

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

Central Illinois Light Company)	
d/b/a AmerenCILCO)	
)	
)	
Central Illinois Light Company)	
d/b/a AmerenCIPS)	Docket Nos. 07-0585, 07-0586, 07-0587
)	07-0588, 07-0589, 07-0590 (cons.)
)	
Illinois Power Company)	
d/b/a AmerenIP)	
)	
Proposed general increase in rates for)	
delivery service)	

INITIAL BRIEF OF THE COMMERCIAL GROUP

I. INTRODUCTION

The Commercial Group is an ad hoc association of retail companies that own and operate retail stores within Ameren’s service territory. These commercial customers of Ameren have a significant positive economic impact on the State of Illinois operating hundreds of retail and distribution centers in Illinois that support tens of thousands of Illinois employees. CG Ex. 1.0 (Baudino direct), p. 2. In addition, the group supports thousands of other Illinois businesses as well by purchasing tens of billions of dollars each year of services and supplies from Illinois businesses. *Id.* Mr. Richard Baudino provided expert direct and rebuttal testimony on behalf of the Commercial Group. The Commercial Group follows herein the brief outline adopted by the Administrative Law Judges, although it will not address every outline point. Failure to address an issue should not be construed as endorsement for Ameren’s (or any other party’s) position.

III. OPERATING REVENUES AND EXPENSES

C. Contested Issues

10. Depreciation

- a. Depreciable Life for Electric Distribution Equipment
- b. Net Salvage Method for Depreciation Expense

The Commercial Group agrees with IIEC witness Selecky that Ameren has inflated depreciation expense by over-projecting net salvage expense. Ameren proposes net salvage expense that is 2 to 5 times greater than Ameren's current net salvage expense. IIEC Ex. 3.0 (Selecky direct), pp. 8-9. Ameren does so by projecting future inflation rates into salvage expense calculations. However, guessing and projecting the inflation rate for the next 30, 40, or 50 years into salvage expense is not likely to produce a result that even remotely follows actual salvage cost, as evidenced by the fact that actual current salvage expense is many times lower than the proposed salvage expense rate recovery. *Id.* at 16. What this means is that ratepayers in 2009 would pay the same actual dollar amount for the salvage expense of a set of electric poles to be replaced in 2040 as would a ratepayer in 2039. Obviously, considering the effect of inflation necessarily means that the 2039 ratepayer would pay significantly less in real dollars for salvage of those poles in 2040 than would the ratepayer in 2009. This represents a substantial intergenerational shift in depreciation expense that unfairly harms current ratepayers.

Accordingly, the Commission should lower depreciation rates as recommended by Mr. Selecky.

V. PROPOSED RIDERS

A. Introduction

Members of the Commercial Group have operations across the United States and have noticed an increase in applications by utilities for rider recovery of various costs. Such rider recovery mechanisms shift risk of recovery of costs between rate cases from the utility to

ratepayers. Therefore, riders should only be approved in extreme situations pursuant to established legal standards. The Commercial Group addresses herein only the Qualifying Infrastructure Plant (“QIP”) Rider, which as currently formulated, does not meet these standards.

B. Resolved Issues

C. Contested Issues

2. Rider QIP

The Commercial Group does not support Ameren’s QIP proposal as described in this case. Under the QIP, Ameren would recover significant capital and O&M costs outside of the normal rate case process whereby utilities recover only their prudently incurred, used and useful utility costs. These fundamental cost recovery requirements protect ratepayers from excessive costs for facilities that are not necessary for utility service.

Instead under QIP, Ameren could recover costs incurred between rate cases without a prudence or reasonable cost finding and without a corresponding cost reduction analysis.¹ This is a single issue ratemaking that would increase rates overall. As Staff witness Lazare pointed out, “customers would pay more under the proposed Rider QIP.” Staff Ex. 18.0 (Lazare rebuttal), p. 6.

