony as to why Rider QIP should be rejected. The Cities agree that the rider should be rejected.

A. Ameren’s Rider QIP does not meet NS/Peoples criteria.

This Commission has addressed the new trend by Illinois utilities to seek recovery through riders for system improvements that properly should be recovered in base rates. In *North Shore Gas Company, Proposed general increase in natural gas rates* and *The Peoples Gas Light and Coke Company, Proposed general increase in natural gas rates*, Docket Nos. 07-0241 and 07-0242 (Cons.), February 5, 2008, (*NS/Peoples*) the Commission rejected the utilities’ request for a rider for “Infrastructure Cost Recovery.” The purpose of the rider in *NS/Peoples* was to speed up its main replacement program by allowing NS and Peoples to recover the costs associated with the capital investments before they were included in rate base.

¹ Mandatory outline V. PROPOSED RIDERS, C. Contested Issues, 2. Rider QIP.

In *NS/Peoples*, this Commission found that riders are to be closely scrutinized because of the danger of single issue ratemaking. “Since the record here does show that accelerated main replacement will tend to generate certain savings, the single-issue ratemaking rule cannot be avoided.” *Id.* at 159. The Commission further stated that recovery of the costs proposed by NS/Peoples could have been made as part of an ordinary rate case. “The fact that Peoples Gas elected not to seek recovery for accelerated main replacement through base rates is significant.” *Id.* at 161.

The Commission expressed its awareness of the “critical need” to update and to replace infrastructure for the gas industry but “Rider ICR provides no estimate of the costs or savings under the accelerated program, nor does it demonstrate that the savings will outweigh the additional costs paid by ratepayers under the proposed rider.” *Id.* “Absent a clear evidentiary record which demonstrates the benefits of Rider ICR, the Commission must reject the proposal.” *Id.* at 162.

Finally, in *NS/Peoples*, the Commission provided a list of what “might” make it “easier to approve” such a rider. Those items were:

a detailed description and cost analysis of the proposed system modernization; an identification and evaluation of the range of technology options considered and analysis and justification of the proposed technology approach; a detailed identification and description of the functionalities of the new system, related both to system operation as well as on the customer side of the meter, as well as an identification and justification of functionalities foregone; analysis of the benefits of the system modernization, both to system operation as well as to customers; these benefits should include reductions in system costs as well as an analysis of the range and benefits of potential new products and services for customers made possible by the system modernization; an analysis of regulatory mechanisms to allow companies to both recover their costs of system modernization as well as to

flow reduced system costs back to customers; and an identification and analysis of legal or regulatory barriers to the implementation of system modernization proposals.

Id. at 162.

Ameren's Rider QIP for electric service does not meet these standards established by this Commission and therefore must be rejected.

B. Rider QIP has questionable benefits for customers.

In addition to the legal standards, Rider QIP is objectionable from a customer's prospective as well since it makes adjustments to rates in a piecemeal manner rather than as part of a rate case. IIEC's witness Mr. Stephens listed four items that make any rider objectionable:

- Riders that inappropriately shift operating risk from the utility to customers, as when the cost of service at issue are fully capable of base rate recovery.
- Riders that adjust rates on the basis of only selected cost elements without considering other (possibly offsetting) costs or other factors that affect the utility's overall profitability, such as increased revenues. This concept is sometimes known as "single issue ratemaking."
- Riders that distort or otherwise compromise the incentives for prudent and efficient utility operation built into the regulatory oversight and ratemaking process.
- Riders that create cross-subsidies or otherwise result in unfair cost recovery.

Stephens Direct, IIEC Ex. 1.0 at 21/426-437.

Rider QIP inappropriately shifts the operating risk from Ameren to customers since it seeks preapproval of a project and guarantees that the Company will recover not only its costs but also a return on its investment. Rider QIP imposes on customers the costs of and the return on the projects and does not address offsetting benefits. By granting approval between rate cases, Rider QIP eliminates the regulatory lag for recovery of expenses and through a yearly

process unduly burdens customers who must spend additional funds to intervene and participate in the annual QIP approval process.

Thus, from a customer's perspective, Rider QIP offers no real benefits. Instead, it imposes real, additional costs without proven benefits.

C. Rider QIP's definitions are far too broad and cover routine items.

In this Docket, Ameren has not asked for specific approval of which projects it would include in Rider QIP. Instead, it proposed a broad definition of what projects could be included under the Rider. In its rebuttal testimony Ameren proposed to change the original definition of what would be eligible for Rider QIP inclusion, arguing that its new language "limited" the potential projects to those associated with "system modernization or service reliability enhancement." Ameren Ex. 18.0 at 6/87. In addition, Ameren said it would file a cost/benefit analysis for each proposed project by April 1 of each year so that the Commission could approve the project in a hearing before January 1 of the following year making the project's costs recoverable under Rider QIP. Ameren Ex. 18.0 at 6/86-95. In addition, the Company offered to pay the Commission \$100,000 for underwriting the hearing. *Id.* at 6/96-97.

As Attorney General/CUB witness Mr. Brosch stated:

"System modernization" is a vague term that is not defined anywhere in the Companies' rebuttal testimony and could be construed to include virtually any project that employs currently available materials or technologies to replace older, existing assets. The same is true for the new "service reliability enhancement" classification proposal, because the replacement of nearly any older or deteriorated plant asset with newer materials or equipment could reduce the possibility of failure and customer outage and thereby enhance reliability.

AG/CUB Ex. MLB-5.0 at 11/16-22.

ICC Staff witness Mr. Stoller testified that "service reliability enhancements" is far too broad and should be eliminated from the definition. Stoller Rebuttal, ICC Staff Ex. 24.0 at 4/65-

71. “I do not believe that all utility work on a distribution system that could be claimed, or even agreed, to enhance service reliability should necessarily be entitled to expedited cost recovery,” Mr. Stoller testified. “Such work could easily include such entirely traditional projects as replacing old and rotted poles or simply replacing old distribution lines. While I know these projects can be valuable in maintaining and enhancing reliability, I believe we need to be far more careful in defining what utility projects are entitled to expedited cost recovery treatment than to simply include in that category all projects that can be claimed or even demonstrated to enhance reliability.” *Id.* at 4/74-81.

The proposal to provide a cost/benefit analysis is not any better. The Company provides no metrics or methodologies to be employed or any level of detail or accuracy in the analysis. *Id.* at 13/5-7.

D. Issues involving system modernization are more appropriate for consideration in a separate, statewide proceeding.

It is more appropriate for the Commission to first conduct a statewide, generic workshop and docket to determine what are system modernization projects and what should be considered as part of any “smart grid” modernization program. As the ICC’s Mr. Stoller stated:

If the methodology for recovering investments in infrastructure is to be changed, that change should not be made in this rate case: the facts and policies should be thoroughly reviewed in a focused and separate proceeding. The Commission should give serious consideration to initiating a proceeding to examine evolving utility service quality standards, and possibly to change the provisions of the Commission’s Rule 410 and Rul1 411, consistent with modifications, if any, that need to be made to those rules regarding electric distribution system investment.

Stoller Direct, ICC Staff Ex. 12.0 at 2/39-3/47.

For these reasons, Rider QIP should be rejected in these dockets.

III. AmerenIP Street Lighting Fixture Charge Should Be Set Using Cost of Service Rather Than By Applying An Across-the-Board Increase.²

A. Fixture charge involves hardware and labor, not delivery of electric power and energy.

The street lighting fixture charge is unique in this docket. It is not a delivery service. Rather it is a payment for a tangible piece of hardware and the labor involved in maintaining that hardware. The delivery service charge for street lights is totally separate and apart from the street light fixture. The Cities presented Nancy Heller Hughes as their witness on street lighting fixture charges. (Hughes Direct, Cities 1.0 and Hughes Rebuttal, Cities 2.0.) As Ms. Hughes explained in her testimony:

The fixture charge includes the costs of operating and maintaining the light fixture (e.g., replacing bulbs, photocells and ballasts) plus capital-related costs (e.g., depreciation, return on rate base). The fixture charge does not include power and energy, transmission or delivery service charges, which are separately stated. (Jones, page 19, lines 421-423.) The fixture charge does not apply to customer-owned lights.