Nor are these QIP costs extraordinary or volatile in nature so as to justify rider recovery. *See* AG/CUB Ex. 2.0 (Brosch direct), pp. 52-54.

On the other hand, some of these investments appear discretionary in nature and might not be made by Ameren if QIP is not approved and could produce revenue streams from new non-essential services. Tr. 163 (Nelson). Therefore, if recovery of discretionary QIP costs is to be allowed that may produce non-utility revenue, more administrative oversight would be

¹ IIEC Ex. 1.0 (Stephens direct), p. 27. Staff witness Brosch testified that Ameren’s new proposal to do some undefined cost/benefit analysis for QIP costs is not a sufficient safeguard. *See* AG/CUB Ex. MLB-5.0 (Brosch rebuttal), pp. 13-14.

required to ensure that ratepayers do not overpay for utility service. However, AG/CUB and IIEC correctly point out the administrative difficulty of QIP proceedings separate from rate cases. It is expensive and cumbersome enough for intervenors to hire consultants and attorneys for rate cases. Expecting them to do so for additional QIP rider proceedings is not realistic. *See* AG/CUB Ex. 5.0 (Brosch rebuttal), p. 15; IIEC Ex. 6.0 (Stephens rebuttal), p. 17. Thus, intervenor input would effectively be eliminated from a significant portion of costs that by their nature require more, not less, oversight.

VI. COST OF SERVICE/REVENUE ALLOCATION

A. Introduction

The Commission made clear in Commonwealth Edison Company's last rate case that it "endorsed a simple, non-controversial principle: that costs and expenses should be allocated to and recovered from those who caused costs to be incurred."² The Commission likewise stated in its Final Order in Ameren's last base rate case (Docket Nos. 06-0700/06-0071/06-0072 (cons.)) p. 175: "Ideally, rates should be designed in a way that reflects the cost of service to the various customer classes." Ameren submitted class cost of service ("CCOS") studies in this proceeding but urges the Commission to ignore both costs and those cost studies contrary to the Commission's fundamental principle. Nevertheless, Ameren's CCOS studies are reliable for setting class rates and would be improved by incorporating a minimum distribution system ("MDS") analysis. However, even without the MDS improvement, the cost studies are reliable enough for setting class rates.

The Commission, therefore, should set class rates based on the Ameren CCOS studies consistent with its fundamental principle. An across-the-board increase would unreasonably

² *Order on Rehearing*, Docket No. 05-0597 (p. 73).

harm those classes that are currently subsidizing other classes by increasing those subsidies further.

B. Cost of Service

1. Resolved Issues

2. Contested Issues

a. Appropriateness of Cost Study (Electric)

In Ameren's last base rate case, the Commission directed Ameren to file rates based on cost in its next rate case (i.e., in this current case):

[C]ircumstances in this case lead us to believe that no customer class here should subsidize the delivery services rates of another. The Commission directs the Ameren companies, in compliance filings, to file tariffs based on cost of service using the NCP allocation method.³

Ameren filed CCOS studies in this current case, although it did not file tariffs based on the cost studies. Ameren used the same methodology in preparing the CCOS studies in this case that it used in the prior cases. Tr. 378, lines 11-15 (Jones). Mr. Baudino for the Commercial Group reviewed these studies and found them generally reliable for setting class rates. CG Ex. 1.0 (Baudino direct), p. 9. Therefore, the CCOS studies Ameren filed should be used to set class rates.

b. Minimum Distribution System (Electric)

Finding the CCOS studies to be generally reliable does not mean, however, that the studies could not be improved. Mr. Stowe provided an improvement in proposing the use of an MDS analysis to better classify and allocate certain distribution system costs. Although the Commission has not adopted an MDS analysis in recent years, IIEC provided the Commission with important new data and rationale for the MDS, including the fact that utilities incur a

³ Final Order in Docket Nos. 06-0070/06-0071/06-0072 (cons.), p. 175.

minimum amount of cost to employ facilities that comply with technical and safety standards. Such minimum cost does not fluctuate with demand or energy usage differences and therefore should be captured as a customer cost. IIEC Ex. 9.0 (Stowe rebuttal), p. 3. The Commission should direct Ameren to include such MDS costs as customer costs in any future class cost study.

c. Cost of Service Study in Next Case (Electric)

As mentioned above, the Commission should direct Ameren to file CCOS studies in the next rate case that incorporate the MDS methodology.

d. Other

Ameren's class cost of service studies are just that; they are class cost studies and generally reliable for setting class revenues. With respect to the DS-3 and DS-4 subclasses, however, the studies do not accurately match cost to revenues on the subclass level and therefore are not reliable for differentiating subclass revenue levels. For example, the CILCO cost study shows the DS-4 secondary subclass as requiring a whopping 3729% increase.⁴ However, Ameren assigned 100% of line transformer cost (\$15.1 million) for the DS-4 class to the DS-4 secondary subclass⁵ but none of the corresponding \$2.6 million in transformation revenues that Ameren received from the class. Tr. 376, line 20 – 378, line 10 (Jones). Instead, only \$53,000 in revenue, consisting entirely of meter charge and customer charge revenue was allocated to DS-4 secondary.⁶ Therefore, given that transformer cost but not the revenue produced from those transformers was allocated to DS-4 secondary, it is not surprising that the study would show that an enormous revenue increase would apparently be required for the DS-4 secondary. The CCOS studies are generally reliable for class costs and revenues, but they plainly are not reliable at the subclass level.

⁴ CG Cross-exam Ex. 1, CILCO page 28-5, line 14.

⁵ CG Cross-exam Ex. 1, CILCO, page 32-5, line 36; Tr. 380-81 (Jones).

⁶ CG Cross-exam Ex. 1, CILCO page 28-5, line 5.

C. Revenue Allocation Issues

1. Cost-Based (Electric)

Ameren’s CCOS studies show significant disparities between class costs and class rates. Mr. Baudino provided each class’ relative rate of return (“RROR”) index, which measures the class’ rate of return on rate base to the overall system rate of return on rate base. CG Ex. 1.0 (Baudino direct), pp. 5-6. A relative rate of return greater than 1.0 indicates that a customer class is paying more than its allocated cost of service, while a relative rate of return less than 1.0 shows that a customer class is providing less than the system average rate of return and is paying less than its allocated cost of service. *Id.* at 6. Another way to view these results is that a RROR index greater than 1.0 indicates that a customer class is providing subsidies to other classes and that a RROR index less than 1.0 shows that a customer class is receiving subsidies from other customer classes.

	<u>Ameren/ CILCO</u>	<u>Ameren/ CIPS</u>	<u>Ameren/ IP</u>
DS-1	0.82	0.62	0.26
DS-2	1.39	1.93	2.91
DS-3a	1.76	2.10	1.24
DS-3b	1.86	1.87	2.18
DS-4	0.77	0.59	1.62
DS-5	0.84	1.20	2.38

As made clear from Table 1 above (*Id.* at 6), across all of the Ameren Illinois utilities, the DS-2 and DS-3 classes are paying rates that are significantly greater than their allocated cost of

service, and the DS-4 class pays rates significantly greater than cost for Ameren IP. Ameren urges the Commission to ignore all cost data in setting rates, Tr. 372, line 22 – 373, line 5 (Jones), but this is contrary to the Commission’s fundamental principle of setting rates based on cost and should be rejected. The Commission instead should order Ameren to allocate customer class revenue increases based on its cost of service studies presented in Schedule E-6 for each of the distribution utilities.

2. Across-the-Board (Electric)

Notwithstanding the Commission’s fundamental principle that rates should follow costs, Ameren and Staff propose an across-the-board (“ATB”) revenue increase. IIEC correctly pointed out that Ameren has a \$36 million incentive to propose an ATB increase instead of rates set at cost. IIEC Ex. 1.0 (Stephens direct) p. 13. Therefore, Ameren’s position on this revenue allocation point should receive no weight.