Hughes Direct, Cities 1.0 at 8/21-27.

In an over-simplified example, the fixture charge covers the cost of the arm and bulb and how many persons it takes to change the light bulb on the street light. Thus, because of its unique nature, there is no reason why the Commission cannot separately set the rate for the street lighting fixture charge based on the cost of service as Ameren did for the meter and customer charge, rather than on an across-the-board basis.

² Mandatory outline VII. RATE DESIGN; TARIFF TERMS AND CONDITIONS, C. Contested Issues, 3. Electric, c. Street Lighting.

B. Fixture charges across Ameren Illinois utilities vary widely and without justification.

The fixture charges vary greatly for the three Ameren Illinois utilities. Initially, the Cities proposed that the Commission unify the fixture charges in this Docket. As the Cities witness Ms. Hughes noted: “In the last rate case, Mr. Jones testified that Ameren is moving towards ‘a common (or standardized) offering across the Ameren-Illinois footprint for new installations. The move to common lighting offerings across the footprint is a step toward easing customer understanding of the Company’s lighting offering and streamlining operations.’” Hughes Direct, Cities Ex. 1.0 at 8/4-8. This standardization already occurred for Meter and Customer Charges, which are now all identical for the three utilities. However, in this case, the result of applying the across the board increase to street light fixtures would be to move the fixture charges further apart, making a standardized offering more difficult in the future.

The core of the issue is that it takes the same number of persons to change a light bulb for AmerenIP as it does for AmerenCILCO and AmerenCIPS. Yet, in this Docket, using an across the board increase, the rates charged for street lighting fixtures will increase by 9.5 percent for CILCO, 19.2 percent for CIPS and 46.0 percent for AmerenIP. Hughes Direct, Cities Ex. 1.0, Table 2 at 7/17-21. Adding to the disparity is the fact that the current rates for all three Ameren companies are strikingly different. For AmerenCIPS the current street light fixture charge for a 100-Watt light fixture is \$3.12 per month, for AmerenCILCO the charge is \$7.13 and for AmerenIP, the charge is \$7.59. Under Ameren’s proposed across-the-board increase, these rates would increase to \$3.72 for AmerenCIPS, \$7.81 for AmerenCILCO and \$11.08 for AmerenIP. Hughes Direct, Cities Ex. 1.0, Figure 1 at 10/1-12. It defies logic that the cost of a light bulb and

the cost to replace the light bulb is nearly three times the amount for AmerenIP than AmerenCIPS. “There is no reason why a 100-watt streetlight should cost three times more in IP’s service area than in CIPS’ service area.” Hughes Direct, Cities Ex. 1.0 at 19-20.

Ameren witness Mr. Jones was asked in cross-examination if Ameren “were to send a crew out there today, whether it be in the CIPS territory or the CILCO territory or the IP territory, would you agree with me that the costs, for example, to change one of those fixtures would be approximately the same?” He responded: “They would be substantially the same.” Asked: “Certainly a lot more similar than the difference between \$3.72 and \$11.08?” He answered: “That is likely.” Tr. at 346/8-18.

In its surrebuttal testimony, the Company stated, “we are open to further exploring the idea of reducing the Fixture Charge disparities among the Ameren Illinois Utilities, but not in this proceeding.” Jones Surrebuttal, Ameren Ex. 50.0 at 19/401-402. The question remains, however, if Ameren agrees that a disparity exists, why further increase the disparity in this case, thereby making a correction later even more difficult?

The Cities believe that eventually the street light fixture charge should be uniform throughout the Ameren service area. However, the Cities agreed in their rebuttal testimony to focus only on AmerenIP. Using AmerenIP’s 2006 embedded cost of service study and the lighting specific incremental cost study performed in the last case, the Cities’ witness recommended that the increase to AmerenIP’s lighting fixture rates be limited so that the fixture rates are set equal to the common incremental cost for each fixture type and size. The charges for the various types of fixtures are calculated in Hughes Rebuttal, Cities Ex. 2.0 at Exhibit NHH-2R, Pages 4-6 (Cities Proposed Fixture Charge). Using the incremental cost, the AmerenIP fixture charges still will be higher than the cost for AmerenCIPS and AmerenCILCO.

For example, the incremental cost for a 100 watt HPSV fixture for AmerenIP is \$8.72. Hughes Rebuttal, Cities Ex. 2.0 at 6/9, column (b). The proposed rate for the same fixture for AmerenCIPS is \$3.72 and for AmerenCILCO is \$7.81. Hughes Rebuttal, Cities Ex. 2.0 at 6/10-11, column (f). In other words, under the current Cities proposal, AmerenIP Cities still would pay more for fixture charges than municipalities taking service from either AmerenCIPS or AmerenCILCO but the disparity would be lower than if the fixture charges were increased using AmerenIP's proposed across the board increase. The Cities propose that the Class B pole charge also be set equal to the incremental cost.

The revenue reduction resulting from the decrease in fixture and pole charges from the proposal by AmerenIP would be allocated to the other DS customer classes using an equal percentage increase in the DS delivery charge. Hughes Rebuttal, Cities 2.0 at 9/21-10/3.

C. Cities still would pay standard delivery service charge for power and energy.

The result of the Cities' proposal is that the street lighting fixture charge for AmerenIP customers would increase by 14.89 percent. The effect on other customers would increase the across-the-board increase for the DS-1 through DS-4 delivery service charge from 41.14 to 42.58 percent. Hughes Rebuttal, Cities Ex. 2.0 at 10/12-20. The DS-5 delivery service charge rate also would increase by the same percentage (42.58 percent). "Taking into account both the recommended fixture charge and the increase to the DS-5 delivery charge, the overall increase to the DS-5 Lighting Class is 21.37 percent." Hughes Rebuttal, Cities Ex. 2.0 at 10/18-20.

This total lower percentage increase for the DS-5 lighting class is supported by AmerenIP's own embedded cost of service study. This study indicates that the DS-5 Lighting Class contributes a higher return on rate base at existing rates than all other DS rate classes,

except for the DS-2 class. Hughes Direct, Cities Ex. 1.0 at 5/10-13. “Applying an equal across-the-board percentage increase to all rate classes maintains or amplifies the existing disparity that DS-5 lighting rates will continue contributing higher returns relative to other rate classes.” *Id.* at 5/13-16.

During cross-examination, Ameren witness Mr. Jones was asked:

Q. Using the cost of service study, the return to AmerenIP is about 2 points—I believe it is 2.38 for the fixture charge for AmerenIP?

A. The return under present rates in the cost of service study is 2.75 percent.

Q. And essentially can you tell—essentially that means that the return—that the utility—

A. I am sorry, the return for the lighting class is 6.54 per cent. The overall average for AmerenIP is 2.75 percent.

Q. Okay. So the class return is in excess of what the system return is?

A. Correct.

Q. And if we were to, as is proposed in this case, do an across the board increase, it is likely that the disparity would at least remain, if not increase, is that correct?

A. Yes.

Tr. at 347/13-348/9.

The Company’s opposition appears to be rooted in the fact that since it is recommending an across-the-board increase for all other classes, it believes that there should be no exception for the fixture charge. As the Company’s Mr. Jones testified: “The Cities recommendation creates a special exception from the ATB [across-the-board] revenue allocation for only AmerenIP, and only the DS-5 class.” Jones Surrebuttal, Ameren Ex. 50.0 at 19/388-389.

The Company’s position misses the main point of the Cities argument; that is, the fixture charge is not a traditional delivery service charge. The delivery service charge portion of the

DS-5 rate remains subject to the across-the-board increase. The Cities recommend that only the light bulb, fixtures and light bulb changing be separated from the across-the-board increase as was done with the Meter and Customer Charges that are now uniform for the three Ameren Illinois electric utilities.