Staff witness Lazare suggests that an ATB is the best approach in light of the concern of Ameren customers with bill impacts. As Mr. Lazare puts it: “Individual ratepayers will not be able to argue that they have been unfairly treated if they receive the same percentage increase (or decrease) as other customers of their utility.” Staff Ex. 6.0 (Lazare direct), p. 43, line 998. However, individual ratepayers or classes of ratepayers that already subsidize other customers justifiably feel it is unfair to increase those rate subsidies further by an ATB. The DS-3 class of commercial and small industrial customers includes elementary schools. Tr. 374, lines 20-22 (Jones). The DS-4 class includes high schools and colleges. Tr. 374, line 20 – 375, line 1 (Jones). It is not fair for commercial and industrial customers, schools and colleges, to subsidize other customers. Rates should be set on cost. That is the fairest method.

- a. Calculation of Increase
- b. Increase Rate Elements by Equal Percentage

Ameren's proposed Meter and Customer charges were developed based on the overall class increase percentage applied to existing rates. CG Ex. 1.0 (Baudino direct), p. 9. Delivery charges were developed by applying a uniform percentage increase, unique to each company, to recover the remaining revenue requirement. *Id.* A different approach may be reasonable based on cost of service results in the Company's next delivery service rate case, but this is a reasonable approach in this case.

3. Other Mitigation Proposals (Gas and Electric)

VII. RATE DESIGN; TARIFF TERMS AND CONDITIONS

C. Contested Issues

1. Gas and Electric
 - a. Standardization of Tariffs and Services in Conjunction with the Proposed Across-the-Board Rate Change

As stated above, rates should not be increased across-the-board.
 - b. Other
2. Gas
3. Electric
 - b. Rate Limiter

Ameren witness Jones testified that customers benefiting from the rate limiter pay rates substantially below cost even before the rate limiter is applied. Tr. 371, lines 2-6. These customers are being subsidized by schools, colleges, commercial, and industrial customers. This subsidy increases further with a rate limiter. *Id.* lines 7-10. Accordingly, the Commission provided that the rate limiter should be short-term in nature.

Staff witness Lazare testified that eliminating the rate limiter “does not make sense given the current stresses on all Ameren ratepayers, including those that qualify for the rate limiter.” Staff Ex. 6.0 (Lazare direct), p. 48, lines 1101-1102. Mr. Lazare did not provide specific evidence or quantify the stresses to which he refers, and he also did not address the stress on the schools, colleges, and other DS-3 and DS-4 customers that must pay for the rate limiter subsidies. Given that the rate limiter subsidies must be collected only from DS-3 and DS-4 customers, phasing out the rate limiter would certainly relieve the stresses on the DS-3 and DS-4 customers who are required to provide both intra-class subsidies to the customers taking advantage of the rate limiter and interclass subsidies to other classes. This is an unfair burden that should be eliminated.

Mr. Lazare also testified that elimination of the rate limiter “is inconsistent ratemaking that singles out one group of customers for unequal treatment.” Staff Ex. 6.0 (Lazare direct), p. 49, lines. 1128-1130. However, eliminating a rate provision that created intra-class subsidies does not result in unequal treatment. Rather, it puts all customers within that rate class on a more equal footing with respect to their rates being based on the true cost to serve. What is unequal is for certain customers in a class to subsidize other customers in the class, particularly where the subsidized customers’ rates are already below cost before the rate limiter is applied.

The rate limiter has served its limited transitional purpose and should be eliminated. If it is not completely eliminated in this case, the rate limiter should be phased out and eliminated as Ameren proposed in its direct testimony.

- c. Street Lighting
- d. Other

VIII. CONCLUSION

WHEREFORE, the Commercial Group respectfully requests that the Commission order the relief requested herein.

Respectfully submitted this 3rd day of July, 2008.

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