This Commission should adopt the recommendation of the Cities to set the street lighting fixture charges for the AmerenIP service area. The fixture charges are not true delivery service charges and setting the fixture charge consistent with the incremental and embedded cost of service studies does not violate the Company's request to set delivery service charges based on an across-the-board increase.

D. AmerenIP agreed to other recommendations by the Cities relating to the fixture charge.

The Cities made three recommendations relative to the fixture charge, all of which were accepted by the Company. They are:

1. Ameren should be required to file a detailed cost of service study in its next rate case showing the allocation of costs between the Delivery Service (DS) customer classes, including a company-wide lighting cost of service analysis for the Ameren Illinois Utilities to identify lighting fixture costs. Hughes Direct, Cities Ex. 1.0 at 3/14-18 and Hughes Rebuttal, Cities Ex. 2.0 at 2/13-17. Accepted by the Company, Jones Rebuttal, Ameren Ex. 26.0 at 18/384-400.
2. Ameren should be required to file a detailed streetlight rate design study to determine cost-based lighting fixture charges. Hughes Direct, Cities Ex. 1.0 at 3/21-22 and Hughes Rebuttal, Cities Ex. 2.0 at 2/20-21. Accepted by the Company, Jones Rebuttal, Ameren Ex. 26.0 at 18/384-400.

3. Any reductions to the Company's filed revenue requirement resulting from the Commission's decision should be passed along to all DS customer classes, including the DS-5 Lighting Class, in the form of a lower across the board percentage rate increase. Hughes Direct, Cities Ex. 1.0 at 3/23-26 and Hughes Rebuttal, Cities Ex. 2.0 at 2/22-25. Accepted by the Company, Jones Rebuttal, Ameren Ex. 26 at 21/465-22/471.

As a result of the Company's agreement with these points, the recommendations of Cities witness Ms. Hughes should be included in the final order in this Docket.

E. Issue of using discount for franchise fee payment is not relevant to determining appropriate charge in this Docket.

In its rebuttal testimony, the Company's witness Mr. Jones throws a red herring into his argument against allowing fixture charges to be based in part on Ameren's cost study results. He argues that the increase proposed by Ameren is somehow offset by the Company's payment of its franchise fees to the municipalities. At present, Ameren pays its franchise fees to some municipalities by giving a 50 percent credit on the municipality's lighting charge. This has nothing to do with the street lighting fixture charge. As the Cities witness Ms. Hughes explained:

First, the method by which franchise fees are paid is a completely separate issue from the issue of what the lighting rates should be. Is Mr. Jones suggesting that AmerenIP streetlight rates are twice as high because of the way franchise fees are calculated in most AmerenIP communities? Further, Mr. Jones' rebuttal testimony suggests that it is only the Ameren IP communities that have franchise agreements that provide a 50 percent discount on lighting service. However, in response to data request Cities 2.03, Mr. Jones stated that historically franchise fees in AmerenCIPS and AmerenCILCO service areas were paid to municipalities on the basis of free service, free lights, discounted street lighting and cash payments. As franchise fee agreements are renewed with communities in all

Ameren Illinois Utilities service areas, the basis for the payment will be cash only.

Hughes Rebuttal, Cities Ex. 2.0 at 13/16-27.

The Company's attempt to use the lawful charge to use a municipalities streets and rights of way as somehow defeating the requirement that Ameren's street lighting fixture charge not be based on costs must be seen for what it is and rejected by this Commission.

CONCLUSION.

The Cities request that the final order in this Docket include:

- a charge for street lighting fixtures in the AmerenIP service area that be limited so that the fixture rates are set equal to the common incremental cost for each type of fixture as set forth in the testimony of Cities witness Ms. Hughes, Exhibit NHH-2R (as may be further modified by any reduction in the total revenue requirements for AmerenIP).
- Rejection of AmerenIP's request for Rider QIP.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I the undersigned attorney do hereby certify that a copy of the Cities of Champaign, Urbana, Decatur, Bloomington and Monticello and the Town of Normal, Illinois, Initial Hearings Brief was sent via electronic mail to the service list in these dockets on this 3rd day of July 2008.

_____/rcb/_____
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